Leeds Building Society

Annual Report & Accounts 2020

2020: How we performed

Gross residential lending of

£2.5bn
(2019: £3.5bn)

We helped **26,250** more people have the home they want

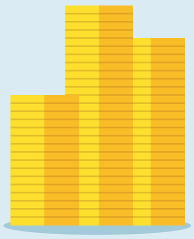
Total assets of

£20.6bn
(2019: £20.8bn)

Savings balances

£14.2bn
(2019: £14.5bn)

We helped **23,000** more people save for their future



Paid an average interest rate of

1.19%
to our savers
compared to the rest of the market average of **0.60%**[1]

An annual benefit to all our savers of **£82.8m**

Profit before tax

£80.7m
(2019: £88.0m)

Common Equity Tier 1 Capital

36.3%
(2019: 33.6%)

Reserves available to protect us from future problems

Member satisfaction[2]

93%
(2019: 91%)

We have an ongoing commitment to be customer focused in everything we do

Colleague engagement[3]

86%
(2019: 82%)

We're committed to being a great place to work

1. CACI's CSDB, Stock, December 2019 to November 2020, latest data available. **2.** Overall member satisfaction in a survey of 3,391 members from January to December 2020. **3.** Your Voice colleague survey, 1,225 respondents in October 2020.

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31 December 2020

Introduction

I was privileged to succeed Robin Ashton as Chair last April. I would like to begin my first report to members by paying tribute to my colleagues throughout the Society and acknowledge their supreme efforts on behalf of members during this period of professional and personal challenge, unique in recent history.

This was a genuine team effort but, as an essential service provider, we kept the vast majority of our branches open throughout the periods of lockdown, and I would particularly like to thank our frontline colleagues who have continued to attend our branches, contact and administration centres.

The operation of the Board

It is the role of your Board to ensure that the Society protects the long term interests of current and future members. The pandemic has presented numerous challenges in this regard.

From the onset of the first lockdown in March, we immediately adapted how the Board would operate, holding virtual meetings at least weekly. This subsequently reduced as the situation began to stabilise.

The Board's objective during this period was to ensure our priorities adapted appropriately to the emerging circumstances, while also maintaining focus on the long term. We ensured management were supported in navigating the business through a period of exceptional uncertainty and turbulence.

The guiding principles of the Board during this period have been rooted in our mutuality and our culture. Our highest priorities were – naturally – the health, safety and wellbeing of all our colleagues and members, the financial security of the Society and the maintenance of service to our members.

The pandemic brought home just how interconnected our world is, and the wider obligations which organisations like ours have to society as a whole. During the year we have spent significant time further considering our responsibilities to all our stakeholders, including our responsibilities in fighting climate change. There is extensive reporting on these matters in this document and they will remain a significant focus for the Board in the future.

Performance

The Board considers that the Society responded extremely well to the operational challenges of the pandemic. The rapid deployment of technology allowed as many staff as possible to work from home, while all our premises were made COVID-secure to ensure colleagues and members were kept safe in branches and essential office locations. Our employee engagement programme demonstrated high levels of colleague engagement, and confidence in the leadership of the Society and the support that has been provided to them. This is not something we take for granted, however, and we have worked hard to maintain our culture during this extended period of dispersed working.

From an economic perspective, we experienced a rapid initial large-scale shrinkage in the economy, followed by an element of recovery, the Government's introduction of support for the economy, and a fall in interest rates to virtually zero.

In navigating this environment, we have sought to protect savers as far as is practicable, to continue to serve borrowers by lending, where it remains prudent to do so, and in offering as much support as possible to individual borrowers impacted by the crisis. We have, of course, had to moderate our original plans for the year and the growth of the business has been deliberately slowed as a sensible response to the uncertain outlook.

The Board decided not to furlough any colleagues, and there were no redundancies as a result of branch closures, nor did we take advantage of any taxpayer-funded support schemes, although we have made use of the Bank of England's funding schemes, implemented specifically to encourage the continued supply of credit to the economy and to mitigate the worst economic impacts of the pandemic. While the interests of members have primacy, the Board has also been mindful of our wider obligations to society and the communities in which we operate, and these have been reflected in our decision making.

Despite the crisis dominating our agenda, there were a number of important long term developments, most notably the successful implementation of Mortgage Hub, our new online platform to automate the application process for mortgage intermediaries; the rapid creation of online support tools for borrowers facing financial difficulties as a result of the pandemic; enhancements to our online functionality for savers; and the near-completion of the Society's new head office.

Overall, the Board considers our financial performance has been extremely strong, given the circumstances of the year and that we have struck the right balance in supporting members through the pandemic, maintaining the exceptional financial strength of the Society and positioning it well for future success.

Remuneration matters are covered separately in the Remuneration Report but I would draw to members' particular attention the decision to shift the emphasis of its remuneration schemes for senior management away from variable pay and more towards fixed pay. This is consistent with our desired culture and the Board believes this decision is in the best long term interests of members. It is unrelated to the current circumstances.

Board changes

Robin Ashton retired from the Board in April after nine years' service. We owe him a great debt of gratitude and he played an instrumental role in ensuring that we now find ourselves in such a strong financial position. Phil Jenks also retired from the Board after eight years' service and we have benefitted greatly from his extensive industry experience and wise counsel throughout that time. John Hunt has announced his intention to retire at the forthcoming Annual General Meeting having completed two full terms. His contribution over that time has been immensely valuable.

I am delighted to report that Andy Conroy was appointed to the Board as Chief Financial Officer, having joined the Society on an interim basis in 2019. I am also delighted to report that Neil Fuller has joined the Board as a non executive director after more than 35 years in financial services, including 15 years at executive level, spent principally with Bank of Ireland, GE Capital, Royal Bank of Scotland and NatWest. In appointing Neil, the Board considered a diverse range of candidates.

During 2021, the Board will be seeking to make further non executive appointments as part of our succession planning. As Chair, I am extremely mindful of the importance of having a diverse range of skills, experience and perspective around the Board table and this will be uppermost in my mind through the recruitment process.

It is unfortunate that coronavirus denied members the usual opportunity to meet the Board and raise questions at the AGM in 2020 and this will be the case again in 2021, although there will be an opportunity to submit questions in advance and themed frequently asked questions will be made available to members. Member feedback is vital to us and I would like to stress that if members have any questions or comments relating to Board matters at any time then they should email us at agm@leedsbuildingsociety.co.uk and submit their questions or comments marked 'For the attention of Iain Cornish'.

Outlook

We still face a period of extreme uncertainty and, while the coronavirus vaccination programme may provide light at the end of the tunnel as far as public health is concerned, the economic and societal impacts of the pandemic, compounded by the ending of the Brexit transition process, mean the external environment will continue to be highly uncertain, with risks largely skewed to the downside.

During this period, the Board will continue to adhere to the principles it has adopted throughout this crisis. However, we will not lose sight of the fact that the post-coronavirus world will undoubtedly also present opportunities and your Society can face the future, whatever it may hold, confident in the strength of our position.

Finally, I would like to thank my Board colleagues for their commitment to the Society during such a demanding year and their support for me in my first months as Chair.

Iain Cornish
Chair

25 February 2021

Chief Executive Officer's Highlights

Year ended
31 December 2020

Introduction

When I reported 2019's annual results 12 months ago, none of us could have anticipated quite how tumultuous a year 2020 would prove to be, for all of us.

Historic events were happening daily, we all had to find new ways of living and working and the Society needed to adapt to this fast changing environment to ensure we could carry on serving and supporting our members at a unique and challenging time.

I was proud of, and also humbled by, the fantastic response from our exceptional colleagues, who were there for members and each other as they worked together at pace to respond to the rapidly evolving circumstances.

If there was ever a remarkable example of living our mutual values, one of the most significant peacetime global events in our long history has brought out the very best in our people. I could not be more grateful for how they have risen to overcome every challenge, so the Society was able to deliver a strong performance in such a complex year.

The strength and security of our business was the foundation we have been able to build on to respond to the immediate pressures caused by the pandemic, while retaining a longer term view and continuing to make progress towards our strategic goals to future-proof the Society.

Unsurprisingly, as the scale and potential risks of the pandemic became more evident through the early months of the year, we took the decision to review and refocus our corporate priorities for the second to fourth quarters.

As the year progressed, we remained focused on these three priorities – **safely keeping the Society operating for the benefit of our members** while **keeping the Society financially resilient** and at all times **communicating with our members and colleagues**.

Safely keeping the Society operating for the benefit of our members

The pandemic repeatedly posed practical and operational challenges, from keeping branches open so members could access essential financial services and making all our premises COVID-secure, to switching to widespread dispersed working and swiftly creating mortgage payment deferral capability for borrowers facing financial difficulty.

The safety of our members and colleagues has been key – throughout 2020 more so than ever – and we were gratified by how members acknowledged our efforts to maintain service and offer support at what was a difficult and worrying time for so many.

Unlike many businesses during the pandemic, we did not furlough any colleagues, and our colleagues remain highly motivated, with record engagement of 86%.

Their diligence, care and dedication enabled us to respond nimbly and flexibly during the year, deploying resources where they were most needed as customer demands shifted swiftly, often at short notice, due to the unpredictability of external factors (such as national and local lockdowns). Some were called on to switch roles and bolster customer-facing teams dealing with soaring inquiry numbers, as many others worked behind the scenes to develop IT and robotic solutions at pace to maintain service and make digital interactions easier and quicker for our members.

Successes included the swift creation of online mortgage payment deferral capability for borrowers facing financial difficulty. We have now automated, extended and improved this process and have helped members access this support in relation to more than 27,500 mortgages. The vast majority of borrowers returned to making monthly repayments at the end of their deferral period and we continue to work closely with any members at risk of financial difficulty to agree a solution which best suits their circumstances.

During the pandemic we decided to waive arrears fees and also supported the industry-wide moratorium on repossessions.

As well as directly supporting our members in these ways, we remained mindful of the importance of our intermediary partners to our success as a mortgage lender.

For that reason, I was particularly pleased by the successful roll-out of our Mortgage Hub during the summer, after many months of hard work behind the scenes. This is another great example of multi-team collaboration requiring expertise from many different areas of the business.

This user friendly, new technology platform makes mortgage applications quicker and easier from start to finish so borrowers can be in their homes sooner. Intermediaries can track their cases in real time and the platform links seamlessly with other systems they use. It also frees up colleagues to deal with more complex cases.

Mortgage Hub is the most visible result of our significant and ongoing investment in our technology systems to ensure they can be better integrated and updated in future years. In addition to an improved user experience for members and intermediaries, this supports more effective ways of working and greater efficiency across the Society in the future.

The new platform is already delivering improvements to service levels, which came under sustained pressure at various points during 2020, and I apologise that at times we did not maintain the high service standards we aspire to. The housing market seized up during the first lockdown in March, which led to a backlog of mortgage applications, before the temporary stamp duty holiday was introduced in July. This greatly accelerated the market's recovery in the second half of the year, leading to some of the busiest months for applications we have ever seen.

Keeping the Society financially resilient

We began 2020 with very strong liquidity, which allowed us to reduce excess liquidity while still ensuring a secure position, maintained throughout the year and well above regulatory requirements. This prudence, and our low risk business model, has helped to maintain our reserves and financial strength, meaning we are well placed to withstand economic shocks and market uncertainty, as we have done for almost a century and a half.

Having tempered levels of growth and tightened risk appetite, we made appropriate provisions to reflect tougher economic conditions ahead.

After a subdued first half, the housing market rebounded strongly in the second half with increased consumer demand, in no small part due to the temporary stamp duty holiday. The strength of this recovery, combined with a lower cost of funds, had a positive impact on our net interest margin, which remained broadly stable over the year with a positive trajectory half on half. We expect further improvement during 2021, giving grounds for optimism as we look further ahead.

During the first quarter, we adjusted our corporate priorities to take account of the volatile economic environment as we plotted a cautious and steady course through the pandemic.

Chief Executive Officer's Highlights

Continued

This did not mean losing sight of our longer term aims, including sticking to our successful strategy to support customer groups less well served by the wider market so more people can have the home they want, whether that's first time buyers, later life borrowers or home buyers accessing affordable housing schemes. In 2020, we helped 8,000 first time buyers to step onto the property ladder.

We remained active in the shared ownership market, including at 95% loan to value (LTV), throughout the year and our expertise in this important sector was recognised in the 2020 What Mortgage Awards, when we were named Best Shared Ownership Mortgage Lender for a fifth consecutive year.

As a result, we were able to support the housing and mortgage markets with £2.5 billion of gross lending during the year.

We continued to support our savers, despite the historically low interest rate environment in which Bank Base Rate has dropped yet further.

The Society was able to consistently pay above the market average to our savings members, equating to an annual benefit to them of £82.8 million[1]. We work hard to keep our rates as high as possible, for as long as possible, although we reluctantly have had to make some rate changes on existing products this year in response to falling market rates.

In 2020 we were pleased to again secure a Gold Ribbon from Fairer Finance for offering a good customer experience for savers, explaining our accounts clearly and making them straightforward to operate.

We retain our keen focus on efficiency with a cost to income ratio of 51% and our cost to mean asset ratio of 0.48% remaining among the best in the building society sector.

Ensuring we remain efficient in the longer term for the benefit of our membership as a whole meant taking some difficult choices in 2020. This includes closing three branches: Adel, Bradford and Ripon, as well as withdrawing from another location, Brecon (where the branch was transferred to Monmouthshire Building Society). We were however able to avoid any redundancies among the affected colleagues.

We remain committed to a sustainable branch network, where there is sufficient demand, and in the autumn confirmed our purchase of new premises for our Leeds city centre branch. This will move to Commercial Street from its Albion Street home in 2021, as we vacate our head office building after more than 80 years.

Our new Sovereign Street headquarters, near Leeds railway station, offers a central location to bring together back office functions previously split across three sites. This will further increase our operational efficiency and reduce our carbon footprint.

The refurbishment of this building was chosen and managed to minimise our environmental impact. It has been upgraded to an 'A' rating for energy efficiency and is net carbon neutral in operation. The new space also provides us with greater flexibility and will support different ways of working for many decades to come.

All our investment to future-proof the Society, whether through digital innovation or choosing and securing new premises, is with long term value in mind. The benefit of our membership as a whole remains at the heart of our decision making.

As a mutual, we aim to generate sustainable levels of profit, which we then invest back into the business. We achieved profit before tax of £80.7 million for 2020, above our planned levels, even after deductions for impairment provisions and fair value of £31.4 million.

This has enabled us to further improve our capital and reserves to £1.35 billion, well above the regulatory requirement.

We remain focused on high quality underwriting and prudent assessment of lending risk, and the managing down of legacy commercial assets over recent years has reduced these to now represent less than 0.1% (£14 million) of total assets (£20.6 billion).

During 2020, the pandemic diverted much public attention from the UK's looming

1. CACI's CSDB, Stock, December 2019 to November 2020, latest data available

departure from the European Union. Agreement on a deal in the dying days of the year offered businesses a degree of confidence and security for future planning although some uncertainties remain. As a UK based building society, our focus is domestic. The Brexit deadline was well signposted and, as a prudent and responsible business, we had been progressing all our necessary preparations for Brexit for many months.

Communicating with our members and colleagues

As a mutual, purpose has been core to our existence since we were founded over 145 years ago. I am pleased to confirm we have published our approach to 'How We Do Business' to clearly set out our promises of how we will carry on doing the right thing for our members, colleagues and communities.

We know our commitment to operating transparently and responsibly is as important to our members as it is to us. We are proud of the ways we can demonstrate this, such as through our certification with the Carbon Trust Standard for Carbon, our accreditation with the Fair Tax Mark, as well as being a Living Wage Employer and Leaders in Diversity.

Listening to what matters to members – and seeking your feedback – helps us to shape how we innovate and develop our products. All our service improvements take account of the evolving needs of our membership as a whole. We believe our members value this engagement, as demonstrated by customer satisfaction scores which remain high at 93%.

The unsettling times caused by the pandemic have made this two way communication even more important and we have responded by increasing the frequency of our usual updates to colleagues and members. This ensures consistent, useful and reassuring messages and using the right channels at the right time, as the external situation – and resulting demands on our operations – continues to change.

Good news is always welcome and meaningful community support often delivers this. Spring 2020 saw the conclusion of our successful two year partnership with Samaritans. We smashed our original £250,000 fundraising target, reaching a final total of £315,000. This is funding telephone and technology upgrades to help the charity and its volunteers better handle the growing number of calls and messages it receives.

We were delighted our 'Making Space for Samaritans' event was named Major Project of the Year at the 2020 Better Society Awards, for bringing together our two partners: Leeds Rhinos and Samaritans. We gifted our shirt sponsorship to the charity for a high profile 2019 match against St Helens and this unique initiative helped to raise mental health awareness among rugby fans, as well as generate fundraising opportunities.

The pandemic forced changes to how we could launch our new partnership with Dementia UK, but some creative thinking ensured colleagues rallied immediately, coming up with novel and socially distanced fundraising challenges. By the end of 2020, we had brought in more than £150,000. We took account of changing short term service needs to agree with Dementia UK how best this money could be used.

As with so many charities during the pandemic, Dementia UK's work has become both more appreciated and more in demand and I look forward to sharing details with members this year about how we will be helping our partner to reach even more communities across the UK.

Outlook

It may take some considerable time before the full effects of the pandemic and Brexit on the UK economy are known and while progress with coronavirus vaccines has brought optimism, a great deal of uncertainty remains.

Low Bank Base Rate expectations mean savings rates across the market are likely to remain historically low but we will continue working hard to protect our savings members and aim to carry on paying above the market average on our savings products.

Despite the immediate and ongoing challenges of the pandemic we have never lost sight of our aims further into the future. I am confident our longer term strategy is working well for the Society and our members – for example, we expect our net interest margin will continue on its upwards trajectory in the coming months.

Leeds Building Society was created because our founders believed they could achieve more by working together. After a year where mutual support and co-operation were shown to truly make a difference, I know we can continue to succeed against what may feel overwhelming or unachievable when we face these challenges together.

The trust my colleagues have in each other has helped us through a testing year and the continuing trust shown by you, our members, in the Society is never taken for granted. We would not exist as a business without you.

Finally, I would like to thank you for your continued support, given both to the Society and to me as Chief Executive Officer.

Richard Fearon
Chief Executive Officer

25 February 2021

Business Model and Strategy

Year ended
31 December 2020

The Society's business model

Leeds Building Society is the fifth largest building society in the UK, with assets of £20.6 billion. Our mission is to help people save and have the home they want, continually adapting to anticipate our members' changing needs, to help our members get on with life. This is delivered through our simple business model – providing a safe place for savings and providing mortgages to our members.

Our strategy and business model have served us well and remain broadly unchanged. However, we continually assess the external environment and adapt for future success.

Where our funding comes from
- Savers (via our branch network, phone, online, post)
- Wholesale markets
- Reserves of previous profits

How we use our funding
The Society lends to help members have the home they want, including:
- Mainstream residential
- First time buyers
- Shared ownership
- Buy to let
- Interest only

How we remain financially stable and operationally resilient
- By maintaining liquid investments with strong credit rated institutions and central banks
- By making sufficient profit to maintain a strong capital base
- By having a prudent lending approach
- By maintaining a long term strong credit rating
- By maintaining a multi-channel business model
- Ongoing investment and focus on operational risk reduction including a robust cyber strategy

What we need to spend
- Costs of running the business and investing to provide the right level of service in an efficient way
- Paying our colleagues fairly to attract and retain talent
- Paying our fair share of tax
- Putting money aside for bad debts

Why we need to make profit
We are member-owned and do not pay any shareholder dividends, however we need to make profit to:
- Maintain financial strength
- Invest in the Society for the benefit of our membership as a whole (for example, maintaining our branch network, improving digital capability and customer experience, enhancing the colleague working environment) and to set up the business for future success
- Provide benefits for the communities in which we operate

The Society funds the majority of mortgage lending with members' savings, through a range of channels. The remainder is funded from wholesale money markets on competitive terms, as well as reserves of previous profits.

We provide residential mortgages in the UK, through a network of approved mortgage brokers and directly to members through online and telephone channels, to help members have the home they want. We offer mortgage products across mainstream residential buy to let and a range of other segments, such as shared ownership and interest only.

Our strong liquidity position helps to make sure that there is sufficient cash available to meet the requirements of savers, investors and other creditors. Assets are invested conservatively, in a range of high quality investment instruments and across a range of counterparties.

We aim to generate sufficient profit through cost efficiency and management of the net interest margin, in order to maintain a strong capital position. As a result, we can continue to invest in the Society for the benefit of our membership as a whole – for example, by improving customer experience, building digital capability, maintaining branches and enhancing the colleague working environment.

The core markets in which we operate have been particularly challenging this year, as they have for other financial services providers. The COVID-19 pandemic effectively closed the mortgage market for several weeks between March and May 2020, with significant operational strain for the Society as members sought mortgage payment deferrals and other financial support. This was followed by a huge resurgence in mortgage demand over the summer, following the release of pent up demand from the lockdown period and the announcement of the temporary reduction in stamp duty land tax rates until the end of March 2021. The Bank of England reduced the Bank Base Rate from 0.75% to 0.1% in March 2020, in order to support the economy from the effects of the pandemic and we have continued to support savers with our rates averaging 1.19%[1] during the year. Longer term, while we believe that our core product lines are sustainable into the future, we expect the markets we operate in to remain fiercely competitive and we will need to adapt accordingly.

Despite the challenging external environment, we have continued to invest in our mortgage systems to improve efficiency, speed up processing times and improve customer experience. This will help us to face challenges from a more digital marketplace, with more diverse customer requirements, both in terms of channel preferences and product needs. We continue to review opportunities to meet existing and new members' needs better, including the development of our products and distribution channels.

Creating value for members and other stakeholders

The Society delivers value to its membership as a whole and other stakeholders in a range of areas:

- We maintain a strong capital base from the reinvestment of sustainable profits and a prudent lending approach, to provide security for members, colleagues, bondholders and communities over the longer term.
- We offer competitive products, with savings rates higher than the market average, enabling our members to save for the future.
- We help families to have the home they want and a focus on customer needs means we can lend to borrowers who are typically less well served by the wider market.
- The highest standards of trust and integrity are observed in all engagement with members and other stakeholders. This, along with competitive products, helps build member and broker satisfaction and strong long term relationships.
- We offer high levels of customer service and recognise the importance of face to face contact for members. We are committed to operating a branch network, where there is sufficient demand. We are also investing in digital solutions for those members who want them.
- We are committed to making a positive social contribution to the communities in which we operate. This includes supporting our national charity partner (Dementia UK from April in 2020), providing funding to the Leeds Building Society Foundation and offering a volunteering scheme for all colleagues, which has been adapted this year to help colleagues support people in different ways during the pandemic.
- We respond meaningfully to the social issues our members, colleagues and communities care about, as demonstrated by being a Real Living Wage Employer, being reaccredited with the Fair Tax Mark, being certified with the Carbon Trust Standard for Carbon and being reaccredited with Leaders in Diversity status by the National Centre for Diversity.

1. CACI's CSDB, Stock, December 2019 to November 2020, latest data available

Business Model and Strategy

Continued

Our response to the COVID-19 pandemic

Our new corporate priorities

Our overall strategy remains unchanged. However, as a result of the current COVID-19 pandemic, our focus has shifted. We reviewed our corporate priorities in March 2020 and aligned them to the changing circumstances, in order to better focus the efforts of our colleagues and the Society as a whole. The three key priorities are listed below and our progress against these priorities during the year is described on pages 12 and 13.

- Safely keeping the Society operating for the benefit of our members;
- Keeping the Society financially resilient; and
- Communicating with our colleagues and members.

Our support for members and colleagues

We have been mindful of our stakeholder needs during the pandemic and have sought to respond in a way which supports them during these very challenging times. Examples of how we have continued to support and engage with our members, colleagues and communities are shown below:

Members and communities:

- We quickly created an effective and simple way for borrowers facing financial difficulty to apply online for mortgage payment deferrals, of up to six months.
- We suppressed arrears fees on our mortgages from March 2020 and will continue to do so until April 2021, at the earliest.
- We were the first UK lender to deploy desktop valuations during the pandemic, enabling us to progress more than 70% of mortgage applications despite the March 2020 lockdown.
- We kept 98% of our branch network open for members in a COVID-secure environment and gave priority access to vulnerable members. Branch colleagues maintained regular contact with vulnerable customers to ensure their cash needs were met, as well as being extra vigilant for potential fraud, given the increased risks during this time.
- We recognised that what represents an 'essential transaction' varies by customer, especially where the customer may be considered vulnerable. For this reason, we worked with each customer as an individual, while highlighting alternative ways to access our services and their accounts.
- Branch colleagues provided support to the Contact Centre team, helping to answer member queries as transaction levels in branch dropped during lockdown. Branch colleagues answered over 100,000 calls between April and December 2020. Our Contact Centre remained open from Monday to Saturday every week during 2020 and the average call wait time remained low at 81 seconds.
- Several engagement surveys have been undertaken, to gauge understanding of the changes to members' needs throughout the pandemic.
- To support members, their family and friends who have lost loved ones during the pandemic, we have provided practical guidance and support via our dedicated bereavement support service, which includes the Death Notification Service. Details of which can be found at leedsbuildingsociety.co.uk/loss-of-a-loved-one
- To help combat fraud we have made supporting materials available to our members to help them remain extra vigilant from coronavirus scams. Further details are available on our website at leedsbuildingsociety.co.uk/security/protect-against-fraud
- To support communities, the Leeds Building Society Foundation set up a COVID-19 Fund and over £148,000 of funding was given on an unrestricted basis to 163 charities, so it could be used to meet their immediate needs during this difficult time.
- We began our new charity partnership with Dementia UK in April 2020. We donated £25,000 to its emergency appeal in April and donated more than £150,000 in total to Dementia UK during 2020.

For further details on how we have supported our communities during the pandemic, see the Corporate Responsibility Report on pages 27 to 38.

Colleagues:

- No colleagues were furloughed during 2020 and no redundancies have been made as a result of the closure of three of our branches and the transfer of one branch to Monmouthshire Building Society.
- Where practical, the workforce has transitioned to working from home and a COVID-secure environment has been provided across all sites, for those who have not been able to work remotely.
- Enhanced colleague communications from our executive directors and the Senior Leadership Team, including regular written and video communications.
- Senior managers have held regular meetings with their direct reports to provide updates on all Board and Society related matters in relation to COVID-19.
- The Society offers colleagues the opportunity to take part in regular 'pause and breathe' sessions to aid mindfulness and reduce anxiety, as well as having over 40 trained mental health aiders available for colleagues.

For further information on how we have responded to the COVID-19 pandemic and have supported our colleagues, see the People section on page 18.

The Society's strategy

Our vision to be Britain's most successful building society continues to be supported by our strategic pillars: Secure, Customer Centred, Simple and Future Facing, all underpinned by our People.

Business Model and Strategy

Continued

Progress on corporate priorities

Good progress has been made during 2020 on activity under our corporate priorities, which support each of our strategic pillars.

Corporate priority	Progress in 2020
Safely keeping the Society operating for the benefit of our members *Supporting the Secure, Customer Centred and Future Facing strategic pillars* • Prioritise the safety of colleagues and members • Appropriately balance savings and mortgage members' interests • Support our members, particularly as they face financial difficulty • Keep the business operating and resilient and seek to enhance operational resilience • Future Facing: prepare our organisation, operations, products and technology for the post-COVID-19 world	• During the pandemic, we focused on meeting customer needs, such as keeping 98% of our branches open for essential transactions in a COVID-secure environment, quickly mobilising a mortgage payment deferral application system and adapting our teams to better support members in need, all in the face of significant demand for our services. • At the onset of the COVID-19 crisis, around 55% of colleagues transitioned to working remotely, with a COVID-secure environment provided for those who were not able to work from home. • We have consistently offered competitive savings rates to savings members (savings rates were on average 0.59%[2] above the market) and we have maintained a minimum member savings rate of 15 basis points. • Our ongoing investment programme has increased capacity and capability across the Society. In particular, we have rolled out a new mortgage technology platform – Mortgage Hub – during the year to improve efficiency, enhance our digital capabilities and enable us to compete more effectively in a challenging mortgage market, through meeting evolving member and broker needs and expectations. • We have continued to review our target operating model to help make sure our operations remain appropriate for the future. • We continue to work on enhancing our digital proposition for both members and brokers.
Keeping the Society financially resilient *Supporting the Secure and Simple strategic pillars* • Maintain a strong capital position • Maintain efficient level of liquidity above internal limits • Achieve a resilient level of profitability	• Due to the disruption in the housing market at the start of the pandemic and our prudent approach to the market, new lending saw a year-on-year reduction. However, the strong rebound, due in part to the stamp duty holiday meant we lent £2.5 billion and continued to support customers to have the homes they want, including those less well served by the wider market. • Our net interest margin remained broadly similar to 2019. Despite a fall in our net interest margin in early 2020, when the housing market was effectively closed during the first period of national lockdown, the strength of the housing market recovery in the second half of the year, along with a low cost of funds due to reduced market interest rates, resulted in a positive impact towards the end of the year. • Despite the impact of the pandemic, our profit performance was resilient and we remain very well capitalised with Common Equity Tier 1 and leverage ratios being well above regulatory requirements. Our future capital plans incorporate our expected Minimum Requirements for Own Funds and Eligible Liabilities (see page 59).

2. CACI's CSDB, Stock, December 2019 to November 2020, latest data available

Corporate priority	Progress in 2020
	• We have maintained a keen focus on cost efficiency. Our cost to income ratio of 51% and our cost to asset ratio of 0.48% are among the best in our building society peer group. • We have continued to strive for longer term efficiency. During the year we decided to close our branches in Bradford and Ripon, to not reopen our Adel branch and to transfer our Brecon branch to Monmouthshire Building Society, as a result of sustained falling use of these branches. We have secured a larger and more prominent location for our head office branch, which should improve customer experience and significantly increase footfall. • The build phase has now been completed on our new head office building, which will reduce the current three Leeds city centre locations to a single site. This will save costs and reduce our carbon footprint. We plan to begin the process of moving in during the first half of 2021. • We have continued to improve efficiency in a number of areas of the business, in particular through our operational transformation programme, which seeks to identify opportunities to simplify and streamline our high volume mortgage and savings processes.
Communicating with our colleagues and members *Supporting the Customer Centred strategic pillar and People* • Keep colleagues informed and engaged • Maintain robust service, customer satisfaction and trust • Protect broker NPS • Keep members informed of changes that affect them	• In 2020, we continued to focus on strong colleague engagement, particularly during the pandemic. Enhanced communication, from our executive directors and the Senior Leadership Team in particular, has led to an improvement in our colleagues' engagement levels, for further details see the People section on page 18. • We were awarded Bronze at the 2020 Internal Communications and Engagement Awards in the category of 'Best internal communications during the pandemic'. • We have continued to gain an understanding of members' needs during the pandemic, through a number of engagement surveys. • Despite significant demand for our services during the year, we had a record level of customer satisfaction in 2020 and we retained our '4 Star' Trustpilot rating. Broker satisfaction fell compared to 2019 as a result of service pressures, however we have taken steps to address this and are already seeing improvements in broker experience. • We have been reaccredited with the Fairer Finance Gold Ribbon for our savings products, which recognises the good customer service we have offered to savers, our transparency and how well we handle complaints. We have also been recognised as a top 'ethical business' by Ethical Consumer, being within the top two mortgage providers in its review and cited as a Best Buy for our ethical approach to mortgage lending. • We strive to operate honestly and transparently. We have published a statement on 'How We Do Business' on our website, which sets out our commitment to do the right thing for our members, colleagues and communities.

Year ended
31 December 2020

Continued

Key performance indicators

The Society measures its performance against its strategic pillars (which are supported by the corporate priorities above) using a number of key performance indicators (KPIs). These include both financial measures, as defined under IFRS and non financial measures. KPIs which are Alternative Performance Measures are indicated by APM and are defined in the Glossary on pages 207 to 210. The APMs used are in common use across the financial services industry and are useful in explaining the performance of the business.

Key performance indicator	What is measured	Performance	2020 update
Secure			
Profit before tax	Profit before tax, as reported in the Income Statement, creating capital to support future business growth.	2020 £80.7m 2019 £88.0m 2018 £116.9m 2017 £120.9m 2016 £116.6m	Profit before tax has held up well in challenging conditions, including robust net interest income and maintaining a stable cost base. It has reduced from 2019, due to an increase in future expected mortgage losses as a result of the weakened economic environment, due to COVID-19.
Net interest margin[APM]	The difference between interest received on assets and interest paid on liabilities, measured as a percentage of mean assets. This is the Society's main source of income.	2020 0.99% 2019 1.00% 2018 1.15% 2017 1.24% 2016 1.37%	Our net interest margin remained broadly unchanged from 2019, as we continued to balance the needs of our savers and borrowers against a backdrop of reducing market rates.
Common Equity Tier 1 (CET1) ratio	The highest quality form of capital that mainly comprises retained earnings and other reserves, as a proportion of risk weighted assets (RWAs). This is measured to help make sure that the Society retains an excess over the regulatory minimum.	2020 36.3% 2019 33.6% 2018 31.3% 2017 14.5% 2016 15.2%	CET1 capital increased during the year, with robust annual profit and a small balance sheet contraction. The increase in 2018 was due to the Society being granted Internal Ratings Based (IRB) permission.

Key performance indicator	What is measured	Performance	2020 update
Secure (continued)			
UK leverage ratio	Another measure of capital strength. Measured as the Society's Tier 1 capital as a proportion of relevant total assets excluding central bank reserves.	2020 5.8% 2019 5.3% 2018 5.5% 2017 5.5% 2016 5.6%	Our leverage ratio increased during 2020, through sustainable profit generation along with controlled growth in assets, in response to the market conditions. The ratio remains above the regulatory minimum of 3.25%.
New (gross) residential lending[APM]	The value of residential lending advanced by the Society during the year, including loans for house purchases, remortgages and further advances.	2020 £2.5bn 2019 £3.5bn 2018 £3.8bn 2017 £4.1bn 2016 £4.0bn	New (gross) lending reduced in 2020 due to the closure of the housing market during the initial lockdown. This has been partially offset by very high demand for mortgages in the second half of the year. New lending remains broadly in line with our natural market share.
Net residential lending[APM]	Gross residential lending, less repayments of principal and redemptions.	2020 £0.0bn 2019 £1.0bn 2018 £1.0bn 2017 £1.8bn 2016 £1.9bn	Net lending was lower than in 2019, primarily due to the reduction in new lending as a result of COVID-19 and our prudent approach to market re-entry.
Customer Centred			
Customer satisfaction	The percentage of customers surveyed who described themselves as quite, very or extremely satisfied with the service received from the Society.	2020 93% 2019 91% 2018 91% 2017 91% 2016 92%	Customer satisfaction has increased in 2020, to the record rate of 93%, demonstrating our focus on members' needs during the challenging times this year.

Business Model and Strategy

Year ended
31 December 2020

Continued

Key performance indicator	What is measured	Performance	2020 update
Customer Centred (continued)			
Broker Net Promoter Score (NPS)	Demonstrates how likely brokers are to recommend the Society to their peers. Calculated using the percentage of people who are extremely likely to recommend and subtracting those who are unlikely to recommend.	2020: 46 2019: 54 2018: 49 2017: N/A 2016: N/A	Broker NPS has fallen in 2020 compared to 2019, as a result of service pressures faced following the mortgage market re-opening. We have taken steps to address this and the introduction of Mortgage Hub is already generating positive results, which we will carry forward into 2021.
Savings balances	The value of shares and deposits held by the Society's members and other customers, as reported in the Statement of Financial Position.	2020: £14.2bn 2019: £14.5bn 2018: £13.9bn 2017: £13.1bn 2016: £11.2bn	Savings balances have fallen as our funding requirement reduced compared to 2019, due to lower levels of lending and a more efficient approach to liquidity management.
Society membership	The number of Society members. Increasing the number of members is part of achieving the Society's vision.	2020: 769,000 2019: 797,000 2018: 804,000 2017: 791,000 2016: 751,000	Overall, member numbers have declined by 3.5% to 769,000 with the number of savings members reducing alongside the fall in balances.
Savings rate benefit	The annual benefit to all our savers of paying above market rates to savers, based on the Society's weighted average savings rate compared to the rest of market rate.	2020: £82.8m 2019: £88.5m 2018: £81.5m 2017: £75.0m 2016: £69.0m	We paid an average rate of 1.19% against the rest of the market rate of 0.60%, benefitting members by £82.8 million in the year[3].
Simple			
Cost to income ratio[APM]	A cost efficiency ratio which measures costs in relation to the Society's income. It is calculated as the percentage of the Society's total income spent on administrative expenses and depreciation and amortisation.	2020: 51.0% 2019: 53.5% 2018: 44.8% 2017: 43.2% 2016: 43.3%	Despite ongoing investment in order to future-proof the business, and one off costs associated with COVID-19, careful cost management and resilient income levels have led to a fall in our cost to income ratio compared to 2019.

3. CACI's CSDB, Stock, December 2019 to November 2020, latest data available

Key performance indicator	What is measured	Performance	2020 update
Simple (continued)			
Cost to mean asset ratio[APM]	An additional cost efficiency ratio which measures costs in relation to the Society's total assets. It is calculated as administrative expenses plus depreciation and amortisation, divided by the average total assets.	2020: 0.48% 2019: 0.50% 2018: 0.52% 2017: 0.56% 2016: 0.62%	Our cost to mean asset ratio has decreased from 2019, benefitting from an efficient cost model and an increase in the average total assets during the year.
Number of days from mortgage application to offer	The number of business days it takes to issue a mortgage offer from initial receipt of the application.	2020: 24 2019: 15 2018: 16 2017: 16 2016: 19	This metric increased in 2020, largely due to the impacts of the pandemic. Physical property inspections were delayed during and after the first national lockdown, mitigated to some extent by implementing desktop and external valuations. The significant demand for mortgages in the second half of the year exceeded our underwriting capacity.
People			
Colleague engagement score	Colleague engagement is measured annually across all colleagues. Society goals are delivered by highly engaged colleagues.	2020: 86% 2019: 82% 2018: 81% 2017: 80% 2016: 78%	Colleague engagement increased during 2020, partly due to enhanced leadership communications. It remains ahead of our sector benchmark.

Business Model and Strategy

Year ended
31 December 2020

Continued

People

Our overarching aim is to ensure delivery of corporate priorities through our highly engaged colleagues.

We have remained focused on a positive colleague experience and high engagement, to enable all our people to contribute towards delivering a strong service to our members and to continue to make the Society a great place to work.

Colleague engagement

In 2020, 89% of colleagues took part in our colleague survey. The results improved our already high engagement score to 86% (+4% from 2019) and leadership score to 85% (+3% from 2019), which were ahead of our sector benchmark. These are the strongest results since we commenced this assessment approach in 2013. There were many positive comments from colleagues about our response to the pandemic and some highlights of the actions taken are described below.

Our COVID-19 response

Keeping our colleagues and members safe, while successfully maintaining our service levels, has been critical during the pandemic. All our offices are COVID-secure, in line with government guidance, with additional safety measures put in place. Detailed information was provided to colleagues and updated frequently, to ensure our offices and practices remained as safe as possible and our teams were well informed.

At the start of the pandemic, we mobilised extensive dispersed working, with around 730 colleagues working from home. This greatly reduced the numbers of colleagues in our offices, allowing for appropriate social distancing and a safe working environment for those who needed to remain. Equipment has been provided to create a more comfortable working environment at home, such as laptops, monitors and chairs and in our branches we installed screens and supplied face coverings. We also provided clear signage to assist with the safe operation of all locations. Technology has been central to the continued successful collaboration between our teams, with the use of previously unused applications made available, at short notice.

No colleagues have been furloughed during the pandemic and the Society has continued to employ new people during this period. A total of 155 new colleagues joined the Society between April and December 2020, most of whom were recruited, inducted and on-boarded remotely, using technology to do this safely.

We supported colleagues with paid leave for COVID-related absences, including those who were required to shield on health grounds and people who were impacted by other events, such as school closures. We provided over 5,600 hours of paid discretionary leave between March and December 2020, supporting our people and their families.

We are extremely grateful for the commitment and resilience of all our colleagues during this very challenging period and for so quickly adapting to new ways of working.

Wellbeing

We established our formal approach to mental health and wellbeing in 2018. Since then, 418 colleagues, including 143 people leaders, have been trained on mental health awareness. We have over 40 Mental Health First Aiders in place to provide support to others. Since 2018, and through our partnership with the Building Societies Association (BSA), the Society has trained more than 85 people in other financial services and private sector organisations as Mental Health First Aiders.

During the pandemic, we have recognised the additional challenges and difficulties facing colleagues and have provided further support through our Mental Health First Aiders. We have also provided accredited Mindfulness sessions, aimed at strengthening personal resilience, and easily accessible and wide ranging support material. This will continue into 2021.

Diversity and inclusion

In 2017, we launched our diversity and inclusion strategy. Our single statement ambition is to 'have an inclusive culture which enables colleagues with a diverse range of skills, experiences, backgrounds and opinions to flourish, without barriers'. We have continued to make significant progress against these aims.

In 2020, we were reaccredited as Leaders in Diversity by the National Centre for Diversity, having first achieved accreditation in 2018, reflecting the further progress we have made and we are the first financial services company to achieve this. Also in 2020, we were proud to be awarded Best Financial Services Company, also by the National Centre for Diversity.

Our colleague-led forums for Gender, Black and Minority Ethnic (BAME) and Mental Health have continued to make progress during the year. Our Accountable Executive for Diversity is Andrew Greenwood, Chief Risk Officer and Executive Director. Each of our forums is sponsored by a senior leader.

Highlights this year include:

- 10 women participated in the Women Ahead external cross-company mentoring programme in the year. This brings the total number of women who have participated as mentees to 30. 24 senior leaders were mentors to women in other organisations. The Gender Forum also continued to run an internal mentoring programme for women.
- 10 colleagues are participating in Mission INCLUDE, a new mentoring programme focused on broader diversity, including ethnicity, religion, disability, sexual orientation, behavioural and background diversity.
- Several remote and well attended colleague networking events and panel discussions, on a variety of diversity topics, have been led by the forums and sponsored by senior leaders, including the Accountable Executive for Diversity.
- International Women's Day was recognised by a women's networking event at Leeds Rhinos, hosted by our Director of People and the Chair of the Gender Forum.
- In March, we became signatories to the Race at Work Charter and are now progressing actions.
- National Inclusion Week provided an opportunity to celebrate and educate around diversity, with events, activities and information.
- Our Mental Health Wellbeing Information Hub was expanded to provide easy access to a variety of useful support sources during the pandemic.

We will continue our focus on broader diversity matters into 2021.

Through the Women in Finance Charter, we have published gender diversity targets of 33% for women, on both the Board and within the Senior Leadership Team, by the end of 2021. We continue to make progress to the achievement of these.

The composition of our workforce is detailed below:

		2020 Females	**2020 Males**	2019 Females	2019 Males	2018 Females	2018 Males	2017 Females	2017 Males
Colleagues	Number	**829**	**499**	838	486	822	465	811	492
	Percentage	**62%**	**38%**	63%	37%	64%	36%	62%	38%
Managers*	Number	**33**	**70**	33	66	31	62	31	56
	Percentage	**32%**	**68%**	33%	67%	33%	67%	36%	64%
Directors	Number	**2**	**8**	3	9	3	10	3	10
	Percentage	**20%**	**80%**	25%	75%	23%	77%	23%	77%

*Managers includes the Senior Leadership Team, which is currently made up of 32% females.

Reward

We are proud to have been recognised as a Living Wage employer since 2019, reflecting our ongoing commitment to paying the Real Living Wage. Our fair reward principles ensure we offer fair pay, which is benchmarked externally and is designed to attract candidates with the skills and experience needed. All colleagues participate in a bonus scheme, which is linked to the Society's objectives and their own individual objectives. We have a Fair Pay Charter, which is available to view on our website.

Developing our talent

Despite the pandemic, talent development has continued in 2020. Much of the training, previously delivered in a face to face environment was digitised, so colleagues could access this remotely, enhancing our suite of digital learning more broadly, while keeping colleagues safe.

The Society supports learning in many ways, including through opportunities provided by secondments into other roles, to broaden and enhance skills, knowledge and experience. In 2020, 24 internal secondments commenced. Additionally, 65% of roles were filled internally by colleagues, providing opportunities to develop their careers within the Society.

Over a seven year period, we have recruited 25 apprentices into a variety of business areas, with 96% successfully completing their apprenticeship programme. Over half the apprentices employed have gained promotions and the average length of service for an apprenticeship stands at four years. Having restarted our programme in 2020, we have successfully on-boarded six new apprentices in the year and look forward to the continued success of the scheme.

Business Model and Strategy

Continued

The Board

The Board recognises the crucial role that colleagues play in our success and the service we offer to members. It is provided with regular and detailed information about our workforce. In 2019, Lynn McManus, non executive director and Chair of the Remuneration Committee, assumed responsibility for representing colleagues' views at the Board. Lynn has met with our Colleague Association regularly throughout 2020 and has a keen interest in colleague matters, views and opinions. Additionally in 2020, Annette Barnes, non executive director, led two well attended colleague development sessions.

During the year, communication has been particularly important, ensuring that our colleagues have been well informed and up-to-date with business performance and progress. Despite the challenges of having many of our colleagues dispersed, the Society has worked hard to ensure that everyone has remained engaged, through a range of communication methods including briefings, cascades and our intranet. Our colleague app, Totem, allows all our people to stay in touch with each other, sharing stories, successes, tips and information. Our messaging, focused around our three simple COVID-related priorities, has worked well. Colleagues have positively commented on this through our engagement surveys. The focus on good communication will remain in 2021.

Our colleague turnover is 12.7%, which is within our target range (2019: 17.7%).

Our values

The Society's values underpin the delivery of our business model and strategy and they form a key part of the performance management process for all colleagues. We support demonstration of the values in the workplace through regularly recognising our colleagues' achievements against these values.

Straightforward

Collaborative

Integrity

Progressive

Responsible

Passionate

Directors' regard to stakeholder interests

Our approach to corporate governance is based on the Principles and Provisions of the 2018 version of the UK Corporate Governance Code (available at frc.org.uk). In order to meet the requirement for a Section 172 Statement (in so far as it is relevant to a building society), we include information on how the Board has carried out its duties in promoting the success of the Society. This includes how the Board engages with stakeholders and remains cognisant of their needs when running the business.

In response to the pandemic, the Board has continued to be mindful of stakeholders' ongoing needs, demonstrating a commitment to doing the right thing in the decisions it makes. Examples of how we have continued to support and engage with our stakeholders during the pandemic are shown on pages 10 and 11.

The Board's approach

The Society considers the needs of a diverse range of stakeholders, as noted below. These stakeholders have been identified as those who may be affected by our activities and those groups whose actions can affect the operation of the business. These stakeholders are also actively considered in the development of the Society's strategy, specifically members' product and servicing needs, the expectations of regulators, the needs of mortgage brokers, views of investors and credit rating agencies, as well as any potential impact on colleagues. For example, customer insight and feedback has formed the basis of the decisions around digital developments. The Board recognises that agreeing a strategy, which is cognisant of key stakeholders, will optimise long term value creation and will ensure relevance in a fast changing environment.

Board members, including non executive directors, receive training on all aspects of their role (including fiduciary duties and an overview of our stakeholders and how we engage with them). In addition, competencies within their job role requirements have a customer focus, with a requirement for strong internal and external relationships with stakeholders.

Report writing guidance requires Board and other committee reports to include the views of, and potential impacts on, our stakeholders. The Chair directs debate so that appropriate consideration is given to relevant stakeholders when decisions are made and this is then documented within the meeting minutes. For example, stakeholder impact was discussed when making decisions on the head office relocation and our new mortgage technology platform.

Governance of the Board has adapted since the onset of the pandemic, through increasing the frequency of meetings and adjusting the content to deal with the fast changing environment. The Executive Committee met twice weekly during the beginning of the pandemic, to make decisions at pace as needed. The needs of our stakeholders have been at the forefront of the discussions at these meetings and have been key in determining our response.

Our values help to underpin a strong culture appropriate for a mutual organisation, encouraging actions that are in the best interests of members and other stakeholders. As previously noted, demonstration of the values in the workplace forms a key part of our performance management approach. For further information on culture and how this is monitored, see the Corporate Governance Report on pages 66 to 83.

Maintaining our licence to operate

Members and brokers

The Society has an online panel (TalkingPoint) for receiving member and broker feedback on various topics, including product and service improvements. The Board receives output of this research, as appropriate, within relevant papers and also receives quarterly reporting on both member and broker satisfaction. A view of our membership base is reported through annual analysis of the five year forecast of our member joiners and leavers, as well as monthly reporting on recent joiner/leaver numbers. The Board balances the interests of borrowing and saving members, as well as brokers, when making decisions about the Society's short and longer term strategy.

Examples of our response to the pandemic in respect of members can be seen on page 10. Further details on engagement with our members and brokers can be seen within the Corporate Governance Report on pages 79 to 82. Key performance indicators relevant to members and brokers, such as net promoter score, can be seen in the Key Performance Indicators section within this report at pages 14 to 17.

Competitor activity is monitored regularly and reported to the Board twice a year, through reviews. External environment monitoring is undertaken continually, with regular reporting to the Board on potential future market disruptions, which could have a significant impact on our core markets and our business.

Sales processes comply with relevant regulations, with independent quality assurance in place and oversight via the Conduct and Operational Risk Committee (CORC). Post sale product performance is monitored and considered routinely as part of our Lifecycle Review governance, with oversight via CORC. Customer complaints handling is reported via the Chief Customer Officer, with oversight by CORC and an annual update to the Board.

Procedures are in place to ensure customer data is stored and used appropriately and kept in line with our Privacy Policy.

Colleagues

We have a number of ways of engaging with colleagues directly employed by the Society, so that we can understand their needs and views. There is a yearly colleague survey and Lynn McManus, non executive director, meets regularly with the Colleague Association. Further information on Lynn's role can be seen in the Corporate Governance Report on pages 80 and 81. Annette Barnes, non executive director, also led two colleague development sessions during 2020. During the pandemic, we have also been communicating more regularly with colleagues and have provided support in a variety of ways for those individuals facing challenges – see page 11 for our response to COVID-19 for colleagues. Colleagues' needs and views are taken into account when the Board is making decisions which affect them, such as those set out on page 24.

Consideration of diversity in the workplace is a key focus for the Society, which is supported through our mental health, gender diversity and BAME colleague forums, as well as being a signatory to the Government's Women in Finance Charter and being reaccredited with 'Leaders in Diversity' status by the National Centre for Diversity. Please see the People section for further information on diversity.

The Colleague Association meets regularly to discuss issues affecting colleagues, such as health and safety, colleague engagement, colleague pension performance, salary and bonus expectations, as well as disciplinary and grievance matters. The agenda is set by seeking feedback from colleagues on the items they wish to raise.

We operate both defined benefit and defined contribution pension schemes. Details of these schemes and funding information for the defined benefit pension scheme can be found in the notes to the accounts on pages 171 to 174.

Third parties

The Society's supplier partners are an important part of our business operations. The Board is involved in decisions on suppliers for our key strategic projects. This includes changes of supplier, where these are of a significant value, as defined under the Delegated Authorities Manual. Management information on suppliers is reported to the Board, including comprehensive information on our critical suppliers and evidence of suppliers' compliance with laws, regulations and internal standards.

The third party framework requires relevant due diligence to be carried out by relationship managers on each contract, with the necessary checks dependent upon the size of the contract and its impact on our strategy.

There is a relationship management model in place, with governance meetings at appropriate levels taking place in accordance with the materiality of the relationship. At the beginning of the pandemic, we contacted our key suppliers to discuss their crisis management and business continuity plans, including the management of key person risks, employee health and safety and any potential supply chain disruptions likely to impact service to the Society. We maintained this contact initially on a weekly basis before moving to monthly, with aggregated management information on our supplier performance being presented at relevant governance meetings. Risk mitigation actions were taken as required to ensure continuity of services.

In terms of payment performance, in 2020 we paid around 85% of suppliers within 30 days, which is lower than in 2019 (90%) as a result of communication difficulties in resolving queries during the pandemic. Further information on engagement with suppliers can be found in the Corporate Governance Report on page 81.

Communities

Leeds Building Society was set up to help members save and have the homes they want. We also aim to make a positive difference in wider society and the Board understands that our mortgage and savings business needs to be underpinned by a broader commitment to the communities in which we operate. An example of this is our commitment to pay our fair share of tax as evidenced by our Fair Tax accreditation.

Our communities are defined as the places where our members and colleagues live and work, however we consider social issues as well as geography in defining where we focus our efforts.

The Board receives regular updates on our Corporate Responsibility Framework and progress against our targets, in order to understand the progress we have made and what we may need to focus on. The framework highlights how we aim to do what is right for our members, colleagues and communities. Overall we have met 10 out of our 12 targets for 2020 – further information on our framework and our progress against these targets can be seen in the Corporate Responsibility Report on page 28. As part of the development of the next phase of our Corporate Responsibility Framework, we have undertaken a materiality assessment with stakeholders to understand what is important to them. This will be incorporated into our future approach. We have also published our 'How We Do Business' standards on our website, which outline our commitment to our members, colleagues, and communities.

As noted previously, the Board gains awareness of members' views on various topics, including communities, through inclusion of TalkingPoint panel research within relevant Board papers and via questions raised through the Annual General Meeting.

A summary of our pandemic response in relation to communities can be found on page 10. More detail, as well as further information on corporate responsibility at Leeds Building Society, can be found within the Corporate Responsibility Report on pages 27 to 38.

Environment

We continue to take the impacts of climate change seriously and to that end we report on our carbon emissions within the Annual Report and Accounts, to help stakeholders to understand our carbon footprint and to highlight the steps we are taking to reduce this. These include being certified with the Carbon Trust Standard for Carbon, which demonstrates the ongoing reductions in our carbon footprint and confirms that we have the right processes in place to continue to reduce in the future, including recycling all paper and using 100% green tariff electricity. Another example of our commitment to having a positive impact on the environment is the refurbishment of our new head office, which took place during 2020. It is net carbon neutral in operation and A rated for energy efficiency. Please see the Corporate Responsibility Report on pages 27 to 38 for further information on our actions with regard to carbon emissions.

The Society has also continued to progress initiatives to further understand the risks and opportunities associated with climate change. As part of this activity, we have developed a Climate Change Framework, which will be implemented during 2021. Further information on the Society's approach to managing climate change risks can be found on page 25.

Regulators

The Society has an open and transparent relationship with both the PRA and FCA. At each Board meeting, a regulatory update report is presented. The report includes: (i) material regulatory requirements over the horizon, together with the impact and readiness of such items on the Society, which is informed by external information sources such as peer benchmarking and UK Finance, (ii) a summary of any new, closed or current actions agreed with the PRA/FCA during the period, and (iii) any other material dialogues with the PRA/FCA.

As noted within the Corporate Governance Report on page 82, the frequency of our engagement with the Society's regulators has increased in response to the pandemic, which has allowed productive discussions to take place in relation to the potential impacts on key stakeholders, including our colleagues and our members.

Investors

We have a variety of different types of investors who support our wholesale funding strategy across secured and unsecured types of debt. Our financing strategy aims to have the appropriate level of diversification of funding, so we are not exposed to only one type of funding.

To facilitate this, we have an active investor relations strategy, including engagement through individual meetings with key institutional investors, group presentations, attendance at investment conferences and specially arranged investor days. This year due to the pandemic, interactions were held virtually.

Further information on engagement with investors and credit rating agencies can be seen in the Corporate Governance Report on page 82.

Key decisions made in the year

The key decisions taken this year by the Board have been mindful of all stakeholders' needs, while benefitting our members over the long term. These decisions aim to improve member, broker and colleague experience, as well as increasing our financial stability through improving income performance/reducing costs. This means that we can continue to operate successfully in the future for the benefit of all of our stakeholders.

Two case studies are given below and a summary of Board activities can be found in the Corporate Governance Report on pages 73 to 75.

Agreement not to furlough any colleagues (April 2020)

The wellbeing of our colleagues and having a positive impact on our members and their communities are key priorities for Leeds Building Society. At the onset of the pandemic, the Board approved management's proposal to not furlough any colleagues under the Government's Coronavirus Job Retention Scheme.

This decision was made to safeguard colleagues' financial and mental wellbeing, as well as benefitting members, whose branches remained open to access our services for essential transactions. The Society did not make use of any taxpayer-funded support schemes, demonstrating our commitment to doing the right thing.

Vulnerable colleagues who were unable to work from home, such as those from the branch network, remained on full pay and colleagues' working patterns were flexed to allow for childcare and other responsibilities, while ensuring the Society's operations continued to function.

We also undertook redeployment of our colleagues, for example, at a time when there was a significant demand on our customer service teams, those in branches who were less busy were able to help support our Contact Centre, enabling customer service teams to answer more member queries around mortgage payment deferrals.

Decision to close branches (July 2020)

The Society is committed to operating an efficient and sustainable branch network.

In 2020, the Board considered a branch footprint review, which identified continued underperformance of our Bradford, Ripon, Adel and Brecon branches, relative to the network as a whole. Changes in customer demographics and usage over recent years has been such that these branches were less productive and no longer delivering the savings growth required to support our lending ambition. Operationally, the nearest branch to Brecon made it difficult to ensure operational resilience.

While a weak economy and further deterioration in performance was likely in these locations, the remaining branch network has a proven ability to generate sufficient retail growth, which funds our lending plan.

After careful consideration, including a vulnerable customer assessment, access to other banking services and consultations with colleagues, we took the decision to redeploy colleagues and close our Bradford and Ripon branches, while Adel (closed at the start of the pandemic) did not re-open. Our branch and colleagues in Brecon transferred to the Monmouthshire Building Society, thereby protecting jobs and ensuring no redundancies were made.

This decision strengthens the efficiency and thereby improves longer term sustainability of the branch network. The Society also secured a new branch, closer to the heart of Leeds city centre, which should benefit from increased footfall and will replace the existing head office branch in 2021, further demonstrating our continued commitment to our branch network.

Climate Related Financial Disclosures

The risks and opportunities to the Society's operations, members and supply chain arising from climate change, remain an area of focus.

In 2019, we recognised climate change as a more significant emerging risk and, since this time, have been progressing activity to integrate climate related risks into our core risk frameworks.

We are committed to developing our capabilities further to better understand the risks and opportunities we face from climate change, which will support enhanced disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and other industry guidance.

The sections below summarise our current approach to managing climate change risks and planned activities for 2021, across the four TCFD thematic areas:

Governance

The Board Risk Committee (BRC) has responsibility for the oversight of climate risks, as delegated by the Board. During 2020, BRC focused on increasing our knowledge and understanding of climate related risks and the approval of a Climate Change Framework, which will be implemented throughout 2021 and beyond.

The Society plans to establish an executive level Responsible Business Forum in 2021, chaired by the Chief Transformation Officer. This forum will support the Executive Committee and the Board/BRC, overseeing the development and implementation of our Environmental, Social and Governance (ESG) strategy, a key aspect of which relates to climate change.

The Board has also approved the allocation of the responsibility for identifying and managing the risks associated with climate change to the Chief Risk Officer.

Strategy

As referenced above, as part of the development of a strategic approach to managing the risks associated with climate change, the Society has defined a Climate Change Framework. This framework is based on four pillars (Risk Management and Scenario Analysis, Reporting and Disclosure, Carbon Footprint and Products), designed to meet the requirements of TCFD on a proportionate basis. The framework also includes an initial strategic aim to be carbon net neutral for scope 1 and 2 emissions by the end of 2022.

The implementation and embedding of this framework will support the identification of potential risks and opportunities from climate change and will feed into future strategic and operational decision making.

Risk management

Similar to other risk categories, climate change risks are managed in line with our Enterprise Risk Management Framework, as described on pages 98 to 102. To support the overall management of climate related risk, we have defined minimum control standards as part of our ESG Policy.

During 2020, we undertook an initial point in time assessment of the physical and transitional risks associated with our mortgage portfolios. The outputs of this review were presented to the Board Risk Committee and were also used to support a qualitative analysis of climate change within our 2020 Internal Capital Adequacy Assessment Process (ICAAP).

As part of our planned activity for 2021, we will work with relevant data providers to develop our capabilities, to gain a better understanding of the potential risks from climate change on our lending portfolios, under multiple climate pathways.

Metrics and targets

The Society has continued to drive efficiencies within its own carbon footprint during 2020. Further detail regarding our emissions can be found overleaf.

As we develop a better understanding of potential climate change risks, we will start to track appropriate metrics and develop targets, which will feed into future disclosures.

Business Model and Strategy

Year ended
31 December 2020

Continued

Market based approach[4]

CO_2e emissions (kg)	2016	2017	2018	2019	2020
Scope 1					
Diesel	6,285	2,410	–	–	–
Gas	101,832	106,859	60,731	50,303	37,301
Fugitive emissions (only tracked since 2020)	No data	No data	No data	No data	36
Total scope 1	108,117	109,269	60,731	50,303	37,337
Scope 2					
Purchased electricity	1,131,086	–	–	–	–
Total scope 2	1,131,086	–	–	–	–
Total scope 1 and 2	**1,239,203**	**109,269**	**60,731**	**50,303**	**37,337**
Scope 3					
Air travel	No data	11,715	10,889	12,469	990
Car mileage	No data	155,390	130,474	113,465	147,458
Rail travel	No data	38,226	40,772	31,200	5,514
Total scope 3	No data	205,331	182,135	157,134	153,962
Total scope 1, 2 and 3	**1,239,203**	**314,600**	**242,866**	**207,437**	**191,299**

Location based approach[5]

CO_2e emissions (kg)	2016	2017	2018	2019	2020
Scope 1					
Diesel	6,285	2,410	–	–	–
Gas	101,832	106,859	60,731	50,303	37,301
Fugitive emissions (only tracked since 2020)	No data	No data	No data	No data	36
Total scope 1	108,117	109,269	60,731	50,303	37,337
Scope 2					
Purchased electricity	1,532,932	1,336,002	1,072,524	1,117,357	999,854
Total scope 2	1,532,932	1,336,002	1,072,524	1,117,357	999,854
Total scope 1 and 2	**1,641,049**	**1,445,271**	**1,133,255**	**1,167,660**	**1,037,191**
Scope 3					
Air travel	No data	11,715	10,889	12,469	990
Car mileage	No data	155,390	130,474	113,465	147,458
Rail travel	No data	38,226	40,772	31,200	5,514
Total scope 3	No data	205,331	182,135	157,134	153,962
Total scope 1, 2 and 3	**1,641,049**	**1,650,602**	**1,315,390**	**1,324,794**	**1,191,153**

4. Market based approach reflects emissions from electricity that companies have purposefully chosen, such as renewable electricity, for scope 2 emissions.
5. Location based approach reflects the average emissions intensity on the grids on which energy consumption occurs, such as using UK Government grid-average emissions factors, for scope 2 emissions.

Corporate Responsibility

Year ended
31 December 2020

Purposeful business

In our 145th year of doing business, the Society has remained true to our core purpose of 'helping people save and have the home they want', bringing savers and borrowers together to create a mutually beneficial relationship. We are owned by our members and guided by our values and principles.

Throughout 2020, we have been reminded of the importance of working together while being able to lean on each other in times of need. We understand that as a business, we are capable of supporting communities, colleagues and members in a purposeful and meaningful manner.

As we conclude the first phase of our corporate responsibility strategy (2017 to 2020), we look back with pride and see our focused efforts have made many tangible and positive impacts on the stakeholders and communities we serve. It has highlighted the importance of aligning our core purpose in all that we do, while raising our ambition to prioritise social and environmental issues alongside our business targets. It demonstrates what social purpose can achieve and reinforces our commitment to providing social value; building on our success as we move beyond 2020.

Since the beginning of our corporate responsibility journey, we have achieved or exceeded ten out of the twelve published targets. We have helped over 43,000 people buy their first home, invested over 18,500 hours into communities through volunteering, donated more than £1.45 million to charities and good causes and reduced our carbon emissions by 1.2 million kg CO_2e[1], all well above the targets we set four years ago.

The challenging market environment in 2020, combined with the impact of the pandemic, means the Society has fallen slightly short of our ambition on our savings and mortgage targets. Despite this, in 2020 we helped 23,000 people begin to build a more secure future by saving with us and supported 26,250 people to have the home they want.

We have also continued to work closely with a range of expert partners to deliver our corporate responsibility strategy, including Fair Tax, The Carbon Trust, Living Wage Foundation, Leaders in Diversity and Business in the Community (BITC).

Highlights

In 2020 the Society:

- reduced our carbon footprint across scopes 1 and 2 by 97% since 2016 and reaffirmed our commitment to procuring 100% renewable electricity for all our sites;
- refurbished our new head office building, which is net carbon neutral in operation and A rated for energy efficiency;
- invested into the local economy with approximately 70% of the subcontractors for our new head office sourced from within a 30 mile radius;
- diverted 97% of our construction and demolition waste away from landfill – approximately 400 tonnes – and upcycled old window glass into worktops throughout the building;
- exceeded our cumulative volunteering target of 14,000 hours and delivered over 18,500 hours to communities throughout the UK;
- launched our virtual workshops with schools in both financial education and career building skills, to support young people with money management and employment opportunities;
- donated over £148,000 to over 160 UK charities through the Leeds Building Society Foundation;
- launched a new four year charity partnership with Dementia UK following member and colleague voting and raised more than £150,000 in the first nine months;
- successfully brought our two year Samaritans partnership to a close, raising over £315,000 in total, which was £65,000 over our original target;
- won 'Project of the Year' in the Better Society 2020 Awards for our 'Making Space for Samaritans' campaign in collaboration with our long term partners Leeds Rhinos;
- won the What Mortgage 'Best Shared Ownership Mortgage Lender' award for the fifth year in a row, demonstrating our commitment to affordable housing;
- was rated as top two mortgage providers and awarded the highest 'Ethiscore' possible in the Ethical Consumer rankings for mortgages;
- received the Fairer Finance Gold Ribbon for Savings accounts for the third year running; and
- was reaccredited with the Fair Tax Mark, as well as being recognised as a Living Wage Employer and gaining Leaders in Diversity recognition.

1. *'Carbon dioxide equivalent'* or 'CO_2e' is a term for describing different greenhouse gases in a common unit

Our performance

Our targets reflected the four themes within our Corporate Responsibility Framework and these were kept under review over the course of our strategy to ensure they remained relevant. We have made huge strides in embedding responsible business across the Society and we are proud of the positive impact we have had.

Money & Homes

Target 1

Help over **225,000** people save for their future

PROGRESS: BEHIND

We helped **204,000** people save for their future since 2017, which equates to **91%** of our target.

Target 2

Help over **175,000** people have the home they want

PROGRESS: BEHIND

We helped **157,500** people to have the home they want since 2017, which equates to **90%** of our target.

Target 3

Help **30,000** First Time Buyers into a home of their own

PROGRESS: ACHIEVED

We have exceeded our target having supported **43,175** first time buyers to get on to the housing ladder since 2017.

Members & Communities

Target 4

Achieve high customer satisfaction scores of over **90%**

PROGRESS: ACHIEVED

Our customer satisfaction score, as measured as an average over the year, increased to **93%** in 2020.

Target 5

Provide **14,000** colleague volunteering hours in the community

PROGRESS: ACHIEVED

We have exceeded our target, having invested over **18,500** hours into communities since 2017.

Target 6

Provide **£1.2m** to charities and the community through grants, donations and sponsorship

PROGRESS: ACHIEVED

We exceeded our target, having donated over **£1.45 million** to charities and good causes since 2017.

People & Places

Target 7

Achieve above-sector average employee engagement scores of over **70%**

PROGRESS: ACHIEVED

Colleague engagement, as measured through our annual survey, increased from **80%** in 2017 to **86%** in 2020.

Target 8

Recycle all paper and use **100%** green tariff energy

PROGRESS: ACHIEVED

All paper was recycled and we purchased **100%** renewable electricity from wind and hydro sources through our energy provider.

Target 9

Reduce carbon emissions within our business operations by **150,000 kg CO_2e**

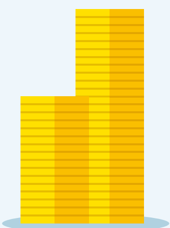
PROGRESS: ACHIEVED

Our carbon emissions decreased by more than **1.2 million kg CO_2 e** between 2016 and 2020[2] (see page 34 for full information).

Sustainable & Responsible

Target 10

Maintain financial strength and ability to grow through maintaining Total Capital Ratio in excess of **20%**



PROGRESS: ACHIEVED

The Society's Total Capital Ratio was **43.9%** in 2020.

Target 11

Achieve better than the industry average for Financial Ombudsman Service (FOS) upheld complaints

PROGRESS: ACHIEVED

On average **7%** of complaints were upheld in favour of our customers[3]. The average for all financial businesses during this period was **31%**[4].

Target 12

Increase the number of active members engaged on TalkingPoint to **2,500**

PROGRESS: ACHIEVED

In 2020, **2,597** of our members were actively involved on TalkingPoint giving their views and helping to shape our decisions.

[2] For reporting against our targets we follow a market based method that takes into account the procurement of renewable electricity from the market. Emissions have been calculated using DEFRA emission factors for the relevant years.

[3] Period covers 1 January to 31 December 2020.

[4] We are using the latest publicly available data from the Financial Ombudsman Service.

Our framework

We structured our Corporate Responsibility Framework to guide our areas of focus and make sure we maintained a balanced approach for members, colleagues and communities. It focused on four broad areas:

- Money & Homes: helping our members save and have the home they want.
- Members & Communities: caring for members and the communities they live in.
- People & Places: looking after our colleagues and reducing the environmental impact in the places where we operate.
- Sustainable & Responsible: running the Society in the long term interest of our membership as a whole.

Money & Homes

As the scale of the pandemic became more evident through the early months of 2020, the Society had to adapt quickly, reviewing and re-focusing our corporate priorities. One of those priorities was safely keeping the Society operating for the benefit of members.

Despite the pandemic and the very challenging market conditions faced as we concluded the final year of phase one of our corporate responsibility strategy, we have still helped almost 23,000 people save for their future. As an essential service provider, we were able to support our savers by keeping the vast majority of our branch network open throughout the periods of lockdown. In addition, we continued to pay above the market average rate, equating to an annual benefit of £82.8 million[5] to savings members.

We were also pleased to be awarded Fairer Finance Gold Ribbon for Savings accounts for a third year running.

We have a range of mortgages to help a wide variety of borrowers achieve the societal need of having a home and focus on those people whose needs are less well served by the wider market. The Society is proud to help people have the home they want and our range has been carefully considered to provide solutions around affordable homes. In 2020, we supported 26,250 people have the home they want including 8,000 first time buyers, lending almost £700 million in this important segment. As a result, we have surpassed our target of 30,000 by over 13,175 supporting over 43,175 first time buyers in total between 2017 and 2020.

Our commitment to affordable housing

what MORTGAGE AWARDS 2020 WINNER

Best Shared Ownership Mortgage Lender

We remain strongly committed to the shared ownership model, where a customer buys a part of a property and rents the remaining part. The types of borrowers using shared ownership and the locations they are buying in have changed over the last decade. It is opening up more opportunities for more people, supporting those who traditionally could not afford to buy.

We are proud of the fact that we have been awarded the What Mortgage 'Best Shared Ownership Mortgage Lender' five years running (2016-2020). This award is significant to the Society because it is voted for by members.

Furthermore, we remained active in the 95% loan to value market for shared ownership throughout the pandemic, to ensure borrowers had access to funding that required a lower deposit.

Members & Communities

Our corporate responsibility strategy places significant focus on contributing to the communities where we operate. Our mutual status means when we are faced with potential uncertainty, we endeavour to do what is in the best interest of our members and the communities where they live and work.

Listening to what matters to members and seeking their feedback helps us focus on the products and services we provide, as well as guiding us on meeting their evolving needs. Our community investment is designed around social value and delivered through the sharing of skills, resources and donations across the UK.

As we come to the end of our four year journey, we are proud to have surpassed our target to provide £1.2 million to charity partners, having given more than £1.9 million to charities and community organisations through grants, donations, time and sponsorships.

We believe our members value our engagements and contributions. This has been demonstrated in exceeding our customer satisfaction target and achieving 93%.

5. CACI's CSDB, Stock, December 2019 to November 2020, latest data available

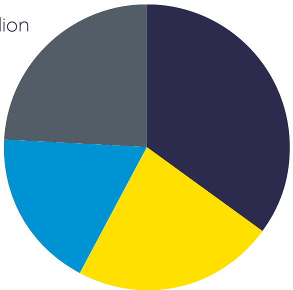
Corporate Responsibility

Year ended
31 December 2020

Continued

Where our giving comes from (2017 to 2020)

Total – £1.9 million



- Society donations – £664,904
- Member donations – £467,655
- Colleague fundraising – £319,014
- Value of volunteering hours (including secondments) – £469,266

Our charity partnerships

Our first national charity partnership with Samaritans came to an end in March 2020. We are incredibly proud to have raised more than £315,000 over our two year partnership, £65,000 more than our original target. This money was ringfenced to enable Samaritans to refurbish their branch technology, allowing them to reach more people who are struggling to cope.

To mark the end of the partnership, we were thrilled to win 'Major Project of the Year' at the Better Society Awards for our #MakingSpaceForSamaritans campaign, in which we gifted our main shirt sponsorship of Leeds Rhinos to raise awareness of mental wellbeing and the vital work Samaritans do all day, every day.

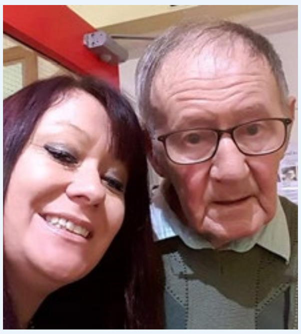
Dementia UK

Following consultation with members and colleagues, we launched our new four year partnership with Dementia UK in April. Dementia is now the leading cause of death[6] and it is estimated that 850,000 people in the UK are living with the disease. Dementia UK is the only UK charity caring for people with dementia and, like us, they aim to help people stay in their own home. The support given by their specialist admiral nurses helps families stay together as long as possible.

Our first nine months of fundraising has helped Dementia UK respond directly to an increase in demand for their Admiral Nurse helpline and we are proud that since launch we have already raised in excess of £150,000, including a £25,000 emergency response fund to help ensure no one faces dementia alone.

Next year will see the launch of our partner project, which will help support more dementia sufferers nationwide and bring the admiral nurse specialist care to more communities.

Southampton Branch Manager, Alison Cottle's story



"Dementia isn't an easy condition. My dad John, who was fit and healthy with a real sense of humour, became a blank canvas as the confusion of dementia took hold. Whilst he couldn't recognise some of the closest members of his family, like my two children, it became a particular strain on my mum who was living with him 24/7.

I was introduced to the Admiral Nurses through the care home, who gave the family carers of each of the residents with dementia such invaluable training. It changed my life as it was obvious that they really know the ins and outs of dementia. I could understand what my dad was going through according to what his symptoms were. I could go and see him and I would no longer be upset.

With the partnership with Leeds Building Society, it feels really great to be able to give something back. Dementia UK and its Admiral Nurses have helped me so much and I want other people to benefit from their vital support at such a challenging time."

Building up society through skill sharing

Four years on from the first publication of our corporate responsibility targets, we have successfully accomplished our aim and cumulatively invested 25,200 hours in communities through volunteering and colleagues' secondments from 2017 to 2020 and has an equivalent value in excess of £460,000.

Our volunteering scheme provides all colleagues with 14 hours to spend on community projects wherever they are based. Over the course of our corporate responsibility strategy, we have seen consistently high participation rates which caused us to stretch our initial target of 8,000 to 14,000 hours by 2020, with over 18,500 hours being recorded over phase one.

6. ONS, 2020 https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/causesofdeath/articles/leadingcausesofdeathuk/2001to2018

As a financial services provider, our colleagues are experts in money matters and are equipped with the knowledge to support young people and help them understand finance. In the last academic year, we began our financial education programme with resources developed by the Building Societies Association and Young Money – a financial literacy charity which aims to bridge a gap in the curriculum and provide students with an insight into good money management. This was delivered as lesson style workshops by our colleagues to 450 Key Stage 3 students, with 95% of those taking part saying the activities developed their financial confidence.

Although more students are accessing financial resources than ever before (64% in 2019 compared to 29% in 2015[7]), a disparity remains. According to the OECD "students performing at the highest levels of proficiency in financial literacy are more likely than lower performing students to be oriented towards savings, to expect to complete a university education and to work in a highly skilled occupation."[8]

Students participating in financial literacy workshops said:

"It was very informative and engaging, but I also had a lot of fun with the activities we completed."

"The workshop showed us how spending impacts you in the future and gave us real life scenarios to think about."

The pandemic has had a devastating impact on many people's future, but none more so than young people with 174,000 16 to 24 year olds losing their jobs in the three months to September 2020[9]. We believe good financial education is a fundamental step in establishing some security when times are hard.

Therefore, when social distancing measures were implemented, we took the opportunity to think differently and revised our resources to align with the updated school schedules and adapted them so they could be delivered virtually by our trained colleagues.

Leeds Building Society
Foundation

Leeds Building Society Foundation continues to support charities across the UK to help improve the lives of people who are disadvantaged or in vulnerable circumstances. The Foundation receives an annual donation from Leeds Building Society and is supported by members through the Your Interest in Theirs scheme.

From 1 January last year, the trustees of the Foundation changed its criteria to support smaller charities with incomes of less than £1 million. These charities are critically important to local communities and ensure the Foundation's funding reaches those who are in greatest need.

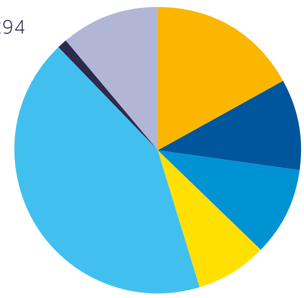
In 2020, Leeds Building Society Foundation distributed over £148,000 in grants to 163 charities. To reflect the difficulty caused by the pandemic, the trustees established the COVID-19 Fund and all funding awarded was given on an unrestricted basis. This meant while charities could still use the grant to purchase the item requested in their applications, the monies could also be used in any way to meet their immediate needs during the difficult period.

In the 21 years Leeds Building Society Foundation has existed, it has donated over £2.2 million and supported over 3,150 charities in funding.

"Thank you for your support during 2020. Without you we would not be able to continue our much needed work." Jayne Bristow, Young Peoples Independent Counselling

Foundation funding by theme (2020)

Total – £148,294



- Disadvantage – £23,281
- Poverty – £16,239
- Homelessness – £14,425
- Illness – £11,161
- Mental or physical disability – £64,626
- Caring responsibilities – £1,800
- Social inclusion – £16,762

7. https://www.libf.ac.uk/study/financial-education/young-persons-money-index
8. OECD (2017) Students' Financial Literacy, 2015 http://dx.doi.org/10.1787/9789264270282-en
9. https://www.ft.com/content/147178b0-0330-4943-b485-f1f4b527febf

Corporate Responsibility

Year ended
31 December 2020

Continued



Committing to our environment

In 2018, we announced our decision to merge our three sites in Leeds into one office space, while remaining right at the heart of Leeds city centre. Our commitment to the environment has been extensively considered through our decision to refurbish an existing building and in all aspects of the interior design. Our goal is to transform our estate and deliver on our vision of a collaborative, connected, sustainable environment, where everyone can flourish.

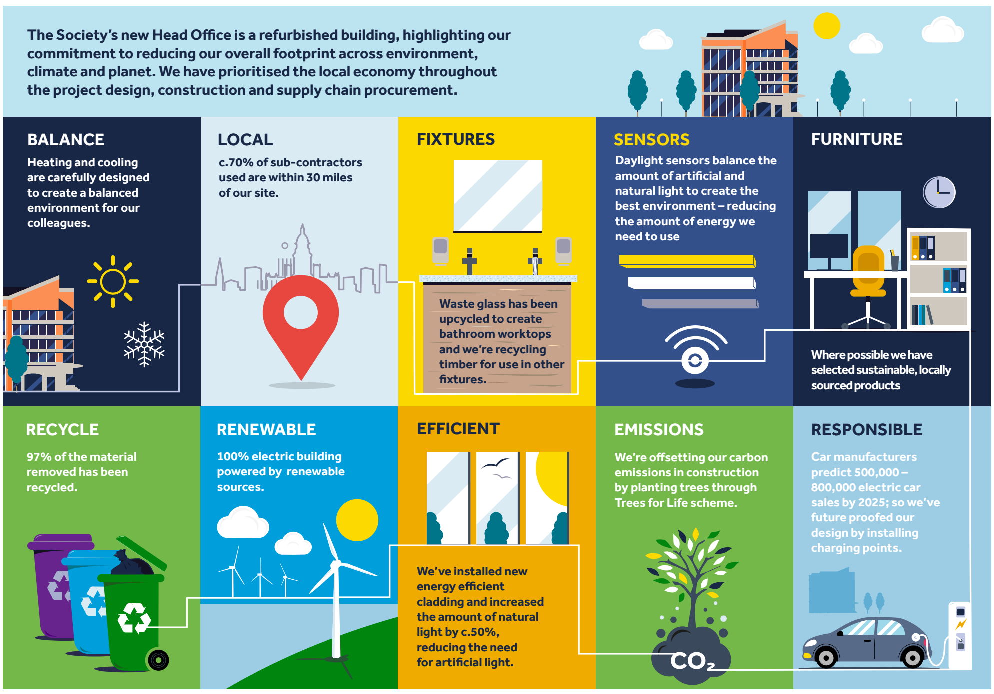
People are at the heart of everything we do at the Society. Bringing our Leeds colleagues together in a single space will provide them with a great working environment, which will help us continue to deliver great service to our members, while reducing our carbon and water footprint.

Refurbishing our new head office in the way we did meant that we were able to divert 97% of our construction and demolition waste away from landfill – around 400 tonnes. Approximately 70% of the subcontractors who were part of the supply chain were sourced within a 30 mile radius of the new building, further demonstrating our investment not only to the environment, but also the local economy.

Through practical completion we have been assessed and awarded with an Energy Performance Certificate A rating. The all electric building will be net carbon neutral once in operation.

The Society has adopted a stretch of the river and canal adjacent to our new head office. We will be working with Canal and Rivers Trust over the next two years to maintain the waterway, preserve the local greenspaces and encourage native wildlife, flora and fauna. This partnership will run awareness programmes with our colleagues, members and schools in the upcoming years and provide our volunteers with an opportunity to have a measurable impact on the environment within our new community.

According to our Your Voice colleague survey, 88% of colleagues believe that the Society is environmentally responsible.



People & Places

We continue to see a high proportion of colleagues giving their views through our Your Voice colleague survey each year, with a response rate of 89% in 2020, and overall increase of 6% in colleague engagement to 86% since 2017. 92% of colleagues told us they were confident that the Society puts customers at the heart of everything we do and 97% agreed the Society supports the communities in which we operate.

Climate change remains an important focal point for the Society, having first achieved the Carbon Trust Standard for Carbon in 2017. We have moved to 100% green tariff energy, reduced our emissions and are committed to improving our performance each year (see page 34).

People and coronavirus response

During 2020, our members and colleagues were our main focus as we responded to the global pandemic. The Society implemented urgent and relevant changes to adapt service and implemented communication streams, which kept colleagues and members up to date as information became available.

We invested in and mobilised technology to enable colleagues to stay at home and continue to work safely. We recruited new colleagues, cross trained our workforce and were able to offer new support mechanisms, such as mortgage payment deferrals for borrowers facing difficulty. All our branches were made COVID-secure and 98% remained open for essential transactions throughout this year.

We are proud to report that no colleagues were furloughed and those who were vulnerable or could not work were continually supported. The Society classified parental care and self-isolation as critical and remained fluid in how we supported members and colleagues throughout lockdowns, tiers and bubbles across the UK, as the government directives changed.

To mark the launch of our partnership with Dementia UK, the Society donated £25,000 to its emergency appeal in April, enabling it to provide vital support from remote locations via the Admiral Nurse helpline. We encouraged our people to utilise their volunteer days to look after their families, neighbours and communities. They demonstrated their willingness to rise to this challenge and we are incredibly proud of how all our colleagues responded across the UK, both personally and professionally.

Wellbeing in the workplace

The wellbeing of our colleagues has been a top priority throughout 2020. We have over 40 Mental Health First Aiders in our network and they were on hand to provide additional support to colleagues as the effects of the crisis began to surface. Over 140 supportive conversations occurred in 2020, nearly double the support offered in 2019. Our Mental Health Forum has worked to raise mental health awareness across the Society through Time To Talk, Wellbeing Week and World Mental Health Day awareness events.

Our Fair Pay Charter

Our colleagues are vital to the success of the Society and for making sure our members receive the best possible service. We think it is only right they share in the Society's successes and we have always striven to make sure they are fairly rewarded. The Society has published our Fair Pay Charter, which commits us to:

- paying at least the Real Living Wage, as set by the Living Wage Foundation, to colleagues and contractors;
- aligning executive directors' and colleagues' pension contributions;
- fair salaries based on role, skills, performance and external benchmarks;
- objective pay decisions made regardless of gender, age, ethnicity, disability, sexual orientation or any other protected characteristics;
- competitive total rewards package for all colleagues. This includes a range of health and wellbeing options;
- listening to our colleagues through our Colleague Association for salary and reward decisions;
- helping colleagues understand how they are rewarded. This includes clear performance standards and feedback;
- equal opportunities for all, so everyone can progress their career;
- supporting colleagues to work flexibly, to balance both personal and business needs;
- providing time for colleagues to focus on career development; and
- pay which is accurate and on time.

Continued

Paying the Real Living Wage

We are proud to have paid at least the Real Living Wage to all our colleagues since 2014. Set by the Living Wage Foundation, this is higher than the Government's minimum, or National Living Wage and is an independently calculated hourly rate of pay based on the actual cost of living. Since 2019, we have extended the Real Living Wage to include our third party contracted colleagues.

Diversity and inclusion

The Society believes diversity is strength and launched our diversity and inclusion strategy in 2017. Our ambition is to 'have an inclusive culture, which enables colleagues with a diverse range of skills, experiences, backgrounds and opinions to flourish, without barriers.' The Financial Times annual Diversity Leaders Survey ranked the Society sixth in the Financial Services and Banking sector, higher than a number of the main high street banks. Further information on our diversity and inclusion strategy can be found on pages 18 and 19.

Social Mobility Pledge

We continue to align ourselves to the Social Mobility Pledge, which is a cross party campaign to improve social mobility in the UK. Through our work experience, mentoring, education and employment focused volunteering programmes, we have prioritised supporting those from disadvantaged backgrounds. We are committed to the expansion of our outreach programmes tackling financial education and employment issues for vulnerable groups.

Our commitment to the pledge held steadfast this year. We recruited six apprentices into our customer services programmes and have initiated a virtual work experience programme. In 2020, we introduced our financial literacy programme to help develop young people's understanding and skills, targeting students from vulnerable and diverse backgrounds. All our social mobility programmes are spearheaded by our registered volunteers.

41% of the school pupils we have piloted our financial education and careers programmes with are eligible for free school meals and a quarter of the school population speak English as an additional language.

100% of volunteers on outreach programmes said taking part made them feel proud to work for the Society

100% of volunteers also stated they have an improved understanding of young people

95% of students said the sessions brought financial education to life

Emissions reductions

The Society is committed to the global call to action on climate change. We are focused on aligning the next phase of our corporate responsibility targets to continue supporting the UN 2030 agenda[10] and Paris Agreement Treaty[11]. We are committed to operating as a more inclusive, net-zero carbon, water positive and climate resilient mutual. In 2021, we will progress a greater adoption of climate change policies and report against the Task Force on Climate-related Financial Disclosures (TCFD) (see page 25).

To adhere to the Government's COVID-19 guidance and ensure colleagues' safety, many colleagues transitioned to working from home in 2020 which caused a significant reduction in business travel across the Society. At its peak in the last 12 months, over 750 colleagues were working from home, compared to levels of fewer than 100 on average previously, which has led to reduced levels of travel emissions.

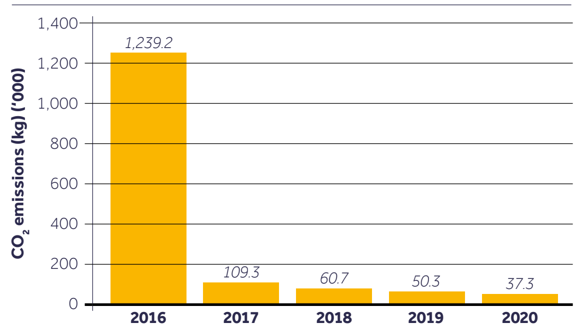
We set a target to reduce carbon emissions within our business operations by 150,000 kg CO_2e and since 2016 (our baseline year) have reduced our scope 1 and 2 emissions (diesel, electric, gas) by 1,201,866 kg CO_2e using a market-based approach, which is the equivalent of taking 560 average sized cars off the road for a year[12]. This method of reporting reflects the decision we have taken to purchase 100% renewable electricity, backed by Renewable Energy Guarantees of Origin certificates, for all our sites.

Using a location based approach, which does not include the purchase of renewable electricity, our emissions have decreased by 473,388 kg CO_2e since 2016.

10. The UN established 17 Sustainable Development Goals, to be achieved by 2030, to address global issues and create a more sustainable planet for all
11. The Paris Agreement is a legally binding international treaty on climate change to limit global warming to well below two degrees Celsius
12. Based on average-sized petrol cars off the road (each 7,400 annual mileage average)

Reduction in carbon emissions since 2016

Market based carbon footprint scopes 1 and 2



We remain committed to our climate agenda and have achieved the Carbon Trust Standard for the last four years. This is a voluntary certification and mark of excellence, only awarded to organisations that can demonstrate they have reduced their carbon footprint and have the right processes in place to continue to reduce in the future. For data on emissions see page 26.

Sustainable & Responsible

The Society has been around for almost a century and a half and our prudent approach and financial strength have enabled us to withstand external economic upheaval and market uncertainty during that time. We know the way we do business is as important to our members as it is to us, and we strive to do so transparently and responsibly.

Establishing trust

Responsible business means operating in a transparent way and we understand 'trusting a brand'[13] can be the deciding factor when purchasing any product. In 2020, the Society remained a '4 Star'[14] rated company on Trustpilot, evidencing our commitment to providing the best customer experience possible for our members.

The Society was also recognised as a top 'ethical business' by Ethical Consumer. In its review of banks and building societies, the Society was placed in the top two of mortgage providers and featured as a 'Best Buy' for our ethical approach to mortgage lending.[15]

13. Edelman, 2020 https://www.edelman.com/research/evolution-trust
14. Rating correct in December 2020
15. https://www.ethicalconsumer.org/
16. https://www.leedsbuildingsociety.co.uk/your-society/tax-strategy/

Our approach means paying the right amount of corporation tax and reporting our tax affairs transparently to stakeholders as outlined in our Tax Strategy[16]. The Society was reaccredited with the Fair Tax Mark in 2020 and continues to be the only high street financial services provider to attain this accolade. Paying our fair share of tax ensures we are contributing to the vital public services needed to benefit our members, colleagues and communities.

Engaging with our stakeholders

We recognise our business is about people and that is why we actively seek feedback from a wide range of internal and external stakeholders including colleagues, members, intermediaries and communities.

It is imperative we share a vision, while gaining insight, to ensure we meet their needs and expectations. In November 2020, we undertook a materiality assessment survey, which asked our stakeholders to prioritise what is important to them.

Our online member forum, TalkingPoint, remains a source of valuable feedback for us. It is a mechanism for members to share their views with us directly. Our public target to grow the numbers of actively engaged members on TalkingPoint was met in 2017. There are now 2,597 actively engaged members providing input on a range of topics and guiding us on how we do business.

Corporate Responsibility

Continued

How We Do Business

Doing what is right for all our key stakeholders is key to our success and we know the way we operate is as important to our members as it is to us. Our purpose of helping people save and have the home they want remains unchanged. How we have achieved this over time has had to change through the years. Doing business in a responsible way has always been at the heart of what we do and as we think about the future, it has never been more important.

In 2020, we published our approach to 'How We Do Business', which outlines our commitment to members, colleagues, and communities.

Doing what's right for our members

We know our members expect us to look after their long term interests; we have a responsibility to put them at the heart of our decision making.

We're committed to:

Remaining a member-owned building society:
- Putting our members at the heart of our business and striving to achieve high levels of satisfaction
- Investing profit back into the Society for the benefit of all our members
- Bringing savers and borrowers together to create a mutually beneficial relationship
- Giving our members a say in our future by voting on who runs their Society

Taking a zero-tolerance approach to bribery, fraud, money laundering and corruption:
- Using technology, procedures, training and communications to protect our members' money
- Supporting members who fall victim to fraud
- Vetting colleagues at recruitment and during employment

Treating our members fairly including:
- Using robust affordability assessments for our mortgages to guide our lending decisions
- Where we think it's right for our members, making it clear how to involve family and friends when managing their finances
- Supporting the accessibility needs of our members by, where possible, providing a choice about how they want to hear from us
- Handling complaints as quickly as possible, and explaining the reason for our final decision.

Doing what's right for our colleagues

We know our colleagues make our business successful; we have a responsibility to treat them fairly and with respect.

We're committed to:

Fostering a diverse, inclusive and equal workplace including:

- Taking an inclusive approach to recruitment, encouraging people from a diverse range of backgrounds to apply for jobs with the Society
- Providing time for colleagues to focus on career development
- Supporting colleagues to work flexibly, to balance both personal and business needs
- Providing equal opportunities for all, so everyone can progress their career

Promoting health, safety and wellbeing including:

- Providing training information, instruction and guidance so colleagues can work safely
- Providing a competitive total reward package for all colleagues including a range of health and wellbeing options
- Having an open culture around mental health that supports colleagues facing difficulty

Offering fair pay and employment including:

- Paying at least the Real Living Wage, as set by the Living Wage Foundation, to colleagues and contractors
- Aligning executive directors' and colleagues' pension contributions
- Listening to our colleagues through our Colleague Association for salary and reward decisions
- Where restructures are unavoidable, endeavouring to find alternative roles for those affected

Providing a safe space for colleagues to speak up including:

- Encouraging colleagues to use Speak Up to report wrongdoing, without fear of retribution, victimisation or detriment
- Offering an independent Speak Up Hotline Service to enable colleagues to report concerns either anonymously or openly at any time.

Doing what's right for our communities

We know our business doesn't operate in a vacuum; we have a responsibility to consider the wider impact of our actions on communities, suppliers and the environment in our decision making.

We're committed to:

Paying our fair share of tax including:

- Not maintaining any connection to tax havens other than for legitimate trading activity with the purpose of serving the local community in that jurisdiction
- Not using marketed or abusive tax avoidance schemes which are likely to fall foul of tax avoidance legislation in any jurisdiction in which we operate
- Declaring profits in the jurisdiction where their economic substance arises and reporting our tax position clearly in our Annual Report and Accounts

Supporting good causes including:

- Providing support to communities through the Leeds Building Society Foundation, which makes donations to UK charities improving the lives of people who are disadvantaged or in vulnerable circumstances
- Matching a percentage of the money colleagues raise through sponsored fundraising activities for registered charities
- Providing colleagues with time to volunteer for causes of their choice

Reducing our environmental impact including:

- Buying renewable electricity for our office and branch sites
- Limiting our use of natural resources, minimising waste and encouraging recycling across our office and branch sites

Doing business in a straightforward way including:

- Not making donations to any political party
- Working with external partners and industry bodies to represent the interests of our members, colleagues and communities
- Giving our colleagues the option to select an ethical pension fund.

Corporate Responsibility

Year ended
31 December 2020

Continued

Policies
Policies and standards underpin our responsible business strategy, setting out how colleagues are expected to behave and the parameters for decision making. Alongside our How We Do Business approach, we have an internal Environmental, Social and Governance (ESG) Policy. Additionally, our Tax Strategy, Board Diversity Policy and Modern Slavery statements can be found on our website leedsbuildingsociety.co.uk

Corporate Responsibility Steering Group
The Corporate Responsibility Steering Group has been responsible for providing strategic direction for corporate responsibility at the Society, supporting the integration of responsible business practice into the way we operate and measure progress against our targets.

Alongside the steering group, the Society has a number of other working groups which focus on specific corporate responsibility priorities and part of the Society's commitment to diversity and inclusion. These include green champions, mental health, gender diversity and BAME forums.

Benchmarking our performance

BUSINESS IN THE COMMUNITY The Prince's Responsible Business Network

The Society is a member of Business in the Community, the Prince's Responsible Business Network. We have utilised the Responsible Business Tracker® (RBT) which provides independent benchmarking for our indicators and is aligned with the United Nations Sustainable Development Goals. In 2020, we outperformed our benchmark by 5%, which placed us slightly ahead of peers in the Financial Services sector.

Being a responsible business is at the heart of all that we do and as we conclude the 2017 to 2020 strategy and begin the process of developing the next phase, it is essential we continue to keep our members' and colleagues' best interests at the heart of our planning. This is why we recently reached out across our stakeholders, including members, colleagues, communities, third parties, intermediaries, the Board and partners, to gain insights via our materiality assessment survey, to gain a clear understanding of the relative importance our different stakeholder groups place on a range of competing environmental and social priorities.

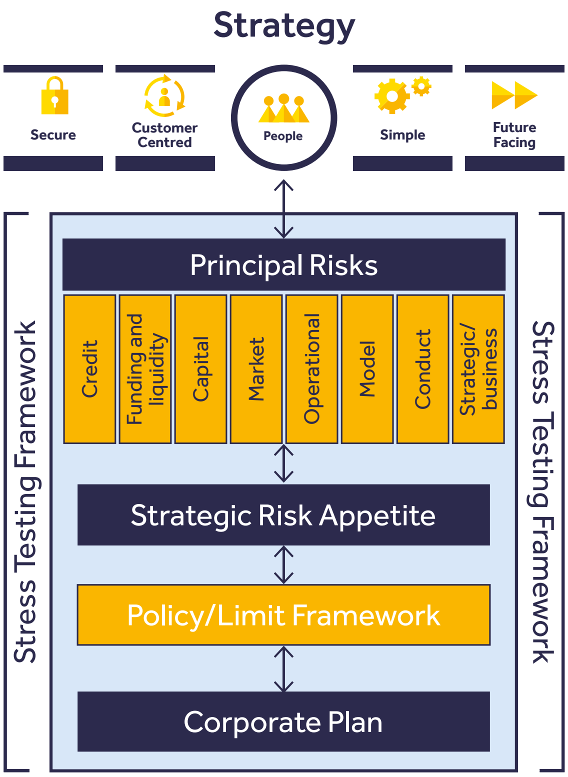
Findings from the materiality assessment survey and RBT indicators will help guide us in setting out our next phase of responsible business. The next phase will be underpinned by our vision, mission and purpose, aligned to our business strategy and will incorporate ESG and climate change deliverables. At the beginning of 2021, our responsible business governance was revamped and elevated to include business directors and the new forum is chaired by our Chief Transformation Officer, which will support integration and accountability across all areas within the Society.

One constant that has remained throughout our history of more than 145 years is doing the right thing for members, colleagues and communities. It is the core to our existence and as we head into the next decade of responsible business, we will continue to adapt and innovate to remain responsive and relevant, while meeting our members' evolving needs.

Principal Risks

The Society's vision of becoming Britain's most successful building society can only be achieved if risks are identified, understood and managed effectively. By understanding the nature of our risks, management is in a position to make informed decisions that support our longer term viability and protect members' interests.

We deliver our vision through a corporate strategy, which is built upon strategic pillars (as described on page 11). Inherent within this strategy are eight principal risk categories. These include: credit; funding and liquidity; capital; market; operational; conduct; model; and strategic/business risks. For each of these principal risk categories, we operate appropriate systems of control including risk appetite[1], frameworks, policies and standards. These set the risk parameters within which the corporate plan needs to be delivered, as well as providing appropriate triggers for management response under stressed conditions.



The eight principal risk categories are influenced by underlying subsets of risk types, which comprise our risk universe. Over time, the nature and profile of these underlying risks continue to evolve, reflecting changes in the economic/business cycle and our current risk profile. Accepting that it is not possible to identify, anticipate or eliminate every risk that may materialise and that risk is an inherent part of doing business, our risk management processes (described on pages 98 to 102) aim to provide reasonable assurance that the Board and management understands, manages and monitors the main uncertainties, which we face in achieving our objectives.

During 2020, the Society elevated model risk to a standalone principal risk category (previously a component of operational risk), reflective of the increasing importance of models for risk management and decision making at the Society.

The emergence of COVID-19 materially impacted our risk profile across all principal risk categories. In response, we implemented revised governance arrangements to assist in managing the response to the pandemic, which was based on the following priorities:

- keeping the Society financially secure;
- safely keeping the Society operating for the benefit of our members; and
- communicating to our colleagues and members.

In the context of the priorities above, the Society's principal risks are summarised on the following pages. These risk categories are not presented in order of materiality, as they all have the potential to affect future performance, depending on the prevailing circumstances. The Society's current top five emerging risks, which could affect the delivery of our strategy (and cut across various principal risk categories), are set out in the Emerging Risks section on page 47.

1. Model risk appetite still under development following elevation to principal risk category in Q4 2020.

Continued

Strategic/business risk	• The risk that the Society is unable to deliver our strategic objectives. • This risk mainly relates to poor execution of the Society's strategy or changes within our operating environment, which threaten the sustainability of our business model.
Mitigation	**Commentary**
• The strategic planning process sets the business direction and investment activity in the context of the changing regulatory, technological and competitive landscape. • Board defined appetite, which is supported by a suite of appropriate policies. • The Board approved corporate planning process makes an assessment of the business environment on a regular basis. • Enterprise risk reporting, including horizon scanning, assesses the Society's general operating environment. • Thematic reviews assess competitor/market performance. • The Society utilises stress testing to understand our performance under a variety of severe but plausible scenarios.	**2020 performance** • COVID-19 and the Government's response to mitigate the pandemic resulted in an unprecedented stress to the UK economy and the Society's operating environment. The implementation of initial lockdown measures resulted in a significant contraction in economic activity and required the temporary closure of the housing market during the first half of 2020. While the economy started to recover during the second half of 2020, the implementation of further localised and national restrictions curtailed the recovery (albeit risk premia remain higher than prior to the pandemic). • In response to the pandemic, the Society deployed revised governance arrangements to facilitate a detailed understanding of how events were evolving and to monitor their impacts. Management also reprioritised our corporate plan and strategic objectives, based on our three priorities. This was complemented by frequent stress testing to understand the potential financial and operational impacts under severe but plausible scenarios. • On 31 December 2020, the UK completed its exit from the European Union. As a UK centric business, the direct immediate impact of the new working relationship is relatively contained. We have monitored developments carefully throughout 2020 and are now deploying appropriate response plans to meet revised requirements. Indirect impacts such as economic risks are more material, but currently less heightened given the current impacts/risks already crystallised as a result of the pandemic. • Competition pressures within the UK mortgage market eased during the second half of 2020, as operational restraints required lenders to manage supply through increased pricing and lower availability. From a savings perspective, price competition has also reduced, as participants have passed on the reductions in Bank Base rate and the availability of TFS funding from the Bank of England has ameliorated any supply/demand constraints. The Society has continued to carefully monitor the market positioning of our products and has responded accordingly. • Our cost income ratio decreased during the year to 51.0% (versus 53.5% in 2019), supported by higher income. The Society continues to maintain an efficient business model relative to peers, which supports further investment in operations. **Outlook** • There remains a heightened level of uncertainty regarding the outlook for the Society's operating environment in 2021 including the ongoing impacts of COVID-19 and the embedding of new requirements under the revised UK-EU relationship. The Society assesses macroeconomic risks on a regular basis, under both central and stressed conditions in order to understand and manage the impact on our business model.

Credit risk – retail	• The risk that residential or commercial borrowers are unable to make their loan payments. • This risk arises from the Society's residential lending activities and legacy credit portfolios.
Mitigation	**Commentary**
• Focus on lending where the Society has specific expertise. • Board defined appetite, which is supported by policies, limit frameworks and management reporting. • Continuous review of performance versus appetite. • Forward looking assessments of adherence to appetite and limits. • Robust underwriting processes including the use of credit scoring models, affordability stress testing, some automated decisioning and suitably qualified underwriters. • Independent appraisal of collateral, for example valuations. • Dedicated second line credit risk team providing oversight of the Society's lending portfolios. • Stress testing to assess vulnerabilities within credit portfolios and inform pre-emptive actions. • Benchmarking of credit controls and performance.	**2020 performance** • The pandemic and implementation of government restrictions resulted in a significant contraction of the UK economy. Immediate pressures on borrowers were temporarily reduced as monetary policy was eased and government support schemes such as furlough and mortgage payment deferrals were introduced. • In response to the pandemic, the Society tightened lending policy and criteria. This was complemented through enhanced monitoring of credit quality and stress testing to understand potential credit losses. • Taking the above into consideration the credit quality of the Society's lending portfolios has remained well within appetite over the period. The overall indexed loan to value of the UK mortgage portfolio has reduced from 53.8% in 2019 to 50.8% in 2020, while arrears increased marginally to 0.62% (2019: 0.54%) but remain below UK Finance averages. • The Society has retained an appropriate approach in setting our IFRS9 scenarios and weightings to ensure that they reflect the current economic climate. IFRS9 provision coverage rates remained relatively stable during the year, with the proportion of residential balances at stage 3 <1.1% (1.0% 2019). • Inevitably during these challenging times, a proportion of borrowers have required financial support and guidance. To facilitate this, the Society has introduced new processes and recruited new colleagues. During the year, we provided a mortgage payment deferral to circa 27,500 members, with 98% subsequently resuming their normal payment patterns. • Further information regarding the Society's credit risk profile can be found in note 31 of the accounts **Outlook** • The UK economic outlook remains highly uncertain as the effects of COVID-19 continue to evolve. However, it is expected that as government support schemes are withdrawn, employment will be negatively impacted. In addition, some forecasters suggest the recovery in the housing market will fade in 2021 as the stamp duty holiday expires and the pent up demand observed in 2020 dissipates. The combination of these factors may to lead to higher levels of impaired loans and credit losses. • The Society remains vigilant to changes in the economic environment and will update lending appetite and controls accordingly.

Credit risk – wholesale	• The risk that wholesale counterparties default on their obligations. • This risk predominately emanates from the Society's liquidity holdings and derivative portfolio, which is used for hedging market risk.
Mitigation	**Commentary**
• Board defined appetite, which is supported by the Wholesale Credit Policy (including concentration limits). • Monthly review of performance versus appetite (more frequent during times of stress). • Each counterparty credit line is reviewed at least annually, based on an internal analysis, credit default swap spreads, geographic location and other market intelligence. • A dedicated first line team monitors the portfolio on a daily basis, with oversight provided by the Risk function. • Daily exchange of collateral through clearing and other netting arrangements for derivative exposures.	**2020 performance** • In response to the economic impacts of the pandemic, the Society temporarily tightened our investment criteria, further enhancing the credit quality of the portfolio. • As at the end of 2020, 96.4% of the portfolio was invested with counterparties with an external credit rating of AA- or better (2019: 95.2%). Further information regarding the Society's wholesale credit risk profile can be found in note 32 of the accounts. • The majority of our derivative portfolio is centrally cleared, which mitigates bilateral counterparty risk. Where this is not possible, derivative exposures are restricted to high quality counterparties and are managed with collateral and netting arrangements. **Outlook** • The Society will maintain an appropriate investment strategy and continue to closely monitor the performance of the portfolio.

Funding and liquidity risk	• The risk that the Society is unable to meet our financial obligations as they fall due. • Funding risk is the inability to generate sufficient funding, or only do so at excessive cost.
Mitigation	**Commentary**
• Board defined appetite, which is supported by the Funding and Liquidity Policy (including concentration limits). • A dedicated first line team monitors the Society's liquidity position daily, with oversight provided by the Risk function. • Conducting an Internal Liquidity Adequacy Assessment Process, at least annually, to determine the level of liquidity resources required under stressed conditions. • Maintenance of a portfolio of high quality liquid assets. • Access to central bank funding, through prepositioned collateral. • Monthly review of performance versus appetite (more frequent during times of stress). • Frequent stress testing to understand the impact of severe, but plausible scenarios and to inform pre-emptive actions. • Maintenance of a Recovery Plan, including liquidity actions.	**2020 performance** • In light of the uncertainty caused by the pandemic in relation to the timing of business flows and customer behaviours, the Society maintained a strong liquidity position throughout 2020. As at 31 December 2020, the Society's Liquidity Coverage Ratio stood at 195%, which was considerably above minimum regulatory requirements (100%). • The Society remains predominately funded through retail savings (75% of share and deposit liabilities), through a strong retail franchise. • The onset of the pandemic resulted in heightened levels of volatility within financial markets. In response, the Bank of England introduced a new term funding scheme to maintain adequate levels of liquidity within the UK banking system. As at 31 December 2020, the Society had accessed £810 million of funding through this scheme. • We also maintain access to capital markets through a well established wholesale franchise and diversified investor base. During 2020, we utilised this investor base to issue a £600 million covered bond. • Capital market access is supported by our strong credit ratings (Fitch: A- and Moody's: A3). During the year, the Society's long term credit rating by Fitch was placed on Ratings Watch Negative, along with five other building societies, reflecting the economic and financial fallout from COVID-19. • Further information on the Society's liquidity risk profile is in note 33 of the accounts. **Outlook** • Heightened levels of uncertainty within the external environment may result in a further period of market volatility in 2021. However, the Society remains well positioned to address any liquidity/funding uncertainty that may arise through a combination of the strong retail franchise and extended central bank term funding scheme.

Market risk	• The risk that market movements adversely impact the Society. • The Society's market risk exposures mainly relate to interest rate risk (including basis and optionality risks) and foreign currency risk.
Mitigation	**Commentary**
• Board defined appetite, which is supported by the Market Risk Policy (including concentration limits). • A dedicated first line team monitors the Society's market risk exposures frequently, with oversight provided by the Risk function. • The offsetting of assets and liabilities and use of derivatives to manage market risk positions. Where a natural hedge is not feasible, derivatives are used to hedge market risk exposures. • Frequent stress testing to understand the impacts of movements in interest and foreign exchange rates on the Society to influence the desired balance sheet shape. • Monthly review of performance versus appetite.	**2020 performance** • To support the economy during the pandemic the Bank of England eased monetary policy through reductions in Bank Base rate to 0.1% and reintroduced its quantitative easing programme. As a consequence, market rates reduced, impacting the Society's net interest income. • In addition, material market rate fluctuations also created accounting/fair value volatility for the Society. • In response to the prevailing financial conditions, we enhanced our monitoring of market risk exposures and product offerings. This was complemented by additional stress testing to understand margin impacts under various interest rate paths and different balance sheet shapes. • The Society retains a small foreign exchange exposure relating to wholesale funding activity and a legacy mortgage portfolio in Spain. These exposures remain comfortably within Board approved limits. • Further information regarding the Society's market risk profile can be found in note 34 of the accounts. **Outlook** • A further deterioration in the UK's economic recovery may require additional central bank intervention, including the use of negative interest rates. The Society has completed an initial operational impact assessment for the implementation of negative interest rates and modelled potential financial impacts, which would result in downward pressure on margins should rates reduce further or turn negative. • During 2021, we will finalise our transition towards the reference rate SONIA from LIBOR, which is to be phased out by 31 December 2021. This transition will help reduce potential market volatility of future earnings.

Capital risk	• The risk that the Society has insufficient quality or quantity of capital resources to meet current or future business requirements.
Mitigation	**Commentary**
• Board defined appetite, which is supported by the Capital Policy and capital strategy. • Monthly review of performance versus appetite. • Conducting an Internal Capital Adequacy Assessment Process, at least annually, to determine the level of capital required to support current and future business activities. • A dedicated first line team monitors the Society's capital position, with oversight provided by the Risk function. • Stress testing to understand the impact on the Society's capital position, under a range of severe scenarios. • Maintenance of recovery plan actions.	**2020 performance** • The Society maintains strong capital ratios, with capital resources significantly above minimum regulatory requirements. As at 31 December 2020, our Total Capital Ratio stood at 43.9% (41.0% 2019), while the leverage ratio was 5.8% (5.3% 2019). • During 2020, the Society became captured by transitional rules for Minimum Requirements for Own Funds and Eligible Liabilities (MREL). The Society retains excess levels of capital above these new requirements. • In response to COVID-19, the Society conducted additional stress testing to assess the potential capital impact of the pandemic under various scenarios and inform the deployment of timely action. These exercises concluded that the Society retained significant headroom over our risk appetite for the stresses modelled. • Further information regarding the Society's 2020 capital position is available in our Pillar 3 Disclosures, published on our website.

Year ended
31 December 2020

Continued

Capital risk (continued)

Outlook

- Due to government intervention the full macroeconomic effects of the pandemic are yet to fully crystallise. As these schemes mature in 2021, the economic impacts may start to weigh on the Society's capital position. However, the Society is expected to retain significant headroom over risk appetite.
- The regulatory landscape continues to evolve with the forthcoming Basel III finalisation reforms and the scheduled PRA review of the UK Leverage and MREL Frameworks.
- The Society will submit revised Internal Rating Based models for residential credit exposures to the PRA during 2021, which subject to feedback/approval are expected to increase risk weighted assets (under revised Capital Requirements Regulation to apply from January 2022). The Society is expected to retain significant headroom over risk appetite post this regulatory change and any further IRB floors currently under consultation by the PRA.

Operational risk

- The risk of financial or reputational loss, as a result of inadequate or failed processes, people, systems or external events.
- The drivers of operational risk are: legal and regulatory; people; information security (including cyber); IT; business continuity; data; financial crime; and financial reporting risks.

Mitigation

- Board defined appetite, which is supported by an appropriate suite of operational risk related policies.
- Monthly review of performance versus appetite.
- Maintenance of an Operational Risk Management Framework, outlining the process for identification, assessment, mitigation and monitoring of operational risks, incident management protocols and reporting operational losses.
- Risk control self-assessments, control testing and oversight procedures to validate the control environment.
- Maintenance of an Operational Resilience Framework and associated testing programme to ensure the provision of resilient services to members.
- Maintenance of a cyber strategy, which is subject to periodic independent testing.
- Maintenance of a financial crime strategy and policy, which is overseen by a dedicated Financial Crime team.
- Stress testing is used as part of the ICAAP process to ensure the Society retains sufficient capital for extreme but plausible operational risk events.

Commentary

2020 performance

- The health and safety of colleagues and members has been a top priority for the Society during the pandemic. During this time, the Society has ensured that our offices and branches have remained COVID-secure and have made further investment in technology to facilitate home working arrangements for non customer facing colleagues.
- To meet the challenges presented by COVID-19, the Society was required to modify some of our operational processes, for example to facilitate mortgage payment deferral applications/extensions, predominately in customer facing areas. While being delivered at pace, these modifications were subject to appropriate change requirements and second and third line oversight.
- The cyber and financial crime threat landscape remains heightened, as criminals seek to take advantage of the prevailing climate. In response, the Society has maintained our focus on mitigating potential cyber/information risks under revised working arrangements, including penetration testing and programmes of activity to enhance colleague awareness.
- The Society relies on third parties to deliver certain aspects of our services to customers. While there was an initial period of disruption at the onset of the pandemic, for example cessation of physical valuations due to government COVID-19 restrictions overall, third party performance has been maintained. The Society's Third Party Management Framework has continued to be enhanced, to support heightened business and regulatory resilience expectations, representative of the increasing risks posed by third parties (for example cyber, supply chains under Brexit etc.).
- The regulatory landscape continued to evolve during 2020, reflective of the Government's response to COVID-19 and preparations for Brexit. The volume of these new regulations has been challenging and has required prioritisation over some business-led change initiatives.

Operational risk (continued)	
	Outlook • The health and wellbeing of colleagues and customers will remain a key priority in 2021. In this context, it is expected that current operational working arrangements will be in place for the majority of 2021, until the various phases of the COVID-19 vaccine roll-out have been completed. • As part of its preparations for 2021, management has conducted detailed resource planning (across various departments) in anticipation of changes in customer demand and to minimise key person dependencies. • Further regulation may be required to address the impacts of COVID-19 or Brexit in 2021. The Society closely monitors upstream regulation, with developments managed through an oversight framework, which allows management to respond in an efficient and proportionate manner. • The Society will continue to embed our Operational Resilience Framework to ensure we remain adequately protected against potential resilience threats.

Model risk	• The risk of incorrect decision making principally based upon the inputs/outputs of models, due to errors in the development, implementation or use of such models.
Mitigation	**Commentary**
• A Model Risk Policy and supporting standards govern the Society's approach to model documentation, development, implementation, change and validation and ensure consistency across the Society. • A model inventory acts as a Society wide repository detailing key model artefacts. • All models within the inventory are subject to a materiality assessment semi-annually, which defines the appropriate level of governance, dependent on their criticality. • Model validation is conducted independently from model owners. • A dedicated Models and Rating System Committee (MRSC) is responsible for ensuring that all Society models are developed and maintained in line with internal standards.	**2020 performance** • During 2020, the Society elevated model risk to a standalone principal risk category (previously a component of Operational Risk), reflective of the increasing importance of models for risk management and decision making at the Society. • The Government's response to COVID-19 has resulted in a divergence between the traditional relationship of several economic variables used to calibrate models. Relevant models have been subject to heightened levels of monitoring and analysis to inform adjustments/overlays and ensure that modelled outputs remain within appropriate ranges. In this context, the application of any post model adjustments to key models has been a particular focus of the Board and relevant sub-committees. • The Society has developed a new suite of IRB models designed to meet forthcoming capital regulation. These models were submitted to the PRA in January 2021 for review and approval ahead of implementation in January 2022. **Outlook** • Management will continue to maintain close oversight of model inputs/outputs under prevailing economic conditions to ensure they remain appropriate. It is likely that further post model adjustments will be required for the foreseeable future reflective of the pandemic stress scenario and ongoing government intervention/support. • Following elevation to a principal risk category, we are planning to further develop our model risk maturity during 2021, including a defined Board risk appetite and enhanced management information at the Board Risk Committee.

Principal Risks

Year ended
31 December 2020

Continued

Conduct risk	• The risk that actual or potential customer detriment arises, or may arise, from the way the Society or third parties conduct their business.
Mitigation	**Commentary**
• Board defined appetite, which is supported by the Conduct Risk Policy. • The Society operates a focused business model with limited complexities relative to larger financial institutions that could adversely impact customers. • The Product Governance Framework ensures that products are only developed to meet customer needs and to assess their ongoing suitability. • Processes and controls are in place to ensure product literature is clear and transparent. • Customer facing colleagues are suitably trained, with competency assessed on an ongoing basis. • Through the operation of the three lines of defence model, the Risk and Audit functions oversee and monitor business/colleague activities. • The Society's Complaints Handling Policy and supporting arrangements ensure that complaints are addressed with empathy and sensitivity through a fair and transparent process. • Maintenance of a Vulnerable Customer Standard, which sits underneath the Society's Conduct Risk Policy. It applies to all Society functions, to support a consistent approach to the identification, treatment and care of vulnerable customers.	**2020 performance** The Society responded swiftly to various conduct risks, which could have arisen because of the pandemic and Brexit: • Access to products and services was maintained as the branch network and Contact Centre remained open. Support functions, by working in a dispersed way, were also able to continue operating. • Headcount was increased significantly in Mortgage Support, so the Society could continue to deal with customers in financial difficulties. • The development of automated and self-service solutions was accelerated and will be balanced with colleague support for individuals in arrears/longer term payment difficulties. • Mortgage lending criteria were adapted to ensure the Society continued to lend responsibly. • Colleagues across the three lines of defence worked collaboratively to enable the introduction of mortgage payment deferrals, for those members who were adversely financially impacted by COVID-19. • Oversight plans were adapted to respond to the pandemic, with an integrated assurance model being maintained. • Management has proactively participated in various industry working parties and regulatory engagements/initiatives. • The number of complaints received by the Society, for both savings and mortgages, reduced in the year by 41% and 13% respectively. We have also improved our response time to handle complaints, with 77% being closed within three days compared to 63% in 2019. • The Society has followed the requirements of the repossession moratorium, which took effect from March 2020. In addition, to further support customers in financial difficulties, the Society has put a temporary hold on charging any arrears fees, since March 2020. **Outlook** • The economic outlook remains uncertain, but the foundations have been laid to effectively manage the new risks which have arisen as a result of the pandemic. The position remains under close observation and the Society will respond appropriately to any further risks, should they arise.

Emerging risks

Within the context of our principal risk categories, we continue to identify, assess and monitor emerging risks through our Enterprise Risk Management Framework, described on pages 98 to 102. These are new or evolving risks where the impact is uncertain. In assessing emerging risks, we consider the likelihood of the relevant risk materialising and the potential impact on our business strategy and stakeholders. These risks are considered by the Board and the Board Risk Committee, as part of our strategic and business planning processes and throughout the year. As at the end of 2020, we considered the following as the top emerging risks:

Emerging risk	Description	Strategic response
COVID-19 and macroeconomic risk	• While the roll-out of the COVID-19 vaccine is underway, new variants of the virus may require a prolonged period of government restrictions during 2021, until the vaccination program is complete. This will inevitably constrain economic activity and delay the recovery. • As a UK centric business, the Society is naturally exposed to a downturn in the economy and housing market. To date, the wider impacts of COVID-19 are yet to be felt due to government intervention, for example the furlough scheme and stamp duty holiday. However, these are expected to result in a heightened credit risk profile in the near term.	• Maintain revised, more fluid governance arrangements to ensure the Society can respond quickly in relation to COVID-19. • Retain strong levels of capital and liquidity over regulatory minima. • Assessment of macroeconomic risks on a regular basis, under both central and stressed conditions in order to understand and manage the impact on the business model (such as tightening/loosening lending appetite (volume, risk premia, mix) accordingly). • Close monitoring of credit quality within lending portfolios.
Negative interest rates	• A further deterioration in the UK's economic recovery may require additional central bank intervention, including the use of negative interest rates. • This could result in further downward pressure on margins, as the Society balances the needs of both mortgage and savings customers.	• The Society has completed an initial operational impact assessment for the implementation of negative interest rates and will track regulatory updates closely (in the event that system changes will need to be implemented at pace). • Ongoing proactive scenario and balance sheet modelling under various different interest rate scenarios to inform strategic decision making and mitigate the impact of negative rates as appropriate/to the extent possible.
Operational resilience (including cyber crime)	• Operational resilience remains a key focus area to ensure that systems and processes are able to cope with increased online customer demand and provide resilient services to our members and remote working arrangements for colleagues. • In this context, cyber crime continues to present a significant threat to financial organisations. This risk is currently heightened, as fraudsters attempt to take advantage of prevailing conditions and nation state activities continue to impact firms globally, with high visibility impacts when identified and reported by the media.	• Further embedding of the Society's Operational Resilience Framework/ maturity, specifically with a focus on improved third party critical supplier management. • Further investment in technology as appropriate (under the Society's cyber strategy approach) while maintaining a high level of colleague awareness. • Frequent review and update of the Society's financial crime strategy and supporting actions.

Principal Risks

Year ended
31 December 2020

Continued

Emerging risk	Description	Strategic response
Regulatory	• The volume, scale and complexity of regulatory change continues to shape our operating environment. • There are a number of regulatory instruments on the horizon, which will require careful implementation, such as Basel III. • In addition, further government interventions may be required in 2021, as the UK continues to manage the impacts of COVID-19, for example, further extensions of the mortgage deferral scheme.	• The Society closely monitors upstream regulation, with developments managed through an oversight framework, which allows management to respond in an efficient, proportionate and prioritised manner.
Climate change	• The Society recognises that physical and transitional risks associated with climate change will have various implications for our operations, longer term product strategy, members, colleagues and suppliers.	• The Society commenced integration of climate change risks into its Enterprise Risk Management Framework during 2020. The Board Risk Committee will track plans to deliver against regulatory and internal expectations by the end of 2021. • Climate change considerations will also feature appropriately in the corporate strategy review cycle.

Viability Statement

Year ended
31 December 2020

In accordance with provision C2.2 of the UK Corporate Governance Code, the directors are required to assess formally the longer term prospects and viability of the Society. This assessment considers our ability to continue in operation and meet our liabilities as they fall due, taking into account our current financial position and the principal and emerging risks set out on pages 39 to 48.

Assessment of longer term prospects
Our business model and strategic priorities are set out on pages 8 to 11. These are kept under Board review and strategic updates are considered throughout the year. The Board assesses the business model across multiple dimensions including threats from principal and emerging risks, additional scenarios that may occur and stress testing. The strengths of our business model and financial position, capital strength and levels of profitability over the next five years and beyond are included in the consideration by the Board.

Any actions identified as part of these reviews are integrated into the corporate planning process and embedded into strategic priorities with the intention of managing and mitigating potential impacts and maintaining the relevance of our business model.

The Society's process for forecasting financial performance takes into account our strategic objectives, the risk involved in meeting those objectives and our strategic risk appetite. The corporate planning and stress testing process assesses these forecasts under a range of scenarios.

This year, the directors have given particular consideration to the longer term effects of the COVID-19 pandemic on society and the behaviours and needs of current and potential future members, along with the range of macroeconomic scenarios which may arise, including changes in house prices and unemployment rates. Coronavirus and its economic impacts, including measures taken by the Government and Bank of England to mitigate those impacts, have had a significant influence on the Society in 2020 and this has the potential to continue into the medium term. We have demonstrated our ability to adapt to the new operating environment and have continued to serve our members throughout the pandemic.

The continued impact of the UK's departure from the European Union has also been considered by the directors, when evaluating the Society's viability under a range of macroeconomic scenarios.

The directors assess the Society's capital and liquidity viability through the ICAAP and ILAAP processes. These consider our ability to withstand severe capital and liquidity stresses set out by regulators. This includes new and emerging regulation, where sufficient information is available. Mitigating management actions and the ability of those actions to minimise the impacts of the applied stresses are also evaluated.

The ICAAP concluded that the Society has significant headroom over regulatory requirements and would have sufficient capital resources to withstand both the central and stressed scenarios. In response to COVID-19, the PRA reduced the countercyclical buffer which has reduced the capital requirement. However, even without this reduction our capital would be significantly above the required thresholds.

The ILAAP also concluded that the Society is able to meet both internal and external liquidity risk capacity requirements and regulatory requirements under modelled stress scenarios.

Stress testing is also carried out on each of the principal risks outlined on pages 39 to 46. This is performed to understand our ability to withstand extreme stress scenarios, including adverse economic scenarios that go above and beyond those experienced at any point previously, major volatility in financial markets, significant liquidity outflows and operational risk events. This testing demonstrates that there are appropriate resources, measures and controls in place to withstand these extreme events.

The risk management process, detailed on pages 98 to 102, includes ongoing monitoring and reporting of new and emerging risks. This allows us to make additional enhancements to the control environment, to adapt to and respond quickly to these risks.

Viability Statement

Year ended
31 December 2020

Continued

Assessment of viability
As the impacts of COVID-19 on the global economy are expected to continue to be significant, the directors have taken this into consideration when assessing the financial impact of the scenarios described previously. Based on these assessments the directors believe that:

- Our business model remains appropriate and will continue to be relevant as the operating environment evolves beyond the coronavirus pandemic.
- We have and will continue to maintain an appropriate level of liquidity, which meets the expected demands of the business and the requirements that arise in modelled stressed scenarios.
- We hold sufficient capital resources, including a significant excess above the regulatory minimum and have plans in place to ensure we meet future known requirements. We have sufficient resources under both central and modelled stressed scenarios.
- There are suitable operational capacities in place to manage the impacts of risk events to a reasonable extent, though it is impossible to eliminate all risk. This has been proven across the year as we have continued to operate effectively under the stress of the global pandemic.

Assessment period used for reviewing viability
Based on the above, the directors consider the viability of the Society over a three year period to 31 December 2023. A three year period for viability is determined to be appropriate for the following reasons:

- Uncertainty is inherent in the predictions of economic, competitive and regulatory environments, particularly in the current climate. Going beyond the three year period increases this uncertainty and reduces the reliability of the assessment of viability.
- It is within the period covered by our projections of cash flows, capital and profitability. However, there is nothing in our planning beyond the three years that would cause a change in the directors' consideration of viability.

The directors have a reasonable expectation that the Society will be able to continue in operation and meet our liabilities as they fall due, over the three year period to 31 December 2023.

Financial Review

Year ended
31 December 2020

In 2020, the Society delivered a robust level of profit. Despite the uncertainty and disruption of COVID-19 and Brexit, our reserves and financial strength have allowed us to continue to serve our members uninterrupted.

This report includes a number of alternative performance measures (APMs) which provide useful additional information about our financial performance and position[1]. These APMs are not defined in International Financial Reporting Standards but provide additional useful financial information. Further information on the calculation of APMs and reconciliation to an equivalent statutory measure can be found on pages 207 to 210.

Financial performance

The Income Statement for the year is summarised below:

	2020 £m	2019 £m
Net interest income	205.4	200.8
Fees, commissions and other income	8.2	8.2
Fair value losses	(16.8)	(19.7)
Total income	**196.8**	**189.3**
Management expenses	(100.4)	(101.2)
Impairments on loans and advances to customers	(14.6)	(2.8)
Other impairments and provisions	(1.1)	2.7
Profit before tax	**80.7**	**88.0**
Tax expense	(18.7)	(21.8)
Profit after tax	**62.0**	**66.2**

Profit before tax remained robust at £80.7 million (2019: £88.0 million), despite the uncertainty arising from the pandemic. Net interest income has held up well and is £4.6 million higher than in 2019, but this has been offset by an £11.8 million increase in future expected impairment losses, reflecting the current weakening economic environment and future uncertainty. We have continued to operate efficiently, with management expenses decreasing slightly even after the impact of our ongoing investment in future-proofing the business, including the launch of Mortgage Hub. The solid performance in the face of significant upheaval has enabled us to maintain our strong financial position.

Net interest income

	2020 £m	2019 £m
Net interest income	205.4	200.8
Mean total assets	20,724	20,099
	%	%
Net interest margin	0.99	1.00

Net interest income is the Society's principal form of income. Throughout 2020, we have continued to balance the needs of our members and offered competitive rates to both those in need of mortgages and those wishing to save.

The reduction in Bank of England Base Rate to an historic low of 0.1% in March led to falls in the Society's Standard Variable Rate, the rate for new mortgages and liquidity returns. This, alongside the decision to hold mortgage balances at a steady level, in response to the emerging financial impact of the pandemic, has led to a reduction in interest receivable.

The decrease in Bank Base Rate, along with elevated levels of government supported liquidity, has also put pressure on market savings rates – a direct impact for many savings members. We seek to make decisions for the benefit of our membership as a whole and have worked hard to keep savings rates as high as possible for as long as possible. We are proud to consistently pay above the market rate to our savings customers, equivalent to an annual benefit to them of £82.8 million[2] in 2020 (2019: £88.5 million), however inevitably we were required to reduce savings rates in response to the significant fall in market rates. Prudently reducing our mortgage asset growth due to COVID-19 and an equivalent drop in savings balances required to fund this lending, further contributed to the fall in interest payable.

Fees, commissions and other income

We offer home insurance, life cover, funeral planning and probate services to our members through a number of relationships with third parties.

Other income consists of commissions earned on these products, as well as rental income, foreign exchange movements and other ancillary fees and receipts. In 2020, other income remained steady at £8.2 million (2019: £8.2 million) as the reduction in commissions due to lower branch footfall during COVID-19 was offset by gains on the sale of treasury assets.

1. Financial information refers to the performance of the Group, as reported on pages 136 to 203
2. CACI's CSDB, Stock, December 2019 to November 2020, latest data available

Year ended
31 December 2020

Continued

Fair value losses

We hold certain financial assets and liabilities at their current fair value, defined as the value an independent third party would be willing to pay or receive, and the movement in this fair value is recognised in the Income Statement. Changes in fair value are primarily due to timing differences, which will trend to zero as the asset or liability reaches maturity.

Fair value movements in 2020 resulted in a charge of £16.8 million (2019: £19.7 million).

This charge is due to the following:

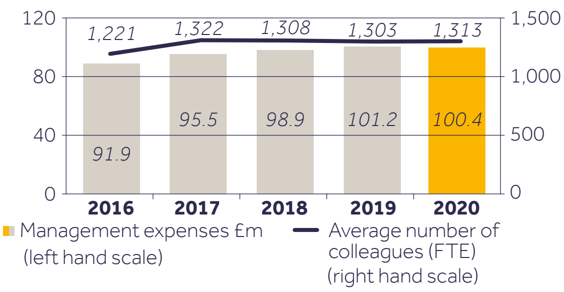
- Continued volatility in benchmark interest rates, including LIBOR and SONIA, which has reduced the fair value of derivatives used to manage interest rate risk associated with fixed rate mortgages and savings. Brexit and COVID-19 have led to significant rate reductions during 2020. Though economically hedged, these swaps are not all designated in accounting hedges which leads to movements in the Income Statement.
- A reduction in the combined value of equity release mortgages purchased from a third party in the mid-2000s (represented in our balance sheet as a collateral loan) and associated derivatives. There are no market prices for these assets, so we estimate their value using a financial model. During the year the reduction in interest rates, together with a refresh of the key assumptions and estimates that drive the value in the model, resulted in a reduction in the previously calculated combined value of the loan and derivatives of £5.0 million (2019: £9.0 million).

Management expenses

Management expenses for the year are summarised below:

	2020 £m	2019 £m
Colleague costs	61.1	60.8
Other administrative expenses	31.8	33.0
Depreciation and amortisation	7.5	7.4
Total management expenses	**100.4**	**101.2**
	%	%
Cost to income ratio	51.0	53.5
Cost to mean asset ratio	0.48	0.50

Management expenses £m and colleague numbers



We are focused on efficiency and our cost to mean asset ratio is among the best in our sector.

Headline management expenses decreased by £0.8 million, while costs excluding depreciation and future facing development spend reduced year on year by £3.5 million. The pandemic and prolonged lockdown in 2020 led to a reduction in certain expenses, but this was partially offset by one off costs to ensure all our locations were COVID-secure along with enhancements in future capabilities. We have continued to invest prudently, including advancing our technology systems and launching the Mortgage Hub, which positions us well to respond to future market pressures and changing member and broker preference.

The average number of colleagues working for the Society in 2020 was broadly unchanged.

Depreciation and amortisation remained flat in the year.

Impairments and provisions

The table below summarises the impact of impairments and provision charges or (releases) on the Income Statement in the year:

	2020 £m	2019 £m
Residential loans	14.7	5.0
Commercial loans	(0.1)	(2.2)
Impairments on loans and advances to customers	**14.6**	**2.8**
Property, plant and equipment	–	(0.1)
Other provisions	1.1	(2.6)
Other impairments and provisions	**1.1**	**(2.7)**
Total impairments and provisions	**15.7**	**0.1**

The charge for impairments and provisions has increased significantly, by £15.6 million from 2019. This is largely due to the current and emerging impact of the pandemic. The majority of the increase is due to larger residential mortgage provisions, which reflect the tougher economic conditions faced by our members.

Residential impairment

We make provisions for expected credit losses across all loans, based on the probability of each loan defaulting and resulting in a loss, while taking into account a range of assumptions about future economic scenarios and an assessment of whether the credit risk of the loan has increased.

Our arrears ratio (measured as those loans either in possession or in arrears of more than 1.5% of the balance) has increased to 0.62% (2019: 0.54%). We have supported members by participating in government assistance schemes during 2020 with the aim of helping our members stay in their homes. These schemes are expected to end in 2021 and it is likely that some members will require further assistance with their mortgage. By 31 December 2020, the Society had offered mortgage payment deferrals on 27,531 accounts with balances totalling £3.2 billion. The majority of accounts returned to full payments, with only 2% in arrears three months after the end of their deferral.

In light of heightened economic uncertainty, impairment provisions have increased during the year due to the higher credit risk associated with the mortgage balances. The inputs to the Society's approach used for calculating impairment have been updated to reflect the continuing economic uncertainty and the current and future global impacts of the pandemic, including sensitivity and scenario analysis. The key judgements and estimates involved in the calculation of impairment loss provisions, including the use of post model adjustments, are set out in note 2 of the accounts on pages 146 to 153.

Total balance sheet impairment loss provisions against residential mortgages at 31 December 2020 were £42.8 million (2019: £28.7 million), as summarised below:

	2020 £m	2019 £m
UK residential provisions	35.4	20.9
UK residential mortgages	16,677	16,645
UK provision coverage (%)	*0.21*	*0.13*
Legacy overseas provisions	7.4	7.8
Total residential provisions	**42.8**	**28.7**

Commercial impairment

We continue to successfully manage down our legacy commercial lending portfolio with net exposure to commercial loans falling to £14.4 million at 31 December 2020 (2019: £15.6 million). All loans remain up to date and no losses have been realised in the current or prior year.

Provision coverage is broadly in line with the previous year. At the end of 2020, we have balance sheet impairment provisions against commercial mortgages of £1.9 million (2019: £2.0 million), the reduction in provisions being due to the reduced book size.

Other provisions

Provisions have been made where a claim has been made and we anticipate that a payment is probable, based on individual circumstances and evidence provided.

Taxation

The income tax expense of £18.7 million (2019: £21.8 million) represents 23.2% (2019: 24.8%) of profit before tax. We pay UK corporation tax at the prevailing rate of 19% for 2020 (2019: 19%) and also pay the 8% surcharge on banking profits over a £25 million threshold introduced in 2016.

Financial Review

Continued

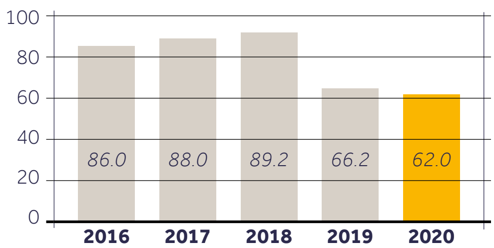
We have adopted the Code of Practice on Taxation for Banks and established appropriate procedures, controls and oversight to ensure we meet our obligations under the Code. We manage our tax obligations to ensure full compliance with all statutory requirements and do not intentionally structure transactions to give a tax result which is contrary to the intentions of Parliament. We maintain an open and transparent relationship with HMRC.

A tax policy has been agreed by the Audit Committee, which provides a framework for the operation, planning and oversight of tax and tax risk to ensure compliance with relevant legislation. This policy has been fully complied with throughout the year. Our Tax Strategy is published on our website and we are committed to transparency in the reporting of our tax affairs. We have been a proud holder of the Fair Tax Mark since 2018.

Profit after tax

Profit after tax is our primary source of new capital and is essential in ensuring long term security for members, as well as meeting the regulator's capital requirements.

Profit after tax £m



The chart indicates the ongoing sustainable profitability that continues to allow us to build and maintain our financial strength. We have delivered a robust profit this year, despite the current economic uncertainty and this further strengthens the reserves that enable us to continue serving our members, as well as sustaining our long term future.

Financial position

Our total assets decreased slightly, to £20.6 billion. This small reduction is primarily due to a fall in liquid assets and the prudent approach taken to mortgage lending. We chose to keep mortgage balances flat in 2020, in view of the heightened risks associated with COVID-19, and applied appropriate provisions to reflect the tough economic environment.

	2020 £m	2019 £m
Residential loans	16,795	16,768
Commercial loans	16	18
Other loans	225	222
Impairment provision	(47)	(33)
Loans and advances to customers	**16,989**	**16,975**
Liquid assets	2,975	3,323
Derivative financial instruments	193	183
Fixed and other assets	483	327
Total assets	**20,640**	**20,808**

Residential mortgage asset quality	**%**	**%**
Proportion of mortgages in arrears	0.62	0.54
Balance-weighted average indexed LTV of mortgage book	50.9	53.8
Balance-weighted average LTV of new lending	59.0	59.9

Loans and advances to customers

Our loans and advances to customers comprise mainly UK residential mortgages, which include residential owner occupied, buy to let and shared ownership.

We have actively managed down our legacy commercial loan portfolio, with no new commercial lending taking place. This now represents less than 0.10% of the total lending book (2019: 0.11%). Other loans include a collateral loan that represents a pool of equity release mortgages purchased from a third party, where some of the risks relating to those mortgages were retained by the third party.

New lending

Gross new lending during the year was £2.5 billion (2019: £3.5 billion), with the reduction on last year due to the temporary closure of the market at the start of the pandemic and our prudent approach to re-entry into higher risk segments. The market has returned strongly in the second half of the year, buoyed by government initiatives such as the stamp duty holiday. Our share of new mortgage lending was 1.0% (2019: 1.3%) compared to our natural market share of 1.1% (2019: 1.2%).

Though gross lending has reduced, we continue to focus on borrowers less well served by the wider market, such as buy to let or shared ownership, as well as first time buyers and later life homeowners. In total, lending to these segments again represented over 60% of new lending and enabled 8,000 first time buyers to buy their own home. We are proud that we continued to support underserved markets, notably shared ownership, throughout the pandemic, while maintaining a prudent approach to overall lending.

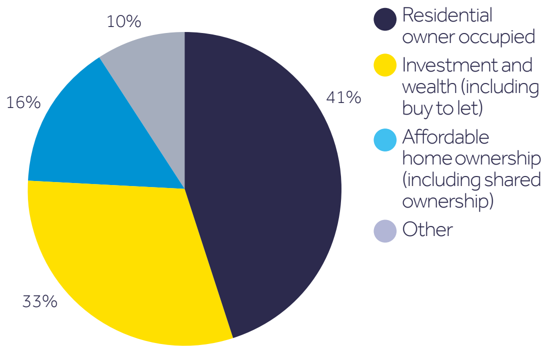
We maintain a conservative lending policy, which is reflected in the distribution of loan to value (LTV) ratios. The average loan to value of new lending in 2020 was 59% (2019: 60%), and when combined with the positive uplift in house prices through the year resulted in overall book LTV reducing 2.9% to 50.9%.

Net lending was £6 million, a significant reduction from £956m in 2019, as a result of the decrease in gross lending.

UK residential mortgage balances

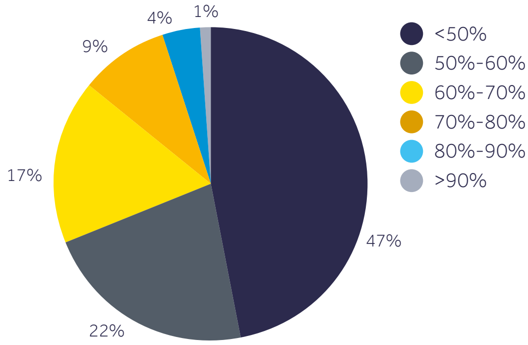
The focus of new lending in recent years continues to be reflected in the changing mix of the mortgage book as a whole, with buy to let and shared ownership making up an increasing proportion of the book.

2020 UK residential mortgage balances by type



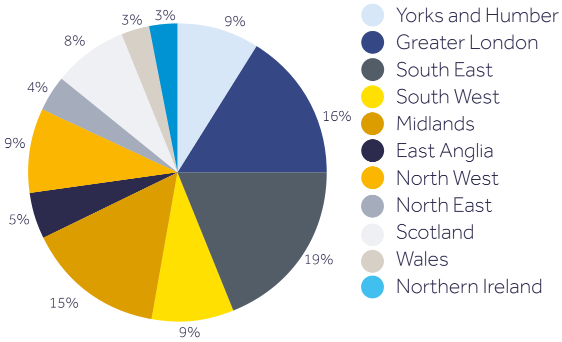
At 31 December 2020, the weighted average indexed loan to value of the portfolio as a whole was 51% (2019: 54%). The distribution of the loan to value profile of the portfolio is shown below.

2020 UK residential mortgage balances by indexed LTV



The portfolio is geographically diverse with the largest exposures in Greater London and the South East, reflecting the higher property prices in these areas.

2020 UK residential mortgage balances by region



Year ended
31 December 2020

Continued

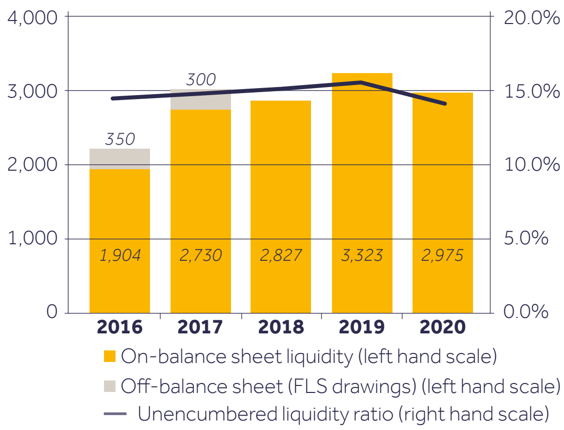
Liquid assets

Liquidity ratios	2020 %	2019 %
Liquidity Coverage Ratio (LCR)	195	235
Net Stable Funding Ratio (NSFR)	141	142
Total unencumbered liquidity	14.3	15.5

We hold liquid assets (including reserves with the Bank of England and other High Quality Liquid Assets) to ensure we can meet our financial obligations under both normal and stressed scenarios. In 2020, we have enhanced the efficiency of our liquidity management, which has allowed us to reduce balances while retaining sufficient liquidity holdings to meet normal customer demand and respond to financial stress. We have maintained liquidity in excess of the regulatory minimum throughout the year.

The chart below shows our total liquid assets. We also have access to additional contingent liquidity through the Bank of England's Sterling Monetary Framework.

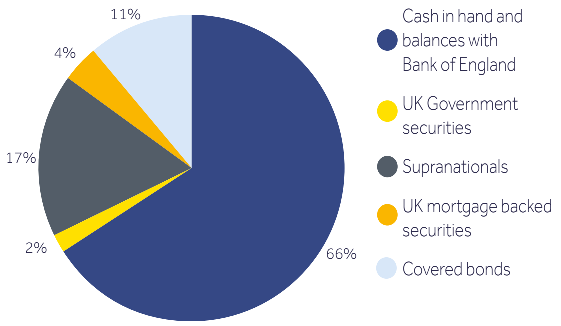
Liquidity £m / %



Total liquid assets at the end of 2020 were £3.0 billion, compared to £3.3 billion at the end of 2019. The level of liquidity can vary due to the timing of funding receipts compared to mortgage completions and other refinancing obligations. Liquidity included £2.7 billion of High Quality Liquid Assets (2019: £2.9 billion), which are either in cash or are readily realisable as cash when required. 100% of assets are rated A or above (2019: 100%).

The mix of liquid assets at 31 December 2020 is shown below.

2020 liquidity portfolio



The PRA monitors liquidity under the Capital Requirements Regulation (CRR) framework. Our Liquidity Coverage Ratio (LCR) is 195% (2019: 235%), significantly in excess of the regulatory minimum of 100%. The NSFR is currently calculated based on our interpretation of expected requirements as 141% (2019: 142%).

Our unencumbered liquidity ratio, which is another measure of readily realisable assets, was 14.3% at 31 December 2020 (2019: 15.5%).

Liabilities

A summary of our liabilities is shown below:

	2020 £m	2019 £m
Shares	14,163	14,518
Wholesale funding	4,655	4,647
Derivative financial instruments	238	200
Other liabilities	188	125
Subscribed capital	241	232
Total liabilities	**19,485**	**19,722**
Equity attributable to members	1,155	1,086
Total liabilities and equity	**20,640**	**20,808**

Key ratios	%	%
Wholesale funding ratio	24.6	23.5

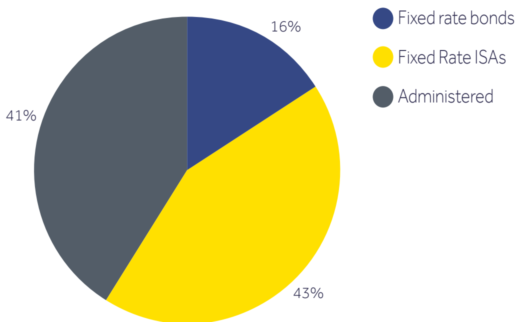
Achieving an appropriate level, mix and duration of retail savings and wholesale funding is essential to ensure we have the necessary resources to meet lending growth aspirations.

Shares (retail savings)

We continue to offer competitive savings rates to both existing and new members with a simple and attractive product proposition. We support members with a range of products to meet their savings needs, including easy access, fixed rate bonds and ISAs.

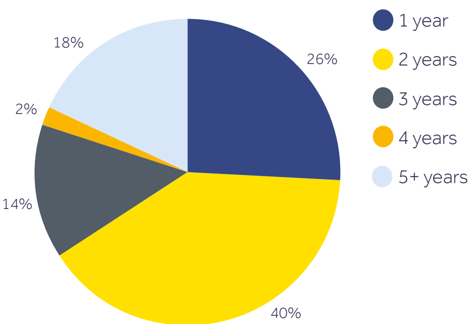
Savings balances decreased by about £350 million, mainly due to the impact of COVID-19 and lower requirements as a result of decreased mortgage lending. The mix of savings balances at 31 December 2020 is shown below. During 2020, with heightened economic uncertainty and a reduction in the term premium available for taking a fixed rate, customers across the market demonstrated a stronger preference for instant access saving products. This trend had an impact on our own savings book, with the overall proportion of our book on administered rates increasing from 32% to 41%.

2020 savings balances by type



The split of our fixed rate savings balance by term is shown below:

2020 fixed rate savings term



Savings balances make up three quarters of our total funding. This is a reflection of the core building society principles, with the provision of a safe place for members' funds being the primary source of funds to meet lending needs.

Wholesale funding

We continue to access wholesale markets to complement retail savings activity. We aim to maintain wholesale balances at approximately one fifth of total funding, although as we seek to take advantage of favourable funding conditions, the proportion of wholesale funds can increase above this level. Total wholesale funds at 31 December 2020 were £4.7 billion (2019: £4.6 billion), representing 25% of total funding.

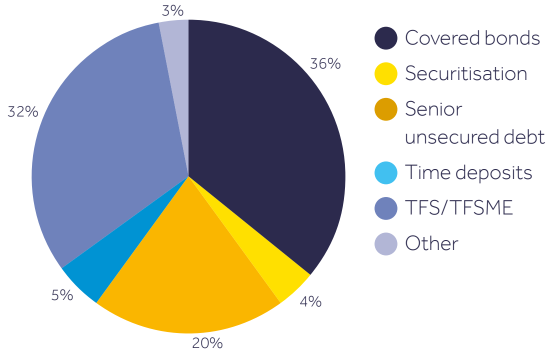
In January 2020, we issued our second SONIA linked covered bond and raised £600 million of wholesale funding. The issuance was SONIA linked as we move to reduce our exposure to LIBOR, led by the interest rate benchmark reform. More information on the changes to the interest rate benchmark can be found on page 198.

Two covered bonds, with a value of £648 million, matured during the year and we also repaid our Guildford No.1 RMBS issuance in January 2020. This issuance totalled £322 million and had been fully retained by the Society.

During the year, we have accessed £810 million of funding under the TFSME scheme launched by the Government to support mortgage lending during 2020. At 31 December 2020, we had additional outstanding TFS funding drawings from previous schemes of £675 million (2019: £1.3 billion). TFS drawings are repayable four years after drawdown.

The mix of our wholesale funding portfolio at 31 December 2020 is shown below:

2020 wholesale funding portfolio



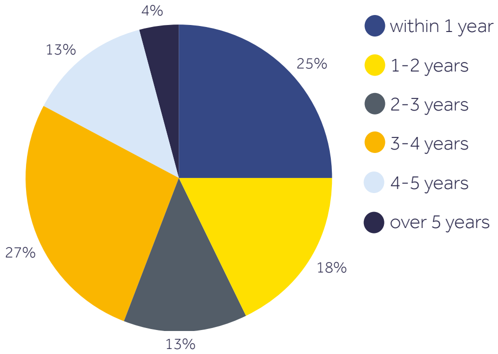
Financial Review

Year ended
31 December 2020

Continued

The maturity profile of our wholesale funding is shown below:

2020 wholesale maturity profile



We maintain strong credit ratings from two key agencies reflecting our strong capital base, good profitability and strong funding position.

	Long term	Short term	Outlook
Moody's	A3	P-2	Negative
Fitch	A-	F1	Negative

Derivatives

We transact derivatives to mitigate the risks within the balance sheet, primarily interest rate risk associated with offering fixed rate mortgage and savings products. Historically, we used LIBOR as the risk free rate that these derivatives are traded against. However, this rate is set to be discontinued at the end of 2021 and a project is underway to manage the transition from LIBOR to the preferred risk free rate, SONIA. By the end of 2020, £2.2 billion of derivatives had been transitioned with the remaining £4.1 billion on track to be moved in 2021. Further details on this project can be found in note 35c of the accounts on page 198.

Capital

Our regulatory capital principally comprises accumulated retained profits in the general reserve and subscribed capital provided through subordinated debt and Permanent Interest Bearing Shares (PIBS). Capital is ultimately held for the protection of depositors and other creditors by providing a buffer against unexpected losses. Our capital is assessed under the Capital Requirements Regulation (CRR2) and the Capital Requirements Directive (CRD), together referred to as CRD IV.

We maintained our strong capital position throughout the year, with all capital ratios significantly in excess of the regulatory minima. We have used the Internal Ratings Based approach to calculate our capital requirement for most of our residential mortgage book since 2018.

Total regulatory capital has increased by £77 million during 2020 to £1,348 million (2019: £1,271 million). This is mainly due to retained profits accumulated during the year, which are added to the general reserve. Risk weighted assets (RWAs) have reduced by £34 million during 2020 to £3,070 million (31 December 2019: £3,104 million) driven by a reduction in capital requirements on the Society's derivative financial instruments. As a result of these movements, the CET 1 ratio, calculated on a transitional basis, has increased to 36.3% from 33.6% at 31 December 2019.

The following table shows the composition of our regulatory capital as at 31 December 2020. More detailed disclosures can be found in the Pillar 3 document available on our website.

Capital resources	**2020 £m**	**2019 £m**
Total equity attributable to members	1,155	1,086
Less pension surplus, intangible assets and other regulatory adjustments	(39)	(42)
Common Equity Tier 1 (CET1) capital	1,116	1,044
Additional Tier 1 capital	5	8
Total Tier 1 capital	**1,121**	**1,052**
Tier 2 capital	227	219
Total regulatory capital resources	**1,348**	**1,271**
Risk weighted assets (RWAs)	**3,070**	**3,104**
CRD IV capital ratios[3]	**%**	**%**
CET1 ratio	36.3	33.6
Total capital ratio	43.9	41.0
CRR leverage ratio	5.3	5.0
UK leverage ratio[4]	5.8	5.3

3. The capital ratios are calculated as relevant capital divided by risk weighted assets and the leverage ratio is calculated as Tier 1 capital divided by total exposure (total assets per the prudential group consolidated position subject to some regulatory adjustments). The leverage ratio is reported on a CRD IV end point basis under CRD IV end point rules all existing Additional Tier 1 instruments that become ineligible as capital under CRD IV are excluded in full.
4. The UK leverage ratio represents the UK regulatory regime, which excludes deposits with central banks from the leverage exposure measure. The UK regime is not currently legally binding as the Society operates below the applicable threshold set by the regulator (>£50 billion).

Capital management

We are regulated by the PRA and the FCA and are required to manage our capital in accordance with the rules and guidance issued by the PRA under CRD IV. The capital requirements of the Group are monitored on an ongoing basis, to ensure the minimum regulatory requirement is always met and that the Society has sufficient levels of capital for current and projected future activities.

Pillar 1

We hold capital to meet Pillar 1 requirements for credit risk, operational risk and market risk. The IRB approach to capital modelling is applied, which allows us to calculate our capital requirements using internally determined risk parameters that reflect the specific risks of our mortgage book. The standardised approach is applied to all other exposures, operational risk, market risk and credit valuation adjustments.

Pillar 2A

The PRA requires us to hold additional Pillar 2A capital for the risks not covered under Pillar 1. At 31 December 2020 the regulatory requirement was 2.55% of risk weighted assets, a point in time estimate set by the PRA during 2020.

Capital buffers

CRD IV requires entities to hold capital buffers that can be used to absorb the impact of a stress scenario. For the Society, the buffer framework comprises a sector wide Capital Conservation Buffer, introduced in 2016 at 0.625% of RWAs and set at 2.5% in 2020, as well as a macro-prudential Countercyclical Capital Buffer currently set at 0% of RWAs for exposures to the UK. In addition, the Internal Capital Adequacy Assessment Process (ICAAP) considers whether any additional capital is required over and above the regulatory buffers, to satisfy our risk appetite over the planning horizon and absorb the impact of a severe, but plausible, stress scenario. The ICAAP is reviewed by the PRA when setting our Total Capital Requirement (Pillar 1 and Pillar 2A). We have performed regular stress tests on our capital base and these tests have consistently demonstrated a capital surplus above requirements after applying management actions.

We have utilised available transitional arrangements in relation to the impact of adopting IFRS 9 on regulatory capital and the figures above reflect those arrangements. Had the transitional arrangements not been adopted, at 31 December 2020 the CET 1 ratio would have been three basis points lower and the CRR leverage ratio would be unchanged.

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

MREL was announced in 2016, with the aim of increasing resilience within the financial sector and reducing the risk to taxpayers if a firm was to fail. All banks and building societies are assigned a preferred resolution strategy by the Bank of England dependent on their balance sheet size and quantum of transactional accounts. Due to the Society having a balance sheet in excess of £15 billion, the Bank of England has stated a preferred resolution strategy for the Society of bail-in requiring us to hold both recovery and resolution capital requirements.

We are phasing in MREL over a transitional period to 31 December 2022. The transitional MREL requirement set for us, by the Bank of England, is equal to 18% of risk weighted assets for the period July 2020 to 31 December 2022. End state MREL requirements are two times minimum regulatory requirements plus any regulatory buffers, active from 1 January 2023.

New and emerging regulation

MREL at the end of the transitional period is currently subject to review by the Bank of England and may change. Further to the December 2020 Discussion Paper, the Bank's MREL review will consider the resolution strategy thresholds, the calibration of MREL, instrument eligibility, and the application of MRELs within banking groups. In completing its review in 2021, the Bank will take into consideration the FPC and Prudential Regulation Committee (PRC)'s review of the UK leverage ratio framework. Compliance with end state MREL is reflected in our latest corporate plan.

Recent reforms issued by the European Banking Authority on the application of the IRB aim to address concerns about undue variability of own fund requirements for credit, stemming from the application of internal models across credit institutions. These reforms aim to harmonise the notion of a default to be used for estimating the relevant risk parameters and clarify the use of credit risk mitigation. We have submitted our revised models in response to these changes and are on track to meet all new requirements in advance of implementation. As we obtained IRB permission in 2018, our existing approach is closely aligned to the new requirements, but current expectations are for our RWAs to increase. We are confident that we will remain well above the regulatory minimum and maintain a solid capital position that supports future growth plans.

Financial Review

Continued

We are well prepared to meet the requirements of the new standardised approach, which comes into force in January 2023. As an IRB lender, the predominant impact will be the new capital floor to be phased in from January 2023 until January 2028. We have accounted for this in our corporate plan.

We continue to monitor all other regulatory reviews and updates following Brexit, such as the leverage regime.

Financial outlook

Against a backdrop of challenges and uncertainty, we have delivered a strong and robust level of profit in 2020.

The outlook for the UK economy remains unclear going in to 2021, due to the ongoing impact of the COVID-19 pandemic and the medium term impact of the trade agreement with the European Union following Brexit not yet fully known.

It is expected that profits will continue to be impacted by the emerging financial implications of the pandemic, in the short to medium term, but they remain sustainable and we continue to be well placed to withstand economic shocks and market uncertainty. We will continue to manage growth and invest in the business to carry on delivering long term value to our members.

We retain a strong franchise in mortgage lending and retail savings which will help support future growth. Strong efficiency ratios and a conservative risk appetite are expected to support continuing strong profitability underpinning the financial security that is so important to members' confidence.

Non financial information statement

We have complied with the requirements of s414CB of the Companies Act 2006 by including certain non financial information within the Strategic Report. The required information can be found as follows:

- Our business model is described on page 8 and key indicators of performance are on pages 14 to 17.
- Our approach to managing our impact on the environment and to managing the risks arising from climate change is explained on page 25. Further details of some of the actions already undertaken as part of our Corporate Responsibility Framework are set out on pages 34 to 35.
- Our Colleague Policy is designed to ensure the fair, transparent and consistent treatment of colleagues in accordance with legislative and regulatory requirements. Further information on our strategy in relation to colleagues is detailed on pages 18 to 20.
- We have a zero tolerance approach to bribery and corruption, upholding ethical behaviours in our business activities at all times. The Prevention of Financial Crime Policy sets out the requirements of colleagues in this respect and all colleagues undertake regular mandatory training.
- Additionally, our Third Party Management Policy ensures that we only enter into third party arrangements with suppliers that have the policies and procedures in place to comply with all applicable anti-bribery and corruption laws, including the Bribery Act 2010 and the Modern Slavery Act.

Line managers throughout the business are responsible for ensuring colleagues in their teams comply with these policies. Attestation of compliance is provided by first line management annually. Periodic independent reviews of compliance are undertaken by the Risk function (second line) and Internal Audit (third line), using a risk based approach.

Approval of the Strategic Report

This Strategic Report (on pages 2 to 60) has been approved by the Board of Directors and is signed on behalf of the Board.

Andrew Conroy
Chief Financial Officer

25 February 2021

Governance
The Board of Directors

The biographies of each member of the Board are shown below and demonstrate the reasons why the strengths and experience of each director contributes to the Society's long term and sustainable success.

Key to committee membership (effective as at 31 December 2020):

A Audit Committee B Board Risk Committee N Nominations Committee R Remuneration Committee ○ Committee Chair

N

Iain Cornish
Chair and Independent Non Executive Director

Appointed: Independent Non Executive Director in January 2019 and Chair of the Board in April 2020.

Strengths and experience: Iain has more than 30 years' experience working in financial services. A former CEO of Yorkshire Building Society (2003-2011) and Chair of the Building Societies Association (2007-2008), Iain has held a number of non executive posts. He was a Treasury Select Committee Special Advisor and Independent Director for the Prudential Regulatory Authority and chaired the Financial Services Authority Practitioner Panel. In addition to significant experience within the sector, Iain has relevant risk and audit committee experience.

Other roles: Iain is a non executive director and Chair of St James's Place plc, a non executive director of St James's Place UK plc and a trustee and treasurer of Macmillan Cancer Support.

"As Chair, my role is to lead the Board and to oversee the development and delivery of the Society's strategy. In 2020, my first year as Chair, the Board's primary focus was to adapt to the changing environment so that we could remain operating for members, keep colleagues informed and safe and maintain financial resilience. As we move into the next 12 months, my priority will be to continue to protect and promote the Society's sustainable success on behalf of members."

Richard Fearon
Chief Executive Officer

Appointed: Chief Executive Officer in February 2019 and Executive Director in 2016.

Strengths and experience: Richard started his career at Oliver Wyman & Company and spent 10 years at Lloyds Banking Group in senior mortgage and savings roles. Richard has an excellent understanding of product development to meet customer needs, as well as strong strategic and commercial skills. As Chief Executive Officer, Richard has responsibility for developing and proposing the Society's strategy, objectives and plans and maintaining our business model and culture.

Other roles: Richard is a member of the UK Finance Mortgages Product and Service Board and a member of the Business in the Community Yorkshire & Humber Advisory Board.

"One of my priorities as CEO is to ensure our members are at the heart of every decision we make. Our revised 2020 corporate priorities supported us in navigating the disruption caused by the coronavirus pandemic so that we could continue to effectively serve members, upholding our purpose as a mutual building society. My role involves leading the management team so that we can operate in the best interests of our members."

The Board of Directors

Year ended
31 December 2020

Continued

B

Annette Barnes

Independent Non Executive Director | Appointed: February 2019

Strengths and experience: Prior to joining the Society, Annette was CEO at Lloyds Bank Private Banking Ltd and Managing Director of Wealth & Mass Affluent for Lloyds Banking Group. With her background in operations, technology and customer experience, and recent board and regulatory positions, Annette brings a wealth of knowledge to the Board.

Other roles: Annette is a non executive director of GlobalData plc, Old Mutual Wealth Ltd and Old Mutual Wealth Life & Pensions Ltd.

"The world has changed in many ways since I began my career in financial services more than 30 years ago; with significant digital advancements and an appropriate focus on the value of a diverse workforce. In my role as a board member, it is for me to challenge and support management, so that collectively we can continue to meet the changing needs of members, colleagues and other stakeholders."

Andrew Conroy

Chief Financial Officer | Appointed: Chief Financial Officer in July 2019 and Executive Director in January 2020.

Strengths and experience: Andrew started his career at PricewaterhouseCoopers before moving to West Bromwich Building Society. He has more than 15 years' experience in financial services, including a number of senior roles in both building societies and banking institutions.

Having worked within finance, treasury and corporate strategy, Andrew has developed strong technical skills in financial accounting and treasury risk management.

Andrew is the Chair of the Asset and Liabilities Committee and Balance Sheet Optimisation Group and has responsibility for the Society's Finance and Treasury Management functions, along with oversight of its recovery and resolution plan and activities.

Andrew joined the Society in July 2019 as Interim Chief Financial Officer and was appointed to the Board in January 2020.

Other roles: Andrew is a trustee for Saltmine Trust.

"My appointment as Chief Financial Officer was made permanent last year, just prior to the onset of the pandemic. Coronavirus has impacted the global economy and this, as you would expect, has impacted many firms in the financial services sector, as well as many of our members. Throughout the year, my focus was supporting our members and colleagues by safeguarding the Society's financial position. This continues to be my priority, as I lead our finance function into 2021."

B A R

David Fisher

Independent Non Executive Director | Appointed: March 2012

Strengths and experience: With more than 30 years' experience in financial services, David's career began at Halifax Building Society. Since then, he has developed a wealth of knowledge in retail financial services and has a strong understanding of risk management, pensions and human resources. Prior to joining the Society, David was CEO of Sainsbury's Bank and continues to undertake a number of advisory roles.

David is Chair of the Board Risk Committee and his responsibilities include safeguarding the independence of the risk function.

Other roles: David is a non executive director of Tandem Bank Ltd and Tandem Money Ltd.

"The Society's ongoing strength and stability rely on our ability to identify, manage and mitigate risk. My role as Chair of the Board Risk Committee is to ensure we have robust systems in place to manage risks throughout the business, which include our risk management framework and internal controls. The management team has responded well to the additional risks posed by the pandemic and my ongoing priority is to ensure risks are being managed appropriately, so we can remain secure."

B A

Neil Fuller

Independent Non Executive Director | **Appointed:** December 2020

Strengths and experience: Neil joined the Board in December 2020 with over 35 years' experience in retail banking and financial services. Prior to joining the Society, Neil held senior roles at Bank of Ireland UK plc including Chief Risk Officer and Executive Board Director and for a short time Interim Chief Executive Officer. Before this, he undertook the role of Chief Risk Officer at GE Capital Bank Ltd and a variety of roles including Risk Director and Chief Risk Officer in the UK retail division of Royal Bank of Scotland and NatWest. Neil's experience and knowledge of risk management in the financial services sector will bring value and further strengthen the Board.

Other roles: Neil is a non executive director of Aspinall Financial Services Ltd.

"I believe the experience I have gained as Chief Risk Officer at different organisations and my understanding of risk management and the principal risks facing the financial services sector will bring value to the Board and I very much look forward to working with the Society."

Andrew Greenwood

Chief Risk Officer | **Appointed:** January 2015

Strengths and experience: Andrew started his career as a solicitor in private practice and has worked for the Society since 1998 in a variety of legal, compliance and risk focused roles. Having developed extensive experience of working in a highly regulated environment, Andrew leads the Risk function, which comprises a number of specialist teams.

Andrew is responsible for the overall management of the Society's risk control framework, which includes co-ordinating and managing principal risks and risk appetite. He reports directly to the Board Risk Committee and attends all the Society's management risk committees.

From the start of 2020, Andrew also took on responsibility for our Human Resources, Learning and Development and Property and Business Services functions.

"Having worked for the Society for more than 20 years, primarily in the Risk function, I have extensive experience of risk management and a strong knowledge of the organisation. A key aspect of my role as Chair of the Models and Rating System Committee is supporting the Board to fulfil our financial risk management responsibilities and helping them understand the model framework, which underpins assumptions and decision making. This role will continue to be important as we adapt our plans in line with changes in the economy."

A B N R

Gareth Hoskin

Independent Non Executive Director | **Appointed:** November 2015

Strengths and experience: Gareth has acquired extensive experience during his 30 years working in financial services, both in the UK and internationally. Having spent almost 20 years at Legal & General plc, Gareth was a director and CEO of the International Division. Prior to this, Gareth was a chartered accountant at PricewaterhouseCoopers. In January 2019, Gareth was appointed Vice Chair and Senior Independent Director of the Board. His responsibilities as Chair of the Audit Committee include safeguarding the independence of the Internal Audit function and acting as our whistleblowing champion.

Other roles: Gareth is a non executive director and Chair of the Audit Committee of Saga plc and a non executive director and Chair of Acromas Insurance Company Ltd. He is also advisor to the Board of Green Park Partners Ltd.

"As Chair of the Audit Committee, it is my responsibility to make sure our financial statements are fair, balanced and include all the information you, as a member or stakeholder, need to assess and understand our performance. It is my role to challenge, where required and to use my experience from the past 30 years to oversee the Society's reporting and audit processes."

The Board of Directors

Year ended
31 December 2020

Continued

B

John Hunt

Independent Non Executive Director | **Appointed:** April 2015

Strengths and experience: John's banking career began at Yorkshire Bank in Leeds. Since then, he has held senior posts in a number of major UK and international banks and was a founder member of the Global Credit Data Consortium. His areas of particular specialism fall within credit and treasury risk management.

As a member of the Society's Board Risk Committee, John contributes to discussions relating to risk management, risk appetite, risk monitoring and assurance.

"My previous senior roles in banks, both in the UK and internationally, mean I bring significant experience and add real value to the long term decisions taken by the Board. As a member of the Board Risk Committee, risk management is my primary focus but I am also dedicated to ensuring we uphold our values of mutuality for the benefit of our members."

After spending six years on the Board, John will retire as a non executive director in 2021 and will not be standing for re-election at the AGM.

R A B N

Lynn McManus

Independent Non Executive Director | **Appointed:** September 2017

Strengths and experience: Lynn joined the Board in September 2017 bringing more than 20 years' experience within financial services. She has worked within finance, risk, HR and communications and her most recent role was at Clydesdale Bank, where she was a member of the executive team. Lynn is a chartered management accountant.

Lynn is the Board appointed colleague representative and a member of the Audit Committee.

In January 2019, Lynn was appointed Chair of the Remuneration Committee. In this role, she is responsible for overseeing the development and implementation of the Society's remuneration policies and practices.

Other roles: Lynn is a director of Kane LMMG Ltd and Doggy Day Care Academy Ltd.

"I have two key responsibilities as a board member. The first is to represent colleagues as the Board appointed colleague representative; ensuring colleagues' views are shared and discussed at Board level. The second is in my role as Chair of the Remuneration Committee. It is my responsibility to make sure the Society has the appropriate policies in place to set Board and senior management remuneration, which are clearly aligned to our strategy and promote the right behaviours and outcomes."

The Executive Committee

The Executive Committee (with support from the Management Committee), operates under the leadership of Richard Fearon, the Chief Executive Officer. It is responsible for the delivery of our strategy, corporate objectives and corporate plan. As executive directors of the Board, Richard Fearon, Andrew Greenwood and Andrew Conroy, whose biographies can be found on pages 61 to 63 are also members of the Executive Committee. The other members of the Executive Committee are:

Jaedon Green
Chief Customer Officer
Jaedon has worked in financial services for over 30 years, with experience across many areas of the industry, including telephone and internet banking, credit and risk management and life assurance and pensions. Prior to joining the Society, he worked in a lead banking role, tasked with the rejuvenation of mortgage sales through a number of different brands. As Chief Customer Officer, Jaedon is responsible for our branches, Contact Centre and back office operations, including customer services. Jaedon is also a non executive director of Leeds Federated Housing Association.

Rob Howse
Chief Operating Officer
Rob has spent the last 10 years in a number of senior technology, operations and change roles in financial services, including Deputy Transformation Director and Chief Information Officer. His earlier career included time as a management consultant at McKinsey and Company where, as an associate partner, he specialised in advising multinational clients on the design and execution of transformation programmes. As Chief Operating Officer, Rob is responsible for technology, operational resilience and third party sourcing across the Society.

Nikki Marsh
Chief Digital Officer
Nikki has principal responsibility for our digital channels and operating model, the development and implementation of the customer centricity strategy, including customer experience, brand and communications strategies, alongside contributing to the overall running of the Society as an active member of the Executive Committee. Nikki has over 25 years of customer focused expertise, specialising predominantly in heavily regulated environments across both the public and private sector.

Andy Moody
Chief Commercial Officer
Andy has over 18 years' experience in financial services, having operated in senior risk and commercial management roles at PwC, Skipton Building Society, Northern Rock, National Australia Bank and Bradford & Bingley. Andy joined the Society in 2012 and has held the roles of Director of Credit Risk and Deputy Chief Risk Officer and more recently, Chief Commercial Officer, under which he has overall responsibility for the development and management of our products and intermediated distribution.

Nick Young
Chief Transformation Officer
Nick joined the Society in August 2018 and has a background in commercial management and strategic change delivery. He has hands on experience of driving performance improvement initiatives across a range of industries, gained through his time as a management consultant with Boxwood Group. In his previous banking roles before joining the Society, Nick has successfully delivered a number of high profile change initiatives across savings and personal current account business areas. He is responsible for leading the Transformation division with functional responsibility for strategy, customer insight, corporate communications and change delivery.

Corporate Governance Report

Year ended
31 December 2020

Dear member,

I am pleased to present the Corporate Governance Report for the year ended 31 December 2020.

Highlights from 2020

- Rapid and robust actions from management and the Board in response to the pandemic, supported through the addition of extra Board meetings and streamlined decision making processes
- Successful transition to new Chair of the Board
- Andrew Conroy appointed as Chief Financial Officer
- Appointment of Neil Fuller as Non Executive Director

I report to you for the first time in my capacity as Chair, a position I have held since the April 2020 AGM.

The purpose of this report is to provide you with an overview of the way in which the Board has operated over the last twelve months and to describe to you how we incorporate good governance in all of our decisions and activities.

Corporate governance can be described as a framework which enables management and the Board to operate more effectively, ensuring appropriate decision making processes and controls are in place, so that the interests of all stakeholders are balanced. This year, more than most, has demonstrated the importance of good governance and this remains a high priority for the Board, as we continue to face the challenges arising from the pandemic and the fast evolving environment we find ourselves in.

The Board's approach to corporate governance is based on the principles and provisions of the current UK Corporate Governance Code (the Code). I am pleased to confirm that our governance arrangements meet the relevant requirements of the Code and we will continue to comply with those provisions of the Code that are relevant to us. A copy of the Code is available at frc.org.uk.

This report sets out how the Board has operated throughout 2020 and applied the provisions of the Code.

Our response to the COVID-19 pandemic
From the outset it was imperative for the Board to be fully engaged and to take a lead role in assessing and monitoring our response to the pandemic. Very early on, it was understood that, to monitor the position effectively, the Board would need to meet more regularly. Additional Board meetings, which were initially weekly, were held to discuss our response, the impact on our members and colleagues, as well as our operational performance against a very challenging backdrop. The additional meetings allowed the Board to be regularly updated on management's response and on how we continued to meet our regulatory obligations. The thoughtful, but agile, actions from management created a safer working environment for our colleagues, whether that be working from home or in our COVID-secure premises, including for example, our branches and Contact Centre.

Since setting our original corporate plan and associated corporate objectives at the end of 2019, the world had changed dramatically and we needed to respond to the immediate impacts of the pandemic. To help with this, back in March, the Board set out three key priorities:

- safely keeping the Society operating for the benefit of our members;
- keeping the Society financially resilient; and
- communicating to our colleagues and members.

It was subsequently agreed with the Remuneration Committee that these three key priorities would become the corporate priorities for the remainder of the year (April to December). Further details of the Remuneration Committee's response to the pandemic can be found on page 104 of the Remuneration Report.

More information on how we have engaged with our stakeholders throughout the pandemic is included on pages 10 and 11.

Changes to the Board in 2020

In April 2020, Robin Ashton stepped down from his position as Chair, after nine years on the Board as an independent non executive director and Chair of the Society. I would like to thank Robin for his outstanding commitment and contribution to our success during his tenure.

Following his appointment as Interim Chief Financial Officer in July 2019, Andrew Conroy was appointed as an executive director and Chief Financial Officer in January 2020. We are delighted to welcome Andrew to the Board.

In March 2020, Phil Jenks, non executive director, decided to leave the Society after eight successful years, to pursue the next stage of his career. I would like to take this opportunity to thank Phil for his valuable contribution to the Board throughout his directorship.

After six years, John Hunt has confirmed to the Board that he will retire as a non executive director in 2021 and will not be standing for re-election at the AGM. I would like to thank John for his valued service during his time on the Board.

In December 2020, Neil Fuller was appointed by the Board as a non executive director and will stand for election at the AGM. Neil joins us with over 35 years' experience in retail banking and financial services. Prior to joining us, Neil held a number of senior roles at Bank of Ireland UK plc, including Chief Risk Officer and executive director. Neil's experience and knowledge of risk management in the financial services sector will bring value and further strengthen the Board.

The year ahead

The Board will continue to uphold a high standard of governance at all times and will focus on delivering success on a prudent and sustainable basis, in the interest of our members, colleagues and wider stakeholders, throughout the pandemic and beyond.

Iain Cornish
Chair

25 February 2021

The role and responsibilities of the Board

Overview

The Board places significant importance on effective corporate governance and has in place a robust Enterprise Risk Management Framework (ERMF), which supports our long term success and viability, ultimately for the benefit of you, our members. The Board is also accountable, to members, for the strategic direction and financial soundness of the Society and sits within a governance framework which facilitates effective decision making.

The Board has formal terms of reference which articulate a clear set of roles and responsibilities, to support our long term sustainability. There is also a schedule of matters reserved for decision by the Board, which sets out those matters that cannot be delegated and have to be retained for Board approval only, including:

- establishment of and changes to the Society's strategy;
- corporate plan and budgets;
- proposals for the appointment, re-appointment or removal of external auditors;
- annual review of the effectiveness of our systems of internal control;
- annual approval of our Speak Up Policy;
- capital and liquidity requirements; and
- annual approval of the Society's risk appetite.

The Schedule of Matters Reserved for the Board is available on the Society's website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees

The Board operates through meetings of the full Board, as often as is necessary to discharge its obligations and ensure the smooth running of the Society. This usually comprises 10 meetings a year, with two additional meetings dedicated to planning and strategy. However, following the outbreak of the pandemic, the Board met more regularly to review and discuss, amongst other items, the developing status of the pandemic, colleague wellbeing, member engagement, operational resilience/performance, changes to corporate objectives and amendments to financial forecasts (for the half year and year end).

How we make decisions

For each Board meeting, a comprehensive and timely set of papers is provided in advance of the meeting. The Board receives certain regular items at every meeting such as the minutes of the previous meeting, minutes of any Board committee meetings held since the previous Board meeting, an action schedule, schedule of key matters, business performance scorecard, an update on regulatory matters and an update on business transformation. The materials provided to the Board are reviewed regularly to ensure members are provided with the information required for effective decision making. From the outset of the pandemic, a new set of management information was developed for the Board, to track those operational and financial metrics directly impacted by COVID-19.

Powers are delegated from the Board through a clearly documented framework of delegated authorities. These set out the responsibilities, decision making and approval powers of the Senior Leadership and Management Team. The delegated authorities are reviewed and approved by the Board annually.

Key features of the Society's delegated authorities framework

- Our delegated authorities framework covers the delegation of authorities by the Board and articulates authority levels and accountabilities of our directors, officers, colleagues and committees.
- The Board is responsible for deciding which matters it will retain for decision, as conferred by the powers contained within our Rules, Memorandum and relevant legislation. These decision making powers, requiring Board approval, are documented within the Schedule of Matters Reserved for the Board.
- Responsibilities and mandates are delegated within the framework of the strategy, policy documents and business plan, determined by the Board.
- Board and management committee authority is documented in respective Terms of Reference, which are subject to approval through the established governance framework.
- Individual accountability is codified under the approved Responsibility Map (including individual Statements of Responsibilities).
- Specific signing authorities granted by the Board are determined through the framework of authorised signatories.
- The Board delegates to the CEO the ability to delegate its authority throughout the management structure of the Society in accordance with the framework.

Culture

Our values help to promote our mutual culture, encouraging behaviours which are in the best interests of our stakeholders, including members. Colleagues receive annual training, which includes information on, and examples pertaining to, our values and how these are central to the work and attitudes of all colleagues. To support this further, the annual appraisal process requires colleagues to demonstrate how they consistently 'live our values' and display the expected behaviours.

The Board continues to monitor culture using a range of strategic risk assessment measures and receives an annual report and update on culture. The assessments undertaken in 2020 demonstrated how the response to the pandemic has positively influenced our ways of working, ultimately enhancing the Society's collaborative culture.

Examples of this include:

Collaboration and executing change at pace: During the pandemic we have shown how our colleagues are able to work together quickly to achieve common goals, even under challenging circumstances.

Openness and honesty: Colleague feedback has shown that we have significantly improved our senior leadership communications and that colleagues feel senior leaders are keeping them fully informed and up to date on pertinent matters.

Strong sense of belonging, 'family feel' and authenticity: We have demonstrated that, as an organisation, we are mindful of impacts on colleagues and their wellbeing and that colleagues have responded positively to the actions taken.

In 2020, to help inform, assess and monitor culture, colleagues were asked to complete two engagement surveys, one in June and one in October. The June survey demonstrated high levels of colleague engagement (85%) and confidence in our leadership (91%). In addition, the survey found that colleagues felt supported by their managers, who were maintaining regular lines of communication with their direct reports (88%). Through the results and comments, colleagues also highlighted the good communication, support and positive leadership experiences during the pandemic. In October, the results of our second engagement survey largely mirrored the earlier results and highlighted high levels of colleague engagement (86%), colleagues said their managers do a good job of keeping them informed about matters affecting them (86%) and that senior management is sufficiently visible (83%).

Colleagues also provided feedback on suggested areas for improvement and challenges such as the requirement for more equipment for home working and how to establish a balance between work and home life when working at home. In response to this feedback the Society has continued to roll out the provision of home working equipment such as laptops and headsets as well as providing further wellbeing support for all colleagues.

To measure colleague performance and behaviours, there is a robust performance management framework in place. All colleagues have a personal objective plan which links personal objectives to our corporate objectives, supported by a personal development plan. Both are discussed regularly in one to one meetings with line management.

Whistleblowing

We are committed to conducting our business with honesty, transparency and integrity. However, from time to time, all organisations face the risk of things going wrong, or of unwittingly harbouring malpractice. By encouraging a culture that welcomes open discussion and challenge, where colleagues feel comfortable about raising their concerns, it allows us to take appropriate action quickly, remedying the situation and preventing malpractice. All colleagues are encouraged to raise a concern without fear of retribution, victimisation or detriment, should they encounter or suspect wrong doing, through our Speak Up procedures.

In accordance with the provisions of the Code, the Board routinely reviews our Speak Up Policy and any reports arising from its operation. The annual approval of our Speak Up standard is included on the Schedule of Key Matters reserved for the Board, and was last approved by the Board in October 2020 based on the recommendation of the Audit Committee.

Annual training is delivered to all colleagues, including temporary employees and contractor workers, which provides information on how to raise concerns, both internally and directly with the regulators, in appropriate circumstances, and reinforces the message that colleagues will be protected should they raise a concern. Gareth Hoskin, Senior Independent Director and Chair of the Audit Committee, is our whistleblowing champion. Any serious issues arising from a Speak Up notification are escalated to the Audit Committee in real time, if appropriate. No cases were escalated in 2020.

In one of the 2020 colleague engagement surveys, 71% of colleagues responded positively to the question 'I think it is safe to speak up and challenge the ways things are done in the Society', against a financial services benchmark of 64%. Our Speak Up arrangements have been benchmarked in previous years and are found to be extensive, wide ranging and appropriate, comparing well with other organisations both in and out of the sector.

Continued

Diversity and inclusion
We have continued to progress our diversity and inclusion activities through the work of our colleague led forums – gender, mental health and BAME (Black, Asian and Minority Ethnic). Each forum serves to ensure a focus on promoting colleague awareness and consideration of new opportunities and initiatives to attract, nurture and develop a diverse talent pool.

We were proud to see our diversity and inclusion efforts acknowledged through accreditation as Investors in Diversity in 2016 and Leaders in Diversity in 2018. In 2020, the National Centre for Diversity (NCfD) undertook a further evaluation, and we achieved reaccreditation of Leaders in Diversity in October 2020. We were the first financial services organisation to achieve Leader in Diversity status and to achieve subsequent reaccreditation.

We became a signatory to the Race at Work Charter (the Charter) in 2020. Our commitment to the Charter is an important strand of our diversity and inclusion strategy and we are committed to championing the initiatives of the charter and improving in this area. While we are making good progress on this journey, we are clear that to influence change effectively, there needs to be visible leadership with the right conversations taking place at the most senior of levels of the organisation. Andrew Greenwood is the appointed executive sponsor for diversity and inclusion, which includes providing visible leadership on race and ethnicity and driving through related actions on recruitment and retention.

The Gender Diversity Forum seeks to focus attention and promote a gender balanced workplace that benefits all colleagues. In 2020, the forum continued to work collaboratively with our Human Resources function to run an internal mentoring scheme, aimed at enhancing our talent pipeline and promoting career progression from within. The forum also hosted Gender Diversity Week, during which information on important topics such as career progression and flexible working were shared with colleagues through our dedicated diversity and inclusion hub.

The BAME Forum this year sought to increase colleague awareness by holding interactive insight sessions, which aimed to increase understanding and help colleagues feel more comfortable in speaking about race and culture. Since 2019, the forum has completed a review of existing data, policies and processes and is currently exploring opportunities around role modelling and mentoring. The BAME Forum will also provide a focal point for working towards the Charter's initiatives.

The Mental Health Forum develops and implements a mental health at work plan, raises mental health awareness amongst colleagues, encourages open conversations about mental health and supports colleagues should they need it. The forum promotes good working conditions for colleagues and promotes a healthy work life balance, as well as opportunities for development. It promotes effective people management through line managers and supervisors and routinely monitors colleague mental health and wellbeing. We now have in excess of 40 trained mental health first aiders. These are colleagues who are able to provide support and guidance for other colleagues who may be experiencing a mental health concern while at work. The forum has also provided training for colleagues at other building societies and other organisations, including our supply chain, to become mental health first aiders.

Each forum typically meets every four to eight weeks and with a focus on membership being diverse in terms of job grade, age, gender and ethnic background.

More information on diversity and inclusion is included in the report of the Nominations Committee on page 89 and in the Strategic Report on pages 18 and 19.

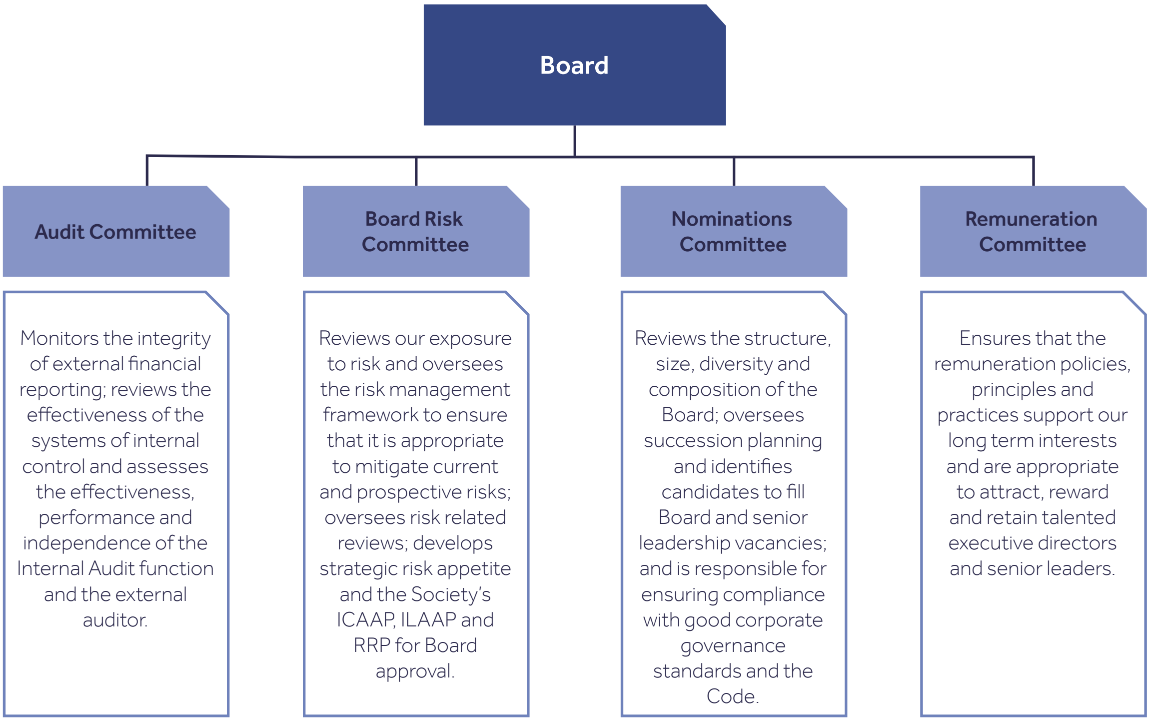
Board committees

To assist the Board in carrying out its functions and in order that certain matters can be discussed and considered in more detail, certain responsibilities are delegated to a number of Board committees, each one having clear and detailed Terms of Reference (ToR). The ToRs list the duties of the Board committees, copies of which can be found on our website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees or by writing to the Secretary at Leeds Building Society, 105 Albion Street, Leeds, LS1 5AS.

Each Board committee is comprised of independent non executive directors, with members selected for their relevant skills and areas of expertise. The Chair of each committee is responsible for ensuring receipt of accurate, timely and clear information to assist with their deliberations and decision making. Board committees have been established in line with the provisions of the Code and membership is limited to non executive directors only, with other Board members in attendance as and when required.

The Board committee governance structure is outlined below:

Board committees



Further details on each Committee, the activities undertaken in 2020 and their membership can be found in each Committee's individual report, on pages 84 to 122.

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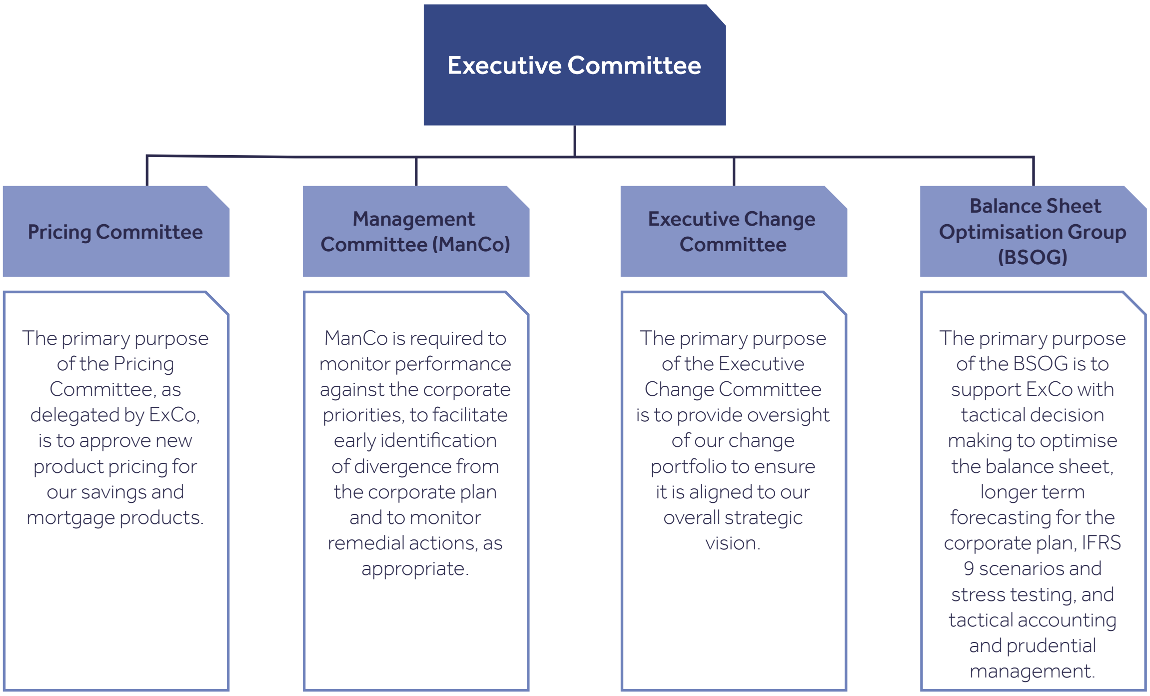
Executive and management committees

Executive Committee (ExCo)

The ExCo operates under the direction of the Chief Executive Officer and has the primary purpose of enabling the executive directors and Chief Officers to manage the Society in a co-ordinated way, taking a broad view of key issues and priorities. ExCo delegates some of its duties to, and is supported by, the Management Committee, the Pricing Committee, the Executive Change Committee and the Balance Sheet Optimisation Group. ExCo does not have a formal role in our risk governance structure, other than in the context of strategy and planning.

In 2020, and in response to the pandemic, separate COVID-19 ExCo meetings (made up of the same members of ExCo) were held several times a week, to help manage the fast changing operating environment. The COVID-19 ExCo meetings were supported by focused management information, formal agenda items and papers. Standing formal agenda items were focused on the updated three corporate priorities referenced on page 66.

The Executive and management committee structure is outlined below:



Board and Board committee membership attendance record

The table below shows the attendance of all directors at scheduled Board meetings and attendance of those who are members of the Board committees at scheduled committee meetings held during the year.

Director	Board	Audit	Board Risk	Nominations	Remuneration
Annette Barnes	21/21		7/8		
Andrew Conroy	20/21				
Iain Cornish	21/21	2/2	2/2	4/4	
Richard Fearon	20/21				
David Fisher	21/21	6/6	8/8		4/4
Neil Fuller (appointed on 1 December 2020)	0/0	0/0	0/0		
Andrew Greenwood	19/21				
Gareth Hoskin	19/21	6/6	8/8	4/4	4/4
John Hunt	20/21		7/8		
Lynn McManus	21/21	6/6	8/8	3/3	4/4
Robin Ashton (resigned after the AGM on 3 April 2020)	4/4			1/1	
Phil Jenks (resigned with effect from 26 March 2020)	2/3		1/2	1/1	

What the Board did in 2020

Some of the key areas of Board activity during 2020, linked to our values, are shown below. Further information and examples of how stakeholders' interests were taken into account in some of the key decisions made during the year can also be found in the Section 172 Statement within the Strategic Report on pages 21 to 24.

Values	What do our values mean to us?	Board activity
 Collaborative	**Nurturing positive relationships**	**Colleague engagement/feedback** Lynn McManus, non executive director, provided the Board with an update on her interactions with the Society's colleague association representatives and provided feedback from colleagues working in the branches and Contact Centre. The Board took the decision not to furlough any colleagues at the outset of the COVID-19 outbreak. Additional information on the decision is included in the Strategic Report on page 24.
 Integrity	**Trusted custodians**	**Financial results, risk and resilience** The Board approved the Annual Report and Accounts, Summary Financial Statement and Pillar 3 Disclosures. The Board received an update on the annual review of our systems and controls. The Board made the decision to extend David Fisher's appointment as a non executive director until the end of 2022 to allow for robust succession planning for his replacement.

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Values	What do our values mean to us?	Board activity
Passionate	**Determined to succeed**	**Colleagues and members** The revised plans and contingency arrangements for the Society's AGM were agreed by the Board. **Corporate priorities** In response to COVID-19 it was agreed to adopt the following three corporate priorities for the remainder of 2021: safely keeping the Society operating for the benefit of our members; keeping the Society financially resilient; and communicating to our colleagues and members.
Progressive	**Always moving forward**	**Business transformation** Business transformation updates are regularly received by the Board, including progress updates on the implementation of our new Mortgage Hub system which successfully went live in August 2020, under a phased go live plan. **Head office** It was confirmed that the new head office building would be ready to hand over to the Society in early December 2020. Occupation of the new building is being planned in accordance with prevailing government guidelines on COVID-secure ways of working. **Society's rules** The Board approved the proposal in principle to amend our rules to allow virtual or hybrid member meetings in the future, with further work required during 2021. **Data centre relocation project** The Board agreed to relocate our data centre and the programme for implementation.
Responsible	**Taking personal ownership**	**Delegated authorities** In response to the COVID-19 pandemic, the Board agreed an extension to the delegated mandates to maintain operational continuity in the event of a potential absence of key colleagues. The annual updates to the delegated authorities manual were also approved by the Board. **How We Do Business** The Board approved our How We Do Business standards which set out our commitments to support our members, colleagues and communities. This is published on our website at leedsbuildingsociety.co.uk/your-society/how-we-do-business (also see pages 36 and 37).

Values	What do our values mean to us?	Board activity
Straightforward	Doing the right thing	**Speak Up standards** On the recommendation of the Audit Committee, the Board approved our Speak Up standard and arrangements, which sets out the means by which colleagues can raise concerns. **Annual culture update** The Board received an update and noted the positive influence on the ways of working, which had arisen in response to the pandemic. **Branches** After a thorough review and consideration of the impact on stakeholders and mitigating actions, the Board agreed to close three branches and transfer one branch out of the network. This was completed with no colleague redundancies. The relocation of the head office branch, to a prime location in Leeds city centre, was also approved.

Division of responsibilities

Board roles

The roles of the Chair and CEO are distinct and are held by different people. The Chair's principal role is to lead the Board. The Chair is not involved in the day to day management of the Society. The CEO's primary role is to focus on the running of our business and the implementation of the strategy.

The role of the non executive directors is to bring independent judgement and perspective to Board debates and decisions and to use their own experience to constructively challenge the proposals and updates from the Senior Leadership Team, applying the highest standards of conduct, integrity and probity. As members of the Board and Board committees, they assist in the discharge of the obligations of each committee, in line with the relevant Terms of Reference. They also have a responsibility to be sufficiently and appropriately informed of the matters under discussion and to represent and have regard to the interests and views of current and future members of the Society.

The main responsibilities of the non executive director role are:

Iain Cornish **Annette Barnes** **David Fisher** **Neil Fuller** **Gareth Hoskin** **John Hunt** **Lynn McManus**	**Strategy**	To constructively challenge and help develop proposals on strategy, ensuring fair treatment of customers and positive outcomes.
	Risk	To set our risk appetite and to ensure that the integrity of financial information and controls are robust and fit for purpose.
	Performance	To approve the corporate plan and monitor performance against agreed corporate priorities.
	People	To have oversight of the culture, reward and talent management strategies whilst ensuring management performance achieves the corporate goals.
	Governance	To assist in the discharge of PRA/FCA prescribed responsibilities/FCA business activities via our management forums, in line with our Enterprise Risk Management Framework.
	Member/ Customer	To promote the fair treatment of all members/customers.

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Distinct job descriptions exist for the Chair, CEO and Senior Independent Director and the table below highlights the key accountabilities of these roles:

Role	Key accountabilities
Chair: Iain Cornish	• The effective running of the Board and guardian of the Board's decision making processes. • To support and advise the CEO in the development of strategy and more broadly to support and advise. • To ensure the Board receives accurate, timely and clear information and considers feedback and views from stakeholders, including members and colleagues. • To lead the development of our culture by the governing body as a whole. • To take the lead in providing a properly constructed induction programme for new directors and in identifying and seeking to meet the development needs both of individual directors and the Board as a whole. • To ensure the effectiveness of the Board, its committees and individual directors is formally and rigorously evaluated, at least once a year. • To promote the highest standards of integrity, probity and corporate governance.
Chief Executive Officer: Richard Fearon	• To develop and implement the Society's strategy and corporate priorities, having regard to promoting our success in the interest of our members and other stakeholders. • To ensure we operate an adequate system of control through the application of a three lines of defence model. • To ensure that prudential, conduct and operational risks are adequately controlled. • To deliver a balanced business performance across a wide range of scorecard measures, to ensure the achievement of short term corporate plan objectives, while building long term sustainable performance. • To set the tone in respect of our culture and to unite all colleagues around our vision, strategy and values. • To provide information and advice to the Chair, the Nominations Committee and other members of the Board, on succession planning, particularly in respect of executive directors. • Responsible for all executive management matters affecting the Society.
Senior Independent Director/Vice Chair: Gareth Hoskin	• To work closely with the Chair, acting as a sounding board and providing support. • To act as an intermediary for other directors, as and when necessary. • Be available to key stakeholders to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication. • To lead the performance evaluation of the Chair. • To deputise for the Chair and chair meetings where the Chair is conflicted.

Society Secretary

Katherine Tong is the Society's Secretary. Katherine is also the Director of Legal and Compliance and has worked for the Society for 20 years. She has been employed in a number of business areas since joining us and has a significant amount of experience in compliance and risk management. Katherine is supported in her role as Secretary by the Secretariat and Regulatory Advice team.

Where appropriate, all directors have access to the advice and services of the Secretary and, if required to fulfil their roles and responsibilities, to independent professional advice, at our expense.

Effectiveness

Board effectiveness

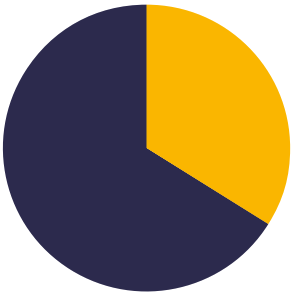
The Code requires boards to undertake a formal and rigorous annual evaluation of their own performance and that of each committee and individual directors. The Nominations Committee is responsible for overseeing the Board evaluation process. In 2020, an internal effectiveness review was undertaken. The outcome of the 2020 review concluded that the Board, and Board committees, were operating effectively. More information on the 2020 Board evaluation process is included in the Nominations Committee Report on page 88.

The Code requires that the evaluation should be externally facilitated at least every three years. The Board's next externally facilitated review is scheduled for 2021.

All Board committees also evaluate their own performance and effectiveness annually. This process serves to identify any areas where members may require further training or development in order to discharge their duties effectively, or where the overall performance or approach of the committee or Chair could be improved.

Board composition

As at 31 December 2020 the Board was comprised of ten directors, of whom three were executive directors and seven were independent non executive directors.



The current composition of the Board complies with the Code, which requires at least half of the Board, excluding the Chair, to be made up of independent non executive directors. The Board considers that the current mix of directors' skills, experience, backgrounds and opinions complement each other and provides an appropriate balance. This helps ensure members' interests are protected and that we have effective leadership and direction.

Appointments to the Board

The table below provides a summary of the changes to the Board membership in 2020.

Robin Ashton	Chair	Retired April 2020
Phil Jenks	Non Executive Director	Resigned March 2020
Andrew Conroy	Chief Financial Officer	Appointed as Executive Director in January 2020.
Iain Cornish	Chair	Appointed as Chair in April 2020
Neil Fuller	Non Executive Director	Appointed as Non Executive Director in December 2020

The Board considers and acts upon recommendations for appointments from the Nominations Committee. All directors must meet the tests of fitness and propriety prescribed by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) and certain roles must be approved by both regulators. At the first opportunity, following their initial appointment by the Board, directors must be elected to the Board by members in a general meeting. All directors will stand for re-election, annually at the Society's AGM. The Board elects its Chair and Vice Chair, annually, following the AGM.

Non executive directors' letters of appointment are available on request from the Society's Secretary. In accordance with the Society's rules, members are entitled to nominate candidates for election to the Board, subject to compliance with the PRA and FCA requirements.

Independence

The Board reviews independence annually against the criteria set out in the Code, and considers all non executive directors, including the Chair who was also considered to be independent on appointment, to remain independent in character and judgement and that there are no circumstances which are likely to impair their independence. Further information is available within the Nomination Committee Report on pages 87 and 88. None of the non executive directors have been recent employees of the Society, held a material business relationship with the Society, received any additional fees other than their director's fee or have close family ties or significant business links to other directors.

The Board's annual review of potential conflicts of interest did not identify any relationship or conflict which would impair a non executive director's ability to meet the independence criteria set out in the Code.

Conflicts of interest

All directors have a statutory duty to avoid any actual or potential conflicts of interest. The Board has a Conflicts of Interest Policy which sets out the procedures for declaring and, if appropriate, authorising any actual or potential conflicts of interest, should they arise. The policy requires that all external positions which a director wishes to take up should first be referred to the Board for consideration and, if appropriate, approval (in terms of any potential conflict of interest and time commitment).

The Secretary maintains a detailed register of any potential or actual conflicts of interest which is periodically submitted to the Board for review and re-affirmation that all declarations remain acceptable. The Board considers that neither the Chair, nor any director, had a material conflict of interest to declare, which would impact the effective discharge of their responsibilities, during the year ended 31 December 2020.

Continued

Time commitment and external appointments

All Board candidates are required to provide details of their other commitments prior to their appointment to ensure they have sufficient capacity to undertake the role. It is anticipated that after induction, non executive directors are required to commit, on average, up to 36 days per annum in the discharge of their duties. All directors are asked at least annually to attest that the level of time commitment to their other roles and the Society's records of their external appointments remain correct.

The Board considers that all individual directors have sufficient time to discharge their duties at the Society and they do not hold more than the prescribed number of directorships under Article 91 of the Capital Requirements Directive IV.

During the year, David Fisher was appointed as a non executive director of Tandem Bank Limited and Tandem Money Limited. The Board approved these appointments and agreed that the time commitment would not impact on his ability to commit to his role at the Society. A list of all external appointments held by Board members is shown in the Annual Business Statement on page 205.

None of the executive directors held a non executive directorship in a FTSE100 company during 2020.

Directors' induction, development and individual performance evaluation

On appointment, all new directors receive a detailed induction programme, which is tailored to their individual requirements and based on their own existing skills and expertise. The programme is also cognisant of the role they will play within the committee and governance structure and usually takes six to twelve months to complete, depending on the role and responsibilities of that particular director. For example, a director would typically receive the Terms of Reference for any Board committees they would become a member of, attend an introductory meeting with the Chair and Secretary of each Board committee and receive detailed guidance on the Board's Conflict of Interest Policy. They would also be provided with various documents to familiarise themselves with, such as our directors' information manual, the Corporate Governance Code and the Building Society Association's guidance on the Code.

Board development and training

In order to maintain continuous professional development, all directors have agreed development actions which are monitored, reviewed and refreshed during their annual evaluation.

Ongoing professional development is essential to enable directors to be sufficiently and appropriately informed about our values and culture, our business and objectives, the regulatory framework and the market in which we operate. Having a strong command of issues relevant to prudential and conduct risk is also essential and will inform Board and committee discussions and decisions.

The Board and each committee have an annual training plan, which sets out agreed areas on which to provide training throughout the calendar year. In 2020, the Board received training on recovery and resolution planning, liquidity, Brexit negotiations, the Government's response to COVID-19 and current and future spending policies. The training programme for 2020 has been lighter than usual, due to the operating restrictions under the pandemic.

Performance evaluation

In addition to the annual performance evaluation of individual non executive directors by the Chair, mid-term personal development plan reviews also took place. The Senior Independent Director, Gareth Hoskin, leads the performance evaluation of the Chair with directors having an opportunity to provide feedback. The evaluation of the Chair is discussed at a meeting when the Chair is not present. Feedback is then provided to the Chair by the Senior Independent Director. The first formal assessment of Iain Cornish, as Chair, was undertaken in December 2020.

Executive directors, including the CEO, are evaluated annually within the framework for all our colleagues and by the Remuneration Committee, in terms of any variable remuneration.

Stakeholder engagement

The Board of Directors has a duty to promote our success, which includes engaging appropriately with all of our stakeholders. The Board recognises the diverse range of our stakeholders and the importance to consider their interests at all levels. The diagram below displays our key stakeholders along with an explanation of how we engage with each group. Further details in this regard can be found on pages 21 to 24 of the Strategic Report.

Supporting stakeholders in our response to COVID-19

The Board has continued to be mindful of our stakeholders in its response to the pandemic, demonstrating our commitment to having regard to the ongoing needs of different stakeholders in the decisions we make. Examples of how we have continued to support and engage with our stakeholders are detailed in the Strategic Report on pages 10 and 11.

Our members

We are a member owned mutual organisation and the views of savers and borrowers are very important in helping to inform the Board's decisions. Feedback on any aspect of our business activities is encouraged in a number of ways:

Member engagement

It is important to know what really matters to members and how products and services can be made even better. With TalkingPoint, our online forum, members have the chance to tell us what they think. It is an opportunity to give feedback on a wide range of subjects, from the Society itself, to our new products and services.

Using TalkingPoint, members are encouraged to engage with us – and each other. The forum has 2,597 active members.

In 2020, a number of forums and research activities have been undertaken, including for example, research conducted with TalkingPoint where we asked members:

- for their views and preferences in relation to the AGM and voting process;
- their views on what 'life moments' they are looking to save for over the next five years (this research was conducted twice to see if the members' behaviours had changed since the outbreak of COVID-19);
- to understand how members would expect to receive confirmation of deposits when opening a fixed rate savings account in branch, with particular focus on the demand for passbooks;
- to understand how members interact with, and find out information on brands and their product offerings;
- to understand our members' views on and use of ancillary financial products and services (namely products other than savings and mortgages).
- to explore how members' attitudes, behaviours and priorities relating to their homes have changed since lockdown and the start of the pandemic (exploring how the pandemic and lockdown had affected decisions when considering buying a new property, as well as views on how landlords' outlooks have been impacted); and
- members' views about our coronavirus communications, their experience of contacting us since the pandemic started and what they would like to see from future communications.

More information can be found on the website: leedsbuildingsociety.co.uk/your-society/talkingpoint

Social media

We have an active presence on social media and are committed to engaging our members through these channels. In 2020, as more people turned to online options due to the pandemic, we experienced an increase in customer interactions on social media. Our content is informed by insights, from sources such as TalkingPoint, to ensure it is relevant and useful for our members. We operate on the following social media platforms: Facebook, Twitter, Instagram, LinkedIn and YouTube.

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Trustpilot
We use Trustpilot to monitor and improve our brand reputation and proactively gather feedback from our customers. This insight allows us to understand any customer experience issues or anything that could impact on our brand reputation. Key themes are fed into our overall customer experience plan to ensure we are listening and evolving according to member feedback.

Independent external customer research
Monthly customer experience surveys are conducted to measure and understand customer experience and satisfaction with products and services. The results are reported across the Society and submitted to the Board to be used by management for service evaluation and improvement.

The Annual General Meeting (AGM)
The AGM is an opportunity for members to have their say on the way we are run. The next meeting will be held in April 2021 and all eligible members will be sent, or have electronic access to, the Notice of the AGM confirming the date, time and venue, a voting form, the Summary Financial Statement and Directors Remuneration Report, along with details of how to contact us.

In 2020, as a result of the pandemic and government restrictions in place on social distancing and public gatherings, we were unable to hold our AGM in the normal way. To ensure the safety of our members and colleagues, we took the difficult decision to hold the meeting at our head office, without members of the public present. We sought legal advice to ensure the meeting was held in accordance with our Rules and the Building Societies Act 1986.

As a result of the pandemic and public health and safety concerns, we will also be unable to allow members of the public to attend the 2021 meeting in person. The meeting will follow the same format as in 2020, with a minimum number of directors and Society colleagues, who are also voting members, attending in person, to satisfy the quorum requirements for a valid meeting.

Colleagues
Colleague Association
The Colleague Association is the elected colleague forum that works on behalf of colleagues to help ensure we are a great place to work. The association's committee is made up of 10 colleagues from across the business, who meet a minimum of twice a year. 67% of colleagues are members of the association, which provides legal assistance, guidance and welfare support to the members. It is the forum for colleagues to provide feedback to senior management and the association's committee has regular meetings with senior managers in respect of salaries and pensions and any other employment matters directly affecting terms and conditions and to discuss general business performance.

The association meets with the Chief Risk Officer, Director of People and a representative of the Board, Lynn McManus, to provide feedback to the Society. This year, the association has been heavily involved in supporting colleagues through the pandemic and working with the Society in producing risk assessments across the business. The association's main activity this year has been to ensure that colleagues are fully supported throughout this very difficult time.

Wellbeing and resilience
We have been supporting the mental wellbeing of colleagues during the pandemic in a variety of ways, including for example, the provision of 'Pause and Breathe' virtual sessions. Each session aims to help colleagues decompress, focus, develop self-compassion, develop compassion for others and take care of their wellbeing and performance.

Colleagues were also invited to join resilience programmes, to develop the skills needed to enhance their resilience. The programme was focused strongly on learning practical skills that can be applied in everyday situations, at work or home.

Colleague representative
As the Board appointed colleague representative Lynn McManus, non executive director, carries out a number of branch and departmental visits and meets with the Colleague Association at least twice a year, to discuss key themes and ways in which the Board can provide further support. Lynn reports to the Board on her findings and agrees appropriate actions with management. This ensures that colleague views are discussed at Board level and allows the Board to monitor culture and colleague opinions more closely. Lynn also takes an active role in reviewing colleague feedback received as part of the Society's annual Your Voice survey and reports back to the Board on this.

Further information on support for colleagues, including policies and associated key performance indicators, can be found in the Strategic Report on pages 18 to 20.

"As the non executive director representing colleagues, I am pleased to update you on how I have ensured the Board understands our colleagues' views first hand.

In such an extraordinary year, ensuring the wellbeing of our colleagues has been one of my key priorities. I have personally heard about the positive impact the range of support measures put in place has had on our colleagues and their families. I am delighted by the thoughtful range of interventions and support available, in particular through our trained mental health first aiders. As well as continuing with branch and department visits to hear views direct from colleagues, I have met regularly with the Chair of the Colleague Association and its committee. While a range of topics have been discussed, including our change programme and move to the new head office, the key discussions have been about the impact of the pandemic on our colleagues and their families.

I have reviewed the feedback from the colleague Your Voice survey in detail and, as well as our scores showing continued improvement, it is assuring how well informed colleagues have felt throughout this difficult period.

I update the Board regularly on the detail of my discussions. I would like to sincerely thank our colleagues, whose response to ensure the support for our members was maintained in this period, has been truly outstanding."

Lynn McManus, Non Executive Director and Colleague Representative

Third parties

Our supplier partners are an essential part of our business operations and key to the ability to develop and deliver services to members. It is important that third parties represent us in a manner which supports and enhances our reputation, as well as relationships with members, colleagues and other stakeholders. Our supply chain includes suppliers of goods and services, including professional services (such as conveyancing services), technology platform services (access and administration) and software licences. The regulated nature of financial services means that we operate within a low risk industry for modern day slavery, but nevertheless we remain vigilant and take our responsibilities under the Modern Slavery Act seriously. A copy of our modern slavery statement is available for viewing on our website.

Colleagues across the Society are advised by the Third Party Management team on approaches to due diligence at the point of entry into supplier arrangements and during the contract term, which are proportionate to the risks involved with individual procurement exercises. Consequently, we aim to partner with organisations that show a commitment to our mutual values, ethics, policies and standards.

In 2019, we aligned our policy and processes on outsourcing. In 2020, colleagues with responsibility for third party management were provided with training on the requirements of our policies and processes. We classify our third parties to ensure that our contracts, due diligence and management of third parties are proportionate in terms of risk and value to us. For those third parties deemed critical, the contract approval process is reviewed by the relevant governance committee to ensure that appropriate measures have been put in place, along with a second line risk report on the process. Criteria are in place to ensure ongoing management of the third parties, in line with their classification, to ensure we manage the risks and drive value from outsourcing relationships.

Community

We are committed to supporting the communities in which we operate. In March 2020, we concluded our charity partnership with Samaritans and embarked on a new four year partnership with Dementia UK, who had been voted for by colleagues and members at the end of 2019.

We exceeded our target to complete 14,000 voluntary hours in the community from 2017 to 2020. Volunteers have offered support to causes that are important to them. Further information can be found in the Corporate Responsibility Report on pages 29 to 31.

Tax funds the essential public services our communities rely on every day. We are proud to pay our fair share of tax and we transparently report the contribution we make. In 2020, we paid £27.0 million in corporation tax and banking surcharges and were reaccredited with the Fair Tax Mark.

For information on how the Society takes into account the impact of its activities on the environment, including climate change impacts, see page 25 of the Strategic Report.

Relations with other investors

The Treasury team has developed a programme for investor relations, which ordinarily includes a presentation of the Annual Results at an invited event in the City of London. Regular financial performance updates are provided/made available to investors following the publication of the annual and interim results. Engagement with investors is through holding individual meetings with key institutional investors, group presentations and attendance at specially arranged investor days. Attendance at investment conferences and specially arranged investor events provide the opportunity for additional engagement. COVID-19 has impacted these meetings and conferences significantly and since March no physical meetings have taken place and all conferences were postponed. It is likely that for the foreseeable future meetings and events of this nature will be held virtually.

An investor relations area is maintained on our website, which gives access to a wide range of materials, including the Annual Report and Accounts, investor presentations and the prospectuses for each of our bond programmes.

Regular and close dialogue is maintained with credit rating agencies, Fitch and Moody's. A formal review meeting is held on an annual basis with each agency. At other times, a close relationship and regular dialogue is maintained. Meetings and discussions with these agencies, since March, were via conference call or video meeting.

We continue to monitor developments in Capital Markets regarding green bond issuances and other ESG factors. Demand for this type of issuance is increasing as asset managers receive further inflows requesting returns that are linked to these initiatives.

Regulators

We have an open and transparent relationship with both the Prudential Regulation Authority and the Financial Conduct Authority.

In response to the pandemic, the frequency of our engagement with our regulators increased, as we have sought to keep them updated with the challenging operating environment. During the period all meetings with the regulators have been held virtually and included the provision of insights from our COVID-19 focused management information. This, in turn, allowed productive discussions to take place in relation to the potential impacts on key stakeholders, including our colleagues and members.

Intermediaries

Our strategy sets out to distribute mortgage lending predominantly though our intermediary partners and in 2020 over 93% of new loans were originated in this way.

The significant investment made in systems and processes in 2020 seeks to improve the broker experience and in turn, improve the Net Promoter Score (NPS). This is complemented by our Intermediary Distribution team who work closely with brokers to promote our products and services, seeking to foster and maintain positive working relationships.

An example of our investment in systems and processes in 2020 was the roll-out of our new intermediary Mortgage Hub. The new platform has made the mortgage process quicker, easier and more user friendly for intermediaries. Mortgage Hub was developed in partnership with Iress and its MSO software, which has enhanced online functionality from application to completion. The Hub also offers instant decisions in principle on the majority of applications, day one automated document requests and valuation instructions, real time case tracking and updates and full self-service functionality, allowing changes without needing to call or email. The platform was rolled out to the market during the second half of 2020 in a phased approach.

Our engagement with our intermediary partners continues to develop and evolve, which is shaped not only by our strategy, but also the feedback we receive. Examples of our intermediary activities during 2020 include:

- Our 'Intermediary TalkingPoint' continues to allow intermediaries to join a panel survey community that helps influence our future, benefitting brokers and their customers.
- BrokerChat facility gives quick and direct access to our expert business development managers and complements our telephone and field teams.
- Support to brokers to help them identify and protect vulnerable customers.
- Communications to brokers in response to COVID-19 on how we can help clients with remortgages and mortgage product transfers. Weekly intermediary bulletins were regularly sent to the 17,000 registered intermediaries, to advise of changes that had been made to criteria and processes.

Audit, risk and internal control

Our internal governance arrangements continue to support the independence and effectiveness of the Audit function and the integrity of our financial statements. The Audit Committee Report on pages 90 to 97 provides further information in this regard. We also have an Enterprise Risk Management Framework in place, designed to manage risk, oversee internal control effectiveness and determine the principal risks, so that we may achieve our long term strategic objectives. The Risk Management Report on pages 98 to 103 provides an overview of our approach to risk and internal control.

Remuneration

The Board continues to support a remuneration policy and practices designed to promote our long term sustainable success, with executive remuneration aligned with our values and linked to delivery of our long term strategy. A summary of the work undertaken by the Remuneration Committee can be found within the Directors' Remuneration Report on pages 104 to 122.

Approved by the Board of Directors and signed on behalf of the Board.

Iain Cornish
Chair

25 February 2021

Nominations Committee Report

Year ended
31 December 2020

Dear member,

I am pleased to present our 2020 report on the Nominations Committee, which reviews our activities over the past year and provides more detailed information on the role and responsibilities of the Committee.

Highlights from 2020

- Appointment of a new Chair of the Board
- Appointment of a new Chief Financial Officer
- Appointment of a new non executive director
- Signatory to the Race at Work Charter

In April 2020, Robin Ashton retired from the Board, having served a nine year tenure with the Society as a non executive director and Chair. I succeeded Robin and, in a process led by the Senior Independent Director, was appointed Chair of the Board and the Nominations Committee in April, after re-election as a non executive director at the Annual General Meeting (AGM) and subsequent approval for the role of Chair, by the Board.

The Committee also further strengthened the composition of the Board with the appointment of Andrew Conroy as an executive director and Chief Financial Officer in January 2020. Andrew has more than 15 years' experience in financial services, including several senior roles in both building society and banking institutions. During his career he has worked within finance, treasury and corporate strategy and has developed strong technical skills in financial accounting and treasury risk management.

In December 2020, Neil Fuller was appointed to the Board as a non executive director. Neil has over 35 years' experience in retail banking and financial services and his extensive experience and knowledge of risk management will bring value and further strengthen the Board.

After eight years on the Board, Phil Jenks retired as a non executive director in March 2020 and I would like to thank Phil for his valuable contribution during his tenure.

After six years, John Hunt has confirmed that he will retire as a non executive director in 2021 and will not be standing for re-election at the AGM. I would like to thank John for his valued service during his time on the Board. During 2021, the Board will be seeking to make further non executive appointments as part of our succession planning.

Diversity and succession planning

We firmly believe in the benefits of diverse board membership and that diversity of skills, experience, backgrounds, opinions and other distinctions, including gender and race, strengthens the capability of the Board and the effectiveness of our independence, judgement and decision making. Diversity remains high on the agenda for the Nominations Committee, particularly in considering how we can increase the number of women at Board level and in senior roles and how we can develop a diverse talent pipeline for future appointments.

Throughout the year, the Committee has continued to support the Society's diversity and inclusion programme, which is firmly embedded into our strategy and culture. To demonstrate this, in 2020, we were delighted to become a signatory to the Race at Work Charter, reflecting our commitment to diversity overall. The charter was launched in 2018, as a collaborative initiative between government and Business in the Community. Its primary purpose is to ask firms to commit to taking practical steps to ensure they are tackling barriers that ethnic minority people face in recruitment and progression and that their organisation is representative of customers, communities and British society. Our commitment to the charter is an important strand of our diversity and inclusion strategy. Further information can be found within the diversity and inclusion section of our Corporate Governance Report, including for example, our retained Leaders in Diversity accreditation.

Key areas of focus in 2021

In the coming year, the Committee will continue to focus on ensuring we have a strong governance structure, provide ongoing oversight of the composition of the Board and succession planning, and continue to keep diversity and inclusion a key focal point of our agenda. In addition, the Committee will co-ordinate and oversee an externally facilitated Board effectiveness review in accordance with the recommendations of the UK Corporate Governance Code.

Committee membership

The Nominations Committee comprises three independent non executive directors. Details of the skills and experience of the committee members can be found in their biographies on pages 61 to 64.

Committee members (as at 31 December 2020)

Iain Cornish (Chair)	**Chair since April 2020 (member since October 2019)**
Gareth Hoskin	**Member since January 2019**
Lynn McManus	**Member since April 2020**

The Committee is appointed by the Board and was in place throughout the year, meeting four times or otherwise as required. Iain Cornish, Chair of the Board, is also Chair of the Committee. Attendance at meetings of the Committee is limited to its members although others may be asked to attend all or part of a meeting when necessary. Richard Fearon, Chief Executive Officer, is a regular attendee along with Katherine Tong, Society Secretary, who is also Secretary to the Committee and Becky Hewitt, Director of People. Attendance records for the meetings held in 2020 can be found in the Corporate Governance Report (see page 73).

What does the Committee do?

The Committee has detailed Terms of Reference (ToR), which set out the key roles and responsibilities to be undertaken throughout the year. The Committee reviews its activities each year to ensure the requirements, as set out in its ToR, have been completed and to confirm that the Committee has acted within its remit.

Each year, the Committee evaluates its own performance and effectiveness. The results of the 2020 review were discussed at the committee meeting in October 2020. The results were positive and indicated that its members were confident the Committee fulfilled its duties on behalf of the Board and operated effectively. As part of the annual review, the Committee approved a number of enhancements to its ToR in line with best practice. A copy of the ToR can be found on our website leedsbuildingsociety.co.uk/your-society/about-us/board-committees

Following each meeting the Chair of the Committee provides an update to the Board on the matters discussed or agreed and recommends certain items to the Board (where full Board approval is required).

Key responsibilities

The Committee's key areas of responsibility are set out below:

Board composition and effectiveness	• Accountable for ensuring the Board and its committees consist of directors with the appropriate balance of skills, experience, backgrounds and opinions, to fully discharge their duties in a highly effective manner. • Review committee and Board training plans completed for the previous year. • Oversee and agree the format of the Board effectiveness review • Annual review of the required capabilities and job descriptions for the roles captured by the Senior Managers Regime.
Succession planning	• Ensure plans are in place for the orderly succession planning of the Board and Senior Leadership Team. • Responsible for the recruitment and appointment process and recommend candidates to the Board for appointment.
Governance	• Ensure the Board meets the principles of the UK Corporate Governance Code, regulatory sourcebooks and other appropriate regulatory requirements relevant to its remit. • Review the Register of Conflicts for the Board, Conflicts of Interest Policy, the ongoing independence of directors and the level of time commitment for their other roles.
Diversity	• Agree the measurable objectives for Board diversity and recommend them to the Board for adoption.

Nominations Committee Report

Continued

Succession planning

The succession needs of the Society are subject to a regular evaluation of the balance of skills, experience, backgrounds and knowledge on the Board. The outcome of the annual Board evaluation also forms part of this review. In light of this, the specific responsibilities of any new roles and the associated appointment criteria are determined during the year as required. This is done with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace, for the long term.

For the Committee to fulfil its responsibility to provide the Board with updates and recommendations on succession plans for the future, it receives the following documents at regular intervals:

- Board tenure plan – this shows the length of each director's service with the Society and highlights any non executive director who will be nearing completion of three, six or nine years' service within the next twelve months. This ensures the requirements for succession are continuously kept under review and are established in advance, allowing time for a robust search process and regulatory approval (where required) for new candidates.
- Skills matrix – a detailed matrix of the skills, knowledge and experience required for the Board as a whole, assessed against the existing skills and experience of board members, highlighting areas where additional expertise is or may be required now or in the future. The primary focus is to ensure directors' skills complement each other and achieve an appropriate balance. This in turn ensures members' interests are protected and the business has appropriate leadership and direction to ensure our long term sustainable success.

Recruitment search and appointment process

Once it is identified that a vacancy exists, the criteria for that vacancy is agreed by the Committee and an appropriate executive search agency, which complies with the voluntary code of conduct for gender diversity, is engaged in the search for a suitable candidate. The Committee is dedicated to only using recruitment agents which have the requisite experience in financial services and focus on promoting diversity at a senior level. The Committee provides a brief to the search agency on the requirements for a diverse pool of suitable candidates to be put forward. Candidates who are shortlisted are invited to interview and if successful, the Committee recommends their appointment to be approved by the full Board, as well as seeking regulatory approval, where required. All Board appointments are based on merit against objective criteria, the skills and experience of the Board as a whole, with regard to the benefits of diversity.

In 2020, we used Warren Partners, an external recruitment agency (with which we have no other connection or conflict of interest), in our search for a new non executive director. Warren Partners is accredited by the Department for Business, Energy & Industrial Strategy for its commitment to delivering greater gender diversity in the boardroom and it has signed up to the Enhanced Voluntary Code of Conduct. It is also a signatory of the Women in Finance Charter.

In 2020, to assist with recruitment for some senior leadership roles, we also engaged with Harvey Nash. Harvey Nash is an ambassador for diversity and inclusion and has also signed up to the voluntary code of conduct (again, we have no other connection or conflict of interest).

Key activities in 2020

A summary of the activities undertaken by the Committee in 2020 is shown in the table below.

Theme	Activity
Board composition	The Committee reviewed the composition of the Board and its supporting Board committees, to ensure they comprised a sufficient number of executive and non executive directors, who meet the requirements as set out by the Code and the Senior Managers Regime (which sets out the expectations of the Society's regulators on accountability and governance). As part of this review, the current mix of directors' skills, experience, backgrounds and opinions was considered using a competency skills matrix. The review concluded that, in the main, there was a good level of coverage in respect of the Board's requirements and appropriate plans were in place to ensure sufficient progress would be made to meet the targets set for Board diversity, by the end of 2021. The Committee reviewed the length of service of each non executive director and the potential impact on Board committee membership of those directors who were nearing the end of their term of appointment. This aided forward planning, promoted the continual refresh of skills and experience on the Board and, together with the composition review, provided insight and direction into the search process for new non executive directors. As at 31 December 2020, none of the non executive directors had been in office for more than nine years. However, David Fisher will reach his nine year tenure in March 2021. The Committee considered David's independence and noted that he has a wealth of experience, knowledge and skill and this was considered valuable, especially in light of the changes to the Board in 2020. David is considered fit and proper and competent for his role and the Board is satisfied that his independence can be evidenced through his ongoing challenge to management at Board and committee meetings and through the productive discussions he drives as Chair of BRC. As is the case for all Society non executive directors, David's independence is assessed on an ongoing basis and he is subject to annual fitness and propriety checks. Non executive director independence will be an area of exploration for the external Board effectiveness review in 2021. The Committee recommended to the Board that David's tenure be extended until the end of 2022 (subject to re-appointment at each AGM and providing he remains independent from the Society). The Board subsequently agreed to David's term being extended beyond his nine year tenure to support succession planning.
Board re-appointments	Non executive directors are appointed for three years and are usually expected to serve two terms. These terms are subject to ongoing performance evaluations and to annual re-election by members at the AGM. Directors may also be proposed for a third term, up to a maximum of a further three years (nine years in total), providing they are considered to remain independent from the Society. In July 2020, the Committee recommended to the Board that Lynn McManus' appointment should be extended for a further three years until September 2023 (subject to re-appointment at each AGM), following her three year anniversary with the Society in September 2020. As recommended by the Committee, each non executive director will receive a tailored refresher training programme following the extension of their appointment for a further three years.

Nominations Committee Report

Year ended
31 December 2020

Continued

Theme	Activity
Diversity and inclusion	The Diversity and Inclusion Policy was reviewed and approved by the Committee in October 2020 at which it was agreed to conduct a further review in 2021.
Corporate governance	Throughout the year the Committee received regular updates from the Society's Secretary on key governance issues, pertinent to the Society, along with annual confirmation of compliance with the provisions and principles of the Code. In 2020, we complied with the Code, as far as is possible for a building society.
Board effectiveness	The Nominations Committee is responsible for oversight of the annual Board effectiveness review. In 2020, an internal effectiveness review was undertaken by way of a detailed questionnaire, which all Board members were required to complete. To enhance the process, and in line with the recommendations of the Code and the Financial Reporting Council's (FRC) Guidance on Board Effectiveness, a number of additional stakeholders were also requested to complete the questionnaire and provide feedback to the Board. This included two members of the External Audit team, along with members of the Executive Committee and the Secretary. A summary of the results was first presented to the Committee in October and subsequently to the Board in November, when relevant actions were agreed. Overall, the review concluded the Board, including its members, was operating effectively, in a culture of openness and inclusivity. The review highlighted several positive themes including: the balance of each Board agenda, the leadership response to COVID-19 and the maturing relationship between the non executive directors and executive directors. The agreed actions and areas for attention included further consideration of ways to develop Board diversity, identifying agenda items which would require a more expansive approach and considering alternative ways for presentations to be brought to the Board (for example, deep dive reviews of different business areas and new methods of delivery, such as video). The next externally facilitated review is scheduled to take place in 2021.
Conflicts of interest and directors' independence	The independence of all non executive directors was assessed against the criteria set out in the Code, considering their length of service. The Committee concluded that all directors remain independent. The Committee considered potential conflicts of interest by undertaking a review of all external appointments held by each director, against the limitations on the number of appointments and any associated time commitments which can be held by an individual in accordance with Article 91 of the Capital Requirements Directive IV. The review concluded that all appointments remained appropriate, with no concerns arising regarding the ongoing independence of each non executive director. The Board's Conflicts of Interest Policy was also reviewed and recommended by the Committee to the Board for approval. Further details on conflicts of interest, external directorships and associated time commitment are contained within the Corporate Governance Report on pages 77 and 78.

Diversity and inclusion

Since the development of our diversity and inclusion strategy in 2017, we have a single ambition statement which is 'to have an inclusive culture, which enables colleagues with a diverse range of skills, experiences, backgrounds and opinions to flourish, without barriers'.

Our strategic aims for our diversity and inclusion strategy are simple:

- We want to attract, retain and nurture the best talent to help them realise their potential, responding to changing workforce requirements by evolving our working practices and approaches.
- We want all our workforce to share and contribute to our purpose and be rewarded appropriately for our success.
- We want to create an organisation whose people, at all levels, represent the opinions and perspectives of the communities we serve.
- We want to harness the benefits of a diverse workforce, through high colleague engagement and an inclusive, open culture, demonstrated through living our values.

We believe a gender balanced workforce is good for business, good for our members and in line with our commitment as a signatory to HM Treasury's Women in Finance Charter and the targets set by the Hampton Alexander Review. The Board has committed to increasing the representation of women in our senior leadership team and has agreed a target of 33% for females on the Board, by the end of 2021.

As at 31 December 2020, two members of the Board were female, representing 20% of the total Board membership. In terms of the Senior Leadership Team (our top three levels of management), 32% were female. The Board is confident, with actions underway, that progress will be made towards meeting its targets by the end of 2021.

In 2020, the Nominations Committee reviewed the Diversity and Inclusion Policy and the measurable objectives in place for Board diversity, noting that a fundamental review would be undertaken in 2021. The core principles which inform our approach in this regard include:

- proactively aim for, and sustain, female representation of 33%, both on the Board and in the top three layers of the senior management team (excluding the Board) by the end of 2021;
- only engage executive search firms which have signed up to the voluntary code of conduct for gender diversity and best practice and consider external advertising as part of the attraction methods utilised; and
- provide enhanced disclosure on the Board appointment process and the consideration of diversity as part of the Board evaluation process.

Gender pay

We welcome the move to drive fairness of pay for women, having embedded a Fair Reward approach over several years. This helps to reference salaries objectively for all colleagues. We are proud that 60% of our workforce is female. However, there are more men than women in more senior and, therefore, more highly paid, roles. This means there is a gender pay gap. Further information can be found on our website.

More information on the activities undertaken to promote wider diversity within the Society can be found in the Strategic Report on pages 18 and 19.

On behalf of the Board.

Iain Cornish
Chair of Nominations Committee

25 February 2021

Audit Committee Report

Year ended
31 December 2020

Dear member,

As Chair of the Audit Committee, I am pleased to present my report on the Committee's work in relation to the financial year ended 31 December 2020.

The Committee's main areas of responsibility are in respect of our external financial reporting and the internal control environment, together with oversight of the Internal Audit function and the external auditor.

The COVID-19 pandemic has presented significant challenges to the Society, which are reflected in the work of the Committee. In particular, the focus of the Internal Audit function was redirected to provide assurance that key areas of control continued to operate effectively as we adapted to new ways of working.

The pandemic and the associated impacts on the UK economy, together with government support schemes, such as mortgage payment deferrals, have also meant that a greater reliance is placed on management judgement in certain areas of financial reporting, notably impairment loss provisions and the fair valuation of financial assets. The Committee has therefore spent significant time reviewing and challenging those judgements for both the Interim Financial Report and the Annual Report and Accounts.

To help the Committee fulfil its duties, training and knowledge updates were received throughout the year, both through the regular reports and materials submitted as part of committee business and through separate sessions allowing a fuller review of particular topics.

The Committee has continued to receive appropriate assurance over our risk and control environment during the year and as part of the annual attestation process and concluded that the control environment remains effective and proportionate to our operations.

The Internal Audit function continues to provide an effective and independent third line of defence. The Committee also satisfied itself that the external auditor remains effective and independent.

Gareth Hoskin
Chair of Audit Committee

25 February 2021

Committee membership

The Audit Committee is composed solely of independent non executive directors. During 2020, the members of the Committee were:

Gareth Hoskin (Chair)	Member since January 2016
David Fisher	Member since May 2017
Lynn McManus	Member since September 2017
Iain Cornish	Member since January 2019; ceased membership April 2020

Iain Cornish ceased to be a member of the Committee when he was appointed Chair of the Board, since the Audit Committee Terms of Reference prohibit the Chair from being a member. He continued as an invited attendee at meetings for the remainder of the year. Neil Fuller joined the Committee in January 2021.

Full biographies of committee members can be found on pages 61 to 64. All have considerable recent and relevant financial, accounting and risk management experience and competence relevant to financial services.

How the Committee works

The Committee acts with authority delegated to it by the Board and reports directly to the Board. Our primary responsibilities relate to the following four areas:

- monitoring the integrity and appropriateness of our externally reported financial statements, including the review and challenge, where necessary, of the actions and judgements made by management in relation to the financial statements;
- reviewing the adequacy and effectiveness of our systems of internal control and risk management;
- monitoring the effectiveness, performance and independence of the Internal Audit function; and
- assessing the independence, performance and objectivity of the external auditor.

The Committee held six meetings during the year. The meetings were usually also attended by the Chair of the Board, CEO, Chief Financial Officer, Chief Risk Officer and the Chief Internal Auditor, alongside representatives from the Finance function and other relevant business areas. The external audit engagement partner and senior members of the audit team also attended meetings.

The Committee held two private sessions with the external auditor and two with the Chief Internal Auditor, which were not attended by management.

In addition to the committee meetings, the Chair maintained regular dialogue throughout the year with key stakeholders including the Chair of the Board, CEO, Chief Financial Officer, the Chief Internal Auditor and the external audit engagement partner.

What the Committee did during 2020

Financial statements and reporting matters

The Committee is responsible for reviewing our external financial reporting on behalf of the Board, including the Annual Report and Accounts, the Interim Financial Report and the Pillar 3 Disclosures. Once satisfied, the Committee recommends them to the Board for approval. To support this process, all Board members attended the committee meetings at which the final financial statements were reviewed.

The preparation of the financial statements requires management to adopt certain accounting policies and make judgements, estimates and assumptions. The Committee's role is to review these and challenge management's views, to make sure that the judgements, estimates and assumptions are appropriate in our current circumstances.

In order to do this, management provide detailed reports to the Committee ahead of reporting dates setting out the basis for the accounting treatments to be adopted and further reports after the reporting dates confirming the impacts of these in the accounts. The external auditor also provides the Committee with reports detailing its opinions on management's approach.

Committee members also read through the narrative sections of the financial reports to assess whether a fair, balanced and understandable view of our performance and position has been presented, based on their knowledge and understanding of the business and the wider environment.

The Committee is kept up to date with changes to accounting standards and regulatory focus areas for financial reporting through reports from management and the external auditor. In particular, management presented a report on the 'Dear CFO' letter issued by the PRA in September 2020, detailing the findings from their industry wide 2019/20 written auditor reporting review. The Committee considered management's response to the matters raised by the PRA and is confident that they have been appropriately addressed in the preparation of the Annual Report and Accounts.

The table overleaf sets out the Committee's work during the year in examining and challenging the key matters affecting the financial statements. Further details on the critical judgements, estimates and assumptions which have a significant impact on the financial statements are set out in note 2 of the accounts.

Year ended
31 December 2020

Continued

Area of focus	How the Committee responded
Residential impairment loss provisions Under IFRS 9 – Financial Instruments, we are required to hold impairment loss provisions against our financial assets, calculated on an expected credit loss basis. For the residential mortgage book, these provisions are calculated using complex statistical models which incorporate historical default and loss experience information. The level of provision required under IFRS 9 depends on whether a significant increase in credit risk has occurred since origination, the determination of which requires significant management judgement. Provisions are also calculated across multiple forward looking, probability weighted economic scenarios which require estimation by management. Where risks are identified that are not covered by the modelled provisions and scenarios, additional provisions can be made through post model adjustments. The identification and measurement of these requires significant levels of judgement. See pages 147 to 152 for further details of the estimates and judgements used.	The pandemic has had a significant bearing on the economic environment with a great deal of uncertainty over how the impacts will unfold. Measures such as the implementation of a national lockdown and government support schemes, such as furlough and mortgage payment deferrals, have meant that historic data is less reliable as a predictor of the future and a greater reliance is placed on management's judgement in key areas of IFRS 9. At the time of the Interim Financial Report, the economic impacts were evolving rapidly and the Committee reviewed management's approach of using a combination of modelled scenarios and post model adjustments to capture a suitable range of scenarios that supported management's best estimate of future losses. The Committee also challenged management to confirm that modelled outputs remained robust under the more extreme economic assumptions required, particularly the level of unemployment. Management provided this assurance directly to the Committee and also through a report arising from the detailed work undertaken by the Models and Rating System Committee. A further challenge for the Interim Financial Report was that, where customers had taken a mortgage payment deferral, sufficient information may not be available to ascertain at an individual account level whether there had been a significant increase in credit risk due to the nature of the government support. The Committee reviewed management's approach to addressing this through a portfolio level post model adjustment, noting management's response to the guidance issued by the PRA in this regard. Overall, having reviewed management's justification and evidence supporting key judgements, the review work of the external auditor and third party benchmarking data, the Committee concluded that the level of provisions in the interim accounts was appropriate. The year end residential impairment loss provision process is subject to numerous governance reviews, with summary reports and outputs provided to the Committee to support its review of the final provisions: • Models were reviewed by the Models and Rating System Committee for continued appropriateness under our Model Risk Policy with recommendations for updates approved. • Staging criteria, including the tests used to determine whether a significant increase in credit risk has occurred, were reviewed by the Credit Committee. • Forward looking economic scenarios and associated probability weightings were approved by the Credit Committee. • Post model adjustments and the sensitivity analysis supporting the determination of those adjustments were reviewed by the Credit Committee. At the end of December, the impact of the pandemic was continuing to evolve, with a new variant spreading and restrictions on businesses and individuals in large parts of the country. Management therefore considered that an economic uncertainty post model adjustment would be required alongside the modelled economic scenarios, so that a suitable range of outcomes was covered by the final provisions. Additionally, management considered the impact of mortgage payment deferrals (similar to the interims, albeit with significantly reduced volumes) and the ongoing effect of government schemes, such as furlough, which have supported borrowers in meeting their obligations but carry an elevated risk of default as those schemes unwind. Further post model adjustments are in place for these. Management also proposed a post model adjustment in relation to possible cladding issues on high rise flats. Final provisions proposed by management are reviewed and agreed by the Credit Committee before being presented to the Audit Committee. The Audit Committee Chair and other committee members were in attendance to understand the opinions of the Credit Committee and the challenges raised.

Area of focus	How the Committee responded
	Alongside updates on the governance process and assumptions used, management's report to the Committee provided information on key metrics, such as coverage rates by segment and proportions of loans in Stages 2 and 3. Benchmarking and sensitivity analysis were also provided to support the Committee's assessment of the appropriateness of provision levels. The Committee paid particular attention to the selection of economic scenarios and the values of key variables within these. It also reviewed in detail the level of post model adjustments selected by management from the range of potential outcomes and requested additional justification for the chosen figures. Having considered management's reports, recommendations from other committees and feedback from the external auditor, the Audit Committee concluded that the updated impairment models remain appropriate and that management's approach to deriving economic scenarios and probability weightings is reasonable. The Committee also agreed that the post model adjustments at 31 December 2020 were appropriate in the circumstances. Therefore, the Committee agreed with the view of the Credit Committee that the level of impairment provisions at the date of the Statement of Financial Position is reasonable.
Fair value of the collateral loan which represents a pool of equity release mortgages We hold a collateral loan to a third party which represents a pool of equity release mortgages acquired from that third party, for which some but not all of the risks were transferred to us. The nature of the loan means that under IFRS 9 it is classified as being held at fair value through profit or loss. Since open market prices are not readily available, the fair value of this loan is calculated using a model which requires a combination of market data and unobservable inputs. See page 153 for the key estimates and sensitivities. The valuation of equity release swaps is considered alongside the value of the collateral loan.	The model used by management to calculate the fair value of the collateral loan underwent an in depth review in 2019 and the Committee noted that only minor refinements have been made to the model in 2020, concluding that the model remains appropriate. The Committee received several reports from management during the year on the approach to setting assumptions in the model and the sensitivity of the output to changes in those assumptions, with a focus on those changes most likely to occur in the current economic environment. While most of the assumptions are evidence based, using historic data on the performance of the underlying mortgages, a significant level of judgement is required in selecting the discount rate to be used. The Committee and the external auditor requested that management refine its approach to selecting the discount rate during the year, to incorporate additional evidence and provide a stronger link to current market conditions as required by IFRS 13. However, the Committee also noted that the nature of the collateral loan means that there is no directly comparable market data available so a significant level of judgement is still required. As such, there is a wide range of discount rates, and therefore valuations, which could be considered reasonable. Management sought advice from third party specialists to set a discount rate approach which is appropriate for the model and consistent with best practice. The final approach for the year end valuation was agreed by the Committee following considerable debate with management and the external auditor. In order to support the valuation in the accounts, management's report provided narrative to rationalise the movement in the fair value of the collateral loan during the year and provided sensitivity analysis around the key assumptions in the model. Taking into consideration the external auditor's views on the model and assumptions, management's explanations in support of the assumptions, external advice on best practice and considering the sensitivity analysis provided by management, the Committee concluded that the fair value recorded in the financial statements for the collateral loan and associated derivatives was within a reasonable range. We therefore considered the value in the financial statements to be appropriate.

Year ended
31 December 2020

Continued

Area of focus	How the Committee responded
Hedge accounting and valuation of derivatives We hold derivative financial instruments, in order to mitigate various business risks, including interest rate and foreign exchange risks. Derivatives are measured at fair value through profit or loss, so changes in the value of these instruments are recognised in the Income Statement immediately. However, if strict accounting criteria are met, these instruments can be designated in accounting hedge relationships and the volatility which would arise from the recognition of these fair value movements can be largely offset by changes in the fair value of the underlying items being hedged by them.	The decision of the Bank of England to reduce Bank Base Rate to 0.1% as a result of the pandemic and the associated reductions in other market interest rates, such as LIBOR and SONIA, have had a significant impact on the values of derivatives. Management continues to apply the hedge accounting rules of IAS 39 to certain of our derivative portfolios. During the year, management provided the Committee with reports on the volume and value of derivatives held, the hedge accounting methodologies applied and effectiveness testing results. The Committee was also provided with updates from management on the impacts of the transition from LIBOR to SONIA, including the effects of the amendments to IAS 39 published by the International Accounting Standards Board during the year. The strict and detailed rules around hedge accounting mean that the external auditor performs detailed substantive testing of management's results, including reperformance of hedge effectiveness testing and complex derivative valuation. The Committee noted the results of this testing which did not reveal any material errors. The Committee therefore satisfied itself that the hedge accounting requirements of IAS 39 have been appropriately applied and that management's hedge effectiveness testing performed throughout the year was materially appropriate. The Committee concluded that amounts recognised by management in the financial statements are fairly stated and that appropriate disclosures have been made.
Other areas of management judgement Management judgement, estimates and assumptions are also applied in a number of other areas of the financial statements, including the calculation of the retirement benefit surplus and the recognition, measurement and impairment of intangible assets. The selection of the basis for the valuation of the Society's new head office property is also considered a critical judgement in 2020 (see page 148).	The Committee reviewed the reports provided by management on these topics at the half year and year end, discussed and challenged the judgements made. Items of particular note to the Committee included the approach to the derivation of the discount rate used to value the pension scheme liabilities and the impact of the latest ruling in respect of Guaranteed Minimum Pensions equalisation. The Committee also considered management's approach to the valuation of the new head office building, noting that while the approach taken resulted in a higher valuation than alternative bases would, this was consistent with accounting standards to value on a 'highest and best use' basis. Having considered the information provided by management and the opinions of the external auditor, the Committee concluded that the judgements, estimates and assumptions made were appropriate and that the resulting balances in the financial statements are materially correct.

Area of focus	How the Committee responded
Going concern assessment and Viability Statement The directors are required to prepare the financial statements on a going concern basis, unless they consider that it is inappropriate to presume that we will continue in business for the next 12 months. The Board has delegated this assessment to the Audit Committee. The Board is also required to provide a statement on the longer term viability of the Society and has also delegated this assessment to the Audit Committee.	The pandemic has meant that there has been additional focus on the going concern and viability assessments from the external auditor and regulators in 2020. The Committee noted that the regulatory regime under which we operate requires significant levels of stress testing which provides strong evidence to support the directors' conclusions. Management provided the Committee with reports to support the going concern assumption for the Interim Financial Report and Annual Report and Accounts. Those reports drew on management information used within the business to monitor key factors including profitability, liquidity, capital and operations. No matters were identified that would indicate that the Society would not be able to continue in operation over the period of assessment, even in the event of an economic downturn or adverse stress. Having considered these reports and other information available to them as directors, including corporate plans and strategic reviews, the Committee concluded that the adoption of the going concern assumption to prepare the 2020 Annual Report and Accounts is appropriate. In order to support the directors' conclusions on viability, a report was provided to the Board Risk Committee reviewing principal and emerging risks. This report set out details of the stress testing undertaken in respect of those risks, including the ICAAP, ILAAP, recovery plan and reverse stress testing. Having considered the outcome of this review and other evidence presented to the Committee through the year in relation to our risk management processes, the Committee was also satisfied that the Viability Statement is appropriate.
Fair, balanced and understandable The Board is required to present a fair, balanced and understandable view of our position and prospects in our Annual Report and Accounts. The Board has delegated this assessment to the Audit Committee.	The Committee considered the process for the production, review and challenge of the Annual Report and Accounts and other external reporting, and whether this would result in a balanced and consistent report. In reviewing the draft narrative sections of the report, the Committee considered whether the content was consistent with other information presented to them through the year. A separate review of our performance and an assessment of the quality of earnings were also provided by management. After consideration of relevant information and discussion with the external auditor, the Committee was satisfied that, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable.

Adequacy and effectiveness of internal controls and risk management systems

The Board recognises the importance of effective systems of internal control in the achievement of its objectives and the safeguarding of member and Society assets. The Society operates an Enterprise Risk Management Framework (ERMF) which is designed to encourage a culture of sound risk management and internal control. This is overseen by the BRC and delivered through established governance mechanisms and a three lines of defence assurance model. Further details on the ERMF can be found on pages 98 to 102.

First line management is responsible for the design, documentation, operation and monitoring of internal controls that adhere to the Board's policies and standards. Every six months, they undertake an assessment of the design and effectiveness of those controls through the Risk Control Self-Assessment (RCSA) process. Critical controls are tested on a regular scheduled basis and the results of these tests are reviewed by the second and third line under risk based assurance programmes. Any identified deficiencies with the design or effectiveness of those controls are recorded in the risk register, along with remediation actions which are tracked to completion. Since the onset of COVID-19, monitoring and risks have been continually reviewed to provide assurance that an appropriate control environment has been preserved and where controls have needed to be adapted, that the associated risks are acceptable and subject to appropriate governance. During 2020, the suite of critical controls has also been revisited and the three lines of defence have agreed upon the adequacy of the revised suite.

Second and third line perform ongoing risk based monitoring of the completeness and accuracy of risk registers and RCSA submissions. To support the Committee in its assessment of the effectiveness of the control environment, second line provide a report on the outcome of the RCSA along with an integrated enterprise wide view of risks and controls. The reports showed that our control environment and culture is substantially effective and proportionate to our operations, and evidenced that the challenges of COVID-19, particularly the impacts of remote working, had been appropriately navigated.

Internal Audit conducts regular, independent, risk based assessments of the effectiveness and adequacy of controls in different areas of our business. Its plan of work is agreed by the Committee in advance and kept under review throughout the year. Regular reports are provided to the Committee on progress against the plan of work, together with a summary of findings from each review undertaken and tracking of the resolution of recommended actions to improve controls. Where issues of particular concern are reported by Internal Audit, the Committee asks management to report to it directly on the action being taken to remediate the issues.

During the year, with the onset of the pandemic, Internal Audit reprioritised its plan, in particular considering the risks created by remote working and adapted its approach to provide rapid assurance, while minimising impacts on the business.

The Chief Internal Auditor provides an annual report to the Committee bringing together observations and themes relating to our control environment. Overall, Internal Audit concluded that the governance, risk and control framework was designed appropriately and operating effectively and that key controls are continuing to operate during the dispersed working enforced by COVID-19.

The Committee also receives a report from the external auditor on the design and effectiveness of certain financial reporting, operational and IT controls, which it has assessed in order to reach an audit opinion on the Annual Report and Accounts. No material issues were raised in this report.

Effectiveness and performance of the Internal Audit function

Internal Audit plays an important role in providing a reliable third line of defence and the Board has delegated the role of overseeing the effectiveness and performance of the Internal Audit function to the Audit Committee. The Chief Internal Auditor reports directly to the Chair of the Audit Committee to ensure independence from executive management, with her objectives for the year approved by the Committee.

The Committee approved the Internal Audit plan of work for 2020 and subsequent quarterly revisions to this plan reflecting the impact of the pandemic on the business. The Committee recognised the need for increasingly flexible audit planning and agreed a more dynamic 'three plus nine' month planning approach to be used going forward. The Committee also approved the Internal Audit Charter and Terms of Reference which detail the scope, purpose, authority and responsibilities of the Internal Audit function.

The Committee satisfied itself that Internal Audit had sufficient resources with the appropriate skills, competencies and qualifications to deliver the audit plan. It also reviewed the targeted approach put in place to undertake audits during the pandemic and noted that this had enabled Internal Audit to offer positive assurance quickly over a wide range of key controls.

To support the Committee with its oversight of the effectiveness and performance of Internal Audit, the Chief Internal Auditor provides an annual self-assessment of the function's effectiveness against the Institute of Internal Auditors' International Professional Practices Framework and the Financial Services Code. Internal Audit also provides an annual declaration of independence, which confirmed that there was no impairment of their independence.

In addition to the regular self-assessments, the Audit Committee is required to commission an external quality assessment of the Internal Audit function every three to five years. The most recent review was undertaken by KPMG LLP in 2018 and concluded that the Internal Audit function is fully compliant with all sections and subsections of the Chartered Institute of Internal Auditors' Standards and the Financial Services Code. All actions for improvement were completed during 2019.

Based on work throughout the year, the Audit Committee is pleased to note that the Internal Audit function is independent, effective and compliant with applicable standards. The Committee concluded that the work completed by the Internal Audit function in 2020 has provided adequate coverage across our principal risks.

Independence, performance and objectivity of the external auditor

The Committee is responsible for overseeing our relationship with the external auditor so that the auditor remains independent and effective. It is supported in this by Internal Audit, who review the work of the external auditor on a cyclical basis, with the last review in 2019.

Deloitte LLP's current tenure as external auditor is 16 years, having first been appointed in 2005. The current audit engagement partner is Peter Birch who was appointed this year. The external auditor is appointed following a competitive tender process, with the last tender being undertaken in 2016.

The Committee reviewed and challenged the audit planning document provided by the external auditor setting out the scope, materiality, coverage and timing of the audit work and the qualification and expertise of the audit engagement partner and key members of the audit team. It evaluated the significant risks identified by the auditor, against management's assessment of the significant areas of judgements and risks. The Committee also reviewed and approved the auditor's engagement letter and fees.

The external auditor provides regular reports to the Committee on the progress of its work throughout the audit cycle.

The auditor also provided the Committee with an overview of how the firm had responded to the pandemic and its response to the FRC's Audit Quality Review report on the firm for 2019/20 (published in July 2020). The Committee requested and received an update on regulatory changes to the audit profession.

The Committee is responsible for the annual review and approval of our policy on non audit services, including the employment of former partners or staff of the external auditor. The policy reflects the Revised Ethical Standard published by the FRC in December 2019.

The external auditor undertook a number of non audit assignments during the year, including review of the Interim Financial Report and regular annual review work in connection with our structured funding vehicles. These assignments were conducted in compliance with the approved policy and occur typically where it is either mandatory or more efficient for the external auditor to perform the work, in light of the information previously reviewed during the audit engagement. Total non audit fees for work undertaken in 2020, including one-off items, represented 29% of the audit fees for the year.

The Committee satisfied itself that the external auditor is effective and independent.

Other matters addressed by the Committee

Speak Up Policy

Following the 2018 changes to the Corporate Governance Code, our whistleblowing policy is now a matter reserved for the Board. The Chair of the Audit Committee remains the Society's Whistleblowers' Champion.

The Committee continues to review our whistleblowing policy, known internally as the Speak Up Policy and recommended this to the Board for approval. The Committee received an annual report from management on the number and nature of reports submitted and the extent of training and communication to colleagues. It also reviewed our culture in the context of whistleblowing and concluded that we have a positive culture, which creates an environment for colleagues to raise issues. It was noted that this positive culture has been maintained despite significant numbers of colleagues working remotely.

Other reporting matters

The Committee reviewed and approved our Tax Strategy, Tax Risk Management Policy and Financial Reporting and Disclosure Policy.

The Committee reviewed the 2020 Pillar 3 Disclosures and recommended the document for approval by the Board.

Maintaining Audit Committee effectiveness

The Committee undertakes an annual self-assessment of its effectiveness, via anonymous questionnaires to all members and regular attendees at meetings, including the external auditor. The review concluded that the Committee had operated effectively and in accordance with its Terms of Reference (ToR) and no significant areas for remedial action were noted.

The ToR are reviewed annually and updated to align them to the latest governance requirements and best practice. The revised ToR were approved at the meeting in November 2020.

All committee members are required to undertake relevant training as part of their overall development. This takes place during the main committee meeting or in separate 'deep dive' sessions on particular topics. In 2020, this training focused on particular key aspects of financial reporting and developments in the audit sector.

The year ahead

In 2021, the Committee will continue to oversee our external financial reporting and our internal control environment, together with the performance and independence of the Internal Audit function and the external auditor.

In particular, the Committee expects to receive further in depth review sessions from management regarding particular aspects of financial reporting. We expect to see continued maturity in risk management across the Society, with further focus on the testing and remediation of critical internal controls. Internal Audit will continue to adopt a flexible approach to the scheduling of reviews to focus on the key areas as the economic and working environment evolves.

The regulatory environment surrounding external audit continues to change and we are committed to ensuring that the auditor remains independent and effective.

Risk Management Report

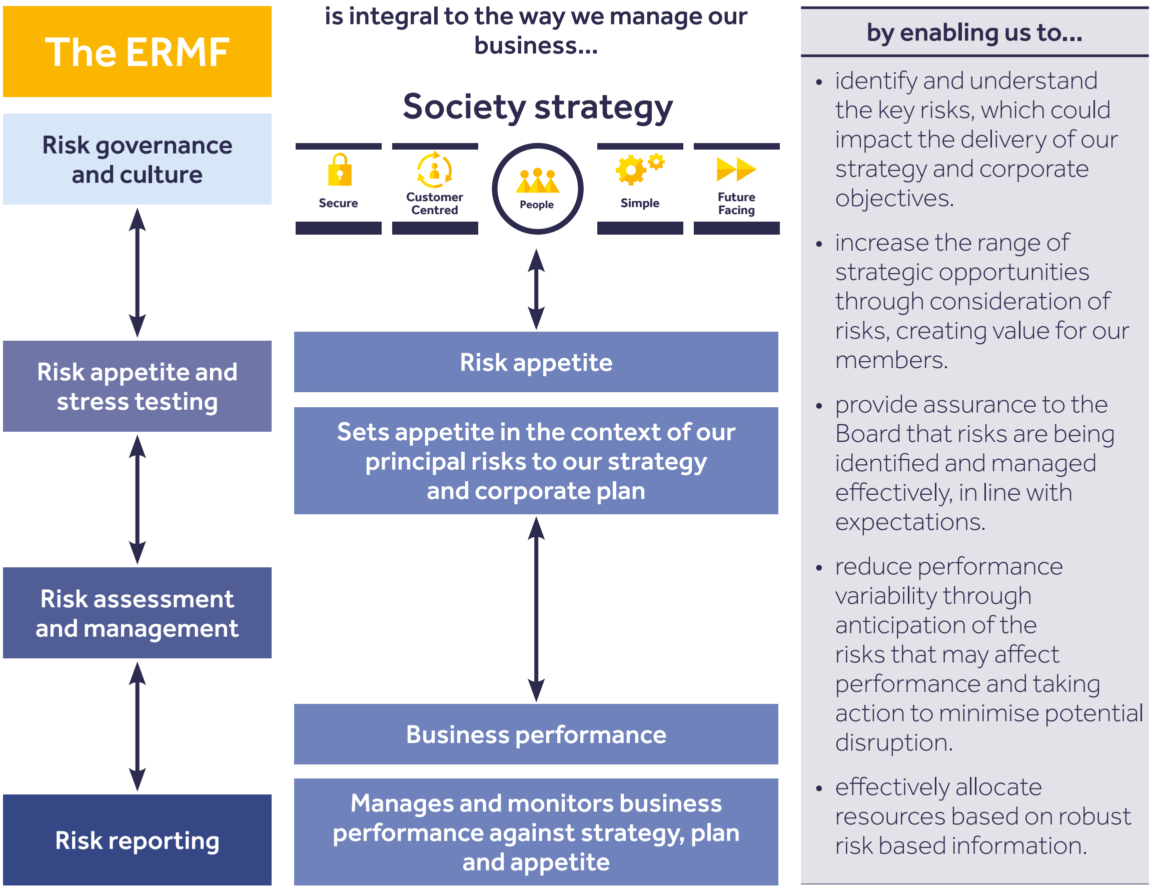
Year ended
31 December 2020

Dear member,

As Chair of the Board Risk Committee (BRC), I am pleased to present the 2020 Risk Management Report. This report provides an overview of our approach to risk management and a summary of the main focus areas of the BRC during the year.

Approach to risk management

The Enterprise Risk Management Framework (ERMF) integrates various risk management tools to support the effective development and implementation of our strategy. The framework sets out a structured approach to identifying, assessing, controlling and monitoring risks, which is used to inform decision making at both strategic and operational levels. The ERMF is periodically reviewed by the BRC, on behalf of the Board. The Chief Risk Officer (CRO) has responsibility for its implementation.



The main components of the ERMF are discussed below:

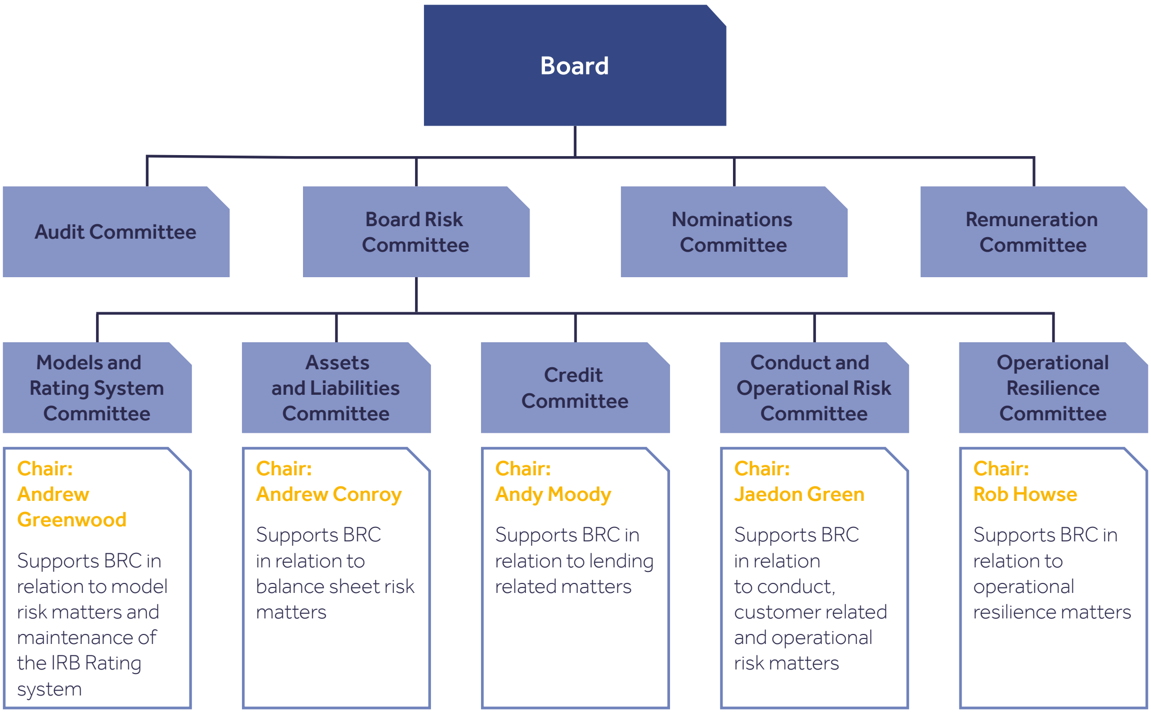
Risk governance and culture

Risk governance is the processes followed to support risk based decision making and oversight across all of our operations, whereas risk culture relates to the behaviours and attitudes of colleagues in making these decisions. Appropriate structures, facets and our values support the Board in discharging their accountability for risk oversight, with management responsible for day to day decision making.

Committee structure

The Board is our governing body, responsible for overseeing the implementation of our strategy and holding management to account. To support the Board in the delivery of its responsibilities, we operate four Board sub-committees, each with distinct mandates in their Terms of Reference (ToR).

The BRC provides independent oversight of the effective management of our risk universe. The 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/the BRC. Our committee structure as at the year end is set out below:



Risk Management Report

Year ended
31 December 2020

Continued

Policies and delegated authorities

Mandates are provided by the Board to management via the following routes to manage our day to day activities:

Delegation route	Summary
1. Corporate plan	The Board approves a corporate plan annually, subsequent to the setting of risk appetite, which provides the parameters within which management should operate.
2. 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.
3. Delegated Authorities Manual	The Delegated Authorities Manual is designed to facilitate the effective discharge of responsibilities and continuity of operations within a sound system of financial, operational and budgetary control. It is reviewed by the Board annually.

Three lines of defence model and the Risk function

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. • Identifying emerging risks.	• Oversight of day to day activities of the first line. • Maintenance of the ERMF. • Co-ordination and oversight of the setting of risk appetite. • Policy co-ordination/refresh. • Identifying emerging risks. • Enterprise risk reporting. • Independent risk based assurance plans.	• Independent risk based assurance of the adequacy and effectiveness of first and second line risk management.

The Risk function is independent from the operational business divisions. It ensures we follow a consistent approach to risk management and is led by the Chief Risk Officer, who reports directly to the 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.

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** – we expect our values to be demonstrated by the Board and the Senior Leadership Team.
- **Accountability** – we hold individuals at all levels accountable for risk management, to support the delivery of our strategy and business objectives.
- **Effective communication** – we encourage an environment of open and transparent communication around all risk management expectations.
- **Incentives and performance management** – we operate an appropriate incentive scheme and other HR frameworks to promote the desired risk culture. As part of these frameworks, the Society provides appropriate training for the Board and wider colleagues to support a risk aware culture.

Risk appetite and stress testing

Risk appetite framework

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

The Board defines SRA across our principal risk categories (defined on pages 39 to 46). The metrics are reviewed annually and are used in stress testing to measure and validate our long term viability, under both plausible and more severe scenarios. They are also assessed on a forward looking basis, within the corporate planning process.

The Board receives monthly management information on risk exposures in relation to appetite and we have developed appropriate early warning indicators and escalation procedures to anticipate and respond to risk profile changes.

Stress testing

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

- a sound understanding of internal and external influences on the Society and the principal risks;
- assistance to 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 as follows:

Increasing severity

Activity	Description
Corporate planning	Sensitivity analysis and a suite of alternative scenarios are used to assess the corporate plan under a range of plausible stresses.
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 PRA. ILAAP – an internal assessment of whether we have sufficient liquidity and stable funding to withstand a range of severe liquidity stresses.
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 weaknesses in our business model under extreme events so that mitigating actions can be identified (where possible).

Risk assessment and management

We operate defined risk assessment and management processes to facilitate the consistent identification, analysis, evaluation, treatment and monitoring of risks across the organisation. The framework can be applied to both strategic and operational risk assessments and is set within our business environment, strategy and objectives. A summary of the five stages of this process is set out below:

Risk identification – we operate Board level and operational level risk identification processes to capture new or emerging risks, which could impact corporate objectives and the delivery of our strategy.

Risk analysis – a range of methodologies is used to assess risks identified, in order to understand their severity and likelihood on the delivery of our strategy and to inform risk evaluation and treatment.

Risk evaluation – we evaluate and prioritise risks to inform decision making and to optimise the allocation of resources.

Risk treatment – management selects and deploys appropriate risk responses, balancing the potential benefit derived versus economic cost, effort and implications for key stakeholders. The principal mechanism for risk treatment is the deployment of suitable controls to reduce the Society's residual risk profile to acceptable levels.

Risk monitoring – we monitor risk assessment and management processes to proactively identify and adjust to changes in risk profile and to understand the effectiveness of implementing risk treatment strategies.

Risk reporting

We operate an appropriate risk reporting hierarchy to provide the right information, to the right people, at the right time, to inform and support timely decision making using a combination of strategic and business process reporting to understand the current or potential risk profile of the business, which may impact the delivery of our strategy and corporate objectives. These reporting processes are conducted at an appropriate frequency and are co-ordinated by the Risk function.

Board Risk Committee review

Committee purpose

The key purpose of the Committee is to assist the Board in understanding and managing risk related matters.

The Committee is responsible for:

- overseeing the development and effective implementation of the ERMF;
- reviewing and recommending risk appetite to the Board and monitoring our risk profile within these parameters;
- monitoring our current and emerging risk profile and ensure that these are appropriately mitigated;
- promoting a risk aware culture within the Society;
- reviewing and recommending to the Board key prudential documents (ILAAP, ICAAP, recovery and resolution plans); and
- ensuring that our remuneration arrangements reflect appropriate risk considerations.

A full set of duties is outlined within the Committee's Terms of Reference. A copy of this document can be located on our corporate website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees

Constitution and frequency

As at 31 December 2020, the Committee consisted of six independent non executive directors: David Fisher (Chair), John Hunt, Gareth Hoskin, Annette Barnes, Lynn McManus (appointed 1 January) and Neil Fuller (appointed 1 December), all of whom have strong backgrounds within banking and financial services. Full biographies of committee members can be found on pages 61 to 64.

At the invitation of the Committee, meetings were also attended by the Chair of the Board and relevant members of the executive and Senior Leadership Team, ensuring that the three lines of defence were fully represented.

During the year, the committee held eight meetings. Details of committee attendance can be found on page 73.

2020 key matters

The Committee had a balanced agenda in 2020, combining oversight of our current risk profile with emerging risks/requirements. This included oversight and monitoring of our response to the pandemic and the resulting impacts across all principal risks. While initially focusing on the safety of colleagues and members (and the deployment of business continuity/governance arrangements), this evolved to understanding the potential longer term impacts of the pandemic on our risk profile.

We also progressed a number of other initiatives to further improve the risk and control environment during the year, for example further enhancing our approach to operational resilience.

A summary of the key matters considered by the Committee during 2020 is outlined below:

2020 focus areas	
Topic	**Activity**
COVID-19	• Review of appropriateness of ERMF arrangements in response to the COVID-19 pandemic. • Close monitoring of COVID-19 impacts across the principal risk categories. • Ongoing review of risk appetite to manage the potential associated effects of COVID-19. • Implementation of revised regulation to mitigate the effects of the COVID-19 stress. • Understanding potential impacts of COVID-19 on key model outputs.
Frameworks and policies	• Oversight of the implementation of the Policy Management Framework. • Review of the Regulatory Reporting Framework. • Review of the Model Governance and Assurance Framework. • Review of Board level policies and the inaugural ESG Policy.
Stress testing	• Annual Review and recommendation of the ICAAP, ILAAP and recovery plan to the Board. • Review of reverse stress testing outputs.
Remuneration	• Annual review of risk adjustment recommendations for the Senior Leadership Team. • Risk based assessment of corporate objectives.
Strategies	• Liquidity management. • LIBOR discontinuation. • Annual review of the cyber threat methodology. • Approach to assessing climate change risks.
Operational resilience	• Receipt of operational resilience updates. • Review of cyber penetration testing results. • Review of disaster recovery arrangements (including technology).
Monitoring of risk profile	• Risk exposures in relation to appetite (through management information). • External risk assessment via the Chief Risk Officer's report and strategic heat map. • Review of the annual Money Laundering Reporting Officer's report. • Review of the Data Protection Officer's report. • Review of risks associated with the change portfolio. • Annual review of accepted risks. • Review of significant incidents. • Oversight of executive risk committees.

Effectiveness review

During October, the Committee undertook an internal self-assessment of its effectiveness. The review was performed using anonymous questionnaires and was completed by committee members and regular attendees. The review concluded that the committee was operating effectively, in accordance with its ToR.

Outlook

Over the next twelve months, the Committee will continue to concentrate its attention on the impacts of COVID-19 and Brexit as they continue to emerge across our risk universe. Other key points of focus include:

- continuing to oversee the refinement and embedding of our operational resilience framework in line with final regulatory requirements, which are expected to be published during the first half of 2021;
- overseeing the approach to assessing and responding to risks associated with climate change; and
- continuing to enhance and embed our approach to model risk management.

I believe that the Committee remains well positioned to meet these challenges, as well as supporting the Society in the delivery of our strategy.

David Fisher
Chair of Board Risk Committee

25 February 2021

Directors' Remuneration Report

Year ended
31 December 2020

Dear member

I am pleased to present this year's Remuneration Committee's report. The report includes a summary of our Remuneration Policy, together with key decisions made in the year and sets out how we intend to change our policy in 2021.

The key focus of the Committee has continued to be to set our Remuneration Policy including pay, variable remuneration and other benefits for executive directors and Material Risk Takers. The Committee also has oversight of reward for the broader colleague population and I meet regularly with colleagues across the Society and with the Chair of the Colleague Association to ensure I hear direct feedback.

A number of important remuneration changes are being put in place for 2021 and all our decisions have been based on ensuring we are able to attract and retain talent that fosters our mutual culture and supports the long term aims of the Society.

Our members will have the opportunity to vote, on an advisory basis, on the Remuneration Policy and 2020 Directors' Remuneration Report, at the AGM.

COVID-19 – Impact on 2020 remuneration
The global pandemic has led to challenging times for all, including our colleagues and members. Our priority is the safety of both colleagues and members and, along with a number of wellbeing interventions for our colleagues, we have ensured all our branches and offices are COVID-secure. We did not furlough any of our colleagues and supported them through our absence policy or providing additional, discretionary leave, where needed. We have also not been a beneficiary of any other direct government intervention.

The Committee discussed the potential impact of the pandemic on the Society with the Board and, in a joint assessment, made a number of decisions impacting the 2020/2021 remuneration outturns:

- executive directors, other members of the Senior Leadership Team and non executive directors (including the Chair) will not receive an annual pay or fee increase in April 2021
- an additional year of deferral will be applied to all awards to executive directors in respect of the 2020 performance year, to allow the Committee to re-assess the performance outturns for 2020 again in 2021, to fully take account of the longer term impact of COVID-19 and, therefore, determine what, if any, payments should be approved
- there will be no cash bonus payments made for the executive directors in 2021, in respect of the 2020 performance year
- recognising the changing external environment, the original scheme at 31 March 2020 was closed and, for the remainder of the year, given the unpredictability of the market, the Society's efforts were re-aligned around three broad priorities (the same variable pay scheme construct remained in place):
  - keeping the Society financially resilient;
  - safely keeping the Society operating for the benefit of our members; and
  - communicating to our colleagues and members.

On this basis, the Committee considered the Society's performance and the executive directors' performance in detail. A breakdown of the provisional outturn for 2020 of the corporate and personal objectives is provided on pages 118 to 119. As noted above, the 2020 outturn will be reassessed in 2021 before any payments are authorised.

Revised Remuneration Policy for 2021
The Committee conducted its formal, triennial review of the remuneration schemes during the year, based on key principles:

- structuring compensation to attract, motivate and retain high performing colleagues;
- promoting a healthy, diverse and inclusive culture;
- ensuring remuneration supports the business strategy; and
- promoting alignment of approach across the organisation, with an aim of simplifying, wherever possible.

We also considered, and accounted for the impact of CRD V regulations.

Based on these principles, and considering our business model and mutual status, the Committee decided to reduce the maximum bonus potential from 50% to 20%, thereby aligning the bonus scheme potential for the entire Senior Leadership Team. The change reduces 'on target' performance to 15% of base salary (formerly 36%).

An appropriate level of variable pay is retained to promote team alignment and enable the Committee to consider longer term outcomes and sustainable performance for the executive directors. Variable pay for executive directors will be deferred for up to seven years and will remain subject to risk and conduct considerations ahead of any payment.

To ensure total compensation remains competitive, fixed pay has been adjusted to reflect a proportion of the lost variable pay opportunity. From 1 January 2021, base pay has been adjusted by between 17.8% and 18.2% for the executive directors. Full details are provided on pages 111 to 112. The adjustment factors in the value of the certainty of fixed pay and an average level of historic bonus achievement. Overall, based on this average, the maximum remuneration for executive directors has been reduced.

Based on the revised maximum 20% award, the Committee considered the 2021 bonus schemes for executive directors and other members of the leadership team, and has agreed a balanced approach. There is a maximum 10% opportunity for the achievement of agreed corporate priorities and a maximum 10% opportunity for the achievement of personal objectives, of which 30% of the award will be in relation to the demonstration of agreed behaviours, in line with the approach for all colleagues. For senior colleagues in a designated control function, schemes will remain based on personal objectives only and, as such, 30% of the award will be in relation to the demonstration of agreed behaviours.

From 2021, annual pay reviews will be aligned across the Society, with the same core increase for all colleagues, removing the link with historic performance (with the exception of the Senior Leadership Team, including executive directors, who will receive no pay increase in April 2021). The annual pay review will reflect a range of factors, including the economic environment and the overall financial position of the Society. The Society will also reflect salary inflation through annual salary benchmarking and its commitment to the Real Living Wage. Performance will continue to be rewarded through the variable pay schemes.

The key features of our policy from 2021, are set out in full on pages 108 to 110.

Performance and awards for 2020

Earlier sections of the Annual Report and Accounts have explained, despite the impact of COVID-19, we have delivered a good performance against both elements of the 2020 variable pay schemes. The Committee recognises the contribution of the executive directors, Senior Leadership Team and colleagues in difficult circumstances.

After careful consideration and the Committee exercising elements of discretion, annual bonuses of between 40.8% and 41.4% (2019: 33% and 40%) have been awarded to the executive directors, which represents between 82% and 83% (2019: 66% and 80%) of the maximum award available. As explained, for 2020 the following measures have been put in place:

- no cash bonuses will be paid in 2021, based on this 2020 assessment;
- awards will be deferred for an additional 12 months and subject to re-testing in 2021; and
- any potential awards will be confirmed in April 2022 and subject to the normal payment schedule thereafter.

In arriving at the decision to award variable remuneration, a full risk assessment process is undertaken, during which the Committee considers a range of factors and input from the Board Risk Committee.

The Remuneration Policy has operated as intended. The Remuneration Committee used its discretion to reduce the outturn of the corporate element of the executive director bonus scheme, to reflect fully both very strong operational performance alongside the favourable impact of indirect COVID-19 support from the Government and Bank of England.

2020 remuneration changes

As reported last year, the salaries of executive directors increased by 2%, with the exception of A P Conroy, who was appointed on 6 January 2020 and did not receive an increase. The Chair's and non executive directors' fees also increased by 2%, in line with the colleague population. The basic salary increase for colleagues ranged from 0% to 4%, with an average of 1.92%.

A small number of other colleagues, who are senior managers whose actions can have a material impact on the risk profile of the Society, are considered Material Risk Takers. The average salary increase for this group in April 2020 was 2%.

Another important change, focused on promoting a healthy culture, was to increase the focus on rewarding appropriate behaviours. From the start of 2021, 30% of the personal performance element of bonus awards for all senior managers are based on the demonstration of agreed behaviours and 70% on performance outcomes, in line with the entire colleague population.

Other matters considered by the Remuneration Committee
As well as myself as Chair, the Committee consisted of two other non executive director members: David Fisher and Gareth Hoskin.

There were four meetings in 2020, dealing with the review of compliance with the Remuneration Code, the setting and review of performance against objectives, reviewing the performance objectives based on the impact of COVID-19, reviewing the variable remuneration schemes for 2021, Gender Pay Gap reporting and the oversight of reward for the general colleague population.

As the non executive director responsible for representing colleague views at the Board, I have sought the views of colleagues by attending regular meetings with our Colleague Association and had oversight of the colleague engagement survey Your Voice results. Throughout the year, I have provided regular updates to the Board, which have demonstrated the strong people culture in the Society and highlighted areas to take into our future people strategy.

Looking ahead
Looking ahead to the rest of 2021, the Committee's focus will be on ensuring the changes outlined above are successfully embedded and that we have the right reward structures in place, to attract and retain talent, which fosters our mutual culture and supports the long term aims of the Society.

I trust you will find this report helpful and informative. The Remuneration Committee recommends that members vote in favour of the 2020 Directors' Remuneration Report and Remuneration Policy at the AGM.

Lynn McManus
Chair of the Remuneration Committee

25 February 2021

Directors' Remuneration Policy

The Remuneration Policy is designed to support members by:

- being clearly linked to business objectives;
- driving behaviours consistent with our purpose, culture, values and strategy; and
- being structured to attract and retain appropriately skilled colleagues to support the Society's long term interests and to promote a healthy culture.

Remuneration principles

In delivering this policy, the following principles are observed:

- objectives are clearly linked to our business strategy, values and the long term interests and security of the Society and our members;
- procedures and practices are consistent with and promote sound and effective risk management. They balance fixed and variable remuneration to create an acceptable relationship between risk and reward, while not encouraging risk taking that exceeds the level tolerated by the Society;
- basic salary and total remuneration are set at a competitive level to attract, retain and motivate colleagues of the required calibre; and
- remuneration arrangements meet regulatory requirements, including the FCA Dual-Regulated Firms Remuneration Code, PRA Rulebook and good corporate governance practice.

Policy review

The Remuneration Policy is subject to an annual review of both its content and implementation and is approved by the Remuneration Committee. The Board Risk Committee also contributes to the policy review, to ensure it takes sufficient account of risk considerations.

Vote

Members are asked to vote on the Remuneration Policy at least every three years, or earlier if the policy changes. The current Remuneration Policy took effect from the date of the 2018 AGM. The policy will, therefore, be put to an advisory vote at the 2021 AGM.

Annual General Meeting 2020 results

Resolution	% votes for	% votes against
Directors' Remuneration Report	90.98%	9.02%

Annual General Meeting 2018 results

Resolution	% votes for	% votes against
Directors' Remuneration Policy	88.99%	11.01%

Directors' Remuneration Report

Year ended
31 December 2020 **Continued**

Components of remuneration

The following table summarises the principal components of the executive directors' total remuneration and the way they operate. Details which are commercially sensitive have not been provided.

Element of pay	Link to strategy	Operation	Performance measures	Minimum and maximum payable
Basic salary	Reflects level of accountability. Provides ability to attract and retain executives through market competitive rates of pay.	As for all colleagues, once set any future increases are linked to: • the economic environment and overall financial position of the Society. • comparisons with roles carrying similar responsibilities, in organisations of a comparable size, complexity and diversity to the Society (benchmarking).	Not applicable.	The basic salaries of executive directors are reviewed each year, as for any other colleague, based on the economic environment, the overall financial position of the Society and in accordance with benchmarking. The only exception is if there is a material increase in scope or responsibility to the executive director's role.
Annual bonus scheme	Linked to the delivery of the corporate priorities, including the achievement of strategic objectives and personal objectives.	Challenging performance objectives are aligned with our strategy, recognising short, medium and long term goals. The performance of the executive directors is assessed against a scorecard of measures, to ensure significant reward cannot be achieved by the delivery of high performance in one area, to the detriment of another. The performance of the executive directors in a control function is based on a range of personal objectives and leadership behaviours. Robust risk evaluation measures are independently assessed by the Chief Risk Officer and the Board Risk Committee, with measures for the Chief Risk Officer assessed by an independent senior manager.	The 20% maximum is split between: Performance – 10% Personal – 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 the director, are set at the start of each year and agreed by the Remuneration Committee. 30% of the personal performance award is allocated to the demonstration of leadership behaviours. The 20% maximum for the executive director in a control function is based on a range of personal objectives only, with 30% of the award allocated to the demonstration of leadership behaviours.	Maximum of 20% of basic salary payable. For executive directors designated as 'Senior Managers' under the Senior Manager Regime and over the de-minimis[1], 60% of the bonus will be deferred, over a period of seven years with no vesting until three years after the award is made. 50% of variable remuneration will be delivered in a share-like instrument[2]. Minimum is 0% of basic salary.

Element of pay	Link to strategy	Operation	Performance measures	Minimum and maximum payable
Operation of malus and clawback[3]	A deferred element exists in compliance with applicable regulations and ensures the annual performance creates value sustained over the longer term.	Independent assessment takes place prior to the payment of each deferred award, which provides the Remuneration Committee with the rationale to make a reduction in the level of award payable (down to zero), if appropriate. The assessment takes into account the following three key matters: • has management operated within the risk appetite of the business? • has the business been exposed to any significant regulatory or control failings? • has there been any financial exposure after the award has been made due to inappropriate management behaviour?	Not applicable.	Maximum 100% of the deferred bonus awards are subject to malus. Clawback will be applied in line with relevant regulation.
Pension	Provides market competitive remuneration.	Based on membership of the Society's defined contribution section of the pension scheme. In appropriate circumstances, for example, where contributions exceed the annual or lifetime allowance, there is an option to receive a monthly cash allowance in lieu of pension contributions.	Not applicable.	Executive directors appointed before 1 April 2019 receive a range of relevant employer contributions, in line with the colleague population, with a maximum contribution of 20% of basic salary, based on age and pensionable service. Executive directors appointed on or after 1 April 2019, will receive a maximum contribution in line with the colleague population, of 10% of basic salary. Cash allowance is in lieu of employer contributions, up to the maximum contribution rate applicable to the executive director.
Benefits	Provides market competitive remuneration.	The principal benefits executive directors receive are: • life assurance • private medical insurance • group income protection • health screening • cash health plan. Other benefits may be provided based on individual circumstances, for example, relocation.	Not applicable.	Life assurance (up to four times basic salary). Other benefits are set at an appropriate level in line with market practice.

(1) The de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied, and impacts colleagues whose variable remuneration is greater than €50,000 per annum or where variable remuneration is more than 33% of their total remuneration.

(2) Where remuneration exceeds the de-minimis, 50% of the variable remuneration award will be paid in an instrument and 50% will be paid in cash. As a mutual organisation, this means that 50% of the award payable in each year will be held and retained for a further 12 months and which can be written down in value if agreed capital levels are not maintained. The instrument cannot increase in value or attract interest payments during the deferral and retention periods.

(3) The Remuneration Committee may apply discretion to reduce bonus awards in whole or part.

Malus is a reduction factor which is applied to bonus payments which have not yet vested. Clawback is applied to seek recovery of bonus payments already paid.

Directors' Remuneration Report

Year ended
31 December 2020 **Continued**

Policy for non executive directors

Element of pay	Link to strategy	Operation	Performance measures	Minimum and maximum payable
Fees	Reflects level of responsibilities and time commitment required for Board and Board subcommittee meetings.	Fees are reviewed annually with recommendations made to the Board by the Executive Committee. The Chair's fee is reviewed by the Remuneration Committee. Non executive directors receive a basic fee and an additional fee for chairing a committee. Fee levels are benchmarked against other financial services organisations.	Not applicable.	The fees of the Chair are reviewed by the Remuneration Committee and the fees for the non executive directors are reviewed by the executive directors, as for any other colleague, based on the economic environment, the overall financial position of the Society and in accordance with benchmarking. The only exception is if there is a material change in responsibility to the non executive director's role.
Annual bonus scheme	Not eligible.			
Pension	Not eligible.			
Benefits	Reimbursement is made for travel expenses for attending meetings and, where tax liability arises, this will be covered by the Society.			

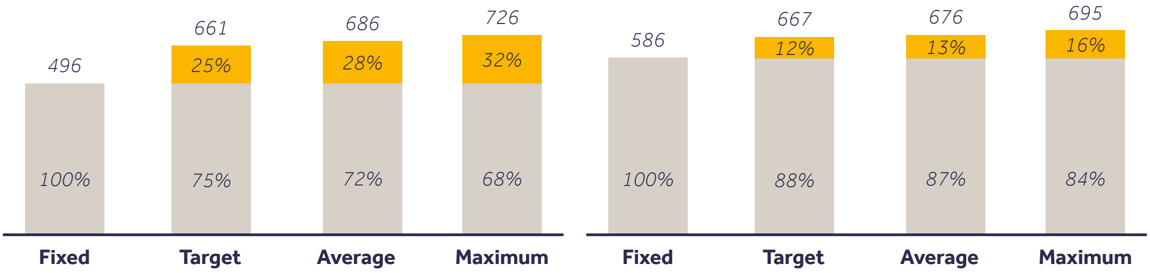
Awards under different scenarios

The charts below compare the awards split between fixed pay and variable pay, under the variable pay arrangements, for the 2020 performance year and the 2021 performance year, for each current executive director under different scenarios.

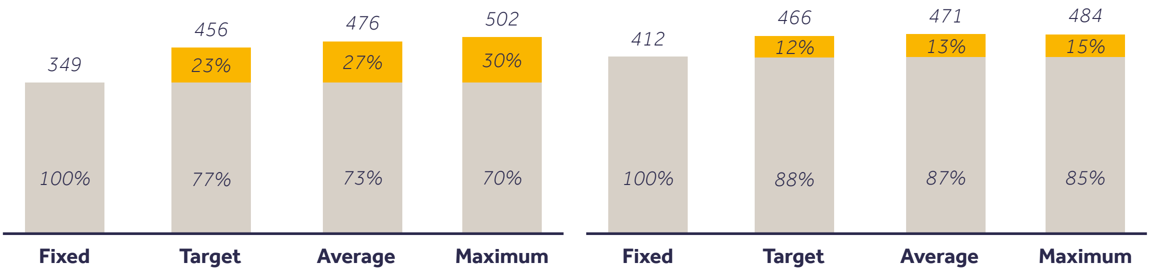
The chart for the 2021 performance year is based on the reduction in the maximum opportunity of variable remuneration from 50% to 20% and the subsequent adjustment to base pay, as detailed on pages 104 to 105.

2020 **2021**

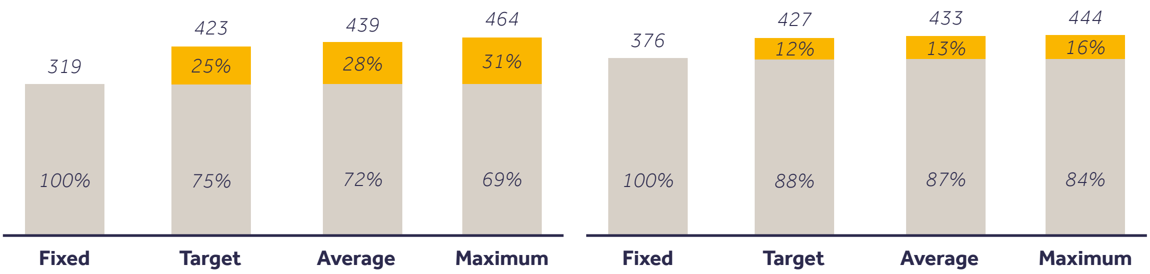
Chief Executive Officer £'000



Chief Risk Officer £'000



Chief Financial Officer £'000



Directors' Remuneration Report

Year ended
31 December 2020

Continued

In developing the scenarios, the following assumptions have been made:

2020

Fixed

Consists of basic salary and pension (£'000)
Basic salary is as at 31 December 2020

Executive director	Basic salary	Pension	Total fixed
Chief Executive Officer	459	37	496
Chief Risk Officer	306	43	349
Chief Financial Officer	290	29	319

Target

Based on what an executive director would receive if the target level of performance was achieved, based on a 50% variable remuneration scheme:
annual variable element pays out at 72% of the maximum available (70% for the Chief Risk Officer).

Average

Based on what an executive director would receive on a three year average historical bonus outturn of 83%, based on 50% variable remuneration scheme.

Maximum

Based on what an executive director would receive if the maximum level of performance was achieved:
annual variable element pays out at 100% of maximum available.

2021

Fixed

Consists of basic salary and pension (£'000)
Basic salary is as at 1 January 2021

Executive director	Basic salary	Pension	Total fixed
Chief Executive Officer	543	43	586
Chief Risk Officer	361	51	412
Chief Financial Officer	342	34	376

Target

Based on what an executive director would receive if the target level of performance was achieved, based on a 20% variable remuneration scheme:
annual variable element pays out at 75% of the maximum available.

Average

Based on what an executive director would receive on a three year average historical bonus outturn of 83%, based on 20% variable remuneration scheme.

Maximum

Based on what an executive director would receive if the maximum level of performance was achieved:
annual variable element pays out at 100% of maximum available.

Approach to recruitment remuneration for executive directors

Component	Policy
Basic salary and benefits	The salary level will be set taking into account the responsibilities of the individual and by comparison with roles carrying similar responsibilities, in organisations of a comparable size, complexity and diversity to the Society. The executive director will be eligible to receive benefits as set out in the Remuneration Policy table.
Annual bonus	The executive director will be eligible to participate in the annual bonus scheme as set out in the Remuneration Policy table. The bonus award will be pro-rated to the number of complete months worked during that year.
Pension	The executive director will be able to participate in the defined contribution section of the pension scheme or to receive a cash allowance of up to a maximum of 10% of basic salary, in line with the colleague population.
Replacement awards	When replacement awards cannot be avoided, the Committee will structure any such awards so that, overall, they are no more generous in terms of quantum or vesting period than the awards due to be forfeited. In determining the quantum and structure of these commitments, the Committee will seek to replicate the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone.
Recruitment remuneration	Any payments made to executive directors on joining the Society to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the PRA Rulebook and the FCA Dual-Regulated Firms Remuneration Code.

Service contracts

Executive directors' terms and conditions of employment, including details of remuneration, are detailed in their individual service agreements, which include a notice period of twelve months. The standard contract is available to view at the Society's head office.

None of the executive directors currently hold any paid external directorships.

The non executive directors do not have service contracts with the Society.

Policy on payment for loss of office

Component	Policy
General	When determining any loss of office payment for a departing individual, the Committee will seek to minimise costs to the Society, whilst seeking to reflect the circumstances in place at the time. Accordingly, the Committee retains overriding judgement to make loss of office payments appropriate to the circumstances and applying the overriding principle that there should be no element of reward for failure.
Basic salary and benefits	In the event of termination by the Society, there will be no compensation for loss of office due to misconduct or poor performance. In other circumstances, executive directors may be entitled to receive compensation for loss of office. Such payments will be based on the monthly salary and pension contributions that the executive would have received if still in employment with the Society. Executive directors are expected to mitigate compensation for loss of office, in appropriate circumstances.
Annual bonus	Where an executive director's employment is terminated during or after the end of a performance year, but before the payment is made, the executive may be eligible for a pro-rated annual bonus for that performance year, subject to an assessment based on performance achieved over the period and subject to risk adjustment. No award will be made in the event of misconduct. Where an executive director leaves the Society after an award is made, deferred payments will remain payable, subject to the normal rules of the scheme, including risk adjustment. 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.

Directors' Remuneration Report

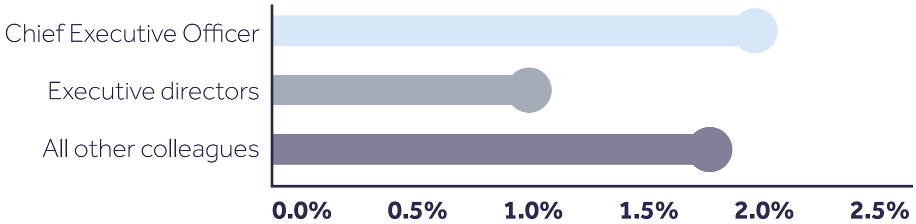
Continued

Statement of consideration of conditions elsewhere in the Society

The Remuneration Committee considers the increase in general basic salary for the wider colleague population when determining the annual salary increases for the executive directors.

As reported last year, the salaries of the Chief Executive Officer and Chief Risk Officer increased by 2%, with the Chief Financial Officer receiving no increase having been appointed on 6 January 2020.

The table below illustrates the comparison of average basic salary increases made in April 2020 to the Chief Executive Officer, executive directors and all other colleagues:



Statement of implementation of Remuneration Policy in the following year

The Remuneration Policy is implemented by management. A formal review of the implementation of the policy is conducted by the Remuneration Committee on an annual basis.

As detailed on pages 104 to 105, the Remuneration Committee reduced the maximum bonus potential from 50% to 20%, aligning the bonus scheme potential for the entire Senior Leadership Team. The change reduces 'on target' performance to 15% of base salary (formerly 36%).

To ensure total compensation remains competitive, fixed pay has been varied to reflect the lost variable pay opportunity. The adjustment factors in the value of the certainty of fixed pay and an average level of historic bonus achievement. Based on this, both the average and maximum remuneration for executive directors has been reduced overall. From 1 January 2020, base pay will be adjusted by between 17.8% and 18.2% for the executive directors.

In the April 2021 pay review, the executive directors will not receive an increase in salary.

	1 January 2021	1 April 2020	6 January 2020
R G Fearon	£542,670	£459,000	£450,000
A J Greenwood	£360,980	£306,450	£300,426
A P Conroy	£342,020	£290,000	£290,000

Annual Report on Remuneration

Total remuneration summary

The total remuneration received by executive directors for 2020 is detailed below, compared with 2019. The total remuneration for executive directors equates to 2.0% of profit before tax (2019: 2.8%). This information has been audited and shows remuneration for the years ending 31 December 2019 and 31 December 2020, as required to be reported under the Building Societies (Accounts and Related Provisions) Regulations 1998. The awards made in respect of performance in 2020, are in line with the 2020 Remuneration Policy, with a maximum variable pay of 50% for executive directors.

The Chief Executive Officer is the Society's highest paid colleague. As we are a mutual organisation, we have no share capital and, therefore, do not offer share based remuneration to executive directors or colleagues.

2020 audited

Executive directors	Salary	Annual bonus	Pension	Loss of office	Total fixed remuneration	Total variable remuneration	Total remuneration
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
R G Fearon	457	190	37(1)	–	494	190	684
A P Conroy	290	119	29(1)	–	319	119	438
A J Greenwood	305	125	43(1)	–	348	125	473
Total remuneration(2)	**1,052**	**434**	**109**	**–**	**1,161**	**434**	**1,595**

2019 audited

Executive directors	Salary	Annual bonus	Pension	Loss of office	Total fixed remuneration	Total variable remuneration	Total remuneration
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
R G Fearon	430	169	60(1)	–	490	169	659
P A Hill(3)	253	–	54(1)	–	307	–	307
R S P Litten(4)	99	30	23(1)	499(6)	621	30	651
K R Wint(5)	270	90	62(1)	–	332	90	422
A J Greenwood	293	120	56(1)	–	349	120	469
Total remuneration(2)	**1,345**	**409**	**255**	**499**	**2,099**	**409**	**2,508**

Notes

(1) These directors elected to receive part or all of the Society's pension contribution as a cash allowance.
(2) No director received other taxable benefits of £1,000 or above.
(3) P A Hill retired on 30 June 2019.
(4) R S P Litten left the Society on 18 April 2019.
(5) K R Wint left the Board on 31 December 2019.
(6) Loss of office includes payments in lieu of notice in accordance with contractual terms and payments in line with the Remuneration Policy.

Directors' Remuneration Report

Year ended
31 December 2020

Continued

Chief Executive Officer (CEO) pay ratio

The Companies (Miscellaneous Reporting) Regulations 2018, came into force for accounting periods starting from 1 January 2019 and requires the publication of the ratio of the CEO's single figure total remuneration. We have chosen to use the Government's preferred methodology (option A), which determines the total full time equivalent total remuneration for all colleagues for the relevant financial year and compares the median, 25th and 75th percentiles against the CEO single figure.

Year	Method	25th percentile	Median	75th percentile
2020	Option A	32:1	21:1	14:1
2019	Option A	32:1	22:1	15:1

The ratios below are calculated as at 31 December 2020:

Remuneration element	25th percentile (£)	Median (£)	75th percentile (£)
Total pay and benefits	£21,641	£32,496	£47,912
Salary	£18,986	£27,394	£40,938

Unpaid deferred elements of the annual bonus scheme

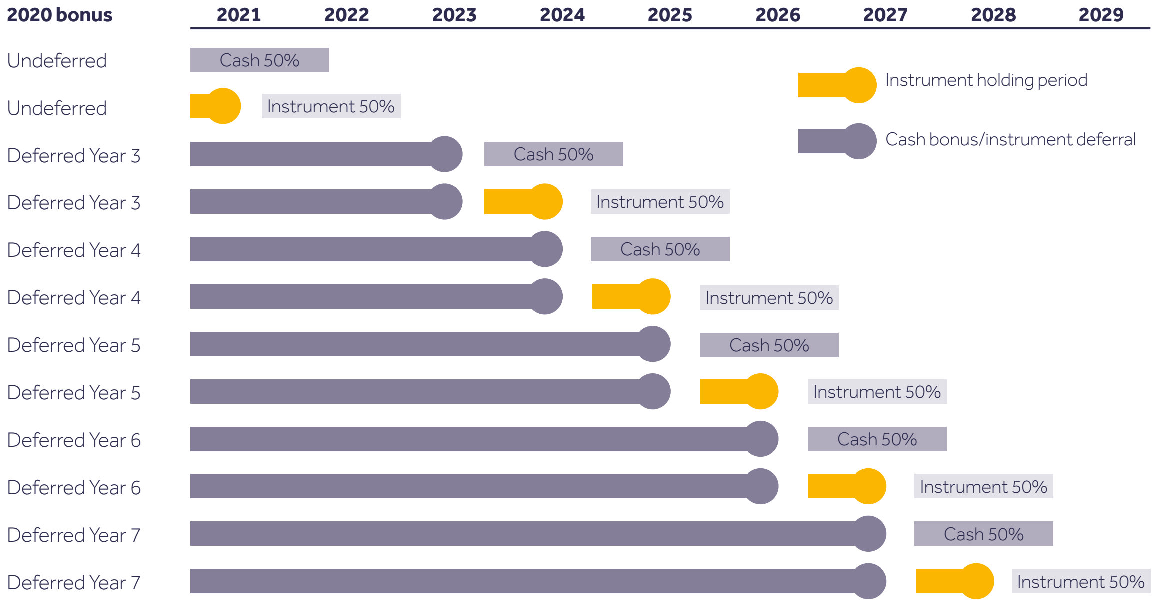
Executive directors	Performance year	Due 2021 £'000	Due 2022 £'000	Due 2023 £'000	Due 2024 £'000	Due 2025 £'000	Due 2026 £'000	Due 2027 £'000	Due 2028 £'000	Due 2029 £'000	Due 2030 £'000	Total £'000
R G Fearon	2017	21	–	–	–	–	–	–	–	–	–	21
	2018	20	20	–	–	–	–	–	–	–	–	40
	2019	34	–	10	20	20	20	20	11	–	–	135
	2020	–	48	28	3	14	23	23	23	20	8	190
	Total	**75**	**68**	**38**	**23**	**34**	**43**	**43**	**34**	**20**	**8**	**386**
A P Conroy	2020	–	76	16	16	11	–	–	–	–	–	119
	Total	**–**	**76**	**16**	**16**	**11**	**–**	**–**	**–**	**–**	**–**	**119**
A J Greenwood	2017	16	–	–	–	–	–	–	–	–	–	16
	2018	15	16	–	–	–	–	–	–	–	–	31
	2019	16	16	16	–	–	–	–	–	–	–	48
	2020	–	79	17	16	13	–	–	–	–	–	125
	Total	**47**	**111**	**33**	**16**	**13**	**–**	**–**	**–**	**–**	**–**	**220**
P A Hill	2017	36	–	–	–	–	–	–	–	–	–	36
	2018	–	13	25	25	25	25	14	–	–	–	127
	Total	**36**	**13**	**25**	**25**	**25**	**25**	**14**	**–**	**–**	**–**	**163**
R S P Litten	2017	24	–	–	–	–	–	–	–	–	–	24
	2018	–	9	17	17	17	17	9	–	–	–	86
	2019	6	–	2	3	3	4	4	2	–	–	24
	Total	**30**	**9**	**19**	**20**	**20**	**21**	**13**	**2**	**–**	**–**	**134**
K R Wint	2017	20	–	–	–	–	–	–	–	–	–	20
	2018	12	15	–	–	–	–	–	–	–	–	27
	2019	12	12	12	–	–	–	–	–	–	–	36
	Total	**44**	**27**	**12**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**83**
Total		**232**	**304**	**143**	**100**	**103**	**89**	**70**	**36**	**20**	**8**	**1,105**

The payment of deferred elements is subject to future performance, for example, the application of malus. Clawback will be applied as required by regulation.

Bonus deferral and share-like instrument

For executive directors designated as 'Senior Managers' under the Senior Manager Regime and over the de-minimis limit, 60% of the bonus will be deferred, over a period of seven years with no vesting until three years after the award is made. 50% of variable remuneration will be delivered in a share-like instrument.

The table below illustrates how the bonus for the Chief Executive Officer usually works. For the 2020 performance year for the scheme which ran from 1 January to 31 March 2020, there will be no cash payment made in 2021. This element will be paid in 2022, otherwise the usual deferral schedule will apply. For the scheme which ran from 1 April to 31 December 2020, an additional year of deferral will be applied to the whole award, with the usual payment schedule commencing in 2022.



Risk assessment

The risk assessment process is independently managed by the Risk function. Following completion of the risk assessment process, the Chief Risk Officer (CRO) provides an annual report on areas the Remuneration Committee should consider in respect of whether performance or risk adjustment is necessary to remuneration outcomes. The report is initially reviewed by the Board Risk Committee, which then highlights any specific areas for further consideration to the Remuneration Committee. In addition, the Risk function considers the corporate priorities and personal objectives for executive directors' future year remuneration, to ensure they are aligned with our risk appetite.

The report from the CRO includes an assessment of the current year's performance, in the context of objectives for each prior year for which variable remuneration has been deferred.

The individual performance of Material Risk Takers and their teams is risk assessed by reference to a range of key dimensions, including audit findings, compliance with regulatory policies, compliance with our risk appetite, and general control and governance matters.

The Board Risk Committee considered the 2020 report in full and determined the Remuneration Committee should assess whether an adjustment was required. Following full consideration, no adjustment was applied.

Performance outcomes against targets for incentive awards

The 2020 scheme has generated awards of between 40.8% and 41.4% (2019: 33% and 40%) of salary for executive directors, reflecting between 82% and 83% (2019: 66% and 80%) of the maximum award available.

The 2020 scheme provides for:

- Financial performance measures (max. 17% opportunity, with 5% of this for superior performance)
- Corporate performance measures (max. 17% opportunity, with 5% of this for superior performance)
- Personal performance measures (max. 16% opportunity, with 4% of this for superior performance).

For the executive director in a control function, the scheme provides for:

- Personal performance measures (max. 50% opportunity, with 15% of this for superior performance).

Annual incentive

As detailed on page 104, due to the impact of COVID-19, the Remuneration Committee reviewed the corporate performance measures contained within the annual bonus scheme and made changes which recognised the COVID-19 environment, to appropriately reflect the specific challenges faced and to align focus of effort appropriately. Therefore, the 2020 annual bonus scheme is split into two elements, the pre-COVID-19 element, which covers 1 January 2020 to 31 March 2020 and the post-COVID-19 element, which covers 1 April 2020 to 31 December 2020.

For the period 1 January 2020 to 31 March 2020, financial performance and corporate performance incentive opportunities were based on the performance measures in the table below. The table also illustrates performance against each of the measures.

1 January 2020 to 31 March 2020

Vision: strategic pillar	**Corporate performance measure**	Weightings for maximum (as % of salary)	Target	Actual	Pay out %
Secure	Profit before tax	4.25%	Commercially sensitive[1]	Profit before tax at 31 March 2020 was £20.7m which is £0.4m favourable to plan	4.25%
Secure	Net lending	1.063%	Commercially sensitive[1]	Net lending for the first quarter was an outflow of £30m versus a plan inflow of £214m. Simple value for the quarter was 102 basis points (bps) versus a plan for the quarter of 71 bps	0.91%
Customer centred	Broker Net Promoter Score (NPS)	1.063%	External broker NPS of 52%	At 31 March 2020, NPS was ahead of target (55%)	0.75%
	Customer experience	1.063%	Achieve sustained year on year equivalent Customer Experience Index (CEI) performance of 8.65	At 31 March 2020, CEI was ahead of target (8.68)	0.91%
People	Colleague engagement	1.063%	Deliver colleague engagement in line with the 2020 financial services benchmark, measured by external data using six engagement index questions	A pulse survey ran in Q2 2020, to assess colleague engagement following the response to COVID-19 which resulted in an increased engagement index to 85% (81% in May 2019)	1.063%

(1) The Committee consider the specific targets to be commercially sensitive. In these cases, disclosure will be made once the target is deemed not to be sensitive.

For the period 1 April 2020 to 31 December 2020, financial performance and corporate performance incentive opportunities were based on the performance measures in the table below.

1 April 2020 to 31 December 2020

Vision: strategic pillar	**Corporate performance measure**	Weightings for maximum (as % of salary)	Target	Pay out %
Secure	Keeping the Society financially resilient	12.75%	• Capital – maintain a strong capital position • Liquidity – maintain efficient level of liquidity above internal limits • Profitability – achieve a resilient level of profitability	10.75%
Customer centred	Safely keeping the Society operating for the benefit of our members	6.375%	• Prioritise the safety of colleagues and members • Appropriately balance savings and mortgage members' interests • Support our members, particularly as they face financial difficulty • Keep the business operating and resilient and seek to enhance operational resilience • Future Facing: prepare our organisation, operations, products and technology for the post-COVID world	6%
People	Communicating to our colleagues and members	6.375%	• Colleagues remain informed and engaged • Maintain robust service, customer satisfaction and trust • Protect broker NPS • Keep members informed of changes that affect them	4.5%

Notes:
The financial and corporate measures only apply to the Chief Executive Officer and Chief Financial Officer. The Chief Risk Officer is responsible for a control function and, therefore, is remunerated on personal objectives only.

In the 2019 Directors' Remuneration Report, the targets in respect of profit before tax and net lending were deemed commercially sensitive. These targets are no longer deemed commercially sensitive and as such, the 2019 target for profit before tax was £115 million and the target for net lending was £0.8 billion to £1.1 billion, with gross lending delivering 54 basis points simple value.

Personal performance achievement for executive directors across the year was in the range of 12% to 40.8% (40.8% in respect of the CRO).

Remuneration for Material Risk Takers (MRTs) in 2020

Material Risk Takers are senior managers who include executive and non executive directors, chief officers and directors whose actions have a material impact on the risk profile of the Society.

The basic salary or fees of Material Risk Takers is determined to reflect the responsibilities of the role. Salaries are reviewed annually and increases are awarded based on personal performance, as for all colleagues. Material Risk Takers, other than non executive directors, are eligible for an annual bonus scheme. The bonus scheme for Material Risk Takers in control functions is based on the achievement of non financial objectives. In 2020, there were 26 Material Risk Takers during the year.

Aggregate remuneration for Material Risk Takers is reported in the table below.

Remuneration for Material Risk Takers

	Number of beneficiaries		**Fixed pay (1)**		**Current year variable pay (2)**		**Total**	
	2020	**2019**	**2020 £'000**	**2019 £'000**	**2020 £'000**	**2019 £'000**	**2020 £'000**	**2019 £'000**
Senior management	26	31	4,426	5,719	957	1,512	5,383	7,231
Other MRTs	–	–	–	–	–	–	–	–
Total	26	31	4,426	5,719	957	1,512	5,383	7,231

Notes:
(1) Fixed pay includes basic salary, benefits, pension, loss of office payments and fees for non executive directors.
(2) £1.589 million of variable pay is deferred for one, three, or seven years (2019: £826,680).
(3) Material Risk Takers who left the Society during the calendar year are included in the table above.

Directors' Remuneration Report

Continued

Pensions and other benefits

A J Greenwood is a deferred member of the defined contribution section of the pension scheme and has opted for a cash allowance in lieu of the Society's pension contribution. R G Fearon and A P Conroy opted to receive pension benefits as part contributions to the defined contribution section of the pension scheme and part cash allowance, in lieu of the Society's pension contribution.

No executive director has the right or opportunity to receive enhanced benefits beyond those already disclosed, and the Committee has not exercised its discretion during the year to enhance benefits.

Executive directors may be entitled to receive compensation for loss of office. Such payments will be based on the monthly salary and pension contributions that the executive would have received if still in our employment.

Long term incentive awards made in the financial year

There were no long term incentive awards made in the financial year.

Payments to former directors

A payment of £111,290 has been made in 2020 to P A Hill, the former Chief Executive Officer, who retired on 30 June 2019. A payment of £75,291 has been made in 2020 to R S P Litten, the former Chief Financial Officer, who left the business on 18 April 2019. A payment of £105,847 has been made in 2020 to K R Wint, the former Chief of Staff, who left the business on 31 January 2020. The bonus payments consisted of deferred incentive awards, with the exception of K R Wint, who also received a payment in respect of her performance in 2019. All these payments were subject to risk assessment – the Committee determined no risk adjustment was required.

Payments for loss of office

There were no payments for loss of office made in the financial year.

Remuneration for non executive directors

The fees for non executive directors are made up of a basic fee, plus a committee chair fee, as appropriate. The Chair does not receive additional fees for roles carried out other than that of Chair.

Non executive directors	Basic fees (£'000)		Benefits[1] (£'000)		Committee chair fees (£'000)		Total (£'000)	
	2020	2019	2020	2019	2020	2019	2020	2019
I C A Cornish[2]	127	50	–	1	–	–	127	51
R J Ashton (previous Chair)	40	150	1	3	–	–	41	153
G Hoskin (current Vice Chair)	51	50	1	5	24	23	76	78
A M Barnes[3]	51	46	1	3	–	–	52	49
P A Brown[4]	–	16	–	1	–	–	–	17
D Fisher	51	50	–	–	17	17	68	67
N Fuller[5]	4	–	–	–	–	–	4	–
J A Hunt	51	50	1	4	–	–	52	54
P A Jenks[6]	12	50	–	–	–	–	12	50
L R McManus	51	50	1	4	11	11	63	65
Total	**438**	**512**	**5**	**21**	**52**	**51**	**495**	**584**

Notes

(1) In addition to the payment of fees, non executive directors are reimbursed for travel expenses for attending meetings and where tax liability arises, this will be covered by the Society.
(2) This director was appointed on 2 January 2019 and became Chair on 3 April 2020.
(3) This director was appointed on 1 February 2019.
(4) This director resigned on 30 April 2019.
(5) This director was appointed on 1 December 2020.
(6) This director retired on 26 March 2020.

An increase of 2% was agreed for the Chair to £153,980 with effect from 1 April 2020. Robin Ashton retired on 3 April 2020 and Iain Cornish took over the role of Chair from this date on a salary of £153,980. The fee for the Vice Chair was increased by 2% to £74,976 and the basic non executive director's fee was increased by 2% to £51,000. The committee chair fee was increased by 2%.

The annual pay review takes place in April, for all colleagues in the Society, including a fee review for non executive directors. There will be no increase in fees in respect of the Chair, Vice Chair and non executive directors in April 2021.

Non executive directors	Basic fees (£'000)	Committee chair fees (£'000)	Total fees (£'000)
	2021	**2021**	**2021**
I C A Cornish (Chair)	154	–	154
G Hoskin (Vice Chair)	51	24	75
A M Barnes	51	–	51
D Fisher	51	17	68
N Fuller	51	–	51
J A Hunt	51	-	51
L R McManus	51	11	62
Total	**460**	**52**	**512**

Directors' loans, transactions and related business activity

The aggregate amount outstanding at 31 December 2020 in respect of loans from the Society or a subsidiary undertaking to directors of the Society or persons associated with directors was £766,337 (2019: £1,026,177), being three mortgages (2019: four) to directors and persons connected to directors. These loans were at normal commercial rates. A register of loans and transactions with directors and their connected persons is maintained at the head office of the Society and may be inspected by members. There were no significant contracts between the Society or our subsidiaries and any director of the Society during the year.

History of remuneration of the Chief Executive Officer

The table below shows the total remuneration of the Chief Executive Officer over the last five years, together with the performance pay awarded as a percentage of the maximum possible. R G Fearon was appointed Chief Executive Officer on 27 February 2019, the figures prior to 2019 relate to P A Hill, the former Chief Executive Officer.

	Total remuneration £'000	Performance pay as % of maximum
2020	684	82.9
2019	659	75.0
2018	785	89.7
2017	765	87.0
2016	728	84.0

Directors' Remuneration Report

Continued

Percentage change in salary for the Chief Executive Officer

The basic salary of the Chief Executive Officer increased by 2% during 2020. An average annual increase of 1.92% in basic pay was awarded to all colleagues. The annual change of each individual executive director's pay, compared to the annual change in average colleague pay is detailed below.

	Annual increase
Chief Executive Officer	2.00%
Chief Risk Officer	2.00%
Chief Financial Officer	0.00%
Colleague average	1.92%

Relative importance of spend on pay

The following table sets out the percentage change in profit and overall spend on remuneration in the year ending 31 December 2020, compared to the previous year.

	2020	2019	Percentage change
Profit after tax	£62.0m	£66.2m	(6.3)%
Colleague remuneration costs	£47.3m	£47.5m	(0.4)%
Headcount	1,432	1,408	1.7%

External advisers to the Remuneration Committee

The Remuneration Committee seeks the advice of independent external consultants, as required. The external advisers to the Remuneration Committee in 2020 were PwC LLP, who in 2020, 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 LLP does not have any conflict of interest in advising the Remuneration Committee.

Directors' Report

Year ended
31 December 2020

The directors have pleasure in presenting their Annual Report and Accounts and Annual Business Statement, for the year ended 31 December 2020.

Information on our vision, strategy and business performance, including key performance indicators, is provided in the Strategic Report on pages 8 to 17.

Profits and capital

Profit before tax for the year was £80.7 million (2019: £88.0 million). The profit after tax transferred to the general reserve was £62.0 million (2019: £66.2 million). Total equity attributable to members at 31 December 2020 was £1,154.7 million (2019: £1,086.1 million).

Gross capital at 31 December 2020 was £1,390.8 million (2019: £1,319.2 million) including £241.5 million (2019: £232.1 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings was 7.39% at 31 December 2020 (2019: 6.88%) and the free capital ratio was 6.81% (2019: 6.45%). Further explanation of these ratios is provided in the Annual Business Statement on page 204.

Mortgage arrears

At 31 December 2020, there were 228 (2019: 152) mortgage accounts 12 months or more in arrears. The total mortgage arrears, for these cases, was £2.7 million (2019: £2.0 million) and the total principal balance outstanding was £23.1 million (2019: £17.8 million).

Charitable and political donations

In 2020, the Group made a donation of £90,000 (2019: £90,000) to the Leeds Building Society Charitable Foundation. Our other donations to charities and good causes (including colleague fund matching) during the year amounted to £86,000 (2019: £89,000).

The Caring Saver Account and the Your Interest In Theirs scheme provided further donations of £13,535 (2019: £15,250) and £98,300 (2019: £98,750) respectively to specified charities.

Other charitable contributions from colleagues and members totalled £83,600 (2019: £88,500) taking total donations to charity and good causes to £371,600 (2019: £381,500).

No political donations were made during the year (2019: £nil).

Creditor payment policy

Our policy is to agree terms and conditions with suppliers that outline the way in which business is to be transacted, including the terms of payment, and to pay in accordance with contractual and other legal obligations.

Creditor days stood at 15 days at 31 December 2020 (2019: 22 days).

Pillar 3 disclosures

The disclosures required under Pillar 3 of CRD IV are published on our website at leedsbuildingsociety.co.uk/press/financial-results

Principal risks and uncertainties

Our approach to managing risks is set out in the Risk Management Report on pages 98 to 103. The principal risks and uncertainties we face are set out in the Strategic Report on pages 39 to 48. Further information relating to our financial risks and the approach to management of those risks is included in notes 31 to 34 of the accounts.

Colleagues

Information on key colleague policies and associated key performance indicators, including processes for communicating and consulting with colleagues, are included in the Strategic Report on pages 18 to 20 and the Corporate Governance Report on pages 80 and 81.

We are proud to be accredited as Leaders in Diversity and are committed to maintaining an inclusive workplace which provides all colleagues with equal access to development and opportunities, without barriers. We are a Disability Confident accredited employer and give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Where a colleague becomes disabled during the course of their employment, every effort is made to continue their employment, making reasonable and proportionate adjustments as necessary.

Business relationships

We are committed to developing strong business relationships, notably with brokers, suppliers and investors among others. Further details of how the Board has regard to the interests of these and other stakeholders can be found on pages 21 to 24.

Continued

Environmental policy
The directors recognise that the activities of the Society have an impact on the environment and that environmental matters, such as climate change create risks and opportunities for the business. Further information on our approach to these can be found on pages 25 and 26 of the Strategic Report, where disclosures in relation to our energy consumption and carbon emissions can also be found.

Corporate governance
Statements on corporate governance and directors' roles and responsibilities are set out in the Corporate Governance Report on pages 66 to 83.

Directors' responsibilities in respect of the preparation of the Annual Accounts
This statement is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report. It should be read in conjunction with the statements on the respective responsibilities of directors and the auditor on page 133.

For each financial year, the directors are required by the Building Societies Act 1986 (the Act) to prepare annual accounts which give a true and fair view of the income and expenditure of the Society and the Group, and of the state of affairs of both, as at the end of the financial year. Additionally, they must provide details of directors' emoluments in accordance with Part VIII of the Act and regulations made under it. The Act states that references to IFRS accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing the Annual Accounts, directors are required to:

- select appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the Annual Accounts have been prepared in accordance with IFRS; and
- prepare the Annual Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors consider that the Annual Report and Accounts are fair, balanced and understandable, when taken as a whole, and that they provide the information necessary for members to assess the Society's and Group's performance, business model and strategy.

In addition to the Annual Accounts, the Act requires the directors to prepare an Annual Business Statement and a Directors' Report for each financial year. Each contains prescribed information relating to our business and subsidiary undertakings.

Directors' responsibilities for accounting records and internal control
The directors are responsible for ensuring that the Society and our subsidiary undertakings:

- keep accounting records in accordance with the Building Societies Act 1986; and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to our business.

The directors have general responsibility for safeguarding our assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance of the corporate and financial information included on our website. Legislation in the United Kingdom, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

The directors who held office at the date of approval of this report confirm that, as far as they are aware, there is no relevant information of which our auditor is unaware and that each director has taken all steps necessary to make themselves aware of any relevant audit information and establish that the auditor is aware of that information.

Going concern
The directors are required to prepare financial statements on a going concern basis, unless it is inappropriate to presume that the Society and the Group will continue in business for the next 12 months.

The directors undertake regular rigorous assessments of whether the Society and the Group are a going concern, considering current economic and market conditions, including the ongoing impacts of the pandemic and the UK's withdrawal from the European Union, as well as the potential impact of the principal and emerging risks set out on pages 39 to 48 of the Strategic Report. The regulatory regime under which the Society and Group operate requires regular stress testing, including the ICAAP and ILAAP, which provide strong evidence to support the directors' conclusions.

The directors have also reviewed the Society's and Group's position over a longer period than the 12 months required by the going concern assessment. This is explained in the Viability Statement on pages 49 and 50 of the Strategic Report.

The Society and the Group have continued to operate throughout the pandemic, with the infrastructure in place to enable the majority of office based colleagues to work remotely, while adjustments have been made for colleagues working on Group premises so that they can continue to do so safely to serve our members.

The directors have concluded that:

- The Group has proven access to liquidity resources, including access to central bank funding facilities if required, sufficient to meet both the normal demands of the business and the requirements which might arise in modelled stressed circumstances. The availability and quality of liquid assets are structured so that funds are available to repay any maturing wholesale funds and cover exceptional demand from retail investors.
- The Group's other assets consist primarily of mortgages secured on residential property. The recoverability of all mortgage assets is reviewed regularly and provisions are made, incorporating a forward looking view of expected losses under a range of macroeconomic scenarios, so that the Group is not exposed to losses on these assets which would impact its decision to adopt the going concern basis.
- The Group's current capital resources are sufficient to meet regulatory requirements. Having reviewed future plans and forecasts, the directors consider plans for future capital generation are sufficient to maintain capital in excess of regulatory requirements, under both central and modelled stressed scenarios.

The directors have therefore concluded that there is no material uncertainty in relation to the Society and the Group's continuation as a going concern and therefore it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Directors

The names of the directors of the Society at 31 December 2020, their roles and membership of Board committees are detailed on pages 61 to 64.

In line with best practice, all executive and non executive directors offer themselves for election or re-election by the members at the AGM.

None of the directors holds any beneficial interest in shares in, or debentures of, any subsidiary undertaking of the Society.

Auditor

In accordance with Section 77 of the Building Societies Act 1986, a resolution for Deloitte LLP's re-appointment as auditor will be proposed at the AGM.

Post balance sheet events

The directors consider that no events have occurred since the year end to the date of this Annual Report that are likely to have a material effect on the financial position of the Group, as disclosed in the Annual Accounts.

Katherine Tong
Director of Legal, Compliance and Secretary

25 February 2021

Independent Auditor's Report to the Members of Leeds Building Society

Year ended
31 December 2020

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Leeds Building Society (the 'Society') and its subsidiaries (the 'Group'):

- **give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2020 and of the Group's and the Society's income and expenditure for the year then ended;**
- **have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986; and**
- **have been prepared in accordance with the requirements of the Building Societies Act 1986.**

We have audited the financial statements which comprise:

- the Group and Society Income Statements;
- the Group and Society Statements of Comprehensive Income;
- the Group and Society Statements of Financial Position;
- the Group and Society Statements of Changes in Members' Interest;
- the Group and Society Statements of Cash Flows; and
- the related notes 1 to 37.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Building Societies Act 1986.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non audit services provided to the Group and the Society for the year are disclosed in note 6 to the financial statements. We confirm that the non audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • IFRS 9 Financial Instruments - UK residential expected credit loss (ECL) provisioning; • Hedge accounting; • Fair value of collateral loan; and • Fair value of complex financial instruments. Within this report, key audit matters are identified as follows: Increased level of risk Similar level of risk
Materiality	The materiality that we used for the Group financial statements was £6.5 million which was determined on the basis of net assets.
Scoping	All material entities in the Group are within our audit scope and audited to a lower materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

Significant changes in our approach	Our risk assessment process has resulted in the key audit matters reported upon remaining broadly consistent with the previous year, with an additional risk identified within our ECL provisioning key audit matter around the completeness and accuracy of post model adjustments (PMAs) to account for risks that may not be reflected in the IFRS 9 models in light of COVID-19. Due to the fast pace of change in the economic environment significant consideration needs to be given to the latest available economic data being used within the assumptions adopted.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls around management's going concern assessment;
- assessing management's considerations regarding whether they consider it appropriate to adopt the going concern basis of accounting;
- assessing the Group's and Society's compliance with regulation including capital and liquidity requirements;
- involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts, including the stress testing and reverse stress testing performed by management;
- assessing the assumptions used in the forecasts prepared by management; and
- assessing historical accuracy of forecasts prepared by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon we do not provide a separate opinion on these matters.

5.1. IFRS 9 Financial Instruments – UK residential expected credit loss (ECL) provisioning

Key audit matter description	Under IFRS 9 provision is required for the expected credit loss (ECL) on loans measured at amortised cost. Estimating these expected losses requires judgement and estimation on assumptions relating to customer default rates, likelihood of repossession, future property values, forced sale discounts and indicators of significant increases in credit risk. These assumptions are informed using historical behaviour and experience through different economic cycles as well as credit bureau data. The Group held £47.2 million of impairment provisions against such loans at year end in accordance with IFRS 9 (2019: £33.2 million) against total loans and advances to customers of £17,036.1 million (2019: £17,008.0 million). The Group applies four macroeconomic scenarios when determining the ECL calculation: a central outlook, a downside and an alternative downside scenario and a growth scenario. The selection and probability weighting of relevant macroeconomic scenarios is judgemental and has a significant impact on the ECL calculation. In the current year, additional post model adjustments of £9.5 million have been made to the ECL to reflect the impact of COVID-19. Our key audit matters in relation to ECL provisioning have been identified as: • the selection and probability weighting of relevant macroeconomic scenarios and assumptions. There exists a risk of management bias in selecting the weightings and assumptions applied in the IFRS model, and also a potential lack of consistency in approach when determining the weightings period on period. As the downside scenarios are the most sensitive within the model and have the largest impact on the overall ECL, there is a risk of management bias in selecting the probability weightings of macroeconomic assumptions and the level of consistency in approach when determining the probability weightings for each scenario period on period; and • the completeness and accuracy of post model adjustments to address risks that may not be reflected in the IFRS 9 models. Management has recognised post model adjustments that increase the provision in order to mitigate the uncertainty relating to customers that have taken mortgage payment deferrals as well as the impact of recent and forecast economic uncertainty on the model outputs. We also considered the potential for fraud through possible manipulation of this balance. The Group's loan loss provision balances are detailed within note 8. Management's associated accounting policies are detailed on pages 143 and 144 with detail about judgements in applying accounting policies and critical accounting estimates on pages 147 to 152. Management's consideration of the effect of the future economic environment is disclosed on pages 148 to 152. The Audit Committee's consideration of the matter is described on pages 92 and 93.

How the scope of our audit responded to the key audit matter	We have tested the relevant controls over the loan impairment provisioning process. This included assessment of the level of challenge at key management review forums that formed part of these controls. With the involvement of our credit risk and accounting specialists, we assessed the compliance of the modelling approach and methodology with the requirements of IFRS 9 – Financial Instruments. With the involvement of our IT and credit risk specialists we assessed whether the documented modelled approach was implemented in practice. We challenged management's consideration of the future economic environment by engaging our economic specialists to review management's approach as well as comparing modelled assumptions to publicly available data from peer organisations, regulators and economic commentators. We challenged management as to whether there was sufficient downside risk in the modelled approach given the heightened economic uncertainty, in particular relating to the economic impact of COVID-19. We assessed, using publicly available data, whether the combination of management's modelled downside and alternative downside scenarios appropriately captured credit risk relating to the future economic environment. We involved credit risk specialists to evaluate the completeness and accuracy of post model adjustments made by management to address risks that may not be reflected in the IFRS 9 models. We reconciled each book to the general ledger and substantively tested a sample of loans to assess whether the data used in the provision calculation was complete and accurate.
Key observations	Based on the work performed, we concluded that the Group's ECL applied to the UK residential mortgage book was within a reasonable range.

5.2. Hedge accounting

Key audit matter description	The Group has designated a number of fair value macro hedges in order to minimise fair value volatility through the Income Statement. Over the life of the hedge, hedged items (mortgages and savings accounts) and instruments (derivatives) incept and de-designate from the hedge relationship. In line with the requirements of IAS 39, management carries out prospective and retrospective effectiveness testing on a monthly basis. We have identified a key audit matter around the completeness of the identification of items which are designated and de-designated from the hedge relationship, as well as the accuracy of the amortisation adjustments posted against these items. The net fair value adjustment in the balance sheet at year end was an asset of £109.6 million (2019: £54.2 million). Management has taken the IFRS 9 accounting policy choice to continue to apply IAS 39 accounting with respect to all designated hedge relationships. The IBOR reform phase 1 with amendments to IAS 39, IFRS 9 and IFRS 7 to allow for continued hedge accounting under the interest rate benchmark reform was adopted in the prior year. Management's chosen accounting policies are detailed on pages 142 and 143. The Audit Committee's consideration of this risk is included on page 94.

Continued

How the scope of our audit responded to the key audit matter	We have tested the relevant controls over the hedge accounting process, including the Group's controls over the identification and recording of the designation and de-designation adjustments. We obtained management's master document where the designation and de-designation adjustments are calculated on a monthly basis and reviewed management's methodology for assessing items that have de-designated from the hedge relationship. We then tested the accuracy of the amortisation adjustments posted by management through a full recalculation of the expected remaining amortisation as at 31 December 2020. We tested the valuation of the items which had been designated or de-designated from the macro hedge in the year through independent recalculation of the fair value of a sample of items as at their designation/de-designation date. We assessed management's prospective and retrospective effectiveness testing. We tested the completeness of the population of items within the master document through reperformance of management's monthly designation and de-designation process.
Key observations	Based on the work performed, we concluded that the overall treatment in relation to the macro hedge relationships adopted and subsequent amortisation of de-designated items, was appropriate.

5.3. Fair value of collateral loan

Key audit matter description	The Group holds a collateral loan to a third party secured on a portfolio of equity release mortgages. The collateral loan represents a complex financial instrument held at fair value and is classified within level 3 in the fair value hierarchy (see page 201 for a definition of level 3 measurements). The collateral loan had a carrying value at 31 December 2020 of £222.0 million (2019: £219.4 million). The fair value of the collateral loan is determined using a discounted cash flow model, and is reliant upon a number of unobservable and judgemental inputs. Our key audit matter has been pinpointed to the risk of management bias in selecting the discount rate used within the fair value model and the impact the selection of discount rate has on the modelling of the no negative equity guarantee. This includes consideration of repayment profiles and the credit risk associated with the assets. We also considered the potential for fraud through possible manipulation of this balance. The Group's disclosure of the collateral loan is detailed within note 13 and note 31. Management's associated accounting policies are detailed on page 142 with detail about judgements in applying accounting policies and critical accounting estimates on pages 146 and 153. The Audit Committee's consideration of the matter is described on page 93.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the fair valuation of collateral loan process. We challenged management's valuation methodology for the equity release mortgage portfolio by: • involving our valuation specialists in the review of management's valuation approach; • testing the accuracy of the valuation model by involving our modelling specialists in the review of the model mechanics, which included an assessment of whether the model had been prepared in accordance with the loan contractual terms with the third party; • assessing the rate used to discount the future cash flows to present value, including alternative approaches to calculating the discount rate. We utilised both internal and external data, taking account of the repayment profiles and credit risks associated with the assets and assessed the impact on the valuation from a reasonable range of outcomes; • testing the appropriateness of the other elements inherent in the valuation of the underlying loan assets, such as no negative equity guarantees provided by the Group to the originator of the underlying loans; and • challenging the appropriateness of the assumptions in light of COVID-19.
Key observations	Based on the work performed, we concluded that the Group's valuation of the collateral loan was within a reasonable range.

5.4. Fair value of complex financial instruments

Key audit matter description	In addition to the collateral loan detailed in the key audit matter above, there are a number of other complex financial instruments held at fair value by the Group which are classified as level 3 within the fair value hierarchy due to unobservable prepayment assumptions used within the calculation methodology. These financial instrument liabilities have a net carrying value of £64.2 million (2019: £54.8 million) and comprise the following: • the Retail Price Index (RPI) linked derivative hedging the equity release portfolio; and • the derivative hedging the residential mortgage backed securities (RMBS) securitisation vehicle. The following are the unobservable inputs: • The RPI assumptions applied to the RPI linked derivative; and • The prepayment rate of mortgages within the RMBS securitisation vehicle. The Group relies on counterparty valuations to determine the fair value of these instruments and we identified a key audit matter that these could be materially misstated. Management's chosen accounting policies are detailed on pages 142 and 143 with details about valuation techniques and key inputs on page 202. The Audit Committee's consideration of this risk is included on pages 93 and 94.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the fair valuation of complex financial instruments process. We selected a sample of complex derivatives for testing and, with the involvement of our pricing specialists, we valued these instruments using independently developed models. This included independently derived assumptions for RPI and other inputs that were not directly linked to client data. We tested the appropriateness of the prepayment rate used in the valuation of the RMBS derivative by considering historical actual prepayment rates.
Key observations	Based on the work performed, we concluded that the Group's valuations of complex financial instruments were within a reasonable range.

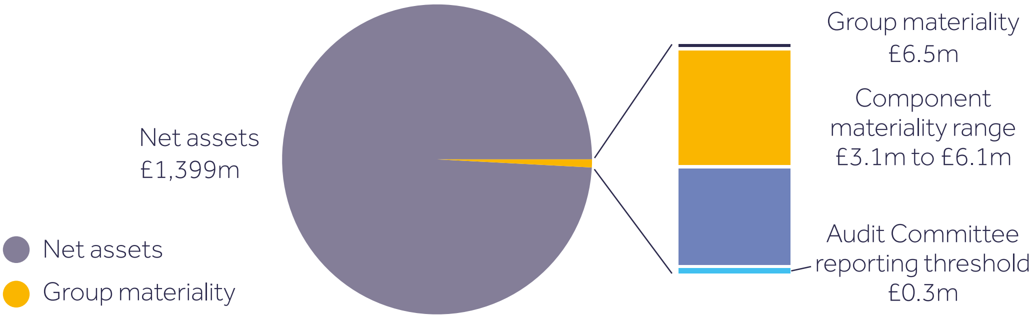
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Materiality	£6.5 million (2019: £6.5 million)	£6.1 million (2019: £6.4 million)
Basis for determining materiality	0.5% of net assets (2019: 0.6% of net assets)	0.5% of net assets (2019: 0.6% of net assets) As the majority of the Group's operations are carried out by the Society and Society net assets are higher than Group, Society materiality was capped at 95% of Group materiality in 2020 and 99% of Group materiality in 2019.
Rationale for the benchmark applied	We have used 0.5% of net assets as the benchmark for determining materiality which is consistent with the prior year approach. The emergence of COVID-19 has caused significant global economic uncertainty which has been factored into the risk assessment and planned responses to other judgement areas and estimates. To take the uncertainty in the current economic environment into account we have capped the materiality at the prior year level and not increased it in line with the increase in the underlying benchmark. The overall capital base is a key focus area for the Society's members and regulators and that the industry is experiencing lowered margins at the same time as the net assets of the Society are growing. Therefore, net assets has been considered the most appropriate base on which to determine materiality.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we considered the following factors:

	Group financial statements	Society financial statements
Performance materiality	70% (2019: 70%) of Group materiality	70% (2019: 70%) of Society materiality
Basis and rationale for determining performance materiality	a. the quality of the control environment and that we consider it appropriate to rely on controls over a number of business processes; and b. our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3 million (2019: £0.3 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and material subsidiaries. This provided 100% coverage of revenue, profit before tax and net assets of the Group, executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £3.1 million to £6.1 million (2019: £3.3 million to £6.4 million).

We, as the Group auditor, were responsible for performing the audit of each subsidiary. At the Group level we also tested the consolidation process.

7.2. Our consideration of the control environment

Our approach in relation to the Group's business cycles

We relied on controls over the following business cycles for the Group:

- Residential mortgage lending
- Customer deposits
- Expected credit losses – UK residential portfolio

We obtained an understanding of the relevant controls of the above mentioned business cycles annually. We tested relevant controls over a three year cycle for the relevant controls that do not address significant risks. We established the continuing relevance of our conclusions relating to the previously tested controls by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. Where there had been changes, the controls were tested in the current year. Relevant controls that address a significant risk were tested annually.

Our approach in relation to the Group's IT systems

We relied on controls over the following IT systems as being key to the financial reporting processes in the Society:

- Core mortgage system
- Core savings system
- Treasury system

- Data reporting tool
- Expected credit loss platform
- Underlying servers and databases for the above systems where applicable
- Review of third party assurance report for key IT outsourced vendor

We obtained an understanding of the relevant IT controls associated with the above mentioned systems. We tested the relevant IT controls by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence. We tested key automated controls as identified during our walkthroughs of the business cycles described in the preceding section.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets.
- The results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities.

- Any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non compliance with laws and regulations.
- The matters discussed among the audit engagement team and involving relevant internal specialists, including tax, financial instruments, pensions, IT, economic specialists, credit risk, pricing and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: IFRS 9 Financial Instruments – UK residential expected credit loss provisioning and the fair value of collateral loan. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Societies Act 1986 for the Society and the UK Companies Act for the subsidiaries
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulations set by the Prudential Regulation Authority relating to regulatory capital and liquidity requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified IFRS 9 Financial Instruments – UK residential expected credit loss provisioning and fair value of collateral loan as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- **the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;**
- **the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and**

- **the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.**

In the light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

13. Opinion on other matter prescribed by the Capital Requirements (Country by Country Reporting) Regulations 2013

In our opinion the information given on page 206 for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- **the directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 124 and 125;**
- **the directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 49 and 50;**
- **the directors' statement on fair, balanced and understandable set out on page 124;**
- **the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 39;**
- **the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 95 and 96; and**
- **the section describing the work of the Audit Committee set out on pages 90 to 97.**

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society;
- the Society's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Society at the Annual General Meeting on 15 June 2005 to audit the financial statements for the year ending 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2005 to 31 December 2020.

16.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Birch FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Leeds, United Kingdom
25 February 2021

Income Statements

For the year ended
31 December 2020

	Notes	**Group 2020 £M**	Group 2019 £M	**Society 2020 £M**	Society 2019 £M
Interest receivable and similar income	3	**402.6**	465.3	**401.3**	458.3
Interest payable and similar charges	4	**(197.2)**	(264.5)	**(196.3)**	(258.0)
Net interest receivable		**205.4**	200.8	**205.0**	200.3
Fees and commissions receivable		**5.6**	7.2	**5.6**	7.4
Fees and commissions payable		**(0.6)**	(0.9)	**(0.4)**	(0.6)
Fair value losses from financial instruments	5	**(16.8)**	(19.7)	**(13.7)**	(18.3)
Other operating income		**3.2**	1.9	**2.4**	2.7
Total income		**196.8**	189.3	**198.9**	191.5
Administrative expenses	6	**(92.9)**	(93.8)	**(92.9)**	(93.8)
Depreciation and amortisation	16, 17	**(7.5)**	(7.4)	**(7.5)**	(7.4)
Impairment losses on loans and advances to customers	8	**(14.6)**	(2.8)	**(14.6)**	(2.8)
Reversal of impairment losses on property, plant and equipment	17	**–**	0.1	**–**	0.1
Provisions (charge) / release	22	**(1.1)**	2.6	**(1.1)**	2.6
Operating profit and profit before tax		**80.7**	88.0	**82.8**	90.2
Tax expense	9	**(18.7)**	(21.8)	**(20.4)**	(21.8)
Profit for the financial year		**62.0**	66.2	**62.4**	68.4

All amounts relate to continuing operations.

The notes on pages 141 to 203 form part of these accounts.

Statements of Comprehensive Income

For the year ended
31 December 2020

	Notes	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Profit for the financial year		**62.0**	66.2	**62.4**	68.4
Items that may subsequently be reclassified to profit and loss:					
Fair value gains on investment securities measured at fair value through other comprehensive income		**11.1**	1.8	**11.1**	1.8
Gains on investment securities measured through other comprehensive income reclassified to profit or loss on disposal		**(2.5)**	(0.5)	**(2.5)**	(0.5)
Tax relating to items that may subsequently be reclassified	26	**(1.6)**	0.1	**(1.6)**	0.1
Effect of change in corporation tax rate	26	**(0.7)**	–	**(0.7)**	–
Items that may not subsequently be reclassified to profit and loss:					
Actuarial loss on retirement benefit surplus	24	**(1.9)**	(7.9)	**(1.9)**	(7.9)
Revaluation gain / (loss) on properties	17	**2.7**	(1.1)	**2.7**	(1.1)
Tax relating to items that may not be reclassified	26	**(0.5)**	1.0	**(0.3)**	2.2
Total comprehensive income for the year		**68.6**	59.6	**69.2**	63.0

Statements of Financial Position

As at 31 December 2020

	Notes	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	11, 28	**1,823.2**	1,451.7	**1,823.2**	1,451.7
Loans and advances to credit institutions	28	**201.9**	163.4	**86.2**	84.1
Investment securities	12	**949.7**	1,708.1	**1,071.0**	2,128.2
Derivative financial instruments	35	**192.8**	182.9	**179.3**	127.1
Loans and advances to customers	13				
Loans fully secured on residential property		**16,752.5**	16,739.8	**16,752.5**	16,739.8
Other loans		**236.4**	235.0	**236.4**	235.0
Fair value adjustment for hedged risk on loans and advances to customers		**96.1**	23.9	**96.1**	23.9
Other assets, prepayments and accrued income	14	**270.4**	210.1	**361.4**	276.9
Deferred tax assets	25	**5.6**	6.1	**5.6**	6.1
Investments in subsidiary undertakings	15	**–**	–	**1.9**	1.9
Intangible assets	16	**28.8**	19.6	**28.8**	19.6
Property, plant and equipment	17	**81.3**	64.2	**81.3**	64.2
Retirement benefit surplus	24	**1.0**	3.0	**1.0**	3.0
Total assets		**20,639.7**	20,807.8	**20,724.7**	21,161.5
Liabilities					
Shares	18	**14,162.7**	14,517.5	**14,162.7**	14,517.5
Fair value adjustment for hedged risk on shares		**(13.5)**	(30.3)	**(13.5)**	(30.3)
Derivative financial instruments	35	**237.9**	200.4	**235.4**	176.6
Amounts owed to credit institutions		**1,497.3**	1,439.5	**1,497.3**	1,439.5
Amounts owed to other customers	19	**256.7**	234.7	**580.5**	877.1
Debt securities in issue	20	**2,900.7**	2,972.5	**2,685.8**	2,706.9
Other liabilities and accruals	21	**192.9**	141.0	**162.7**	135.2
Current tax liabilities		**2.3**	9.4	**2.3**	9.3
Deferred tax liabilities	25	**4.7**	3.7	**5.1**	2.5
Provisions for liabilities and charges	22	**1.8**	1.2	**1.8**	1.2
Subscribed capital	23	**241.5**	232.1	**241.5**	232.1
Total liabilities		**19,485.0**	19,721.7	**19,561.6**	20,067.6
Total equity attributable to members		**1,154.7**	1,086.1	**1,163.1**	1,093.9
Total liabilities and equity		**20,639.7**	20,807.8	**20,724.7**	21,161.5

The accounts on pages 136 to 203 were approved by the Board of Directors on 25 February 2021.

Signed on behalf of the Board of Directors by:

Iain Cornish
Chair

Richard Fearon
Chief Executive Officer

Andrew Conroy
Chief Financial Officer

Statements of Changes in Members' Interest

For the year ended
31 December 2020

Group 2020	**General reserve £M**	**Fair value reserve £M**	**Revaluation reserve £M**	**Other reserve £M**	**Total equity attributable to members £M**
At 1 January 2020	**1,064.6**	**(0.9)**	**8.1**	**14.3**	**1,086.1**
Comprehensive income for the year	**60.5**	**6.3**	**1.8**	**–**	**68.6**
At 31 December 2020	**1,125.1**	**5.4**	**9.9**	**14.3**	**1,154.7**

Group 2019	General reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2019	1,006.3	(2.3)	8.2	14.3	1,026.5
Comprehensive income for the year	58.1	1.4	0.1	–	59.6
Revaluation gains transferred on disposal of assets	0.2	–	(0.2)	–	–
At 31 December 2019	1,064.6	(0.9)	8.1	14.3	1,086.1

Society 2020	**General reserve £M**	**Fair value reserve £M**	**Revaluation reserve £M**	**Other reserve £M**	**Total equity attributable to members £M**
At 1 January 2020	**1,072.6**	**(0.9)**	**8.1**	**14.1**	**1,093.9**
Comprehensive income for the year	**60.9**	**6.3**	**1.8**	**0.2**	**69.2**
At 31 December 2020	**1,133.5**	**5.4**	**9.9**	**14.3**	**1,163.1**

Society 2019	General reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2019	1,010.9	(2.3)	8.2	14.1	1,030.9
Comprehensive income for the year	61.5	1.4	0.1	–	63.0
Revaluation gains transferred on disposal of assets	0.2	–	(0.2)	–	–
At 31 December 2019	1,072.6	(0.9)	8.1	14.1	1,093.9

Statements of Cash Flows

For the year ended
31 December 2020

	Notes	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Profit before tax		**80.7**	88.0	**82.8**	90.2
Adjusted for changes in:					
Impairment provision		**14.0**	(1.0)	**14.0**	(1.0)
Provisions for liabilities and charges		**0.6**	(3.8)	**0.6**	(3.8)
Depreciation and amortisation		**7.5**	7.4	**7.5**	7.4
Fair value of collateral loan which represents a pool of equity release mortgages		**(6.2)**	8.5	**(6.2)**	8.5
Non cash and other items		**3.5**	(7.4)	**(7.9)**	(40.3)
Cash generated from operations		**100.1**	91.7	**90.8**	61.0
Changes in operating assets and liabilities:					
Derivative financial instruments		**20.1**	12.2	**13.5**	33.9
Loans and advances to customers		**(21.9)**	(948.9)	**(21.9)**	(948.9)
Other operating assets		**(61.2)**	(49.6)	**(85.4)**	(97.9)
Shares		**(354.8)**	608.0	**(354.8)**	608.0
Amounts owed to credit institutions and other customers		**79.8**	63.9	**(238.8)**	332.6
Other operating liabilities		**55.8**	(63.0)	**31.4**	(45.1)
Taxation paid		**(27.0)**	(24.6)	**(27.0)**	(24.6)
Net cash flows from operating activities		**(209.1)**	(310.3)	**(592.2)**	(81.0)
Cash flows from investing activities					
Purchase of investment securities		**(796.3)**	(5,176.5)	**(796.3)**	(5,326.5)
Proceeds from sale and redemption of investment securities		**1,562.4**	4,699.4	**1,861.2**	4,753.1
Change in loans to subsidiary undertakings		**–**	–	**–**	44.7
Purchase of intangible assets		**(11.7)**	(11.9)	**(11.7)**	(11.9)
Purchase of property, plant and equipment		**(19.1)**	(5.9)	**(19.1)**	(5.9)
Proceeds from sale of property, plant and equipment		**–**	0.4	**–**	0.4
Net cash flows from investing activities		**735.3**	(494.5)	**1,034.1**	(546.1)
Cash flows from financing activities	27				
Net proceeds from issue of debt securities		**2,427.2**	1,609.4	**2,427.2**	1,359.4
Repayments of debt securities in issue		**(2,541.4)**	(787.2)	**(2,493.5)**	(695.8)
Principal lease payments*		**(2.0)**	–	**(2.0)**	–
Net cash flows from financing activities		**(116.2)**	822.2	**(68.3)**	663.6
Net increase in cash and cash equivalents		**410.0**	17.4	**373.6**	36.5
Cash and cash equivalents at the beginning of the year		**1,615.1**	1,597.7	**1,535.8**	1,499.3
Cash and cash equivalents at the end of the year	28	**2,025.1**	1,615.1	**1,909.4**	1,535.8

Notes:

* For presentation purposes principal lease payments in 2020 are shown separately. 2019 has not been restated, with payments of £1.5m included within other operating liabilities.

Notes to the Accounts

Year ended
31 December 2020

1. Accounting policies

(a) Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and in accordance with those parts of the Building Societies Act 1986 and the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) applicable to societies reporting under IFRS.

The accounts have been prepared on the going concern basis as outlined in the Directors' Report.

These financial statements are presented in sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds. The particular accounting policies adopted are described below and the policies, presentation and methods of computation are consistent with those applied by the Group in the prior year, except where otherwise indicated.

In the year ended 31 December 2019, the Group chose to early adopt Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) which was issued by the International Accounting Standards Board in September 2019 and was mandatorily effective from 1 January 2020. These amendments modified certain hedge accounting requirements to allow continued designation for affected hedge relationships during the period of uncertainty as benchmark interest rates are amended or replaced.

At the date of authorisation of these financial statements, the following standards and interpretations (which have not been applied in these financial statements) were in issue but not yet effective:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

  These amendments were issued by the International Accounting Standards Board in August 2020 and are mandatorily effective from 1 January 2021. They introduce a practical expedient in relation to modifications of financial instruments required as a result of interest rate benchmark reform and ensure that hedge accounting is not discontinued solely as a result of the reform. Further information on the impact of interest rate benchmark reform on the Group can be found in note 35c.

- IFRS 17 – Insurance Contracts

  IFRS 17, which is effective from 1 January 2023, is not expected to have a material impact on the Group since the Group does not issue insurance contracts. The Group holds a collateral loan which represents a pool of equity release mortgages purchased from a third party and is currently accounted for under IFRS 9 – Financial Instruments. The 'no negative equity' feature of the equity release mortgages could be considered to represent an insurance contract but the standard permits the continued application of IFRS 9 to this loan following the adoption of IFRS 17.

(b) Accounting convention
The Group prepares its accounts under the historical cost convention, except for the valuation of financial assets and liabilities held at fair value through other comprehensive income or fair value through profit or loss including all derivative financial instruments, and certain freehold and long leasehold properties.

(c) Basis of consolidation
Leeds Building Society does not have a parent or controlling entity. The Group accounts consolidate the accounts of Leeds Building Society, its subsidiaries and those entities over which it is deemed to have control, as listed in note 15. Uniform accounting policies are applied throughout the Group. Intercompany transactions are eliminated upon consolidation.

(d) Financial instruments

(i) Classification and measurement

Financial assets
In accordance with IFRS 9, the Group has classified its financial assets with reference to both the Group's business model for managing the assets and the contractual cash flow characteristics of the assets. The Group's financial assets have been classified into the following categories:

- **At amortised cost**
  These are assets for which the business model is to hold the asset and collect the contractual cash flows, and those cash flows are solely payments of principal and interest. This means that cash flows typically occur on pre-determined dates and that interest primarily reflects the time value of money, compensation for credit risk and a profit margin.

  The Group has classified the following assets as 'at amortised cost': cash in hand and balances with the Bank of England, loans and advances to credit institutions and loans and advances to customers, with the exception of a collateral loan which represents a pool of equity release mortgages purchased from a third party for which some but not all risks were transferred to the Group.

  Assets held at amortised cost are initially recorded at fair value (usually transaction price) plus any directly attributable costs. They are subsequently measured using the effective interest rate method less provisions for impairment.

1. Accounting policies continued

(d) Financial instruments (continued)

(i) Classification and measurement (continued)

- At fair value through other comprehensive income (FVOCI)
  These are categories of assets for which the business model is to hold the asset and collect the contractual cash flows or to sell the assets. The contractual cash flows must be solely payments of principal and interest. The Group holds investment securities in order to meet current and future liquidity requirements, and these are considered to meet the definition of the hold or sell business model. They are therefore classified as 'at FVOCI', apart from those assets for which the cash flows are not solely payments of principal and interest, as noted below.

  These assets are initially recognised at fair value plus any attributable costs. Subsequent changes in fair value are recognised in equity, except for impairment losses which are recognised in the Income Statement. Upon derecognition, any accumulated movements in fair value previously recognised in equity are reclassified to profit or loss in the Income Statement.

  Premia and discounts arising on the purchase of assets held at FVOCI are spread over the life of the asset using the effective interest rate method.

- At fair value through profit or loss (FVTPL)
  Assets for which the business model is neither to hold nor to hold or sell, or those for which contractual cash flows are not solely payments of principal and interest, are classified as 'at FVTPL'. The Group has classified the collateral loan which represents a pool of equity release mortgages as 'at FVTPL' since the underlying contract with the customer contains a 'no negative equity guarantee' that any shortfall arising on the sale of the property securing the mortgage will not be pursued.

  Certain investment securities are also classified as 'at FVTPL', either because interest can be foregone or because their credit risk is higher than the average credit risk of the underlying collateral. In addition, IFRS 9 has mandated that derivative financial instruments are classified as 'at FVTPL'.

  These assets are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement.

Purchases and sales of financial assets are recognised at settlement date.

Financial liabilities

All financial liabilities are classified as 'at amortised cost', with the exception of derivative financial instruments which under IFRS 9 are mandatorily classified as 'at FVTPL'.

Financial liabilities are initially recorded at their fair value, and those to be measured at amortised cost are subsequently measured using the effective interest rate method. The premia and discounts, together with commissions and other costs incurred in the raising of wholesale funds and subordinated liabilities, are amortised over the period to maturity using the effective interest rate method. Those liabilities measured at FVTPL are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement.

(ii) Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the Statement of Financial Position when substantially all of the risks and rewards of ownership remain within the Group, and the counterparty liability is included separately on the Statement of Financial Position as appropriate. Where applicable, the difference between sale and repurchase price is accrued over the life of the agreement using the effective interest rate method.

(iii) Derecognition of financial assets and liabilities

Financial assets are only derecognised when the contractual rights to receive cash flows from them have expired or when the Group has transferred substantially all risks and rewards of ownership. Within the Society accounts, the Society has not derecognised the mortgage loans which have been used to secure its issue of debt securities as substantially all the risks and rewards are retained by the Society and the Society retains control of the assets. Financial liabilities are only derecognised when the obligation is discharged, cancelled or has expired.

(iv) Derivative financial instruments and hedge accounting

The Group continues to apply the IAS 39 hedge accounting standards, as permitted by IFRS 9.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured monthly at their fair value. The need for credit valuation adjustments is considered in the determination of the fair value of derivatives. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

1. Accounting policies continued

(d) Financial instruments (continued)

(iv) Derivative financial instruments and hedge accounting (continued)
All derivatives are entered into by the Group for the purpose of providing an economic hedge; however certain criteria must be met before the instruments can be allocated to accounting hedge relationships. The Group makes use of accounting fair value hedges to reduce volatility in the Income Statement. If derivatives are not designated as accounting hedges then changes in fair values are recognised immediately in the Income Statement.

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the relationship is de-designated and the adjustment to the carrying amount of the hedged item is amortised to the Income Statement over the period to maturity. The Group has not had any cash flow hedge relationships in place during the current or prior years or at the end of the current year.

(e) Impairment of financial assets
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 unexpired 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. 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.

(i) Impairment of loans and advances to customers
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 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 12 months or, for loans subject to forbearance, if 12 consecutive full payments are made after the forbearance activity has completed.

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.

1. Accounting policies continued

(e) Impairment of financial assets (continued)

(i) Impairment of loans and advances to customers (continued)

The Group 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.

Mortgage payment deferrals offered to customers as a result of the COVID-19 pandemic are not considered to be standard forbearance.

(ii) Impairment of liquid assets

The Group reviews the external credit ratings of its liquid assets (cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities) at each reporting date. Those assets which are of investment grade (external credit rating of Aaa to Baa3 or equivalent) are considered to have low credit risk and therefore are assumed to have not had a significant increase in credit risk since initial recognition, as allowed by IFRS 9. Liquid assets which are not of investment grade are not expected to be material, but would be assessed on an individual basis.

ECL is calculated by multiplying loss given default (LGD), probability of default (PD) and exposure at default (EAD). LGD is calculated based on publicly available data on historic recovery rates by product and PDs are similarly based on public information and analysis performed by third parties to derive PDs for similar products.

(f) Interest receivable and payable and similar income and charges

Interest income and expense on all financial instruments is recognised in interest receivable or payable in the Income Statement. Interest income and expense is calculated using the effective interest rate method for financial assets and liabilities held at amortised cost and at FVOCI.

The effective interest rate method is a method of allocating the interest income or interest expense to the carrying value over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts, over the expected life of the financial instrument, to the net carrying amount of the instrument.

Specifically, for mortgage assets, the effect of this policy is to spread the impact of discounts, cashbacks, arrangement and valuation fees, early redemption charges and costs directly attributable and incremental to setting up the loan, over the expected life of the mortgage. Expected lives are reassessed at each Statement of Financial Position date and any changes are reflected in the effective interest rate models, resulting in an immediate gain or loss in the Income Statement. For investment securities, the effective interest rate method spreads any premia or discounts arising on the purchase of the asset over the period to the maturity date of the asset.

Interest received on the collateral loan and investment securities classified as 'at FVTPL' is recognised within 'Interest receivable and similar income'. Amounts accrued and settled in relation to coupon payments and receipts which are contractually due on derivative financial instruments are recognised within 'Interest receivable and similar income' for all derivatives which are economic hedges of financial assets, regardless of whether or not they are in an accounting hedge relationship, and within 'Interest payable and similar charges' for all derivatives which are economic hedges of financial liabilities. All other movements in the fair value of assets held 'at FVTPL' are recognised through 'Fair value gains less losses from financial instruments'.

(g) Fees and commissions receivable

Fees and commissions are earned on referral of customers to third party service providers. The Group's performance obligation is satisfied at the point of referral and income is recognised at this point. Commission received by the Group from third parties may be required to be repaid at a later date if certain policies are cancelled. A provision is included in the accounts to cover the estimate of the amount of clawbacks that will become payable in the future, based on products that have been sold and commissions received prior to the year end.

(h) Intangible assets

An intangible asset is an identifiable non monetary asset without physical substance. An intangible asset is recognised to the extent it is probable that expected future economic benefits will flow from it and the costs can be measured reliably. Intangible assets primarily arise from IT development activity and the cost of the asset includes both external costs, such as software licences and IT development services and the costs of Group colleagues directly involved in the development of the asset. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once it is brought into use, as follows:

New core systems	10 years
System enhancements or non core additions	5 years

1. Accounting policies continued

(h) Intangible assets (continued)
Intangible assets are reviewed for impairment at each Statement of Financial Position date or when there is an indication of impairment. Impairment occurs when the economic benefits arising from the asset are lower than its carrying amount. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of fair value less costs of disposal and value in use, calculated on the discounted cash flow method. Any impairment in the value of these assets is recognised immediately as an expense in the Income Statement.

(i) Property, plant and equipment
Freehold and long leasehold properties are revalued every three years by an independent firm of valuers. The fair value of the properties is determined from market based evidence reflecting the property's highest and best use. Any increase in value is recognised through other comprehensive income in the revaluation reserve, unless the increase represents the reversal of a previous impairment, in which case it is recognised through profit or loss. Any reduction in value is recognised through other comprehensive income as the reversal of previous revaluation gains or as an impairment through profit or loss if no such gains exist.

No provision is made for depreciation of freehold and long leasehold properties as in the opinion of the Board, their residual value will not be materially different to book value.

All other items of property, plant and equipment are initially recognised at cost and then depreciated. Depreciation is calculated on a straight line basis, to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Short leasehold properties	Unexpired lease term
Improvements to properties	8 to 10 years
Office and computer equipment	3 to 5 years

Property, plant and equipment are reviewed annually for indications of impairment. Impairment losses are recognised immediately as an expense in the Income Statement.

(j) Leases
The Group classifies all contracts which give the right to control the use of an identified asset for a period of time in exchange for a consideration as leases. If the supplier of the asset has a substitution right then this is not classified as an asset and the contract is not classified as a lease.

(i) Lessee
At the commencement of a lease, the Group recognises a right-of-use asset within 'Property, plant and equipment' and a lease liability within 'Other liabilities and accruals' in the Statement of Financial Position. The lease liability is initially measured at the present value of all contractual payments that are not paid at the commencement date, discounted using the Group's cost of borrowing at the date of inception of the lease. The calculation of the lease liability reflects the Group's judgement as to whether it will exercise a purchase, extension or termination option. For leases of land and buildings, the Group has elected not to separate non lease components and account for the lease and non lease components as a single lease component.

Interest is charged on the lease liability at the Group's cost of borrowing at the date of inception of the lease and recorded in 'Interest payable and similar charges' within the Income Statement.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at an amount equal to the lease liability. It is subsequently depreciated using the straight line method from the commencement date to the end of the lease term (or the end of the estimated useful life for the equivalent item of property, plant and equipment if shorter). Right-of-use assets are reviewed annually for indications of impairment. Impairment losses are recognised immediately as an expense in the Income Statement.

No right-of-use asset or lease liability is recognised for leases with a lease term of less than 12 months and leases of low value items. Lease payments associated with these leases are recognised within administrative expenses on a straight line basis over the lease term.

(ii) Lessor
All of the Group's leases where the Group acts as a lessor are classified as operating leases. The Group recognises lease payments received under operating leases in line with receipt of payments.

1. Accounting policies continued

(k) Retirement benefits
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations updated at each year end. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Income Statement and presented in the Statement of Comprehensive Income.

The retirement benefit surplus or obligation recognised in the Statement of Financial Position represents the fair value of scheme assets less the present value of the defined benefit obligation. Where the fair value of the assets exceeds the present value of the obligation, the surplus that may be recorded on the Statement of Financial Position is capped at the asset ceiling. This is the total of the future economic benefits that will flow to the Group as a result of the surplus.

(l) Tax
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the Statement of Financial Position date. Tax on the profits for the period comprises current tax and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves. Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the Statement of Financial Position date and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Foreign currency
Assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the Statement of Financial Position date and exchange differences are included in the Income Statement. All foreign currency income and expense is translated into sterling at the rate of exchange on the day of receipt or payment.

(n) Segmental reporting
The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the Group's internal reporting and is responsible for all significant decisions. The Group has determined that it has one reportable segment under IFRS 8 as the Chief Executive Officer reviews performance and makes decisions on the Group as a whole. Therefore, no separate segmental reporting note has been provided.

2. Critical accounting estimates and judgements

The preparation of these financial statements involves making judgements in the application of accounting policies which affect the amounts recognised in the financial statements. In addition, the Group makes estimates and assumptions which could affect the reported amounts of assets and liabilities in the next financial year and beyond.

The Group reviews all critical judgements and estimates on a regular basis, including approval by the Audit Committee as explained on pages 90 to 97, to ensure that these remain appropriate. The critical judgements and estimates which have a significant impact on the financial statements of the Group are described below.

(a) Critical judgements

(i) Classification of financial assets
Management judgement is applied in the classification of financial assets in determining the business model for managing the assets and in determining whether the contractual cash flows are solely payments of principal and interest. In particular, for retail mortgages, it has been determined that term extensions and forbearance activity are not contractual so do not impact on the assessment and such assets remain held at amortised cost.

In the case of the collateral loan which represents a pool of equity release mortgages, the existence of the no negative equity guarantee which means that certain receipts would be foregone in the event of a shortfall on sale, is judged not to be consistent with payments being solely principal and interest. Further, the no negative equity guarantee is not considered to represent a significant insurance risk requiring accounting under IFRS 4 – Insurance Contracts. The collateral loan is therefore classified under IFRS 9 as a financial instrument measured 'at FVTPL'.

2. Critical accounting estimates and judgements continued

(a) Critical judgements (continued)

(ii) Impairment of loans and advances to customers

- Significant increase in credit risk
  As described in note 1e(i), a test-based approach is used to determine the thresholds, expressed as a percentage increase, over which an increase in lifetime PD compared to the lifetime PD calculated on initial recognition represents a significant increase in credit risk. Management judgement is applied to determine the appropriate tests and results required to derive the thresholds. The tests, which have been applied consistently with the previous year, aim to move loans through the stages in a timely manner, so that loans move to Stage 2 in advance of falling into arrears and to Stage 3 in advance of default, thus minimising the reliance on the 30 days past due and 90 days past due backstops respectively. If these thresholds moved such that all loans were assessed as having experienced a significant increase in credit risk, such that provisions were recognised to cover lifetime ECL (i.e. all loans currently classified as Stage 1 were moved to Stage 2), impairment loss provisions at 31 December 2020 would increase by £7.6m (2019: £7.8m).

- Definition of default
  The definition of default is given in note 1e(i). Management has judged that the definition of default for impairment loss calculations should align as closely as possible to the IRB regulatory definition of default, with the main difference being the application of the 90 days past due backstop in the IFRS 9 definition. Further it is management's judgement that 12 months is the appropriate cure period for recovery from default.

- Post model adjustments
  Post model adjustments (PMAs) are applied to modify the level of impairment loss provisions from that calculated by the detailed models used to determine ECL where there is a risk that is not adequately captured within modelled ECL as a result of a lack of historical data with which to model or ongoing uncertainty. PMAs may be identified by any department in the Society, though they would be expected to originate from Finance or Credit Risk. 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.

  At 31 December 2020, the material PMAs used by the Group were applied to cover the following:

  - Economic uncertainty arising as a result of the continued COVID-19 pandemic with both the severity of the economic impacts and the timing of the subsequent recovery still unknown, particularly with new variants causing the Government to implement tighter restrictions at the end of December 2020. This is coupled with uncertainty over the short to medium term impacts of the UK's departure from the European Union. There is a risk that the range of modelled macroeconomic scenarios does not fully capture these uncertainties.

  - The model performance risk caused by the impact of ongoing government interventions to mitigate the adverse impacts on businesses and individuals of the COVID-19 pandemic. These interventions may continue to mask potential adverse loan performance as a result of the economic downturn, for instance delaying arrears and possessions, resulting in the ultimate risk of loss not being fully reflected in modelled ECL.

  - An emerging risk in relation to high rise flats where possible problems with cladding results in lower valuations and a potential significant cost to leaseholders, impacting on their ability to sell the property. High remediation costs and challenges obtaining new mortgages on these properties both have the potential to impact on the value of the Group's collateral and thus calculated LGDs. At present, insufficient data is available to allow such risks to be reflected in modelled ECL with any degree of certainty, requiring a PMA based on high level estimates.

  The total of these PMAs at 31 December 2020 was £9.5m (2019: £nil). Further details of the estimates used to evaluate these PMAs are presented in note 2b(i) below.

(iii) Intangible assets

The Group applies judgement as to whether IT development activity results in an asset that qualifies for recognition as an intangible asset. For an asset to be recognised under IAS 38 it must be probable that future economic benefits will flow from the asset and the cost of the asset must be able to be measured reliably. For each significant project undertaken by the Group, an assessment is performed by the relevant business area of whether a separately identifiable asset is being developed and the level of future benefits flowing from the asset.

Intangible assets are reviewed annually for indications of impairment, which includes the application of judgement as to whether it is probable that future economic benefits will be realised from the asset, and whether the value in use of the asset is in excess of the carrying value (see note 16 for further information).

2. Critical accounting estimates and judgements continued

(a) Critical judgements (continued)

(iv) Property, plant and equipment

Freehold and long leasehold premises are revalued every three years by an independent firm of valuers, with the last formal valuation having taken place at 31 December 2019. During 2020, refurbishment work at the Group's new head office property was completed ahead of occupation in 2021 and it is management's judgement that an updated independent valuation of this property should be undertaken at 31 December 2020 to appropriately reflect its value in these financial statements.

Further it is management's judgement that the 'highest and best use' valuation of this property should reflect the long term occupation of the property by Leeds Building Society and therefore the valuation has been undertaken as if the property were an investment property with a long term (15 year) lease and a covenant equivalent to that of the Group, with no break clauses. This valuation is higher than if the property were valued on an open market basis.

Due to the pandemic, there is the potential for market conditions to move rapidly. The valuation reflects market conditions at the date of the Statement of Financial Position.

The Group's existing head office property and branches continue to be valued on an open market basis. It is management's judgement that the valuations obtained at 31 December 2019 continue to appropriately reflect the fair value of these properties as at the date of the Statement of Financial Position, with no firm evidence available of material movements in valuations where the properties are located.

(v) Leases

The application of the requirements of IFRS 16 for leased assets requires the application of judgement as to whether a contract contains a lease. In particular, the Group has a multi-year service contract with a third party for the provision and maintenance of its IT infrastructure. It is management's judgement that this contract does not provide the Group with the right to control the use of an identified asset and therefore does not meet the definition of a lease under IFRS 16.

(b) Significant accounting estimates and assumptions

(i) Impairment losses on loans and advances to customers

Wherever possible, the calculation of impairment loss provisions for loans and advances to customers has been performed using statistical modelling. For the UK residential mortgage portfolio, probability of default (PD) is modelled based on analysis of how macroeconomic variables have impacted the performance of loans with similar credit risk characteristics historically. Loss given default (LGD) is modelled based on projected house prices combined with analysis of historic experience of forced sale discounts.

The significant estimates required for the calculation of impairment loss provisions are forecast UK macroeconomic variables, the probability weightings of the macroeconomic scenarios used and in the calculation of post model adjustments.

Macroeconomic scenarios and probability weightings

The Group has used four macroeconomic scenarios (2019: four), which are considered to represent a range of possible outcomes, in determining impairment loss provisions. The scenarios have been revised significantly during the year to reflect the effects of the COVID-19 pandemic and the UK's departure from the European Union on the UK economy.

- Central scenario reflecting the Group's view of the most likely impact and duration of the pandemic and subsequent recovery. This scenario shows GDP returning to pre-pandemic levels at the end of 2022, with unemployment peaking at 8.5% in June 2021 following the end of the furlough scheme and house prices falling during 2021 and into 2022.
- Downside scenario as modelled in the Group's risk management process reflecting a '1 in 20' stress scenario, with more severe reductions in house prices in the near term and a more protracted recovery than in the central scenario.
- Alternative downside scenario representing a more severe downturn than in the downside scenario, reflecting a 'W' shaped recovery with further economic contraction in the first half of 2021 and continued adverse impacts in 2022.
- Growth scenario representing a more optimistic view of recovery from the pandemic than assumed in the central scenario, including potential upsides from the performance of the housing market.

Scenarios are developed based on the Group's analysis of third party published economic data and forecasts. The relative weighting of the macroeconomic scenarios is estimated by comparing recent movements in economic variables to historic data and trends to ascertain similarities with the periods preceding previous downturns or periods of growth and derive a range of probabilities for such scenarios occurring which informs the weighting of the scenarios relative to each other.

2. Critical accounting estimates and judgements continued

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)
This analysis is then supplemented by an overlay reflecting management's view of the current economic and political climate to determine final weightings. The unprecedented impact of the COVID-19 pandemic, coupled with government intervention to support consumers and businesses, has meant that historic data does not necessarily provide a reliable indicator of future outcomes, so a greater reliance has been placed on management's judgement during 2020.

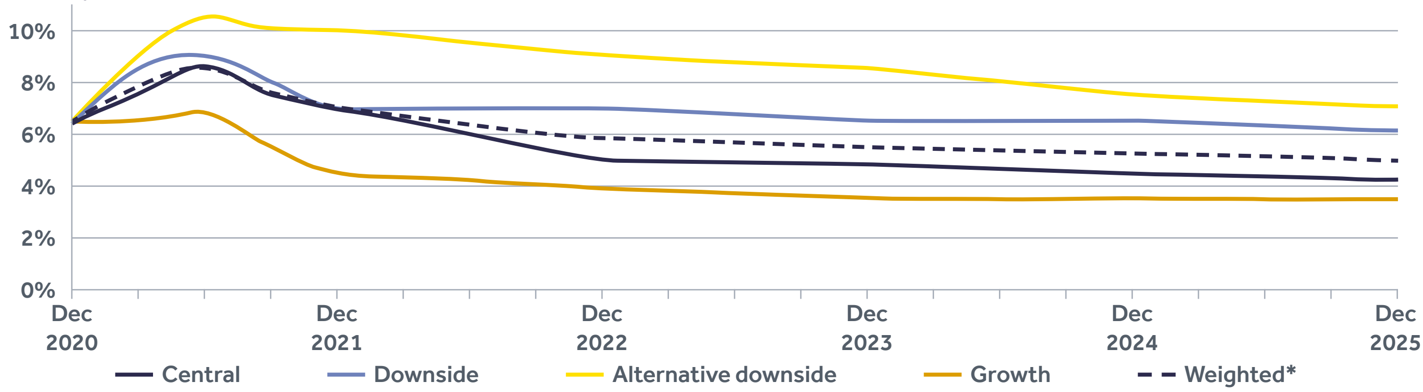
The final weightings used are shown in the table below. The economic impacts of COVID-19 during 2020 mean that the economic position at the reporting date (being the starting position for the forecast scenarios) is significantly worse than the prior year which, coupled with the significant revisions to scenarios, means that the weightings are not considered directly comparable to those used at 31 December 2019. Although the growth scenario weighting has increased compared to the prior year, the scenario reflects a worse economic position than assumed at that time and therefore the weighted scenario is more negative than previously assumed.

	2020	2019
Central	**45%**	55%
Downside	**30%**	30%
Alternative Downside	**10%**	10%
Growth	**15%**	5%

The table overleaf shows the macroeconomic assumptions used in each scenario. The variables with the most significant impact on the calculated impairment loss provisions are house price inflation and unemployment rate. The tables show the full year rates for house price inflation and Gross Domestic Product growth, together with the year end position for unemployment rate and Bank Base Rate. Beyond the five year period shown, assumptions move towards historic long run averages over the following five years and then remain constant at these rates thereafter.

The unemployment rate is forecast to peak in mid-2021 before reducing again to the year end position as illustrated in the chart below, while the second chart illustrates the cumulative impact of the annual house price inflation assumptions.

Unemployment Rate (%)



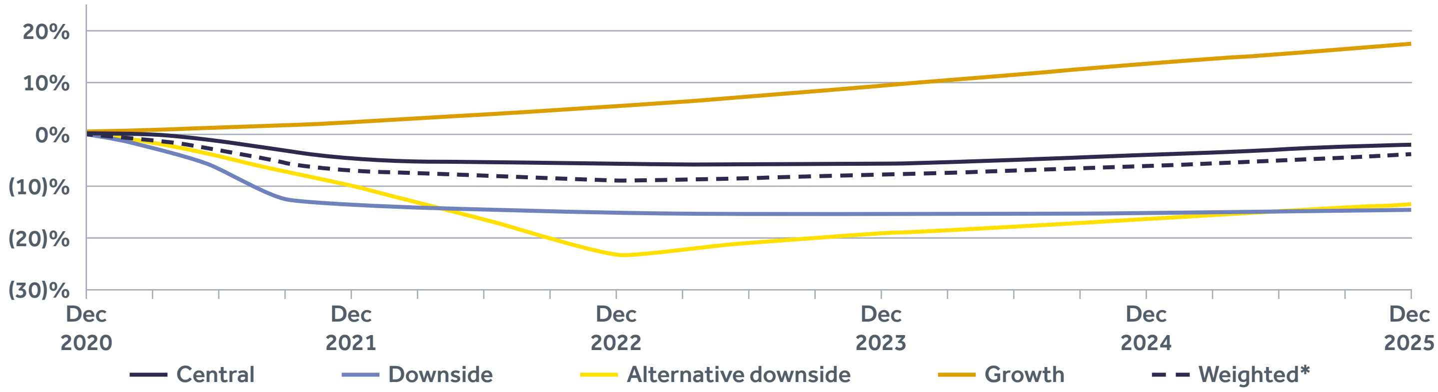
Year ended
31 December 2020 **Continued**

2. Critical accounting estimates and judgements continued

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

House price inflation (December 2020 = 0)



		31 December 2020				
		2021	2022	2023	2024	2025
House price inflation	Central	(5.0)%	(1.0)%	0.0%	2.0%	2.0%
	Downside	(13.7)%	(2.0)%	0.0%	0.0%	1.0%
	Alternative Downside	(10.0)%	(14.5)%	5.0%	3.5%	3.5%
	Growth	2.0%	3.0%	4.0%	3.5%	3.5%
	Weighted*	(7.1)%	(2.1)%	1.1%	1.8%	2.1%
Unemployment rate	Central	7.0%	5.0%	4.8%	4.5%	4.3%
	Downside	7.0%	7.0%	6.5%	6.5%	6.1%
	Alternative Downside	10.0%	9.0%	8.5%	7.5%	7.0%
	Growth	4.5%	3.9%	3.5%	3.5%	3.5%
	Weighted*	6.9%	5.8%	5.5%	5.3%	5.0%
Gross Domestic Product growth	Central	7.0%	4.0%	2.0%	2.0%	2.0%
	Downside	2.0%	2.0%	1.5%	1.5%	1.6%
	Alternative Downside	0.0%	5.0%	3.5%	3.0%	2.0%
	Growth	14.0%	3.0%	3.0%	3.0%	2.0%
	Weighted*	5.9%	3.4%	2.2%	2.1%	1.9%
Bank Base Rate (31 December)	Central	0.1%	0.1%	0.1%	0.1%	0.1%
	Downside	0.1%	0.1%	0.1%	0.1%	0.1%
	Alternative Downside	(0.1)%	(0.1)%	0.1%	0.1%	0.1%
	Growth	0.1%	0.1%	0.3%	0.3%	0.3%
	Weighted*	0.1%	0.1%	0.1%	0.1%	0.1%

* Note that ECLs are calculated for each loan in each scenario and then probability weighted, so the weighted figure here is for illustrative purposes only.

Year ended
31 December 2020 **Continued**

2. Critical accounting estimates and judgements continued

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

		31 December 2019				
		2020	2021	2022	2023	2024
House price inflation	Central	1.5%	2.0%	2.0%	2.0%	2.0%
	Downside	(10.6)%	(3.1)%	(2.0)%	0.0%	0.0%
	Alternative Downside	(10.8)%	(7.0)%	(4.0)%	0.0%	2.0%
	Growth	2.5%	3.0%	3.0%	3.5%	3.5%
	Weighted*	(3.3)%	(0.4)%	0.3%	1.3%	1.5%
Unemployment rate	Central	4.1%	4.0%	4.0%	4.0%	4.0%
	Downside	5.7%	6.3%	7.0%	6.5%	6.5%
	Alternative Downside	6.5%	7.5%	7.5%	7.0%	6.7%
	Growth	4.1%	4.0%	3.9%	3.8%	3.8%
	Weighted*	4.8%	5.0%	5.2%	5.0%	5.0%
Gross Domestic Product growth	Central	1.5%	1.7%	1.7%	1.8%	2.0%
	Downside	(2.0)%	(1.0)%	2.0%	1.5%	1.5%
	Alternative Downside	(3.0)%	(2.0)%	0.5%	1.0%	1.0%
	Growth	2.2%	2.0%	2.0%	2.0%	2.0%
	Weighted*	0.0%	0.5%	1.7%	1.6%	1.8%
Bank Base Rate (31 December)	Central	0.5%	0.5%	0.5%	0.5%	0.8%
	Downside	0.3%	0.3%	0.3%	0.5%	0.5%
	Alternative Downside	1.5%	2.0%	2.0%	2.0%	2.0%
	Growth	1.0%	1.3%	1.5%	1.8%	1.8%
	Weighted*	0.6%	0.6%	0.6%	0.7%	0.9%

* Note that ECLs are calculated for each loan in each scenario and then probability weighted, so the weighted figure here is for illustrative purposes only.

The sensitivity of calculated impairment loss provisions at 31 December 2020 to changes in key individual macroeconomic variables, with all other assumptions held constant is illustrated below. Note that due to the interaction between different economic variables within the impairment loss provision models, the impacts of such single variable sensitivities may be distorted and are not representative of realistic alternative scenarios.

The impact of changing the assumption for annual house price inflation in each of the first two years of the central scenario is as follows:

	+ 2.5 percentage points	- 2.5 percentage points
(Decrease) / increase in impairment loss provisions (£M)	(0.9)	1.2

The impact of changing the assumption for unemployment in each of the first two years of the central scenario is as follows:

	+ 2.0 percentage points	+ 1.0 percentage point	- 1.0 percentage point	- 2.0 percentage points
Increase / (decrease) in impairment loss provisions (£M)	2.3	0.8	(0.5)	(0.9)

Year ended
31 December 2020 **Continued**

2. Critical accounting estimates and judgements continued

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

In practice the above variables are unlikely to move in isolation. The combined impact of movements in a number of variables can be illustrated by the sensitivity of calculated provisions to scenario weightings. The table below shows the movement in impairment loss provisions if each of the scenarios were weighted 100%:

	2020 £M	2019 £M
(Decrease) / increase in impairment loss provisions if scenarios are weighted 100%:		
Central	**(8.8)**	(9.8)
Downside	**10.0**	12.4
Alternative Downside	**66.5**	51.9
Growth	**(14.7)**	(9.8)

The total impairment loss provisions if the Central scenario were weighted 100% would be £34.0m (2019: £18.9m).

For the non UK residential portfolio, key variables in the calculation of impairment loss provisions (PD and LGD) are estimated based on analysis of historic loss experience, although volumes are limited.

Changes to macroeconomic assumptions, as expectations change over time, are expected to lead to volatility in impairment loss provisions, and may lead to pro-cyclicality in the recognition of impairment losses.

Economic uncertainty post model adjustment

The macroeconomic scenarios and probability weightings are considered to provide an appropriate range of forecast outcomes at the date of the Statement of Financial Position. However, the timing of the agreement of a trade deal between the UK and European Union and the circumstances leading to the implementation of a further national lockdown as a result of COVID-19 meant that there remained a significant level of economic uncertainty such that it was agreed that a PMA was required.

Extensive scenario analysis was performed considering the potential impacts of certain possible events over and above those included in modelled scenarios and these were used to inform the overall level of the PMA. This included consideration of factors such as the reversal of a proportion of the growth in house prices experienced over the second half of 2020, a further increase in unemployment and a reduction in GDP growth in 2021. This scenario analysis indicated a range of plausible values for the PMA of £0.3m to £6.0m, with the final PMA agreed at £4.3m. The selected value recognises that at the highest end of the potential range, the interaction between variables means some effects are double counted and therefore using the maximum value is not appropriate.

Model performance (government interventions) post model adjustment

It is considered that government interventions, such as furlough, which continue to support borrowers in meeting their mortgage payments, mask underlying increases in credit risk such that the loans have suffered a SICR or default event but this is not evident in the data used in provision calculations. The PMA has been estimated by considering the population of borrowers who have taken a mortgage payment deferral at any point during the year.

For up to date loans, the population has been segmented into risk categories based on information provided when the deferral was requested together with internal and external credit data, including current account usage. For high and very high risk cases, a PMA is then estimated based on average provision coverage rates for Stage 2 loans with varying levels of early arrears. For loans less than three months in arrears, it is assumed that a proportion of these accounts would have rolled into three month arrears, based on historic experience (in particular during the downturn of 2008/09) and thus these have been classified as Stage 3 for provisioning purposes.

Additionally, the model assumption for the time from default to possession was increased by up to 24 months reflecting the current moratorium on repossessions during the pandemic.

This analysis resulted in a range of potential PMAs of £0.2m to £3.2m and a final PMA of £3.2m was agreed, providing the highest coverage in the appropriate range.

Inadequate cladding post model adjustment

Industry data on the prevalence of this issue is currently very limited. The PMA has been estimated by identifying properties at the highest risk of cladding issues using postcode data and applying a range of haircuts to property valuations and making an allowance for remediation costs. The range of potential PMAs is £0.3m to £6.2m with a final PMA of £2.0m judged to be most appropriate, recognising the potential mitigating factors which would make the losses at the higher end of the range unlikely.

Year ended
31 December 2020 **Continued**

2. Critical accounting estimates and judgements continued

(b) Significant accounting estimates and assumptions (continued)

(ii) Fair value of the collateral loan
The Group measures the collateral loan which represents a pool of equity release mortgages at FVTPL. The fair value of this loan is calculated using a model which uses a combination of observable market data (such as interest rate curves and RPI swap prices) and unobservable inputs which require estimation, such as the discount rate, property price volatility and the haircut applied to individual sales prices. The model projects the future cash flows anticipated from the loan based on the contractual terms with the third party from which the mortgages were acquired, with the timing of those cash flows determined with reference to mortality tables (which are subject to estimation uncertainty). The model also calculates a value for the 'no negative equity guarantee' provided to the customer using a stochastic methodology applying a variant of the Black-Scholes formula.

The key estimates used in the model and the basis of estimation are summarised below:

Assumption	Basis of estimation
Discount rate	Derived from current market rates for new equity release loans adjusted for the specific profile of the Group's portfolio, also reflects liquidity term premium in current market funding costs
Property price volatility	Analysis of historic property price volatility and third party research with judgement overlay giving estimate of 10%
Sales price haircut	Average actual discounts observed on the portfolio in the previous three years

At 31 December 2020 the carrying value of the collateral loan was £222.0m (2019: £219.4m). The sensitivity of this value to the estimates shown above is as follows:

Assumption	Change to current assumption	(Decrease) / increase in fair value of collateral loan (£M)
Discount rate	+ / - 0.5 percentage points	(11.5) / 12.5
Property price volatility	+ / - 3 percentage points	(6.6) / 5.2
Sales price haircut	+ / - 5 percentage points	(3.8) / 3.6

The sensitivities shown reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

A post model adjustment has been applied to the modelled valuation to reflect current economic uncertainty, with the calculation of the adjustment focused on consideration of the reversal of a proportion of the growth in house prices experienced over the second half of 2020. This reduced the value of the collateral loan by £3.3m.

(iii) Retirement benefit surplus / obligation
The Income Statement charge and Statement of Financial Position surplus of the defined benefit pension scheme are calculated in accordance with the advice of a qualified actuary. Calculations are based on a number of assumptions about the future which will impact the level of scheme liabilities and the performance of scheme assets. The most significant assumptions used are detailed in note 24.

Changes to any of the assumptions could have an impact on the level of actuarial gains and losses recognised in the Statements of Comprehensive Income and the Statement of Financial Position balance. The most significant impacts arise from the rate used to discount scheme liabilities and the rate of inflation, with the impact of changes to those assumptions detailed in note 24.

Notes to the Accounts

Year ended
31 December 2020 **Continued**

3. Interest receivable and similar income

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Interest receivable calculated using the effective interest rate method:				
On instruments held at amortised cost:				
On loans fully secured on residential property	**447.1**	453.0	**447.1**	453.0
On other loans and advances to customers	**0.7**	0.9	**0.7**	0.9
On other liquid assets	**4.2**	12.7	**4.2**	12.7
Total interest receivable on instruments held at amortised cost	**452.0**	466.6	**452.0**	466.6
On instruments held at FVOCI:				
On investment securities	**9.6**	14.5	**11.2**	18.9
Total interest receivable calculated using the effective interest rate method	**461.6**	481.1	**463.2**	485.5
Similar income / (expense) on instruments held at fair value through profit or loss:				
On other loans and advances to customers	**10.2**	11.2	**10.2**	11.2
Net expense on derivatives that hedge financial assets and are designated in accounting hedge relationships	**(31.4)**	(15.8)	**(31.4)**	(15.8)
Net expense on derivatives that hedge financial assets and are not designated in accounting hedge relationships	**(37.8)**	(11.2)	**(40.7)**	(22.6)
Total similar income on instruments held at fair value through profit or loss	**(59.0)**	(15.8)	**(61.9)**	(27.2)
Total interest receivable and similar income	**402.6**	465.3	**401.3**	458.3
Included in the above is:				
Interest receivable on impaired financial assets	**6.8**	7.2	**6.8**	7.2

4. Interest payable and similar charges

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Interest payable on instruments held at amortised cost				
On shares held by individuals	**163.1**	194.9	**163.1**	194.9
On subscribed capital	**10.8**	10.8	**10.8**	10.8
On deposits and other borrowings:				
Wholesale and other funding	**50.8**	67.5	**49.9**	60.8
Lease liabilities	**0.3**	0.4	**0.3**	0.4
Total interest payable on instruments held at amortised cost	**225.0**	273.6	**224.1**	266.9
Similar charges / (income) on instruments held at fair value through profit or loss				
Net income on derivatives which hedge financial liabilities and are designated in accounting hedge relationships	**(12.3)**	(16.1)	**(9.6)**	(8.7)
Net (income) / charges on derivatives which hedge financial liabilities and are not designated in accounting hedge relationships	**(15.5)**	7.0	**(18.2)**	(0.2)
Total similar charges on instruments held at fair value through profit or loss	**(27.8)**	(9.1)	**(27.8)**	(8.9)
Total interest payable and similar charges	**197.2**	264.5	**196.3**	258.0

Year ended
31 December 2020 **Continued**

5. Fair value losses from financial instruments

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Fair value hedge relationships				
Derivatives designated in fair value hedge relationships	**(58.2)**	(57.6)	**(55.3)**	(62.1)
Fair value adjustment for hedged risk of hedged items	**51.1**	53.1	**48.7**	58.0
Derivatives not designated in fair value hedge relationships				
Equity release swaps	**(11.2)**	(0.5)	**(11.2)**	(0.5)
Cross currency swaps net of retranslation on matched Euro liabilities	**(0.7)**	(3.1)	**(0.6)**	(1.0)
Other derivatives	**(4.0)**	(3.1)	**(1.5)**	(4.2)
Other financial instruments measured at FVTPL				
Collateral loan which represents a pool of equity release mortgages	**6.2**	(8.5)	**6.2**	(8.5)
Total fair value losses from financial instruments	**(16.8)**	(19.7)	**(13.7)**	(18.3)
The net position on the cross currency swaps and options includes:				
Movement in fair value of cross currency swaps	**(2.8)**	(2.9)	**(0.6)**	(17.0)
Movement in exchange rate on retranslation of cross currency swaps	**44.4**	(101.3)	**56.2**	(21.2)
Movement in exchange rate on retranslation of matched Euro liabilities	**(42.3)**	101.1	**(56.2)**	37.2
Net fair value losses on cross currency swaps and matched liabilities	**(0.7)**	(3.1)	**(0.6)**	(1.0)

The fair value accounting volatility loss arises due to accounting ineffectiveness on designated hedges, or because hedge accounting could not be applied to certain items. Volatility also arises from the collateral loan which represents a pool of equity release mortgages which is measured at FVTPL. For further information refer to notes 35 and 36.

The cross currency swaps were entered into to reduce the exchange rate risk from funding in foreign currency; however they are not in accounting hedge relationships.

6. Administrative expenses

	Group & Society 2020 £M	Group & Society 2019 £M
Staff costs		
Wages and salaries	**47.3**	47.5
Social security costs	**5.0**	5.2
Pension costs	**6.8**	6.3
Other staff costs	**2.0**	1.8
Remuneration of auditor (see below)	**0.6**	0.6
Other administrative expenses		
Technology	**10.4**	11.0
Property	**4.9**	5.0
Development activity	**4.1**	1.4
Marketing	**2.5**	3.6
Legal and professional fees	**2.5**	3.5
Regulatory fees	**2.5**	2.1
Other	**4.3**	5.8
Total administrative expenses	**92.9**	93.8

There are 26 directors, senior management and members of staff whose actions have a material impact on the risk profile of the Group, with fixed remuneration of £4.4m and variable remuneration of £1.0m (2019: 31 individuals, £5.7m and £1.5m).

Further details of directors' remuneration can be found on page 115 of the Directors' Remuneration Report.

Year ended
31 December 2020 **Continued**

6. Administrative expenses continued

The analysis of auditor's remuneration is as follows:

	Group & Society 2020 £'000	Group & Society 2019 £'000
Fee payable to the Society's auditor for the audit of the Society's annual accounts	460.0	436.5
Fees payable to the Society's auditor for the audit of the Society's subsidiaries	27.0	13.5
Total audit fees	487.0	450.0
Assurance services	142.8	99.3
Total non audit fees	142.8	99.3
Total auditor's remuneration	629.8	549.3
Fees payable to the Society's auditor and its associates in respect of associated pension schemes	11.8	12.0

The above figures relating to auditor's remuneration exclude value added tax.

7. Staff numbers

The average number of persons employed during the year was as follows:

	Group & Society 2020 Number	Group & Society 2019 Number
Central administration	1,118	1,093
Branches	314	315
Total monthly average number of persons employed	1,432	1,408

At 31 December 2020 the total number of persons employed by the Group and the Society was 1,439 (2019: 1,434). During 2020 the monthly average number of full time equivalent employees of the Group and the Society was 1,313 (2019: 1,303).

8. Impairment on loans and advances to customers

Group & Society 2020	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
At 1 January 2020	28.7	2.0	2.5	33.2
Charge / (release) for the year	15.0	(0.1)	–	14.9
Amount written off during the year	(1.3)	–	–	(1.3)
Movement in foreign exchange rate	0.4	–	–	0.4
At 31 December 2020	42.8	1.9	2.5	47.2
Income Statement				
Charge / (release) for the year	15.0	(0.1)	–	14.9
Recoveries of amounts previously written off	(0.3)	–	–	(0.3)
Total income statement losses / (gains)	14.7	(0.1)	–	14.6

Year ended
31 December 2020 **Continued**

8. Impairment on loans and advances to customers continued

Group & Society 2019	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
At 1 January 2019	27.7	4.0	2.5	34.2
Charge / (release) for the year	5.5	(2.0)	–	3.5
Amount written off during the year	(4.0)	–	–	(4.0)
Movement in foreign exchange rate	(0.5)	–	–	(0.5)
At 31 December 2019	28.7	2.0	2.5	33.2
Income Statement				
Charge / (release) for the year	5.5	(2.0)	–	3.5
Recoveries of amounts previously written off	(0.5)	(0.2)	–	(0.7)
Total income statement losses / (gains)	5.0	(2.2)	–	2.8

The Group's policy for calculating impairment of loans and advances to customers (including retail mortgages and loan commitments) is detailed in note 1e. Details of the significant accounting estimates and judgements required in the calculation of impairment loss provisions, including the incorporation of forward looking information, are provided in note 2.

The table below summarises the Group's retail mortgage balances, loan commitments and associated impairment loss provisions. The classification of loans into stages for impairment purposes is explained in note 1e.

	Group & Society 2020			Group & Society 2019		
	Gross exposure £M	**Impairment loss provision £M**	**Provision coverage %**	Gross exposure £M	Impairment loss provision £M	Provision coverage %
Retail mortgages						
Stage 1	**14,287.6**	**7.7**	**0.05**	15,048.1	3.7	0.02
Stage 2 and <30 days past due	**2,243.1**	**15.1**	**0.67**	1,469.7	8.6	0.59
Stage 2 and 30+ days past due	**83.9**	**1.8**	**2.15**	78.6	1.3	1.65
Stage 3	**180.7**	**18.2**	**10.07**	172.1	15.1	8.77
Total retail mortgages	**16,795.3**	**42.8**	**0.25**	16,768.5	28.7	0.17
Loan commitments						
Stage 1	**651.8**	**–**	**0.01**	467.3	–	0.01

Year ended
31 December 2020 **Continued**

8. Impairment on loans and advances to customers continued

The tables below provide information on movements in the gross retail mortgage exposures and associated impairment loss provisions during the year:

Group & Society 2020	Stage 1 12m ECL £M	Stage 2 Lifetime ECL £M	Stage 3 Lifetime ECL £M	Total £M
Gross exposure at 1 January 2020	15,048.1	1,548.3	172.1	16,768.5
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(1,338.9)	1,338.9	–	–
From Stage 1 to Stage 3	(22.9)	–	22.9	–
From Stage 2 to Stage 3	–	(40.3)	40.3	–
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	446.9	(446.9)	–	–
From Stage 3 to Stage 1	4.5	–	(4.5)	–
From Stage 3 to Stage 2	–	28.9	(28.9)	–
New advances	2,562.2	–	–	2,562.2
Redemptions and repayments	(2,412.3)	(101.9)	(21.2)	(2,535.4)
Gross exposure at 31 December 2020	14,287.6	2,327.0	180.7	16,795.3

Group & Society 2020	Stage 1 12m ECL £M	Stage 2 Lifetime ECL £M	Stage 3 Lifetime ECL £M	Total £M
Impairment loss provision at 1 January 2020	3.7	9.9	15.1	28.7
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(0.7)	4.4	–	3.7
From Stage 1 to Stage 3	–	–	1.5	1.5
From Stage 2 to Stage 3	–	(0.6)	3.1	2.5
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	0.2	(1.2)	–	(1.0)
From Stage 3 to Stage 1	–	–	–	–
From Stage 3 to Stage 2	–	0.4	(1.7)	(1.3)
Change in impairment loss provision resulting from loan modifications	–	0.1	0.2	0.3
Other remeasurement of impairment loss provision (no movement in stage)	3.9	4.4	2.5	10.8
New advances	0.9	–	–	0.9
Redemptions and repayments	(0.3)	(0.5)	(1.2)	(2.0)
Write offs	–	–	(1.3)	(1.3)
Impairment loss provision at 31 December 2020	7.7	16.9	18.2	42.8

Year ended
31 December 2020 **Continued**

8. Impairment on loans and advances to customers continued

Group & Society 2019	Stage 1 12m ECL £M	Stage 2 Lifetime ECL £M	Stage 3 Lifetime ECL £M	Total £M
Gross exposure at 1 January 2019	14,189.0	1,442.9	172.9	15,804.8
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(812.7)	812.7	–	–
From Stage 1 to Stage 3	(18.6)	–	18.6	–
From Stage 2 to Stage 3	–	(44.9)	44.9	–
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	477.0	(477.0)	–	–
From Stage 3 to Stage 1	10.2	–	(10.2)	–
From Stage 3 to Stage 2	–	29.1	(29.1)	–
New advances	3,434.2	–	–	3,434.2
Redemptions and repayments	(2,231.0)	(214.5)	(25.0)	(2,470.5)
Gross exposure at 31 December 2019	15,048.1	1,548.3	172.1	16,768.5

Group & Society 2019	Stage 1 12m ECL £M	Stage 2 Lifetime ECL £M	Stage 3 Lifetime ECL £M	Total £M
Impairment loss provision at 1 January 2019	3.9	9.8	14.0	27.7
Transfers resulting in increased impairment loss provision:				
From Stage 1 to Stage 2	(0.1)	2.2	–	2.1
From Stage 1 to Stage 3	–	–	1.1	1.1
From Stage 2 to Stage 3	–	(0.5)	4.3	3.8
Transfers resulting in reduced impairment loss provision:				
From Stage 2 to Stage 1	0.1	(0.9)	–	(0.8)
From Stage 3 to Stage 1	–	–	(0.2)	(0.2)
From Stage 3 to Stage 2	–	0.3	(1.3)	(1.0)
Change in impairment loss provision resulting from loan modifications	1.2	(0.6)	(0.6)	–
Other remeasurement of impairment loss provision (no movement in stage)	(2.0)	(0.1)	1.0	(1.1)
New advances	0.9	–	–	0.9
Redemptions and repayments	(0.3)	(0.3)	0.8	0.2
Write offs	–	–	(4.0)	(4.0)
Impairment loss provision at 31 December 2019	3.7	9.9	15.1	28.7

In the above tables, the impact of changes to accounting estimates and judgements, including macroeconomic scenarios and probability weightings, is included within 'other remeasurement of impairment loss provision' unless the change results in the transfer of a loan between stages in which case it is included in the relevant transfer row.

Year ended
31 December 2020 **Continued**

9. Tax expense

	Group 2020 £M	Group 2019 £M	**Society 2020 £M**	Society 2019 £M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits for the year	**20.7**	21.5	**20.7**	21.5
Adjustments in respect of prior years	**(0.2)**	0.7	**(0.2)**	0.7
Total current tax	**20.5**	22.2	**20.5**	22.2
Deferred tax				
Origination and reversal of timing differences	**(0.3)**	(0.1)	**(0.2)**	(0.1)
Adjustments in respect of prior years	**(1.5)**	(0.2)	**0.1**	(0.2)
Adjustments for changes in tax rates	**–**	(0.1)	**–**	(0.1)
Total deferred tax	**(1.8)**	(0.4)	**(0.1)**	(0.4)
Tax on profit on ordinary activities	**18.7**	21.8	**20.4**	21.8
Factors affecting total tax charge for the year:				
Profit on ordinary activities before tax	**80.7**	88.0	**82.8**	90.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	**15.3**	16.7	**15.7**	17.1
Effects of:				
Banking surcharge	**4.6**	4.8	**4.6**	4.8
Adjustment in respect of prior years (current tax)	**(0.2)**	0.7	**(0.2)**	0.7
Expenses not deductible for tax purposes	**0.1**	–	**0.1**	–
Income not taxable	**–**	(0.1)	**–**	(0.1)
Adjustments for changes in tax rates (current tax)	**–**	0.2	**–**	0.2
Other differences	**0.7**	(0.1)	**0.3**	(0.5)
Total current tax	**20.5**	22.2	**20.5**	22.2
Origination and reversal of timing differences	**(0.3)**	(0.1)	**(0.2)**	(0.1)
Adjustments in respect of prior years (deferred tax)	**(1.5)**	(0.2)	**0.1**	(0.2)
Adjustments for changes in tax rates (deferred tax)	**–**	(0.1)	**–**	(0.1)
Tax on profit on ordinary activities	**18.7**	21.8	**20.4**	21.8

Adjustments in respect of prior years primarily relate to differences between the balances in prior years' Statements of Financial Position and the finalised balances upon completion of the prior year tax return.

The standard rate of corporation tax applicable to the Group for the year ended 31 December 2020 was 19% (year ended 31 December 2019: 19%). In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously expected). This new law was substantively enacted on 17 March 2020. The Finance (No. 2) Act 2015 introduced an additional surcharge of 8% on banking profits (including those of building societies) above a £25m threshold from 1 January 2016.

The deferred tax balances have been calculated at a rate of 27% (inclusive of the 8% banking levy) (2019: 25%).

Year ended
31 December 2020 **Continued**

10. Classification of financial assets and liabilities

The following tables summarise the classification and carrying value of the Group's and Society's financial assets and liabilities:

Group 2020	**Amortised cost £M**	**FVOCI £M**	**FVTPL £M**	**Total £M**
Financial assets:				
Cash in hand and balances with the Bank of England	**1,823.2**	**–**	**–**	**1,823.2**
Loans and advances to credit institutions	**201.9**	**–**	**–**	**201.9**
Investment securities	**–**	**949.7**	**–**	**949.7**
Derivative financial instruments	**–**	**–**	**192.8**	**192.8**
Loans and advances to customers:				
Loans fully secured on residential property	**16,752.5**	**–**	**–**	**16,752.5**
Other loans	**14.4**	**–**	**222.0**	**236.4**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**96.1**	**96.1**
Total financial assets	**18,792.0**	**949.7**	**510.9**	**20,252.6**
Financial liabilities:				
Shares	**14,162.7**	**–**	**–**	**14,162.7**
Fair value adjustment for hedged risk on shares	**–**	**–**	**(13.5)**	**(13.5)**
Derivative financial instruments	**–**	**–**	**237.9**	**237.9**
Amounts owed to credit institutions	**1,497.3**	**–**	**–**	**1,497.3**
Amounts owed to other customers	**256.7**	**–**	**–**	**256.7**
Debt securities in issue	**2,900.7**	**–**	**–**	**2,900.7**
Subscribed capital	**241.5**	**–**	**–**	**241.5**
Total financial liabilities	**19,058.9**	**–**	**224.4**	**19,283.3**

Group 2019	Amortised cost £M	FVOCI £M	FVTPL £M	Total £M
Financial assets:				
Cash in hand and balances with the Bank of England	1,451.7	–	–	1,451.7
Loans and advances to credit institutions	163.4	–	–	163.4
Investment securities	–	1,708.1	–	1,708.1
Derivative financial instruments	–	–	182.9	182.9
Loans and advances to customers:				
Loans fully secured on residential property	16,739.8	–	–	16,739.8
Other loans	15.6	–	219.4	235.0
Fair value adjustment for hedged risk on loans and advances to customers	–	–	23.9	23.9
Total financial assets	18,370.5	1,708.1	426.2	20,504.8
Financial liabilities:				
Shares	14,517.5	–	–	14,517.5
Fair value adjustment for hedged risk on shares	–	–	(30.3)	(30.3)
Derivative financial instruments	–	–	200.4	200.4
Amounts owed to credit institutions	1,439.5	–	–	1,439.5
Amounts owed to other customers	234.7	–	–	234.7
Debt securities in issue	2,972.5	–	–	2,972.5
Subscribed capital	232.1	–	–	232.1
Total financial liabilities	19,396.3	–	170.1	19,566.4

Year ended
31 December 2020 **Continued**

10. Classification of financial assets and liabilities continued

Society 2020	**Amortised cost £M**	**FVOCI £M**	**FVTPL £M**	**Total £M**
Financial assets:				
Cash in hand and balances with the Bank of England	**1,823.2**	**–**	**–**	**1,823.2**
Loans and advances to credit institutions	**86.2**	**–**	**–**	**86.2**
Investment securities	**–**	**1,071.0**	**–**	**1,071.0**
Derivative financial instruments	**–**	**–**	**179.3**	**179.3**
Loans and advances to customers:				
Loans fully secured on residential property	**16,752.5**	**–**	**–**	**16,752.5**
Other loans	**14.4**	**–**	**222.0**	**236.4**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**96.1**	**96.1**
Total financial assets	**18,676.3**	**1,071.0**	**497.4**	**20,244.7**
Financial liabilities:				
Shares	**14,162.7**	**–**	**–**	**14,162.7**
Fair value adjustment for hedged risk on shares	**–**	**–**	**(13.5)**	**(13.5)**
Derivative financial instruments	**–**	**–**	**235.4**	**235.4**
Amounts owed to credit institutions	**1,497.3**	**–**	**–**	**1,497.3**
Amounts owed to other customers	**580.5**	**–**	**–**	**580.5**
Debt securities in issue	**2,685.8**	**–**	**–**	**2,685.8**
Subscribed capital	**241.5**	**–**	**–**	**241.5**
Total financial liabilities	**19,167.8**	**–**	**221.9**	**19,389.7**

Society 2019	Amortised cost £M	FVOCI £M	FVTPL £M	Total £M
Financial assets:				
Cash in hand and balances with the Bank of England	1,451.7	–	–	1,451.7
Loans and advances to credit institutions	84.1	–	–	84.1
Investment securities	–	2,128.2	–	2,128.2
Derivative financial instruments	–	–	127.1	127.1
Loans and advances to customers:				
Loans fully secured on residential property	16,739.8	–	–	16,739.8
Other loans	15.6	–	219.4	235.0
Fair value adjustment for hedged risk on loans and advances to customers	–	–	23.9	23.9
Total financial assets	18,291.2	2,128.2	370.4	20,789.8
Financial liabilities:				
Shares	14,517.5	–	–	14,517.5
Fair value adjustment for hedged risk on shares	–	–	(30.3)	(30.3)
Derivative financial instruments	–	–	176.6	176.6
Amounts owed to credit institutions	1,439.5	–	–	1,439.5
Amounts owed to other customers	877.1	–	–	877.1
Debt securities in issue	2,706.9	–	–	2,706.9
Subscribed capital	232.1	–	–	232.1
Total financial liabilities	19,773.1	–	146.3	19,919.4

Year ended
31 December 2020 **Continued**

11. Cash in hand and balances with the Bank of England

	Group & Society 2020 £M	Group & Society 2019 £M
Cash in hand	**2.1**	2.1
Balances with the Bank of England	**1,821.1**	1,449.6
Included in cash and cash equivalents (see note 28)	**1,823.2**	1,451.7

Balances with the Bank of England do not include mandatory reserve deposits of £53.9m (2019: £46.8m) which are not available for use in the Group's day to day operations. Such deposits are included within loans and advances to credit institutions in the Statement of Financial Position.

12. Investment securities

	Group 2020 £M	Group 2019 £M	**Society 2020 £M**	Society 2019 £M
Debt securities				
Listed	**949.7**	1,708.1	**1,071.0**	2,128.2

In addition to those securities held by the Group, the Society has purchased investment securities issued by other Group entities. Investment securities held by the Group and the Society are measured at fair value through OCI. The tables below show the changes in fair value during the year. All of the Group's and Society's investment securities at 31 December 2020 are of investment grade. No impairment loss provision is held against these assets since calculated ECL is immaterial (2019: no provision).

	Group 2020 £M	Group 2019 £M	**Society 2020 £M**	Society 2019 £M
At 1 January	**1,708.1**	1,229.1	**2,128.2**	1,552.9
Additions	**796.3**	5,176.5	**796.3**	5,326.5
Disposals (sale and redemption)	**(1,562.4)**	(4,699.4)	**(1,861.2)**	(4,753.1)
Movement in fair value	**7.7**	1.9	**7.7**	1.9
At 31 December	**949.7**	1,708.1	**1,071.0**	2,128.2

At 31 December 2020, no investment securities were pledged as collateral under sale and repurchase agreements (2019: none).

13. Loans and advances to customers

Group & Society 2020	**Gross balance £M**	**Impairment loss provision £M**	**Total £M**
Loans fully secured on residential property	**16,795.3**	**(42.8)**	**16,752.5**
Loans fully secured on land	**16.3**	**(1.9)**	**14.4**
Other loans	**224.5**	**(2.5)**	**222.0**
Total loans and advances to customers	**17,036.1**	**(47.2)**	**16,988.9**

Year ended
31 December 2020 **Continued**

13. Loans and advances to customers continued

Group & Society 2019	Gross balance £M	Impairment loss provision £M	Total £M
Loans fully secured on residential property	16,768.5	(28.7)	16,739.8
Loans fully secured on land	17.6	(2.0)	15.6
Other loans	221.9	(2.5)	219.4
Total loans and advances to customers	17,008.0	(33.2)	16,974.8

The Group has previously acquired a pool of equity release mortgages from a third party. The Group assumed certain, but not all, risks arising from these loans with the remainder retained by the third party, which also retained a proportion of the income from the underlying equity release mortgages. As a consequence these mortgages have been recognised as a collateral loan to the third party within other loans in the table above. This loan is measured at fair value through profit or loss. The net fair value movement on loans and advances to customers at fair value through profit or loss was a gain of £6.2m (2019: £8.5m loss) for both the Group and Society.

Loans and advances to customers, for both the Group and Society, include £2,914.1m (2019: £3,942.9m) of loans which have been ringfenced from the Society for its associated secured funding vehicles.

The following transfers have been made:

2020	**Covered Bonds LLP £M**	**Albion No. 4 plc £M**	**Guildford No.1 plc £M**	**Total £M**
Loans and advances transferred from the Society to securitisation vehicles	**2,567.4**	**346.7**	**–**	**2,914.1**
Loan notes issued by securitisation vehicles	**1,640.5**	**367.2**	**–**	**2,007.7**

2019	Covered Bonds LLP £M	Albion No. 4 plc £M	Guildford No.1 plc £M	Total £M
Loans and advances transferred from the Society to securitisation vehicles	3,201.8	417.4	323.6	3,942.8
Loan notes issued by securitisation vehicles	1,689.0	443.8	335.9	2,468.7

The covered bonds and residential mortgage backed securities issued have been used to secure long term funding from other financial institutions. The loans are retained in the Society's Statement of Financial Position as the Society continues to control the loans and substantially retains the risks and rewards relating to them.

14. Other assets, prepayments and accrued income

	Group 2020 £M	Group 2019 £M	**Society 2020 £M**	Society 2019 £M
Collateral	**256.9**	199.1	**256.9**	199.1
Prepayments	**5.1**	5.3	**5.1**	5.3
Other assets	**8.4**	5.7	**99.4**	72.5
Total other assets, prepayments and accrued income	**270.4**	210.1	**361.4**	276.9

In the above table, collateral represents amounts owed by credit institutions on cash collateralisation of derivatives.

Year ended
31 December 2020 **Continued**

15. Investments in subsidiary undertakings

At 31 December 2020, the value of shares in subsidiaries was £2,040 (2019: £2,040).

(a) Loans to subsidiary undertakings

	Society 2020 £M	Society 2019 £M
At 1 January	1.9	46.6
Net movement during the year	–	(44.7)
At 31 December	**1.9**	1.9
Total investments in subsidiary undertakings	**1.9**	1.9

(b) Interest in subsidiary undertakings

The Society holds the following interests in subsidiary undertakings at 31 December 2020, all of which are incorporated in the United Kingdom and registered in England.

Name	Major Activities	Class of Shares held	Interest of Society	Address
Leeds Financial Services Limited	Non trading	Ordinary £1 shares	100%	105 Albion Street, Leeds, LS1 5AS
Leeds Mortgage Funding Limited	Non trading	Ordinary £1 shares	100%	105 Albion Street, Leeds, LS1 5AS
Leeds Building Society Covered Bonds LLP	Provision of mortgage assets and guarantor of covered bonds	*	*	105 Albion Street, Leeds, LS1 5AS
Leeds Covered Bonds Designated Member (No. 1) Limited	First designated member of Leeds Building Society Covered Bonds LLP	*	*	1 Bartholomew Lane, London, EC2N 2AX
Leeds Covered Bonds Designated Member (No. 2) Limited	Second designated member of Leeds Building Society Covered Bonds LLP	*	*	1 Bartholomew Lane, London, EC2N 2AX
Leeds Covered Bonds Holdings Limited	Holding company to both Leeds Covered Bonds Designated Member (No. 1) & (No. 2) Limited	*	*	1 Bartholomew Lane, London, EC2N 2AX
Albion No. 3 plc (in liquidation)	Provision of residential mortgage backed securities	*	*	40a Station Road, Upminster, Essex, RM14 2TR
Albion No. 3 Holdings Limited	Holding company to Albion No. 3 plc	*	*	1 Bartholomew Lane, London, EC2N 2AX
Albion No. 4 plc	Provision of residential mortgage backed securities	*	*	11th Floor, 200 Aldersgate Street, London, EC1A 4HD
Albion No. 4 Holdings Limited	Holding company to Albion No. 4 plc	*	*	11th Floor, 200 Aldersgate Street, London, EC1A 4HD
Guildford No.1 plc (in liquidation)	Provision of residential mortgage backed securities	*	*	7th Floor, 21 Lombard Street, London, EC3V 9AH
Guildford No. 1 Holdings Limited (in liquidation)	Holding company to Guildford No.1 plc	*	*	7th Floor, 21 Lombard Street, London, EC3V 9AH

* The Society's interest is equal to being a 100% owned subsidiary as these entities pass the test of control under IFRS 10. Consequently they have been consolidated in the Group accounts in accordance with IFRS 10 Consolidated Financial Statements. Although the Society does not legally own these entities, it is deemed to control them, as it has power over the activities undertaken by the subsidiaries through the management and operational structures in place, and it has exposure to variable returns through the purchase of loan notes, deferred consideration and intragroup loans.

On 17 January 2020 the debt securities issued by Guildford No. 1 plc were repaid in full and the loans assigned to the company were returned.

Year ended
31 December 2020 **Continued**

16. Intangible assets

Group & Society 2020	**New core systems £M**	**System enhancements £M**	**Total £M**
Cost			
At 1 January 2020	**9.1**	**15.9**	**25.0**
Additions	**7.8**	**3.9**	**11.7**
At 31 December 2020	**16.9**	**19.8**	**36.7**
Amortisation and impairment			
At 1 January 2020	**–**	**5.4**	**5.4**
Amortisation charged in the year	**0.5**	**2.0**	**2.5**
At 31 December 2020	**0.5**	**7.4**	**7.9**
Net book value			
At 31 December 2020	**16.4**	**12.4**	**28.8**

Group & Society 2019	New core systems £M	System enhancements £M	Total £M
Cost			
At 1 January 2019	–	11.4	11.4
Additions	9.1	2.8	11.9
Reclassification	–	1.7	1.7
At 31 December 2019	9.1	15.9	25.0
Amortisation and impairment			
At 1 January 2019	–	2.9	2.9
Amortisation charged in the year	–	2.5	2.5
At 31 December 2019	–	5.4	5.4
Net book value			
At 31 December 2019	9.1	10.5	19.6

During 2020 the Group continued its programme of works that met the definition of an intangible asset. This included software licences, IT development costs and certain colleague costs. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once it is brought into use. The useful life of such assets is determined to be ten years for new core systems and five years for system enhancements as stated in note 1h.

Intangible assets are reviewed annually for indications of impairment. This review includes an assessment of whether it is probable that future economic benefits will be realised from the asset, and whether the value in use of the asset is in excess of the carrying value. In 2020 impairment of £nil (2019: £nil) was recognised in the Income Statement.

Year ended
31 December 2020 **Continued**

17. Property, plant and equipment

Group & Society 2020	**Freehold premises £M**	**Long leasehold premises £M**	**Short leasehold premises £M**	**Office & computer equipment £M**	**Right-of-use assets £M**	**Total £M**
Cost or valuation						
At 1 January 2020	**44.2**	**0.2**	**1.0**	**35.5**	**13.2**	**94.1**
Additions	**14.7**	**–**	**–**	**4.4**	**0.9**	**20.0**
Disposals	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Increase in value reported in other comprehensive income	**2.7**	**–**	**–**	**–**	**–**	**2.7**
At 31 December 2020	**61.6**	**0.2**	**1.0**	**39.9**	**13.3**	**116.0**
Depreciation and impairment						
At 1 January 2020	**1.0**	**–**	**1.0**	**26.3**	**1.6**	**29.9**
Disposals	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Depreciation charged in the year	**–**	**–**	**–**	**3.2**	**1.8**	**5.0**
At 31 December 2020	**1.0**	**–**	**1.0**	**29.5**	**3.2**	**34.7**
Net book value						
At 31 December 2020	**60.6**	**0.2**	**–**	**10.4**	**10.1**	**81.3**

Group & Society 2019	Freehold premises £M	Long leasehold premises £M	Short leasehold premises £M	Office & computer equipment £M	Right-of-use assets £M	Total £M
Cost or valuation						
At 1 January 2019	41.4	0.3	1.0	35.6	13.4	91.7
Additions	4.2	–	–	1.7	1.7	7.6
Reclassification	–	–	–	(1.7)	–	(1.7)
Disposals	(0.4)	–	–	(0.1)	(1.9)	(2.4)
Decrease in value reported in other comprehensive income	(1.0)	(0.1)	–	–	–	(1.1)
At 31 December 2019	44.2	0.2	1.0	35.5	13.2	94.1
Depreciation and impairment						
At 1 January 2019	1.1	–	1.0	23.2	–	25.3
Disposals	–	–	–	–	(0.1)	(0.1)
Depreciation charged in the year	–	–	–	3.1	1.7	4.8
Reversal of impairment charged in prior year	(0.1)	–	–	–	–	(0.1)
At 31 December 2019	1.0	–	1.0	26.3	1.6	29.9
Net book value						
At 31 December 2019	43.2	0.2	–	9.2	11.6	64.2

The Group's accounting policy is for all freehold and long leasehold premises to be revalued at least every three years, with the latest full valuation undertaken as at 31 December 2019. In the periods between formal valuations, an assessment is made to ascertain whether there are indications of material changes in property values. Details of the judgements involved in this assessment can be found in note 2a (iv).

Where portions of freehold premises are leased out, these properties do not meet the definition of investment property under IAS 40 as the leased out portions could not be sold separately and the Group retains the use of a significant portion of the property.

17. Property, plant and equipment continued

	Group & Society 2020 £M	Group & Society 2019 £M
The amount of freehold and long leasehold premises (included above at valuation) determined according to the historical cost convention is as follows:		
Freehold premises	**47.7**	33.0
Long leasehold premises	**0.1**	0.1
Net book value	**47.8**	33.1
Land and buildings occupied by the Group and Society for its own activities		
Net book value	**55.1**	11.8

The increase in the value of land and buildings occupied by the Group in 2020 reflects the completion of the refurbishment of the new head office property.

The average remaining lease term of right-of-use assets is 6.5 years (2019: 6.8 years).

18. Shares

	Group & Society 2020 £M	Group & Society 2019 £M
Held by individuals	**14,155.9**	14,510.2
Other shares	**6.8**	7.3
Total shares	**14,162.7**	14,517.5

19. Amounts owed to other customers

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Amounts owed to subsidiary undertakings	**–**	–	**323.8**	642.4
Other deposits	**256.7**	234.7	**256.7**	234.7
Total amounts owed to other customers	**256.7**	234.7	**580.5**	877.1

20. Debt securities in issue

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Certificates of deposit	**126.9**	144.0	**126.9**	144.0
Senior unsecured debt	**912.2**	865.2	**912.2**	865.2
Covered bonds	**1,659.3**	1,712.3	**1,646.7**	1,697.7
Residential mortgage backed securities	**202.3**	251.0	**–**	–
Total debt securities in issue	**2,900.7**	2,972.5	**2,685.8**	2,706.9

The interest rates on debt securities in issue include both fixed and variable rates. The underlying security for the covered bonds and residential mortgage backed securities (RMBS) are certain loans and advances to customers (see note 13 for further detail).

21. Other liabilities and accruals

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Accruals	**19.9**	25.8	**19.3**	24.9
Lease liabilities				
Current	**1.7**	1.7	**1.7**	1.7
Non current	**8.7**	10.1	**8.7**	10.1
Other payables	**162.6**	103.4	**133.0**	98.5
Total other liabilities and accruals	**192.9**	141.0	**162.7**	135.2

Other payables within Group includes £162.0m (2019: £98.6m) owed to credit institutions on cash collateralisation of derivatives, Society £129.3m (2019: £94.8m).

The maturity of lease liabilities is shown below.

Maturity analysis – contractual undiscounted cash flows	Group & Society 2020 £M	Group & Society 2019 £M
Less than one year	**1.9**	2.0
One to five years	**4.9**	5.9
More than five years	**4.9**	5.5
Total undiscounted cash flows at 31 December	**11.7**	13.4

At 31 December 2020, the Group and Society have no commitments under short term leases (2019: none). Total lease commitments for low value assets were less than £0.1m (2019: less than £0.1m).

Amounts recognised in Income Statement in respect of leases

	Group & Society 2020 £M	Group & Society 2019 £M
Interest payable on lease liabilities	**0.3**	0.4
Depreciation on right-of-use assets	**1.8**	1.7
Expenses relating to short term leases	**0.1**	0.2
Expenses relating to leases of low value assets, excluding short term leases of low value assets	**0.1**	0.1
Total recognised in Income Statement at 31 December	**2.3**	2.4

Amounts recognised in the Statement of Cash Flows in respect of leases

	Group & Society 2020 £M	Group & Society 2019 £M
Total cash outflow for leases	**2.8**	2.4

Year ended
31 December 2020 **Continued**

22. Provisions for liabilities and charges

Group & Society 2020	**FSCS levy £M**	**Customer redress and related provisions £M**	**Commission clawback £M**	**Property related £M**	**Other provisions £M**	**Total £M**
At 1 January 2020	**–**	**0.5**	**0.2**	**0.3**	**0.2**	**1.2**
Amounts paid during the year	**–**	**(0.3)**	**–**	**–**	**(0.2)**	**(0.5)**
Provision charge / (release) in the year	**–**	**0.6**	**(0.1)**	**–**	**0.6**	**1.1**
At 31 December 2020	**–**	**0.8**	**0.1**	**0.3**	**0.6**	**1.8**

Group & Society 2019	FSCS levy £M	Customer redress and related provisions £M	Commission clawback £M	Property related £M	Other provisions £M	Total £M
At 1 January 2019	0.3	3.9	0.3	0.2	0.3	5.0
Amounts paid during the year	(0.3)	(0.8)	–	–	(0.1)	(1.2)
Provision (release) / charge in the year	–	(2.6)	(0.1)	0.1	–	(2.6)
At 31 December 2019	–	0.5	0.2	0.3	0.2	1.2

Financial Services Compensation Scheme (FSCS) levy
The Group has a contingent liability in respect of FSCS levies (see note 29).

Customer redress and related provisions
This provision is made in respect of redress payments to customers, including potential claims on payment protection insurance (PPI) sold by the Group. The deadline for such claims passed in August 2019, however, a low volume of cases remains for claims through the Financial Ombudsman Service (FOS) or via legal cases through the courts.

Commission clawback
This provision has been made for the potential clawback of commission on assurance policies sold.

Property related provisions
A provision has been made for potential dilapidations on leased premises.

Other provisions
This includes provisions in respect of individual customer accounts where it is probable that there will be an outflow of funds, such as in relation to financial crime investigations.

23. Subscribed capital

	Group & Society 2020 £M	Group & Society 2019 £M
13 3/8% permanent interest bearing shares	**25.0**	25.0
3 3/4% tier 2 capital	**216.5**	207.1
Total	**241.5**	232.1

The permanent interest bearing shares (PIBS), which are denominated in sterling, were issued for an indeterminate period and are only repayable in the event of the winding up of the Society. The PIBS have a fixed rate of interest of 13 ⅜ % payable semi-annually for an indeterminate period.

23. Subscribed capital continued

In April 2018 the Society issued £200m of tier 2 capital with a maturity date of 2029 to allow it to meet its projected Minimum Requirement for Own Funds and Eligible Liabilities (MREL). This requirement ensures that institutions have a minimum amount of liabilities that can bear losses before and in resolution, allowing the resolution authority to use these financial resources to absorb losses and recapitalise the continuing business.

24. Retirement benefit surplus

(a) Overview of the Society's pension arrangements
The Group operates both defined benefit and defined contribution schemes. In addition, the Group has, for one individual (2019: one individual) in the UK, an employer funded retirement benefits scheme. The schemes have been accounted for under IAS19, which covers employee benefits.

The defined benefit scheme provides benefits based on final salary for certain employees. The assets of the scheme are held in a separate trustee-administered fund. Contributions to the defined benefit section are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The defined benefit section was closed to new entrants from 1 January 2000, and closed to future benefit accrual from 31 December 2014. As at 31 December 2020 there were 287 deferred defined benefit members (2019: 305). The Society's unfunded liability is £0.9m (2019: £0.8m) and is detailed below.

The defined benefit scheme operates under UK trust law and the trust is a separate legal entity from the Society. The scheme is governed by a Trustee company, Leeds Building Society Staff Pension Scheme Limited. Directors of the Trustee company are required by law to act in the best interests of scheme members and are responsible for setting certain policies, such as investment and funding, together with the Society. Trustees are appointed in line with UK law and the Trustee Deed and Rules.

The scheme's adopted and agreed funding target is 100% of its technical provisions. The trustees make annual checks on the funding position of the scheme, to confirm whether or not the scheme is still on track to meet this objective by the end of the set recovery period. Since the last actuarial valuation was undertaken at 31 December 2017, the Society and the trustees have implemented a lower risk investment strategy. This comprises a variety of credit assets, such as corporate bonds and gilts, and aims to eliminate risks to the scheme associated with equity investments and the inherent volatility this entails, and move towards a self-sufficient position.

The average duration of the benefit obligation is estimated to be 20 years (2019: 20 years).

The scheme is funded by the Society. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions below. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the trustees and the Society. The Society expects to contribute £0.4m to the defined benefit scheme in the next financial year.

The defined benefit obligation at 31 December 2020 can be approximately attributed to the scheme members as follows:

- Deferred members: 51% (2019: 51%)
- Pensioner members: 49% (2019: 49%)

GMP equalisation
On 20 November 2020, the High Court issued a supplementary ruling in relation to the equalisation of benefits for the effect of unequal Guaranteed Minimum Pensions between men and women, following its initial ruling in 2018. This further ruling applies the original findings to former members who have transferred out of scheme and means that the Society's pension scheme has additional liabilities with effect from 20 November 2020. The increase in liabilities has been treated as a past service cost (change in benefit entitlement), with an amount of £0.2m charged to the Income Statement in the year.

Year ended
31 December 2020 **Continued**

24. Retirement benefit surplus continued

(b) Actuarial risks

The defined benefit scheme exposes the Group to actuarial risks, as detailed below:

Risk	Impact
Interest rate risk	A decrease in corporate bond yields results in an increase in the present value of the scheme liabilities
Inflation risk	An increase in inflation results in higher benefit increases for scheme members, increasing the scheme's liabilities
Longevity risk	An increase in life expectancies results in a longer benefit payment period which in turn increases the scheme liabilities
Investment market risk	A fall in equity markets would result in a decrease in the scheme's overall assets due to the return-seeking element of the investment strategy

Actuarial gains and losses are recognised immediately in full through the Statements of Comprehensive Income.

(c) Valuation assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2020	2019
Discount rate	**1.35%**	2.00%
Price inflation		
RPI	**3.10%**	3.15%
CPI	**2.50%**	2.15%
Future salary increases	**N/A**	N/A
Future pension increases		
RPI max 5%	**3.05%**	3.10%
RPI min 3% max 5%	**3.55%**	3.60%
Cash commutation	**75% of members assumed to take 75% of maximum tax free cash**	75% of members assumed to take 75% of maximum tax free cash
Mortality – current pensioners		
Actuarial tables used	**S2PMA/S2PFA tables with a 1.25% pa long term trend and a smoothing factor of 7.0**	S2PMA/S2PFA tables with a 1.25% pa long term trend and a smoothing factor of 7.0
Male life expectancy at age 63	**23.4 years**	23.3 years
Female life expectancy at age 63	**25.4 years**	25.2 years
Mortality – future pensioners		
Actuarial tables used	**CMI_2019 1.25% pa long term trend and a smoothing factor of 7.0**	CMI_2018 1.25% pa long term trend and a smoothing factor of 7.0
Male life expectancy at age 63 (currently aged 43)	**24.8 years**	24.7 years
Female life expectancy at age 63 (currently aged 43)	**27.0 years**	26.8 years

The table above includes the life expectancy assumptions used in the accounting assessments. Pensioner life expectancies are for a member currently aged 63 retiring now. Non pensioner life expectancies are for a member retiring at age 63 currently aged 43.

(d) Reconciliation of funded statement

	Group & Society 2020 £M	Group & Society 2019 £M
Present value of funded obligations	**(124.1)**	(115.5)
Present value of unfunded obligations	**(0.9)**	(0.8)
Assets at fair value	**126.0**	119.3
Surplus	**1.0**	3.0

Year ended
31 December 2020 **Continued**

24. Retirement benefit surplus continued

(d) Reconciliation of funded statement (continued)

Changes in the present value of the scheme's liabilities are as follows:

	Group & Society 2020 £M	Group & Society 2019 £M
At 1 January	**116.3**	102.5
Interest cost	**2.2**	2.8
Actuarial losses / (gains) arising from changes in demographic assumptions	**0.4**	(1.8)
Actuarial losses arising from changes in financial assumptions	**13.7**	16.4
Actuarial (gains) / losses on experience adjustment	**(0.3)**	0.2
Benefits paid	**(7.5)**	(3.8)
Past service cost	**0.2**	–
At 31 December	**125.0**	116.3

Changes in the present value of the scheme's assets are as follows:

	Group & Society 2020 £M	Group & Society 2019 £M
At 1 January	**119.3**	112.6
Interest income	**2.3**	3.1
Return on scheme assets excluding interest income	**11.9**	6.9
Contribution by employer	**0.4**	0.9
Contribution by scheme members	**–**	–
Administration expenses	**(0.4)**	(0.4)
Benefits paid	**(7.5)**	(3.8)
At 31 December	**126.0**	119.3

(e) Scheme assets

The major categories of scheme assets are as follows:

	Group & Society 2020 £M	Group & Society 2019 £M
Corporate bonds	**55.7**	52.9
Index-linked government bonds	**27.3**	25.8
Absolute return bonds	**20.0**	19.2
Liability driven investments	**19.8**	14.7
Fixed-interest government bonds	**2.1**	1.9
Cash and cash equivalents	**1.1**	4.8
Total assets	**126.0**	119.3

All assets have quoted market prices in active markets. The pension scheme assets include no assets from the Society's own financial instruments (unchanged from 2019). The pension scheme assets include no property occupied by, or other assets used by the Society (unchanged from 2019).

Year ended
31 December 2020 **Continued**

24. Retirement benefit surplus continued

(f) Amounts recognised in the Income Statements

	Group & Society 2020 £M	Group & Society 2019 £M
Past service cost	**0.2**	–
Administration expenses	**0.4**	0.4
Net interest on the defined benefit asset	**(0.1)**	(0.1)
Total cost – defined benefit scheme	**0.5**	0.3

(g) Amounts recognised in the Statements of Comprehensive Income (SOCI)

	Group & Society 2020 £M	Group & Society 2019 £M
Actuarial gains / (losses) on experience adjustment	**0.3**	(0.2)
Actuarial (losses) / gains arising from changes in demographic assumptions	**(0.4)**	1.8
Actuarial losses arising from changes in financial assumptions	**(13.7)**	(16.4)
Percentage of scheme liabilities (%)	**10.9%**	-12.7%
Return on scheme assets excluding interest income	**11.9**	6.9
Percentage of scheme assets (%)	**9.4%**	5.8%
Total loss recognised in SOCI during the year	**(1.9)**	(7.9)

The cumulative amount of actuarial gains and losses recognised in the Statements of Other Comprehensive Income since the date of transition to IFRS is a net loss of £23.9m (2019: £22.0m loss).

(h) Sensitivity to changes in key assumptions

The table below gives a broad indication of the impact on the pension surplus to changes in assumptions and experience. All figures are before allowing for deferred tax. Although the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation of the sensitivity of the assumptions shown.

Approximate impact on defined benefit surplus	Group & Society 2020 £M
Increase discount rate by 0.25%	**5.7**
Increase inflation assumption by 0.25%	**(4.5)**
Change long term trend of increases in mortality improvement from 1.25% to 1.50%	**(1.4)**

(i) Estimated contributions for 2021 financial year

	Group & Society £M
Estimated employer normal contributions in financial year 2021	**0.4**

Annual agreed contributions will remain at this level until they are reviewed following the next actuarial valuation to be undertaken based on the position at 31 December 2020.

Year ended
31 December 2020 **Continued**

25. Deferred tax

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Deferred tax				
At 1 January	**2.4**	2.1	**3.6**	2.6
Adjustment in respect of prior years	**1.2**	(1.2)	**(0.3)**	(1.7)
Amount recognised directly in equity	**(3.0)**	1.1	**(3.0)**	2.3
Income and expenditure movement during the year	**0.3**	0.4	**0.2**	0.4
At 31 December	**0.9**	2.4	**0.5**	3.6

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Deferred tax assets				
IFRS 9 transitional adjustments	**5.0**	5.4	**5.0**	5.4
Other provisions	**0.6**	0.7	**0.6**	0.7
Total deferred tax assets	**5.6**	6.1	**5.6**	6.1

	Group 2020 £M	Group 2019 £M	Society 2020 £M	Society 2019 £M
Deferred tax liabilities				
Gain on revaluation	**3.6**	2.7	**3.6**	2.7
Temporary differences trading	**(0.8)**	(0.6)	**(0.8)**	(0.6)
Pensions	**0.3**	0.8	**0.3**	0.8
Fair value reserve	**2.0**	(0.3)	**2.0**	(0.3)
Other temporary differences	**(0.4)**	1.1	**–**	(0.1)
Total deferred tax liabilities	**4.7**	3.7	**5.1**	2.5

26. Tax effects relating to each component of other comprehensive income

	Group 2020			Society 2020		
	Before tax amount £M	Tax benefit/ (expense) £M	Net of tax amount £M	Before tax amount £M	Tax benefit/ (expense) £M	Net of tax amount £M
Investment securities at FVOCI	**8.6**	**(2.3)**	**6.3**	**8.6**	**(2.3)**	**6.3**
Revaluation gain on properties revalued	**2.7**	**(0.9)**	**1.8**	**2.7**	**(0.9)**	**1.8**
Actuarial gains / (losses) on retirement benefit obligations	**(1.9)**	**0.5**	**(1.4)**	**(1.9)**	**0.5**	**(1.4)**
IFRS 9 transitional adjustment	**–**	**(0.3)**	**(0.3)**	**–**	**(0.3)**	**(0.3)**
Adjustment to tax in relation to prior periods	**–**	**0.2**	**0.2**	**–**	**0.4**	**0.4**
Other comprehensive income	**9.4**	**(2.8)**	**6.6**	**9.4**	**(2.6)**	**6.8**

Year ended
31 December 2020 **Continued**

26. Tax effects relating to each component of other comprehensive income continued

	Group 2019			Society 2019		
	Before tax amount £M	Tax benefit/ (expense) £M	Net of tax amount £M	Before tax amount £M	Tax benefit/ (expense) £M	Net of tax amount £M
Investment securities at FVOCI	1.3	0.1	1.4	1.3	0.1	1.4
Revaluation loss on properties revalued	(1.1)	0.1	(1.0)	(1.1)	0.1	(1.0)
Actuarial gains / (losses) on retirement benefit obligations	(7.9)	1.8	(6.1)	(7.9)	1.8	(6.1)
IFRS 9 transitional adjustment	–	(0.5)	(0.5)	–	(0.5)	(0.5)
Adjustment to tax in relation to prior periods	–	(0.4)	(0.4)	–	0.8	0.8
Other comprehensive income	(7.7)	1.1	(6.6)	(7.7)	2.3	(5.4)

27. Cash flows from financing activities

For the purposes of the Statements of Cash Flows, debt securities in issue and subscribed capital are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities:

	Group 2020 £M	Group 2019 £M	**Society 2020 £M**	Society 2019 £M
At 1 January	**3,204.6**	2,484.5	**2,939.0**	2,383.0
Cash flows:				
Net proceeds from issue of debt securities	**2,427.2**	1,609.4	**2,427.2**	1,359.4
Repayments of debt securities in issue	**(2,541.4)**	(787.2)	**(2,493.5)**	(695.8)
Non cash flows:				
Amortisation of discount on issue	**2.4**	2.1	**2.4**	2.5
Accrued interest movements	**(1.9)**	4.0	**(1.1)**	3.1
Foreign exchange movements	**48.1**	(108.5)	**47.5**	(108.5)
Movement in fair value	**3.2**	0.3	**5.8**	(4.7)
At 31 December	**3,142.2**	3,204.6	**2,927.3**	2,939.0

28. Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash and cash equivalents comprise the following balances with a maturity of less than three months.

	Group 2020 £M	Group 2019 £M	**Society 2020 £M**	Society 2019 £M
Cash in hand and balances with the Bank of England (note 11)	**1,823.2**	1,451.7	**1,823.2**	1,451.7
Loans and advances to credit institutions	**201.9**	163.4	**86.2**	84.1
Total cash and cash equivalents	**2,025.1**	1,615.1	**1,909.4**	1,535.8

The Group's loans and advances to credit institutions includes £115.7m (2019: £79.3m) of balances belonging to the Society's securitisation programmes which are not available for general use by the Society.

29. Guarantees and other financial commitments

(a) Financial Services Compensation Scheme
The Group has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided by the Financial Services and Markets Act 2000. The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due and is funded by contributions from the financial services industry.

(b) Subsidiary undertakings
The Society is obliged under the Building Societies Act 1986 to discharge the liabilities of its subsidiary undertakings to the extent they were incurred before 11 June 1996 and in so far as those bodies are unable to discharge the liabilities out of their own assets.

(c) Capital commitments
The Group has capital commitments contracted for but not accrued for under executory contracts of £2.3m (2019: £6.2m) relating to technology investment programmes (intangible assets and property, plant and equipment) and £3.0m (2019: £11.8m) relating to the fit out of the Society's new head office and Leeds city centre branch (property, plant and equipment). This amount is inclusive of value added tax.

(d) Other commitments
The Group is committed to a multi-year service contract for the provision and maintenance of its IT infrastructure. The remaining commitment at 31 December 2020 is £22.7m (2019: £28.2m). This service contract does not meet the definition of a lease under IFRS 16 – Leases since it does not give the Group the right to control the assets used to provide the service.

30. Related party transactions

Group
Key management personnel comprise the executive directors and non executive directors, who are responsible for ensuring that the Society and its subsidiary undertakings meet their strategic and operational objectives. The Group enters into transactions in the ordinary course of business with directors of the Group and persons connected with the directors of the Group, on normal commercial terms.

Society
Details of the Society's shares in group undertakings and subsidiaries are given in note 15. A number of transactions are entered into with these related parties in the normal course of business. These include loans, deposits, and the payment and recharge of administrative expenses.

The volumes of related party transactions, outstanding balances at the year end, and the related income and expenses for the year are as follows:

	Society subsidiaries		Directors and connected persons	
	2020 £M	2019 £M	**2020 £M**	2019 £M
Loans payable to the Society				
Loans outstanding at 1 January	**1.9**	46.6	**1.0**	1.1
Net movement during the year	**–**	(44.7)	**(0.2)**	(0.1)
Loans outstanding at 31 December	**1.9**	1.9	**0.8**	1.0
Deposits payable by the Society				
Deposits outstanding at 1 January	**642.9**	373.7	**0.6**	0.7
Net movement during the year	**(319.1)**	269.2	**(0.4)**	(0.1)
Deposits outstanding at 31 December	**323.8**	642.9	**0.2**	0.6

	2020 £M	2019 £M
Director's emoluments		
Total remuneration	**2.1**	3.1

30. Related party transactions continued

Directors' emoluments include those emoluments received by directors from the Society and its associated bodies. Further information on directors' emoluments is included in the Directors' Remuneration Report on pages 104 to 122. No directors are active members of the defined benefit section of the Leeds Building Society Pension Scheme (2019: none). Two directors were active members of the defined contribution section of the Leeds Building Society Pension Scheme during 2020 (2019: two).

31. Credit risk on loans and advances to customers

(a) Credit risk management

Credit risk is defined as the current or prospective loss on earnings and impact on capital (expected and unexpected loss) arising from lending, as a result of borrowers defaulting on their credit obligations as they fall due.

Credit risk identification, measurement and management are integrated into a Board approved framework that covers all strategic risks. Credit risk is measured using a range of appropriate key performance indicators, largely underpinned by modelling techniques that are themselves developed and maintained in line with the Model Risk Policy. Key performance indicators are assessed across both new lending and stock and include: risk weighted assets, impairment charge ratio, expected credit losses (ECL), loan to value (LTV), Probability of Default (PD), in addition to a broad range of concentration limits that cover a number of dimensions.

The Group employs a 'three lines of defence' credit risk management approach which includes a dedicated Credit Risk function that is independent from the areas responsible for originating or renewing exposures. The Group uses a range of approaches to support credit risk management which include the use of 'through the cycle' principles and regular stress testing to understand the impacts of credit volatility. Oversight of first line activity is provided to support credit risk mitigation and a broad range of quantitative and qualitative benchmarking is undertaken. This is supplemented with external independent assurance where required.

Comprehensive management insight and information enable the prevailing, future and stressed levels of credit risk within the Group's credit portfolios to be understood and any adverse trends to be identified before impacting on performance.

Further information on the Group's management of retail credit risk during 2020 can be found on page 41 of the Strategic Report.

The Group's exposure to credit risk on loans and advances to customers can be broken down as below:

	Group & Society 2020 £M	Group & Society 2019 £M
Retail mortgages	**16,795.3**	16,768.5
Commercial lending	**16.3**	17.6
Other loans	**164.7**	168.3
Total gross exposure (contractual amounts)	**16,976.3**	16,954.4
Impairment loss provisions	**(47.2)**	(33.2)
Fair value adjustments	**59.8**	53.6
Total net exposure	**16,988.9**	16,974.8

The Group's commercial lending balances are not past due. The overall indexed loan to value of commercial lending is 62% (2019: 57%).

Other loans includes a collateral loan which represents a pool of equity release mortgages of £162.2m (2019: £165.8m) and an other loan of £2.5m (2019: £2.5m). The collateral loan is measured at FVTPL and is neither past due nor impaired. The risk relating to this balance arises due to the presence of a guarantee to the equity release mortgage customer whereby any shortfall in the value of the property on redemption of the loan is not pursued. The expected impact of this guarantee is reflected in the calculated fair value of the loan. The overall indexed loan to value of the collateral loan is 35% (2019: 36%) with the value of property on which the equity release mortgages are secured totalling £516m (2019: £518m).

The other loan is not past due but is impaired and is fully provided for.

In addition to the above exposures which are recorded in the Statement of Financial Position, the analysis below also considers undrawn loan commitments where a loan offer has been issued to a customer and remains unexpired but the loan has not yet completed and so has not yet been recognised in the Statement of Financial Position.

Year ended
31 December 2020 **Continued**

31. Credit risk on loans and advances to customers continued

(b) Retail credit risk

The Group is firmly committed to the management of credit risk at all stages of the lending cycle. The Group maintains appropriate policies which set out acceptable lending and debt management activity. The Group originates first charge, prime residential mortgage assets in the UK. Bespoke scorecards and affordability assessments are applied alongside appropriate underwriting and fraud detection techniques to manage losses. It also takes a proactive approach to the management of customer arrears which is undertaken by a specialist team dedicated solely to the collections and recovery process.

The Group monitors individual borrowers but also sets and applies limits to manage concentration risk. The limits are managed through the mortgage application process and monitored throughout the life of the products to ensure that new lending complements the risk profile of loans already within the Group's portfolio. This mitigates the risk that the Group is overexposed to borrowers with similar characteristics, for example properties in similar locations where local housing market fluctuations may arise. The use of distributional new lending and portfolio policy limits provides additional resilience to stress and prevents an over-concentration of marginal risk exposures.

(i) Credit quality

The following table sets out information about the credit quality of the Group's retail mortgages, which are all fully secured on residential property and are measured at amortised cost, and loan commitments where the amounts in the table represent the amounts committed. Classification into low, medium or high is based on internal rating grades which approximately translate into the IRB probabilities of default (PD) shown in the table. Explanation of the classification of loans into Stages 1 to 3 can be found in note 1e.

Retail mortgages Group & Society 2020		**Stage 1 £M**	**Stage 2 £M**	**Stage 3 £M**	**Total £M**
Low	IRB PD < 2.02%	**13,738.0**	**1,064.5**	**0.7**	**14,803.2**
Medium	IRB PD ≥ 2.02% and < 25.97%	**485.1**	**1,048.8**	**7.7**	**1,541.6**
High	IRB PD ≥ 25.97%	**64.5**	**213.7**	**172.3**	**450.5**
Total gross exposure		**14,287.6**	**2,327.0**	**180.7**	**16,795.3**
Impairment loss provision		**(7.7)**	**(16.9)**	**(18.2)**	**(42.8)**
Net exposure		**14,279.9**	**2,310.1**	**162.5**	**16,752.5**

Loan commitments Group & Society 2020		**Stage 1 £M**	**Stage 2 £M**	**Stage 3 £M**	**Total £M**
Low	IRB PD < 2.02%	**454.3**	**–**	**–**	**454.3**
Medium	IRB PD ≥ 2.02% and < 25.97%	**22.6**	**–**	**–**	**22.6**
High	IRB PD ≥ 25.97%	**174.9**	**–**	**–**	**174.9**
Total gross exposure		**651.8**	**–**	**–**	**651.8**
Impairment loss provision		**–**	**–**	**–**	**–**
Net exposure		**651.8**	**–**	**–**	**651.8**

Retail mortgages Group & Society 2019		Stage 1 £M	Stage 2 £M	Stage 3 £M	Total £M
Low	IRB PD < 2.02%	14,396.2	682.2	2.3	15,080.7
Medium	IRB PD ≥ 2.02% and < 25.97%	651.5	722.6	9.9	1,384.0
High	IRB PD ≥ 25.97%	0.4	143.5	159.9	303.8
Total gross exposure		15,048.1	1,548.3	172.1	16,768.5
Impairment loss provision		(3.7)	(9.9)	(15.1)	(28.7)
Net exposure		15,044.4	1,538.4	157.0	16,739.8

31. Credit risk on loans and advances to customers continued

(b) Retail credit risk (continued)

(i) Credit quality (continued)

Loan commitments Group & Society 2019		Stage 1 £M	Stage 2 £M	Stage 3 £M	Total £M
Low	IRB PD < 2.02%	428.6	–	–	428.6
Medium	IRB PD ≥ 2.02% and < 25.97%	38.7	–	–	38.7
High	IRB PD ≥ 25.97%	–	–	–	–
Total gross exposure		467.3	–	–	467.3
Impairment loss provision		–	–	–	–
Net exposure		467.3	–	–	467.3

The table below provides further information on the Group's retail mortgages by payment due status as at 31 December 2020, excluding impairment losses. Where a mortgage payment deferral has been taken, the loan will not be accruing arrears and therefore will be categorised according to the payment due status at the time the deferral was taken out. The table includes £8.6m (2019: £7.9m) of loans and advances secured on residential property in Spain that are past due and £1.0m (2019: £0.6m) that are in possession.

	Group & Society 2020 £M	**Group & Society 2020 %**	Group & Society 2019 £M	Group & Society 2019 %
Not past due	**16,444.1**	**97.9**	16,501.0	98.5
Past due up to 3 months	**244.3**	**1.5**	184.2	1.1
Past due 3 to 6 months	**49.1**	**0.3**	41.1	0.2
Past due 6 to 12 months	**33.9**	**0.2**	22.3	0.1
Past due over 12 months	**19.4**	**0.1**	12.8	0.1
Possessions	**4.5**	**–**	7.1	–
Total gross exposure	**16,795.3**	**100.0**	16,768.5	100.0

(ii) Geographical analysis

The geographical distribution of retail mortgages is as follows:

	Group & Society 2020 %	Group & Society 2019 %
Scotland	**8.2**	8.2
North East	**3.9**	3.9
Yorkshire and Humberside	**8.9**	9.0
North West	**8.4**	8.3
Midlands	**15.1**	15.2
East of England	**4.9**	4.9
South West	**9.2**	9.1
Greater London	**16.3**	16.2
South East	**18.8**	19.0
Wales	**3.1**	3.1
Northern Ireland	**2.7**	2.6
Spain	**0.4**	0.4
Other	**0.1**	0.1
Total	**100.0**	100.0

The Group's retail lending exposures are predominantly in the UK, with some legacy exposure in Spain.

Year ended
31 December 2020 **Continued**

31. Credit risk on loans and advances to customers continued

(b) Retail credit risk (continued)

(iii) Collateral
Retail mortgages are all fully secured on residential property. Collateral values are assessed at the point of origination and in line with the Group's lending policy. The Group requires collateral to be valued by an appropriately qualified source, independent of both the credit decisioning team and the customer, at the time of borrowing. This includes the selected use of automated valuation models. These are developed on market data and usage is subject to accuracy and criteria thresholds.

One of the key indicators of the credit risk associated with a mortgage book is the relationship between the amount of the loan made and the value of the underlying security, which is known as the loan to value percentage (LTV). In general the lower the LTV the greater the equity within the property, and the lower the losses expected to be realised in the event of default and subsequent repossession. The Group's lending policy permits owner occupier applications with a maximum LTV of 95 per cent and buy to let mortgages with a maximum LTV of 80 per cent, with scope to tighten these criteria if required, as occurred following the outbreak of COVID-19 in 2020. Higher LTV lending is subject to enhanced underwriting criteria.

The loan to value profile of the Group's book is monitored closely against the limits set by the Credit Committee.

The indexed loan to value analysis on the Group's retail mortgage portfolio is as follows:

	Group & Society 2020 %	Group & Society 2019 %
<70%	**85.8**	80.5
70% – 80%	**9.2**	11.2
80% – 90%	**4.4**	6.0
>90%	**0.6**	2.3
Total	**100.0**	100.0

The overall weighted average loan to value of the retail mortgage portfolio is 50.9% (2019: 53.8%). The weighted average loan to value of new lending in 2020 was 59.0% (2019: 59.9%).

Upon initial recognition of loans and advances, the fair value of collateral is based on the purchase price of the property. In subsequent periods, the fair value is updated to reflect current market price using regional house price indices. The table below shows the collateral held capped at 100% of the individual loan amount:

	Group & Society 2020 £M	Group & Society 2019 £M
Not past due	**16,474.9**	16,463.2
Past due up to 3 months	**177.6**	181.9
Past due over 3 months	**102.0**	77.7
Possessions	**4.4**	6.5
Total collateral	**16,758.9**	16,729.3

The fair value of collateral for loans in stage 3 for impairment provisioning (capped at 100% of the individual loan amount) is £179.9m.

(iv) Forbearance
The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk losses, whilst ensuring that customers are treated fairly. The Group has a wide range of forbearance options which can be offered to customers in financial distress. Forbearance is intended to support both the customer and the Group and the primary aim of a forbearance facility is to enable a complete recovery of the mortgage through the full repayment of arrears and minimise the risk of the customer losing their home. Forbearance typically consists of modifications to previous conditions of a contract or a total or partial refinancing of debt, either of which would not have been required had the customer not been experiencing financial difficulties.

The table below provides further information on loans existing at the 2020 reporting date which have had their terms renegotiated in the last 24 months, regardless of whether the renegotiation is still in place or whether the loan has reverted to its original terms.

Year ended
31 December 2020 **Continued**

31. Credit risk on loans and advances to customers continued

(b) Retail credit risk (continued)

(iv) Forbearance (continued)

Mortgage payment deferrals offered to customers as a result of the COVID-19 pandemic are not considered to be standard forbearance and are therefore excluded from the tables below. During 2020 the Group granted 27,531 mortgage payment deferrals in relation to loans totalling £3,236.1m. At 31 December 2020, 1,514 mortgage payment deferrals remained in place on balances of £177.9m.

Group & Society 2020	**Capitalisation £M**	**Transfer to interest only £M**	**Term extension £M**	**Other payment arrangements £M**	**Total forbearance £M**
Not past due	**11.9**	**10.3**	**85.8**	**22.8**	**130.8**
Past due up to 3 months	**6.5**	**2.4**	**–**	**19.8**	**28.7**
Past due over 3 months	**7.4**	**2.7**	**–**	**24.4**	**34.5**
Total forbearance	**25.8**	**15.4**	**85.8**	**67.0**	**194.0**

Group & Society 2019	Capitalisation £M	Transfer to interest only £M	Term extension £M	Other payment arrangements £M	Total forbearance £M
Not past due	23.8	14.9	90.7	15.7	145.1
Past due up to 3 months	9.8	4.5	0.3	10.6	25.2
Past due over 3 months	9.7	4.3	–	13.2	27.2
Total forbearance	43.3	23.7	91.0	39.5	197.5

32. Wholesale credit risk

(a) Summary

The Group holds various investments in order to satisfy operational demand and to meet current and future liquidity requirements. Credit risk arises because of the risk of factors such as deterioration in the individual investee's financial health and uncertainty within the wholesale market generally. Wholesale credit risk is managed through setting strict upper and lower limits to each type of investment that are dependent on criteria such as: time to maturity, credit rating and originating country. These limits are set by ALCO and monitored by the Treasury function on a continuous basis.

Wholesale credit risk also arises on the Group's derivative portfolio, which is used for hedging market risk. This is mitigated through the exchange of collateral through clearing and other netting arrangements.

Comprehensive management information on movement and performance within the wholesale portfolios ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance.

Further details on the Group's management of wholesale credit risk are available on page 42 of the Strategic Report.

32. Wholesale credit risk continued

(b) Credit quality analysis

Counterparty credit ratings are used to inform the Group's assessment of wholesale credit risk. The table below shows the Statement of Financial Position items impacted by wholesale credit risk and provides credit rating details for each exposure. The table shows exposures external to the Group only and does not include debt securities issued by Group entities and retained by the Society.

Group 2020	**Aaa £M**	**Aa1-Aa3 £M**	**A1-A3 £M**	**Unrated £M**	**Total £M**
Cash in hand and balances with the Bank of England	**–**	**1,823.2**	**–**	**–**	**1,823.2**
Loans and advances to credit institutions	**–**	**95.3**	**106.5**	**0.1**	**201.9**
Investment securities					
UK Government securities	**–**	**57.1**	**–**	**–**	**57.1**
Supranational bonds	**463.8**	**–**	**–**	**–**	**463.8**
Covered bonds	**322.2**	**–**	**–**	**–**	**322.2**
Residential mortgage backed securities	**104.1**	**2.5**	**–**	**–**	**106.6**
Total wholesale exposures	**890.1**	**1,978.1**	**106.5**	**0.1**	**2,974.8**
Total	**29.9%**	**66.5%**	**3.6%**	**–**	**100.0%**

Group 2019	Aaa £M	Aa1-Aa3 £M	A1-A3 £M	Unrated £M	Total £M
Cash in hand and balances with the Bank of England	–	1,451.7	–	–	1,451.7
Loans and advances to credit institutions	–	50.7	112.6	0.1	163.4
Investment securities					
UK Government securities	–	508.1	–	–	508.1
Supranational bonds	509.4	29.7	–	–	539.1
Covered bonds	432.2	–	–	–	432.2
Residential mortgage backed securities	137.5	2.7	–	–	140.2
Certificates of deposit	–	42.0	35.0	–	77.0
Senior unsecured	–	–	11.5	–	11.5
Total wholesale exposures	1,079.1	2,084.9	159.1	0.1	3,323.2
Total	32.5%	62.7%	4.8%	–	100.0%

All wholesale exposures are to financial institutions in major industrial countries. The largest exposure to a single institution other than the UK Government was £109.1m (2019: £104.9m).

At 31 December 2020 none of the Group's wholesale portfolio exposure was either past due or impaired (2019: none). There are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

The Group has implemented a policy that initial investments in wholesale assets must be grade A3 or above. At 31 December 2020 100% (2019: 100%) of the Group's wholesale investments are rated single A or better.

The Group's accounting policy for the calculation of impairment on wholesale (liquid) assets is detailed in note 1. All wholesale assets were classified as at Stage 1 at 31 December 2020 and throughout the year. No impairment loss provision is held against these assets at 31 December 2020 or throughout the year since calculated ECLs are immaterial.

Year ended
31 December 2020 **Continued**

32. Wholesale credit risk continued

(c) Concentration risk

The Group's exposure to counterparty concentrations is also kept under watch. Limits exist to mitigate the risk of overexposure to geographical areas, and these are continuously reviewed and updated. At 31 December 2020, the Group had exposures to the following geographical regions:

	Group 2020 £M	Group 2020 %	Group 2019 £M	Group 2019 %
UK	**2,478.1**	**83.2**	2,738.1	82.3
Europe split into individual countries as follows:				
Germany	**195.2**	**6.6**	199.1	6.0
Finland	**–**	**–**	46.7	1.4
Netherlands	**–**	**–**	39.5	1.2
European Supranational	**44.1**	**1.5**	43.7	1.3
North America	**83.0**	**2.8**	74.9	2.3
Global Supranational	**136.9**	**4.6**	136.2	4.1
Asia Supranational	**37.5**	**1.3**	45.0	1.4
Total wholesale exposures	**2,974.8**	**100.0**	3,323.2	100.0

(d) Collateral

The nature of the instrument determines the level of collateral held. Loans and debt securities are generally unsecured with the exception of asset-backed securities which are secured by a collection of financial assets. The Group prefers to document its derivative activity via the International Swaps and Derivatives Association (ISDA) Master Agreement. The majority of the Group's derivatives are transacted through a central clearing house. In conjunction with this the Group has executed with some counterparties a Credit Support Annex (CSA). Under a CSA, cash is posted as collateral between the counterparties of the transaction to mitigate some of the counterparty credit risk inherent in outstanding derivative positions, as well as credit risk exposure arising on sale and repurchase transactions and guaranteed equity bonds.

Transactions are usually settled on a gross basis, and therefore there is no netting in the financial statements. Legally the Group does have a right of set-off for those transactions. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market valuations on derivatives will offset positive mark to market values on derivatives, subject to an absolute of zero.

33. Liquidity risk

(a) Summary

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due, or can only do so at excessive cost. The Group's business model is to fund long term mortgages through short term retail customer deposits. In practice, although mortgages may have long legal contractual maturities and customer deposits may have short notice periods, customer behaviour tends to shorten mortgage lives and extend retail deposits. This reduces the inherent mismatch of the Group's liquidity position, but does not eliminate the risk and therefore the Group is required to take additional steps to manage and monitor the liquidity gap.

The Group's liquidity policy is to maintain sufficient liquid resources to meet statutory, regulatory and operational requirements. These requirements are designed to allow the Group to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group, and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of high quality purchased liquid assets, through committed wholesale funding facilities (including securitisation arrangements) and through management control of the growth of the business.

The development and implementation of liquidity policy is the responsibility of ALCO. The day-to-day management of liquidity is the responsibility of the Treasury function with oversight from the Risk function.

A series of liquidity stress tests are performed each month to confirm that the level of liquid resources remains appropriate. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group's Statement of Financial Position.

Year ended
31 December 2020 **Continued**

33. Liquidity risk continued

(a) Summary (continued)

Liquidity policy is approved by ALCO and agreed with the Board. Limits on potential cash flow mismatches over defined time horizons are the principal method of liquidity control. The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows and access to contingent funding from the Bank of England.

Further information on the Group's management of liquidity risk in 2020 can be found on page 42 of the Strategic Report.

(b) Maturity profile of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the date of the Statement of Financial Position and the contractual maturity date.

Group 2020	Repayable on demand £M	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Financial assets						
Cash in hand and balances with the Bank of England	1,823.2	–	–	–	–	1,823.2
Loans and advances to credit institutions	201.9	–	–	–	–	201.9
Investment securities	–	12.2	142.3	678.4	116.8	949.7
Derivative financial instruments	–	28.4	2.5	139.4	22.5	192.8
Loans and advances to customers						
Loans fully secured on residential property	8.9	9.8	43.8	590.9	16,099.1	16,752.5
Other loans	4.5	–	–	0.9	231.0	236.4
Fair value adjustment for hedged risk on loans and advances to customers	–	–	20.0	74.3	1.8	96.1
Total financial assets	**2,038.5**	**50.4**	**208.6**	**1,483.9**	**16,471.2**	**20,252.6**
Financial liabilities						
Shares	5,794.7	944.7	3,621.5	3,784.4	17.4	14,162.7
Fair value adjustment for hedged risk on shares	–	(0.2)	(7.3)	(6.0)	–	(13.5)
Derivative financial instruments	–	1.9	8.6	126.9	100.5	237.9
Amounts owed to credit institutions	–	109.5	202.6	1,185.2	–	1,497.3
Amounts owed to other customers	18.6	189.1	49.0	–	–	256.7
Debt securities in issue	–	96.3	481.2	2,120.9	202.3	2,900.7
Subscribed capital	–	–	–	–	241.5	241.5
Total financial liabilities	**5,813.3**	**1,341.3**	**4,355.6**	**7,211.4**	**561.7**	**19,283.3**

Year ended
31 December 2020 **Continued**

33. Liquidity risk continued

(b) Maturity profile of financial assets and liabilities (continued)

Group 2019	Repayable on demand £M	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Financial assets						
Cash in hand and balances with the Bank of England	1,451.7	–	–	–	–	1,451.7
Loans and advances to credit institutions	–	163.4	–	–	–	163.4
Investment securities	–	202.0	454.7	889.7	161.7	1,708.1
Derivative financial instruments	–	0.3	33.6	123.8	25.2	182.9
Loans and advances to customers						
Loans fully secured on residential property	5.4	6.8	39.7	550.9	16,137.0	16,739.8
Other loans	5.3	–	0.1	0.9	228.7	235.0
Fair value adjustment for hedged risk on loans and advances to customers	–	–	6.8	16.6	0.5	23.9
Total financial assets	1,462.4	372.5	534.9	1,581.9	16,553.1	20,504.8
Financial liabilities						
Shares	4,663.2	1,025.0	4,483.2	4,293.2	52.9	14,517.5
Fair value adjustment for hedged risk on shares	–	(3.2)	(19.0)	(8.1)	–	(30.3)
Derivative financial instruments	–	0.3	8.6	95.8	95.7	200.4
Amounts owed to credit institutions	–	359.6	403.7	676.2	–	1,439.5
Amounts owed to other customers	23.7	158.7	52.3	–	–	234.7
Debt securities in issue	–	133.0	690.9	1,897.7	250.9	2,972.5
Subscribed capital	–	–	–	–	232.1	232.1
Total financial liabilities	4,686.9	1,673.4	5,619.7	6,954.8	631.6	19,566.4

Society 2020	**Repayable on demand £M**	**Less than 3 months £M**	**3 to 12 months £M**	**1 to 5 years £M**	**Over 5 years £M**	**Total £M**
Financial assets						
Cash in hand and balances with the Bank of England	**1,823.2**	**–**	**–**	**–**	**–**	**1,823.2**
Loans and advances to credit institutions	**86.2**	**–**	**–**	**–**	**–**	**86.2**
Investment securities	**–**	**12.2**	**142.3**	**678.4**	**238.1**	**1,071.0**
Derivative financial instruments	**–**	**28.4**	**2.5**	**125.9**	**22.5**	**179.3**
Loans and advances to customers						
Loans fully secured on residential property	**8.9**	**9.8**	**43.8**	**590.9**	**16,099.1**	**16,752.5**
Other loans	**4.5**	**–**	**–**	**0.9**	**231.0**	**236.4**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**20.0**	**74.3**	**1.8**	**96.1**
Total financial assets	**1,922.8**	**50.4**	**208.6**	**1,470.4**	**16,592.5**	**20,244.7**
Financial liabilities						
Shares	**5,794.7**	**944.7**	**3,621.5**	**3,784.4**	**17.4**	**14,162.7**
Fair value adjustment for hedged risk on shares	**–**	**(0.2)**	**(7.3)**	**(6.0)**	**–**	**(13.5)**
Derivative financial instruments	**–**	**1.9**	**8.6**	**126.3**	**98.6**	**235.4**
Amounts owed to credit institutions	**–**	**109.5**	**202.6**	**1,185.2**	**–**	**1,497.3**
Amounts owed to other customers	**37.9**	**189.1**	**49.0**	**–**	**304.5**	**580.5**
Debt securities in issue	**–**	**96.3**	**481.2**	**2,108.3**	**–**	**2,685.8**
Subscribed capital	**–**	**–**	**–**	**–**	**241.5**	**241.5**
Total financial liabilities	**5,832.6**	**1,341.3**	**4,355.6**	**7,198.2**	**662.0**	**19,389.7**

Year ended
31 December 2020 **Continued**

33. Liquidity risk continued

(b) Maturity profile of financial assets and liabilities (continued)

Society 2019	Repayable on demand £M	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Financial assets						
Cash in hand and balances with the Bank of England	1,451.7	–	–	–	–	1,451.7
Loans and advances to credit institutions	84.1	–	–	–	–	84.1
Investment securities	–	202.0	454.7	889.7	581.8	2,128.2
Derivative financial instruments	–	0.3	2.8	113.2	10.8	127.1
Loans and advances to customers						
Loans fully secured on residential property	5.4	6.8	39.7	550.9	16,137.0	16,739.8
Other loans	5.3	–	0.1	0.9	228.7	235.0
Fair value adjustment for hedged risk on loans and advances to customers	–	–	6.8	16.6	0.5	23.9
Total financial assets	1,546.5	209.1	504.1	1,571.3	16,958.8	20,789.8
Financial liabilities						
Shares	4,663.2	1,025.0	4,483.2	4,293.2	52.9	14,517.5
Fair value adjustment for hedged risk on shares	–	(3.2)	(19.0)	(8.1)	–	(30.3)
Derivative financial instruments	–	0.3	8.6	72.0	95.7	176.6
Amounts owed to credit institutions	–	359.6	403.7	676.2	–	1,439.5
Amounts owed to other customers	52.7	394.8	52.3	–	377.3	877.1
Debt securities in issue	–	133.0	676.0	1,897.9	–	2,706.9
Subscribed capital	–	–	–	–	232.1	232.1
Total financial liabilities	4,715.9	1,909.5	5,604.8	6,931.2	758.0	19,919.4

(c) Gross contractual cash flows for financial liabilities

The following tables detail the Group's remaining undiscounted contractual cash flows for its non derivative financial liabilities including interest that will be accrued to those instruments, except where the Group is entitled and intends to repay the liabilities before their maturity.

Group 2020	**Repayable on demand £M**	**Less than 3 months £M**	**3 to 12 months £M**	**1 to 5 years £M**	**Over 5 years £M**	**Total £M**
Shares	**5,797.0**	**990.3**	**3,619.6**	**3,867.2**	**16.5**	**14,290.6**
Amounts owed to credit institutions	**–**	**109.6**	**200.9**	**1,191.4**	**–**	**1,501.9**
Amounts owed to other customers	**–**	**202.6**	**49.1**	**–**	**–**	**251.7**
Debt securities in issue	**–**	**96.3**	**484.3**	**2,184.9**	**213.0**	**2,978.5**
Subscribed capital	**–**	**–**	**–**	**–**	**402.9**	**402.9**
Total financial liabilities	**5,797.0**	**1,398.8**	**4,353.9**	**7,243.5**	**632.4**	**19,425.6**

Group 2019	Repayable on demand £M	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Shares	4,551.4	1,580.3	4,096.4	4,422.7	53.0	14,703.8
Amounts owed to credit institutions	–	159.4	608.0	685.6	–	1,453.0
Amounts owed to other customers	–	187.5	47.5	–	–	235.0
Debt securities in issue	–	133.1	691.3	1,928.5	–	2,752.9
Subscribed capital	–	–	–	–	386.7	386.7
Total financial liabilities	4,551.4	2,060.3	5,443.2	7,036.8	439.7	19,531.4

33. Liquidity risk continued

(c) Gross contractual cash flows for financial liabilities (continued)

The following table details the Group's contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows / (outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows / (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the conditions existing at the reporting date. For example, interest rates have been projected as illustrated by the yield curves existing at the reporting date, and where the amount varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

Group 2020	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Swap contracts	**20.1**	**47.4**	**69.3**	**143.5**	**280.3**

Group 2019	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Swap contracts	45.1	32.6	38.1	127.3	243.1

(d) Pledged assets (encumbrance)

The Group has issued a number of debt instruments which are secured against its assets, specifically the retail mortgage portfolio. These provide long term funding from institutional counterparties, either through cash realised from the sale of securities, or through sale and repurchase agreements.

The Society established Leeds Building Society Covered Bond LLP in 2009 and at 31 December 2020 had £1,646.8m covered bonds in issue (2019: £1,695.8m). In addition, the Group had a further £202.1m (2019: £250.0m) of debt securities in issue through the Albion No. 4 securitisation programme.

The table below illustrates the external secured funding balances after redemptions in the mortgage pool:

	2020		2019	
	Assets pledged £M	Secured funding £M	Assets pledged £M	Secured funding £M
Secured against loans and advances to customers – LBS Covered Bonds LLP	**2,567.4**	**1,640.5**	3,201.8	1,695.8
Secured against loans and advances to customers – Albion No.4 plc	**346.7**	**202.1**	417.4	250.0
Total	**2,914.1**	**1,842.6**	3,619.2	1,945.8

Pledged assets include those available to Leeds Building Society Covered Bonds LLP and Albion No.4 plc to provide collateral to support external funding transactions. The secured funding balances above show issuance external to the Group, and do not include debt securities retained by the Society.

All of the assets pledged are retained in the Society's Statement of Financial Position as it substantially retains control of the loans and the risks and rewards associated with them.

The covered bond programme operates under a Mortgage Sale Agreement in which there is an equitable assignment of the loans from the Society to the LLP. Legal title remains with the Society and full transfer of title is not effected until the occurrence of certain 'perfection' events, such as a failure to pay or breach of obligation on behalf of the Society, or the insolvency of the Society or the LLP.

The securitisation programme operates under a Mortgage Sale Agreement, where there is an equitable assignment of the loans from the seller to the issuer, Albion No.4 plc. Legal title remains with the Society and full transfer of title is not effected until the occurrence of certain 'perfection' events such as it being directed by a regulatory authority, the courts or the Society.

Year ended
31 December 2020 **Continued**

34. Market risk

(a) Summary
Market risk is the risk that market movements adversely impact the Group. It is the risk that the value of, or income arising from, the Group's assets and liabilities changes adversely due to movements in market variables, primarily interest rates (including interest bases) or foreign currency rates. These risks are measured and managed at Group level.

The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of member value.

The Group's exposure to market risk is governed by the Board approved Market Risk Policy. This policy sets out the nature of risk which may be taken and aggregate risk limits. Based on these aggregate limits, ALCO assigns risk limits to all Group businesses and monitors compliance with these limits. At each meeting ALCO reviews reports showing the Group's exposure to market risks.

The Group's exposure to market risk is managed by the Treasury function by using appropriate hedging instruments or by taking advantage of natural hedges within the Group. Market risk is managed within a clearly defined framework of policy limits.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, duration analysis, basis point value analysis, scenario analysis, and earnings at risk.

There has been no change in the year to the Group's approach to managing and measuring market risk. Further details are on page 43 of the Strategic Report.

(b) Interest rate risk
The primary market risk faced by the Group is interest rate risk. The net interest income and asset position of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of offsetting assets and liabilities and derivatives. The Group uses interest rate stress testing and gap analysis to monitor and manage its interest rate position.

The Group does not run a trading book and therefore does not have the type of higher risk exposure run by some banking institutions. Given the Group's policy of hedging fixed rate assets and liabilities back to floating rate, outright interest rate risk arises mainly from the Board's decision to invest the Group's reserves according to a specified fixed rate maturity profile

The following table provides a summary of the interest rate repricing profile of the Group's assets and liabilities as at 31 December 2020. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. The table takes account of derivative financial instruments whose effect is to alter the interest basis of Group assets and liabilities. The non interest bearing balances have been included in a separate column.

34. Market risk continued

(b) Interest rate risk (continued)

Group 2020	Less than 3 months £M	3 to 6 months £M	6 to 12 months £M	1 to 5 years £M	More than 5 years £M	No specific reprice date £M	Non interest bearing £M	Total £M
Assets								
Liquid assets	2,595.8	55.1	78.4	226.3	–	–	19.2	2,974.8
Loans and advances to customers	3,666.8	1,301.3	2,435.5	9,365.3	179.0	–	41.0	16,988.9
Total interest bearing assets	6,262.6	1,356.4	2,513.9	9,591.6	179.0	–	60.2	19,963.7
Total non interest bearing assets	–	–	–	–	–	–	676.0	676.0
Total assets	6,262.6	1,356.4	2,513.9	9,591.6	179.0	–	736.2	20,639.7
Liabilities								
Shares	6,739.3	868.1	2,753.5	3,784.4	17.4	–	–	14,162.7
Amounts owed to credit institutions, other customers and debt securities in issue	3,199.7	476.0	48.2	899.0	–	–	31.8	4,654.7
Subscribed capital	–	–	–	–	200.0	23.4	18.1	241.5
Total interest bearing liabilities	9,939.0	1,344.1	2,801.7	4,683.4	217.4	23.4	49.9	19,058.9
Total non interest bearing liabilities and equity	–	–	–	–	–	–	1,580.8	1,580.8
Total liabilities and equity	9,939.0	1,344.1	2,801.7	4,683.4	217.4	23.4	1,630.7	20,639.7
Effect of derivatives	5,691.3	224.4	(148.7)	(5,524.1)	(242.9)	–	–	–
Interest rate sensitivity gap	2,014.9	236.7	(436.5)	(615.9)	(281.3)	(23.4)	(894.5)	–

Year ended
31 December 2020 **Continued**

34. Market risk continued

(b) Interest rate risk (continued)

Group 2019	Less than 3 months £M	3 to 6 months £M	6 to 12 months £M	1 to 5 years £M	More than 5 years £M	No specific reprice date £M	Non interest bearing £M	Total £M
Assets								
Liquid assets	2,499.1	395.6	58.8	337.8	18.1	–	13.8	3,323.2
Loans and advances to customers	3,323.1	1,133.6	2,489.5	9,726.5	227.2	–	74.9	16,974.8
Total interest bearing assets	5,822.2	1,529.2	2,548.3	10,064.3	245.3	–	88.7	20,298.0
Total non interest bearing assets	–	–	–	–	–	–	509.8	509.8
Total assets	5,822.2	1,529.2	2,548.3	10,064.3	245.3	–	598.5	20,807.8
Liabilities								
Shares	5,576.4	1,563.2	2,920.0	4,293.2	52.9	–	111.8	14,517.5
Amounts owed to credit institutions, other customers and debt securities in issue	2,599.0	470.0	269.0	1,268.6	–	–	40.1	4,646.7
Subscribed capital	–	–	–	–	200.0	32.1	–	232.1
Total interest bearing liabilities	8,175.4	2,033.2	3,189.0	5,561.8	252.9	32.1	151.9	19,396.3
Total non interest bearing liabilities and equity	–	–	–	–	–	–	1,411.5	1,411.5
Total liabilities and equity	8,175.4	2,033.2	3,189.0	5,561.8	252.9	32.1	1,563.4	20,807.8
Effect of derivatives	2,608.0	1,177.5	(80.4)	(3,581.6)	(123.5)	–	–	–
Interest rate sensitivity gap	254.7	673.5	(721.1)	920.9	(131.1)	(32.1)	(964.8)	–

The Society's interest rate repricing profile is not materially different to the Group position.

Liquid assets comprise cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities.

The Group uses derivatives to manage interest rate risk and reduce the Group's overall interest rate gap position. The profile of the interest flows arising from these derivatives is set out above.

The Group monitors the impact of a range of possible interest rate changes on its assets and liabilities closely and sensitivities are reported to ALCO on a monthly basis. The following table details the sensitivity of the Group's and Society's annual earnings to a 200 basis point change in interest rates at the year end (with all other variables held constant), subject to floors as stated which have been updated in 2020 to reflect the possibility of negative interest rates. A positive number indicates an increase in profit or other equity.

Group	**+200bps 2020 £M**	+200bps 2019 £M	**-200bps Floor at -1% 2020 £M**	-200bps Floor at 0% 2019 £M
Impact	**74.4**	31.4	**(48.5)**	(14.9)

Interest rate risk is managed on a Group basis. The Society will differ to the overall Group position as the sensitivity would generate offsetting movements in the subsidiaries.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – such as LIBOR and Bank of England base rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

34. Market risk continued

(c) Foreign currency risk

Foreign currency risk arises as a result of the Group's activities in raising funds and purchasing investment securities in foreign currencies. This is done to ensure cost effective funding is obtained across a wider pool of providers. The Group's policy is not to run any speculative foreign exchange positions. The majority of the Group's assets and liabilities are denominated in sterling; however it also holds euro mortgages and receives funding via its debt issuance in foreign currencies, which give rise to exchange rate impacts. Cross currency interest rate swaps and basis swaps are utilised to reduce both the interest rate and exchange rate risk exposures that arise from operating in foreign currencies.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

Group	**Assets 2020 £M**	Assets 2019 £M	**Liabilities 2020 £M**	Liabilities 2019 £M
Euro	**1,401.7**	1,762.0	**1,404.0**	1,762.8

At the year end the Group has hedges in place to match 100% of its foreign currency exposures, via the use of cross currency swaps which offset the impact of foreign exchange fluctuations. Therefore any movement in foreign currency through profit or loss and other equity will be minimised. At 31 December 2020, a 10% movement in the sterling: euro exchange rate would result in a movement of £0.2m (2019: £0.2m) in profit or loss or other equity.

(d) Other price risk

Other price risk is the risk resulting from the possibility that the price of a security may decline.

The Group's policy is to have no material exposure to equity markets and to purchase only high quality liquid assets. Any exposures arising from the Group's products are eliminated as far as it is practicable by appropriate hedging contracts.

35. Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

Derivative financial instruments are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates or foreign exchange rates. These types of instruments tend to have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return as cash flows and are generally settled at a future date.

Derivatives are only used by the Group in accordance with Section 9A of the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors of a prescribed description which affect the business. Accordingly, such instruments are not used in trading activity or for speculative purposes. The Group utilises its derivative instruments for hedging purposes only.

The main derivatives used by the Group are interest rate swaps and cross currency swaps. The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using natural hedges that exist in the Group Statement of Financial Position.

Activity	Risk	Type of Derivative	Hedge Accounting
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Pay fixed interest rate swaps	Fair value hedge
Fixed rate asset investments	Sensitivity to changes in interest rates	Pay fixed interest rate swaps	Fair value hedge
Fixed rate savings products	Sensitivity to changes in interest rates	Receive fixed interest rate swaps	Fair value hedge
Fixed rate wholesale funding	Sensitivity to changes in interest rates	Receive fixed interest rate swaps	Fair value hedge
Equity release mortgages	Sensitivity to changes in interest rates and the Retail Price Index (RPI)	Pay fixed/RPI interest rate swaps	–
Investment and funding in foreign currency	Sensitivity to changes in foreign exchange rates	Cross currency interest rate swaps and foreign exchange contracts	–
Issuance of debt securities on different interest bases	Sensitivity to divergence between interest rate bases	Pay floating receive floating interest rate swaps	–

The Group manages risk within its risk tolerance, regardless of the accounting treatment.

35. Derivative financial instruments and hedge accounting continued

(a) Derivative financial instruments (continued)
Derivatives are entered into only when the underlying position being hedged contains the same risk features. The derivative used will match the risks of the underlying asset or liability and therefore hedge the associated market risk.

All derivatives entered into by the Group are used for hedging purposes, however not all are designated as such for accounting purposes. Some derivatives are held as economic hedges to which hedge accounting does not need to be applied. In these cases a natural offset may be achieved; these types of hedge are only entered into where a high degree of effectiveness can be achieved.

Cross currency interest rate swaps are used to reduce both the interest rate risk and exchange rate risk exposures that come from funding in foreign currency.

The Group discounts its collateralised and un-collateralised positions based on overnight interest rate curves.

The table below shows the value of derivatives by type:

	Group 2020			Group 2019		
	Contract or underlying principal amount £M	**Positive fair value £M**	**Negative fair value £M**	Contract or underlying principal amount £M	Positive fair value £M	Negative fair value £M
Interest rate swaps available to designate in fair value accounting hedges	**15,524.9**	**84.8**	**(149.6)**	19,664.7	79.7	(81.8)
Derivatives not designated in accounting hedges:						
Equity release swaps	**73.5**	**–**	**(85.1)**	76.6	–	(73.9)
Interest rate swaps	**682.2**	**1.9**	**(1.9)**	830.3	1.0	(1.0)
Cross currency swaps	**1,246.6**	**105.8**	**(0.5)**	1,799.2	102.2	(40.6)
Floating swaps	**881.0**	**0.3**	**(0.8)**	1,339.0	–	(3.1)
Total derivatives held for hedging purposes	**18,408.2**	**192.8**	**(237.9)**	23,709.8	182.9	(200.4)

	Society 2020			Society 2019		
	Contract or underlying principal amount £M	**Positive fair value £M**	**Negative fair value £M**	Contract or underlying principal amount £M	Positive fair value £M	Negative fair value £M
Interest rate swaps available to designate in fair value accounting hedges	**15,078.0**	**71.3**	**(149.5)**	18,569.0	61.9	(81.8)
Derivatives not designated in accounting hedges:						
Equity release swaps	**73.5**	**–**	**(85.1)**	76.6	–	(73.9)
Interest rate swaps	**341.1**	**1.9**	**–**	415.1	–	(1.0)
Cross currency swaps	**799.8**	**105.8**	**–**	855.2	65.2	(16.4)
Floating swaps	**881.0**	**0.3**	**(0.8)**	1,339.0	–	(3.5)
Total derivatives held for hedging purposes	**17,173.4**	**179.3**	**(235.4)**	21,254.9	127.1	(176.6)

Year ended
31 December 2020 **Continued**

35. Derivative financial instruments and hedge accounting continued

(a) Derivative financial instruments (continued)

The following tables analyse derivatives by contractual and residual maturity:

	Group 2020		Group 2019	
	Notional principal amount £M	Replacement cost £M	Notional principal amount £M	Replacement cost £M
Under 1 year	4,639.0	30.9	9,813.1	33.9
Between 1 and 5 years inclusive	12,151.0	139.4	12,070.1	123.8
Over 5 years	1,618.2	22.5	1,826.6	25.2
Total derivatives	**18,408.2**	**192.8**	23,709.8	182.9

	Society 2020		Society 2019	
	Notional principal amount £M	Replacement cost £M	Notional principal amount £M	Replacement cost £M
Under 1 year	4,639.0	30.9	8,717.3	3.1
Between 1 and 5 years inclusive	11,257.3	125.9	11,224.3	113.2
Over 5 years	1,277.1	22.5	1,313.3	10.8
Total derivatives	**17,173.4**	**179.3**	21,254.9	127.1

(b) Hedge accounting

The Group holds a portfolio of fixed rate mortgages, savings and investments and is therefore exposed to changes in interest rate risk (see note 34). As shown in the table on page 192 the Group manages this risk by entering into interest rate swaps that either pay or receive a fixed rate.

By entering into these swaps the Group is hedging interest rate risk only. Other risks, such as credit risk, are managed but not hedged. These risks are managed by entering into swap contracts with high quality counterparties, requiring the posting of collateral and clearing swaps through central counterparties.

The interest rate risk that arises from fixed rate mortgages and savings is managed by entering into swaps on a monthly basis. The exposure fluctuates due to new products being added, products maturing and early repayments in the case of mortgage products. For this reason the Group utilises a dynamic hedging strategy (also known as macro hedging) to manage the exposure created by entering into swap contracts this way.

The Group uses macro fair value hedges to recognise the changes in fair value of the hedged items (the mortgage and savings products) due to the changes in interest rates and therefore can reduce the impact on profit and loss that would arise if only the changes in fair value from the interest rate swaps was recognised. The main sources of volatility in profit and loss are:

- Differences in interest rates used to discount the cash flows of the swap and the hedged item; and
- Differences in the maturity dates of the swaps and hedged items.

In addition to the macro fair value hedges used to manage the interest rate risk of mortgages and savings the Group also uses one-to-one hedges, known as micro hedges, to manage the interest rate risk of fixed rate funding issuances. In this type of hedge a single swap is matched directly against a fixed rate bond and remains matched until maturity or a de-designation event (such as becoming ineffective). The changes in fair value are recognised in the same way as the macro hedge, with the change in the fair value of the bond and swap being offset to reduce volatility in the Income Statement. The main source of ineffectiveness in the micro fair value hedges is differences in the interest rates used to discount the cash flows of the swap and the hedged item.

Year ended
31 December 2020 **Continued**

35. Derivative financial instruments and hedge accounting continued

(b) Hedge accounting (continued)

The notional value of interest rate swaps designated into hedge relationships is as follows, analysed by maturity date:

Group 2020	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M
Macro hedges of loans and advances to customers				
Swap notional	200.9	1,025.5	5,973.2	275.7
Average fixed rate	1.1	0.7	0.9	0.8
Macro hedges of shares				
Swap notional	208.0	1,199.0	1,590.5	–
Average fixed rate	0.5	0.7	0.9	–
Micro hedges of debt securities in issue denominated in Sterling				
Swap notional	–	–	–	200.0
Average fixed rate	–	–	–	3.8
Micro hedges of debt securities in issue denominated in Euros				
Swap notional	–	–	893.7	–
Average fixed rate	–	–	0.9	–

Group 2019	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	Over 5 years £M
Macro hedges of loans and advances to customers				
Swap notional	222.1	2,568.1	4,266.8	370.2
Average fixed rate	1.1	1.2	0.8	0.9
Macro hedges of shares				
Swap notional	508.0	3,537.9	1,745.0	–
Average fixed rate	0.9	0.8	1.0	–
Micro hedges of debt securities in issue denominated in Sterling				
Swap notional	–	250.0	–	200.0
Average fixed rate	–	4.9	–	3.8
Micro hedges of debt securities in issue denominated in Euros				
Swap notional	–	422.9	845.8	–
Average fixed rate	–	0.1	0.9	–

Year ended
31 December 2020 **Continued**

35. Derivative financial instruments and hedge accounting continued

(b) Hedge accounting (continued)
The tables below provide analysis of the impacts of hedge accounting on the Statement of Financial Position and the Income Statement:

Group 2020	Notional amount £M	Carrying Amount Assets £M	Carrying Amount Liabilities £M	Line item in the Statement of Financial Position that includes the hedging instrument	Change in fair value of the hedging instrument used for recognising ineffectiveness in the year £M	Total ineffectiveness recognised in Income Statement £M	Line item in Income Statement that includes hedge effectiveness
Interest rate swaps							
Hedge of loans and advances to customers	7,475.3	0.4	(108.5)	Derivative financial instruments	(86.6)	(17.3)	Fair value gains less losses from financial instruments
Hedge of shares	2,997.5	31.0	(0.2)	Derivative financial instruments	15.4	(10.1)	Fair value gains less losses from financial instruments
Hedge of debt securities in issue denominated in Sterling	200.0	18.1	–	Derivative financial instruments	4.5	(0.6)	Fair value gains less losses from financial instruments
Hedge of debt securities in issue denominated in Euros	893.7	19.2	–	Derivative financial instruments	0.6	0.1	Fair value gains less losses from financial instruments

Group 2020	Carrying Amount Assets £M	Carrying Amount Liabilities £M	Accumulated amount of fair value adjustments on the hedged item Assets £M	Accumulated amount of fair value adjustments on the hedged item Liabilities £M	Line item in the Statement of Financial Position which includes the hedged item	Change in value used to calculate hedge ineffectiveness £M	Accumulated amount of fair value adjustments remaining in the Statement of Financial Position due to items that have ceased to be adjusted for hedging gains or losses £M
Hedged items							
Loans and advances to customers	11,782.8	–	164.0	(0.5)	Fair value adjustment for hedged risk on loans and advances to customers	103.9	45.3
Shares	–	2,311.3	0.2	(12.7)	Fair value adjustment for hedged risk on shares	(5.3)	(17.0)
Debt securities in issue denominated in Sterling	–	201.4	–	(18.1)	Debt securities in issue and subscribed capital	(3.9)	–
Debt securities in issue denominated in Euros	–	1,005.8	–	(19.3)	Debt securities in issue and subscribed capital	(0.7)	(1.8)

Year ended
31 December 2020 **Continued**

35. Derivative financial instruments and hedge accounting continued

(b) Hedge accounting (continued)

Group 2019	Notional amount £M	Carrying Amount Assets £M	Carrying Amount Liabilities £M	Line item in the Statement of Financial Position that includes the hedging instrument	Change in fair value of the hedging instrument used for recognising ineffectiveness in the year £M	Total ineffectiveness recognised in Income Statement £M	Line item in Income Statement that includes hedge effectiveness
Interest rate swaps							
Hedge of loans and advances to customers	7,427.2	6.1	(27.6)	Derivative financial instruments	(38.5)	(5.8)	Fair value gains less losses from financial instruments
Hedge of shares	5,790.9	17.6	(2.1)	Derivative financial instruments	18.8	(9.3)	Fair value gains less losses from financial instruments
Hedge of debt securities in issue denominated in Sterling	450.0	13.6	–	Derivative financial instruments	3.3	0.8	Fair value gains less losses from financial instruments
Hedge of debt securities in issue denominated in Euros	1,268.7	18.6	–	Derivative financial instruments	(6.9)	(2.0)	Fair value gains less losses from financial instruments

Group 2019	Carrying Amount Assets £M	Carrying Amount Liabilities £M	Accumulated amount of fair value adjustments on the hedged item Assets £M	Accumulated amount of fair value adjustments on the hedged item Liabilities £M	Line item in the Statement of Financial Position which includes the hedged item	Change in value used to calculate hedge ineffectiveness £M	Accumulated amount of fair value adjustments remaining in the Statement of Financial Position due to items that have ceased to be adjusted for hedging gains or losses £M
Hedged items							
Loans and advances to customers	11,811.7	–	65.4	(5.7)	Fair value adjustment for hedged risk on loans and advances to customers	44.3	66.5
Shares	–	5,021.9	2.4	(9.6)	Fair value adjustment for hedged risk on shares	(9.5)	(22.1)
Debt securities in issue denominated in Sterling	–	452.9	14.2	–	Debt securities in issue and subscribed capital	(4.1)	–
Debt securities in issue denominated in Euros	–	1,274.0	18.6	–	Debt securities in issue and subscribed capital	8.9	(6.9)

35. Derivative financial instruments and hedge accounting continued

(c) IBOR reform

The Group has exposures to interest rate benchmarks which are subject to reform, with the largest exposure to LIBOR and a smaller exposure to EURIBOR. The Group has been closely monitoring market developments and announcements from regulators, such as the FCA, regarding the reform of LIBOR.

Publication of LIBOR is expected to cease on 31 December 2021 and all contracts which reference LIBOR after that date are therefore required to transition to reference an alternative benchmark rate by then. The preferred near risk free rate for sterling markets is SONIA.

The reform of EURIBOR has been undertaken by changing the methodology used to calculate the rate such that its publication is currently expected to continue for the foreseeable future.

In order to manage impacts of IBOR reform on the Group, a transition programme has been in place since 2019 under the responsibility of the Chief Financial Officer, with oversight provided by ALCO. Since many of the Group's IBOR linked contracts do not contain provisions for the termination of the benchmark rate, the Group has engaged with external parties to facilitate the required changes to these contracts. It is the intention of the Group to transfer all impacted contracts to an alternative benchmark rate by 31 December 2021, but the Group has also signed up to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol such that the fall-back arrangements within that protocol are available should they become necessary.

The Group has £42m of LIBOR linked floating rate mortgages. It intends to treat customers fairly during the transition of these mortgages away from IBOR such that there is no customer detriment at the point of transfer and that customers are kept informed of the impact of the IBOR reforms on their contracts.

The Group also has a significant volume of derivatives which reference LIBOR and therefore require transition to SONIA. The transition of these derivatives commenced in 2020 with interest rate swaps with a notional value of £2.2bn transferred. A plan is in place, which has been approved by ALCO, for the transition of the remaining £4.1bn of swaps with a maturity beyond 2021, by the end of 2021.

The table below sets out the derivatives requiring transition in 2021, including the accounting hedge relationships impacted.

Hedge	Instrument type	Maturing in	Nominal £M	Hedged item
Fair value macro hedges	Receive 3-month GBP LIBOR, pay sterling fixed interest rate swaps	2022	571.7	Fixed rate financial assets
		2023	834.4	
		2024	331.6	
		2025+	138.5	
	Pay 3-month GBP LIBOR, receive sterling fixed interest rate swaps	2022	22.7	Fixed rate financial liabilities
		2023	314.4	
		2024	326.9	
Fair value micro hedges	Pay 3-month GBP LIBOR, receive sterling fixed interest rate swap	2028	200.0	Fixed rate bond of the same maturity and nominal of the swap
Not in accounting hedge	Receive 3-month GBP LIBOR, pay sterling fixed/variable equity release swap	2045	78.7	N/A
	Pay 3-month GBP LIBOR, receive 3-month EURIBOR cross currency swap	2022	358.3	N/A
	Pay 1-month GBP LIBOR, receive 3-month EURIBOR cross currency swap	2024	440.5	N/A
	Pay 3-month GBP LIBOR, receive 1-month GBP LIBOR floating swap	2024	440.5	N/A

The Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty surrounding interest rate benchmark reform ends and will adopt the Phase 2 amendments from 1 January 2021.

Year ended
31 December 2020 **Continued**

36. Fair values

(a) Carrying value and fair value of financial instruments not carried at fair value
The classification and measurement categories of the Group's financial assets and liabilities are detailed in note 10.

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities not carried at fair value in the Statement of Financial Position. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest rates.

			Group 2020		Society 2020	
		Fair value hierarchy level	Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets:						
Cash in hand and balances with the Bank of England		Level 1	1,823.2	1,823.2	1,823.2	1,823.2
Loans and advances to credit institutions	i)	Level 2	201.9	201.9	86.2	86.2
Loans and advances to customers						
Loans fully secured on residential property	ii)	Level 3	16,752.5	18,575.2	16,752.5	18,575.2
Other loans	ii)	Level 2	14.4	14.4	14.4	14.4
Financial liabilities:						
Shares	ii)	Level 2	14,162.7	14,267.7	14,162.7	14,267.7
Amounts owed to credit institutions	iii)	Level 2	1,497.3	1,497.3	1,497.3	1,497.3
Amounts owed to other customers	ii)	Level 2	256.7	256.7	580.5	580.5
Debt securities in issue	iv)	Level 1	2,698.6	2,786.9	2,685.8	2,799.6
Debt securities in issue	iv)	Level 2	202.1	202.0	–	–
Subscribed capital	v)	Level 1	241.5	251.8	241.5	251.8

			Group 2019		Society 2019	
		Fair value hierarchy level	Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets:						
Cash in hand and balances with the Bank of England		Level 1	1,451.7	1,451.7	1,451.7	1,451.7
Loans and advances to credit institutions	i)	Level 2	163.4	163.4	84.1	84.1
Loans and advances to customers						
Loans fully secured on residential property	ii)	Level 3	16,739.8	17,866.7	16,739.8	17,866.7
Other loans	ii)	Level 2	15.6	15.6	15.6	15.6
Financial liabilities:						
Shares	ii)	Level 2	14,517.5	14,580.4	14,517.5	14,580.4
Amounts owed to credit institutions	iii)	Level 2	1,439.5	1,439.5	1,439.5	1,439.5
Amounts owed to other customers	ii)	Level 2	234.7	234.7	877.1	877.1
Debt securities in issue	iv)	Level 1	2,528.7	2,744.8	2,706.9	2,759.8
Debt securities in issue	iv)	Level 2	443.8	447.4	–	–
Subscribed capital	v)	Level 1	232.1	230.7	232.1	230.7

Year ended
31 December 2020 **Continued**

36. Fair values continued

(a) Carrying value and fair value of financial instruments not carried at fair value (continued)
Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The following methods and assumptions have been applied in determining fair value:

i) The carrying amount of loans and advances to credit institutions, with a maturity of under 12 months, is assumed to equate to their fair value.

ii) The fair value of loans and advances to customers, shares and amounts owed to other customers is calculated using the effective interest rate method on the discounted cash flow basis, which also includes an assessment of future credit loss where appropriate.

iii) The fair value of floating rate and overnight deposits is approximately equal to their carrying amount. The estimated fair value of fixed rate loans and deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

iv) Debt securities in issue are valued by reference to their market value where an active market exists. Where no active market exists, a discounted cash flow approach is used.

v) The fair value of subscribed capital is obtained from market prices.

(b) Fair value measurement basis for financial instruments carried at fair value
The table below classifies all assets and liabilities carried at fair value in the Statement of Financial Position according to the method used to establish their fair value.

Group 2020	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	**57.1**	**892.6**	**–**	**949.7**
Derivative financial instruments	**–**	**190.9**	**1.9**	**192.8**
Loans and advances to customers	**–**	**–**	**222.0**	**222.0**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**96.1**	**96.1**
Total assets	**57.1**	**1,083.5**	**320.0**	**1,460.6**
Liabilities:				
Fair value adjustment for hedged risk on shares	**–**	**–**	**(13.5)**	**(13.5)**
Derivative financial instruments	**–**	**171.8**	**66.1**	**237.9**
Total liabilities	**–**	**171.8**	**52.6**	**224.4**

Group 2019	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	508.1	1,200.0	–	1,708.1
Derivative financial instruments	–	168.6	14.3	182.9
Loans and advances to customers	–	–	219.4	219.4
Fair value adjustment for hedged risk on loans and advances to customers	–	–	23.9	23.9
Total assets	508.1	1,368.6	257.6	2,134.3
Liabilities:				
Fair value adjustment for hedged risk on shares	–	–	(30.3)	(30.3)
Derivative financial instruments	–	131.3	69.1	200.4
Total liabilities	–	131.3	38.8	170.1

Year ended
31 December 2020 **Continued**

36. Fair values continued

(b) Fair value measurement basis for financial instruments carried at fair value (continued)

Level 1: Relates to financial instruments where fair values are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques are used to value these instruments for which significant inputs are taken from observable market data for the asset and liability, either directly (market prices) or indirectly (derived prices) other than quoted prices included in Level 1. These include valuation models used to calculate the present values of expected future cash flows, using curves from published market sources and are employed when no active market exists or when no quoted prices for similar instruments can be obtained.

Level 3: The valuation of the asset or liability is not solely based on observable market data and includes unobservable inputs. Valuation techniques include net present value and discounted cash flow methods. The assumptions used in such models include risk-free benchmark interest rates, foreign currency exchange rates and expected price volatilities. The objective of the valuation techniques is to determine a fair value that reflects the price of the financial instrument that would have been used by two counterparties in an arm's length transaction.

There have been no transfers between levels during the year.

(c) Reconciliation of Level 3 fair value measurements of financial instruments

Group 2020	**Derivative financial instruments £M**	**Loans and advances to customers £M**	**Fair value adjustment for hedged risk £M**	**Total £M**
At 1 January 2020	**(54.8)**	**219.4**	**54.2**	**218.8**
Total (losses) / gains in the Income Statement	**(9.4)**	**6.2**	**–**	**(3.2)**
Movement in fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**72.2**	**72.2**
Movement in fair value adjustment for hedged risk on shares	**–**	**–**	**(16.8)**	**(16.8)**
Net repayment in the year	**–**	**(3.6)**	**–**	**(3.6)**
At 31 December 2020	**(64.2)**	**222.0**	**109.6**	**267.4**

Group 2019	Derivative financial instruments £M	Loans and advances to customers £M	Fair value adjustment for hedged risk £M	Total £M
At 1 January 2019	(72.6)	229.5	2.3	159.2
Total (losses) / gains in the Income Statement	(1.2)	(8.5)	–	(9.7)
Movement in fair value adjustment for hedged risk on loans and advances to customers	–	–	5.9	5.9
Movement in fair value adjustment for hedged risk on shares	–	–	46.0	46.0
Reclassification of equity release swap from Level 3 to Level 2	19.0	–	–	19.0
Net repayment in the year	–	(1.6)	–	(1.6)
At 31 December 2019	(54.8)	219.4	54.2	218.8

Total losses for the year are included in fair value losses from financial instruments in the Income Statement.

Year ended
31 December 2020 **Continued**

36. Fair values continued

(d) Recurring fair value measurement

Financial assets / financial liabilities	Fair value at 31 December 2020	Fair value at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Investment Securities (Gilts and Treasury Bills)	Assets – £57.1m	Assets – £508.1m	Level 1	Quoted bid prices in an active market sourced from third party data providers	N/A	N/A
Investment Securities (excluding Gilts and Treasury Bills)	Assets – £892.6m	Assets – £1,200.0m	Level 2	Valuations are sourced from third party data providers. The nature of these instruments means that whilst a market exists, pricing activity may be limited.	N/A	N/A
Derivative financial instruments (interest rate swaps)	Assets – £85.1m and Liabilities – £150.4m	Assets – £79.7m and Liabilities - £84.9m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties.	N/A	N/A
Derivative financial instruments (cross currency swaps)	Assets – £105.8m and Liabilities – £0.5m	Assets – £88.9m and Liabilities – £27.3m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates discounted at a rate that reflects the credit risk exposure to the various counterparties. Any foreign currency amounts are translated into sterling at the contract exchange rate.	N/A	N/A
Derivative financial instruments (equity release swaps)	Liabilities – £20.9m Liabilities – £64.2m	Liabilities – £19.1m Liabilities – £54.8m	Level 2 Level 3	Discounted cash flow. The valuations are provided by the counterparty and are based on a discounted cash flow model which uses a projection of interest rates and RPI, a discount rate to reflect the counterparty risk and assumptions for future mortality and prepayment	Assumptions on future life expectancy of customers based on best estimate mortality data. Assumptions on the level of prepayment.	An increase in life expectancy or reduction in prepayments will increase the value of the liability.
Derivative financial instruments (securitisation swaps)	Assets – £1.9m and Liabilities – £1.9m	Assets – £14.3m and Liabilities – £14.3m	Level 3	Discounted cash flow. The notional profile of the swaps tracks the balance of a loan portfolio which is subject to prepayment. The valuations are based on a discounted cash flow model which uses a projection of interest rates, a discount rate to reflect the counterparty risk and assumptions for future prepayment.	Assumptions on future notional balances related to mortgage prepayment rates.	An increase in prepayment rates will increase the fair value of the swaps.
Loans and advances to customers (collateral loan)	Assets – £222.0m	Assets – £219.4m	Level 3	Discounted cash flow. The valuations are based on a discounted cash flow model which uses projections of interest rates, a discount rate and assumptions for future mortality and prepayment. The no negative equity component of the loan is valued using a stochastic modelling technique.	Assumptions on future life expectancy of customers based on best estimate mortality data. Assumptions on the level of early repayment, house price volatility and the discount rate.	An increase in life expectancy or reduction in prepayment will increase the value of the asset. An increase in house price volatility or the discount rate will reduce the value of the asset.

36. Fair values continued

(e) Level 3 unobservable inputs

(i) Derivative financial instruments (securitisation swaps and equity release swaps)
The valuation of securitisation swaps is performed using models which utilise a combination of observable market interest rate data and unobservable assumptions about future mortgage prepayment. At 31 December 2020, a 20% proportionate increase in prepayments would lead to an increase in the fair value of the swaps of £0.8m. A 20% proportionate reduction in prepayments would decrease the fair value by £0.9m. These sensitivities reflect the variability in prepayment rates observed historically.

For equity release swaps, the valuation uses significant unobservable inputs which have not been developed by the Group. The Group is therefore not disclosing quantitative information regarding these inputs, in line with the permitted exemption under IFRS 13.

(ii) Loans and advances to customers (collateral loan)
The collateral loan which represents a pool of equity release mortgages is valued using a discounted cash flow model which uses unobservable input assumptions for property price volatility, sales price haircut, mortality, prepayment and the discount rate used to discount future cash flows. Wherever possible these input assumptions are calculated with reference to actual historic experience. The variables which are considered to have the largest impact on the value of the loan are property price volatility, sales price haircut and the discount rate. The sensitivities below reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

At 31 December 2020, a 300 basis points increase in assumed property price volatility would reduce the value of the collateral loan by £6.6m and a 300 basis points decrease in assumed property price volatility would increase the value of the collateral loan by £5.2m. A 300 basis points increase in the sales price haircut would reduce the value of the collateral loan by £3.8m and a 300 basis points decrease in the sales price haircut would increase the value of the collateral loan by £3.6m. A 50 basis points increase in the discount rate would reduce the value of the collateral loan by £11.5m and a 50 basis points decrease in the discount rate would increase the value of the collateral loan by £12.5m.

(iii) Fair value adjustment for hedged risk
The Group designates a portfolio of fixed rate mortgages into hedge relationships to mitigate interest rate risk and similarly for a portfolio of fixed rate savings. For the mortgage portfolio only, the calculation of the fair value uses observable market interest rate data and assumptions about projected prepayments. These prepayment assumptions are unobservable inputs that are calculated using historic data and reviewed periodically so that projections are broadly in line with actual data, with sensitivities calculated based on historic observed variability.

At 31 December 2020, a 20% proportionate increase in mortgage repayments would lead to a reduction in the fair value of the mortgages in the hedge relationship of £3.2 million. A 20% proportionate decrease in mortgage repayments would lead to an increase in the fair value of the mortgages of £3.5 million.

37. Events after the date of the Statement of Financial Position

There have been no subsequent events between 31 December 2020 and the date of approval of these Annual Report and Accounts by the Board which would have had a material impact on the financial position of the Group.

Annual Business Statement

Year ended
31 December 2020

1. Statutory percentages

	31 December 2020	Statutory Limit
Lending limit	**4.6%**	25%
Funding limit	**24.8%**	50%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 (as amended by the Building Societies Act 1997).

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Group as shown in the Statement of Financial Position, plus impairment provisions for loans and advances to customers, less liquid assets and tangible and intangible fixed assets.

The funding limit measures the proportion of shares and borrowings (excluding fair value adjustment for hedged risk) not in the form of shares held by individuals.

2. Other percentages

	31 December 2020	31 December 2019
As a percentage of shares and borrowings:		
Gross capital	**7.39%**	6.88%
Free capital	**6.81%**	6.45%
Liquid assets	**15.81%**	17.34%
Profit for the financial year as a percentage of mean total assets	**0.30%**	0.33%
Management expenses as a percentage of mean total assets	**0.48%**	0.50%

The above percentages have been prepared from the Group's consolidated accounts and in particular:

- 'shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue;
- 'gross capital' represents the aggregate of general reserve, other reserve, revaluation reserve and subscribed capital;
- 'free capital' represents the aggregate of gross capital less tangible and intangible fixed assets;
- 'liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities;
- 'mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year; and
- 'management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

Year ended
31 December 2020 **Continued**

3. Information relating to the directors and other officers at 31 December 2020

Name	Occupation	Date of Birth	Date first appointed	Other directorships and appointments
Chair				
I.C.A. Cornish Chair from 3 April 2020	Chair	11.11.60	01.01.19	St James's Place plc St James's Place UK plc Macmillan Cancer Support
Vice Chair				
G.J. Hoskin Vice Chair and Senior Independent Director from 1 January 2019	Non Executive Director	18.09.60	16.11.15	The British Diabetic Association Diabetes UK Services Ltd Saga plc Acromas Insurance Company Ltd
Chief Executive				
*R G Fearon Chief Executive from 27 February 2019	Chief Executive Officer	16.07.78	19.02.16	Member of Business in the Community Yorkshire & Humber Advisory Board Member of UK Finance Mortgages Product and Service Board
Directors				
A.M. Barnes	Non Executive Director	10.11.68	01.02.19	Globaldata plc Old Mutual Wealth Ltd Old Mutual Wealth Life & Pensions Ltd
*A. P. Conroy	Chief Financial Officer	11.12.75	06.01.20	Saltmine Trust (Trustee) **Leeds Financial Services Ltd **Leeds Mortgage Funding Ltd
D. Fisher	Non Executive Director	02.08.58	27.03.12	Tandem Bank Ltd Tandem Money Ltd
N.A. Fuller	Non Executive Director	17.12.66	01.12.20	Aspinall Financial Services Ltd
*A.J. Greenwood	Chief Risk Officer	11.12.69	08.01.15	None
J.A. Hunt	Non Executive Director	25.09.54	29.04.15	None
L.R. McManus	Non Executive Director	17.06.68	01.09.17	Doggy Day Care Academy Ltd Kane LMMG Ltd

(*executive directors)
(**Society subsidiary)

The Society's executive director service contracts can be terminated on twelve months' notice by either the Society or the director.

Documents may be served on the above named directors at: c/o Deloitte LLP (Ref PB), 1 City Square, Leeds LS1 2AL.

Country by Country Reporting

Year ended
31 December 2020

Leeds Building Society provides disclosures below in accordance with the Capital Requirements (Country by Country Reporting) Regulations 2013. The information below has been audited in accordance with the standards required by Directive 2006/43/EC.

Nature and location of the Group's activities
Leeds Building Society is the UK's fifth largest building society with 50 branches (2019: 54), total assets of £20.6bn (2019: £20.8bn) and 769,000 members (2019: 797,000). The Society's mortgage book primarily relates to properties in the United Kingdom, with a small proportion of historic balances, but no new lending, in Spain and Gibraltar.

The Society's subsidiary undertakings, their country of incorporation and their principal activities are detailed in note 15 on page 165. The Society and its subsidiaries are all tax resident in the United Kingdom.

The Society has no physical presence or regulatory branch in Spain, with all mortgages administered from the UK. The results of the Society's activity in Spain are included in the results of Leeds Building Society and subject to taxation in the UK.

The Society closed its branch in Gibraltar on 29 November 2019 and its retained Gibraltar mortgage book is administered from the UK. Until 30 June 2020, the Society filed tax returns in Gibraltar and paid tax on Gibraltar mortgage interest in both Gibraltar and the UK. A Double Taxation Agreement between Gibraltar and the UK came into force in 2020. Subsequently, the Society having no permanent establishment in Gibraltar and a permanent establishment being located in the UK means that Gibraltar mortgage interest is no longer taxable in Gibraltar. This income remains subject to taxation in the UK.

Results by country
The information for the year ended 31 December 2020 presented below is at a full Group level of consolidation, which has been prepared under IFRS. Total income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable), fair value gains less losses from financial instruments, together with all other components of operating income. Average monthly number of employees is shown on a full time equivalent basis. Staff costs comprise wages and salaries, social security costs and other pension costs.

Total income, profit before tax and corporation tax charge are as disclosed in the Group's Income Statement on page 136. Total staff costs are as disclosed in note 6 on page 155. Corporation tax paid represents the total payments as reported in the Statement of Cash Flows on page 140.

2020	UK*	Spain	Total	**UK includes Gibraltar*
Total income (£m)	196.3	0.5	196.8	*0.4*
Profit before tax (£m)	79.5	1.2	80.7	*0.3*
Total assets (£m)	20,570.3	69.4	20,639.7	*15.2*
Total assets less liabilities (£m)	1,085.3	69.4	1,154.7	*15.0*
Average number of FTEs	1,313	–	1,313	–
Staff costs (£m)	61.1	–	61.1	–
Corporation tax charge (£m)	18.7	–	18.7	–
Corporation tax paid (£m)	27.0	–	27.0	–

Return on assets
The return on assets, calculated as profit before tax divided by mean total assets, was 0.39% (2019: 0.44%) for the year ended 31 December 2020.

Public subsidies received
The Group received no public subsidies in the year ended 31 December 2020.

Glossary of Terms

Year ended
31 December 2020

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions. Included are details of Alternative Performance Measures (APMs) used within the Annual Report and Accounts, with an explanation of how the APM is calculated and a reconciliation to the closest equivalent statutory measure, as defined or specified under International Financial Reporting Standards.

Arrears
A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue. Such a customer can also be said to be in a state of delinquency.

Assets and Liabilities Committee (ALCO)
This is a management committee which reports into the Board Risk Committee and provides support in relation to balance sheet risk matters and oversight of the Treasury operations of the Group.

Basel III
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 IV (CRD IV). From 1 January 2021 banks and building societies in the UK will operate under policy statements issued by the PRA.

Basis point
One hundredth of one per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

Commercial lending
Loans secured on commercial property.

Common Equity Tier 1 (CET1) ratio
This is a regulatory ratio, calculated as the total of CET1 capital divided by Risk Weighted Assets (RWAs). 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 IV.

Contractual maturity
The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be repaid.

Cost to income ratio
An APM, the cost to income ratio is a measure of the efficiency of the Society by measuring costs in relation to income generation. It is calculated as management expenses (see below) divided by total income, as recorded in the Income Statement. There is no equivalent statutory measure, but all elements of the calculation are statutory measures.

Cost to mean asset ratio
The cost to mean asset ratio is an APM, and is another measure of the efficiency of the Society by measuring costs in relation to the value of assets. It is calculated as management expenses divided by mean total assets. There is no equivalent statutory measure, although all elements of the calculation are statutory measures.

Covered bonds
Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The Group issues covered bonds as part of its funding activities.

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.

Credit risk weighted amount
The notional value of derivative contracts adjusted to determine their inherent credit risk using PRA predetermined risk weights.

Debt securities
Assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue
Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.

Default
An account is classified as in default for impairment provisioning under IFRS 9 if one or more of the following events occurs:

- the account is more than 90 days past due;
- the account is subject to certain forbearance activity;
- the account is in possession; or
- the customer has been identified as being bankrupt and is in arrears by more than a nominal amount.

Derivative financial instruments
A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value is based on the underlying asset, index or reference rate to which it is linked. The Group uses derivative financial instruments to hedge its exposures to market risks, such as interest rate and foreign currency risk.

Effective interest rate method (EIR)
The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

Expected credit loss (ECL)
A calculation to estimate potential losses on current exposures due to potential defaults; the term is used in relation to impairment loss provisioning under IFRS 9 and is derived from the multiplication of the PD, LGD and EAD.

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.

Glossary of Terms

Year ended
31 December 2020 **Continued**

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Financial Services Compensation Scheme (FSCS)
The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA and PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

Forbearance strategies
Strategies to assist borrowers in financial difficulty, such as agreeing a temporary reduction in payments, extending loan terms and temporarily converting loans to an interest only basis. Forbearance strategies aim to avoid repossession where it is in the interest of the borrower.

Free capital
The aggregate of gross capital less tangible and intangible assets.

Funding limit
Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals.

General reserves
The accumulation of the Group's profit after tax since inception. It is the Group's main component of Common Equity Tier 1 capital which is a measure of strength and stability.

Gross capital
The aggregate of the general reserve, other reserve, revaluation reserve and subscribed capital.

Gross (new) residential lending
This is an APM, and represents the total amount of new loans and advances to customers secured on residential property advanced by the Society in the year. There is no equivalent statutory measure.

Impaired loans (credit impaired)
Loans where there is objective evidence that an impairment event has occurred, meaning that the Group does not expect to collect all the contractual cash flows or expect to collect them when they are contractually due.

Internal Capital Adequacy Assessment Process (ICAAP)
The Group's own assessment, as part of Basel III 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 number of stressed scenarios.

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. IRB approaches can only be used with the permission of the Prudential Regulation Authority.

International Swaps and Derivatives Association (ISDA) master agreement
A standardised contract developed by ISDA and used to enter into bilateral derivative transactions granting legal rights of offsetting for derivative transactions with the same counterparty.

Lending limit
Measures the proportion of business assets not in the form of loans fully secured on residential property.

Leverage ratio
A regulatory ratio which measures the value of the Society's Tier 1 capital as a proportion of total relevant non risk weighted assets. The CRR leverage ratio is defined by the EU's Capital Requirements Regulation, while the UK leverage ratio modifies this ratio to exclude central bank reserves.

LIBOR
The average interest rate estimated by lending banks in London that the average lending bank would be charged if borrowing from other banks. The publication of LIBOR is currently scheduled to cease from 31 December 2021.

Liquid assets
Assets which are either in the form of cash or are readily convertible into cash. Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, and investment securities.

Liquidity Coverage Ratio (LCR)
A regulatory standard ratio implemented by the Basel III Reforms. It is calculated as the stock of high quality liquid assets divided by the total net stressed cash outflows over the next 30 calendar days expressed as a percentage.

Liquidity risk
The risk that the Group is not able to meet its financial obligations as they fall due, or will only be able to do so at an excessive cost. This risk arises from timing mismatches of cash inflows and outflows.

Loan to value ratio (LTV)
A ratio which expresses the amount of a mortgage as a percentage of the value of the property. 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)).

Loans past due/past due loans
Loans are past due when a counterparty has failed to make a payment when contractually due.

Glossary of Terms

Year ended
31 December 2020 **Continued**

Loss given default (LGD)
A parameter used in relation to credit risk exposures modelled under the IRB approach and IFRS 9; an estimate of the difference between the EAD and the net amount recovered, expressed as a percentage of the EAD.

Management expenses
Management expenses represent the aggregate of administrative expenses, depreciation and amortisation as recorded in the Income Statement.

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.

Mean total assets
Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Member
A person who has a share investment or a mortgage loan with the Society which satisfies the Society's rules for membership.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)
MREL is the total loss absorbing capital a financial institution must hold to facilitate the recapitalisation of the institution in resolution.

Mortgage backed securities (MBS)
A category of asset backed security that represents interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Net interest income
The difference between interest received on assets and similar income and interest paid on liabilities and similar charges. This is the same as net interest receivable in the Income Statement.

Net interest margin
An APM calculated as net interest income, divided by mean total assets. There is no equivalent statutory measure, although the APM is fully derived from statutory measures.

Net Promoter Score®
The Net Promoter Score® is a measure of customer loyalty to the Group.

Net residential lending
This is an APM which represents the increase in the size of the residential mortgage book during the year. It is calculated as gross residential lending, less redemptions, contractual repayments and other capital repayments. The closest statutory measure is the movement in loans fully secured on residential property in the Statement of Financial Position. The main reconciling items to the statutory measure are the movements in impairment losses and EIR adjustments.

Net Stable Funding Ratio (NSFR)
A regulatory standard ratio implemented by the Basel III reforms which is the total amount of stable funding divided by the total amount of required stable funding, expressed as a percentage. The NSFR is currently an observable measure which is intended to become a minimum standard in 2022 with the implementation of CRR2.

Notional principal amount
The notional principal amount indicates the amount on which payment flows are derived at the Statement of Financial Position date and does not represent amounts at risk.

Operational risk
The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Probability of default (PD)
An estimate of the likelihood a borrower will not be able to meet their debt obligations as they fall due.

Permanent interest bearing shares (PIBS)
Unsecured deferred shares that are a form of capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of the Group.

Replacement cost
The amount the Group would need to pay to replace derivative contracts that are favourable to the Group if the counterparty with whom the contract was held were unable to honour their obligation.

Repurchase agreements (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 repo, for the party purchasing the security and agreeing to resell, it is a reverse repo.

Residential loans
Loans which are secured against residential property.

Residential mortgage backed securities (RMBS)
A category of asset backed security that represents 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 appetite
The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Group's members whilst achieving business objectives.

Risk Weighted Assets (RWAs)
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.

Glossary of Terms

Year ended
31 December 2020 **Continued**

Securitisation
The process in which the parent company sells a group of mortgages to a special purpose vehicle (SPV). The SPV then uses the mortgages to issue mortgage backed securities in the form of class A and Z notes.

Shares
Money deposited by a person in a retail savings account with the Group. Such funds are recorded as liabilities for the Group.

Shares and borrowings
This is a measure of indebtedness which represents the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Solvency ratio
Measures the Group's reserves as a proportion of its risk weighted assets.

SONIA
The risk free rate calculated as the weighted average overnight deposit rate for each business day.

Sovereign debt
Bonds issued by a national government. Historically sovereign debt has been viewed as less risky than other forms of debt issued.

Subscribed capital
Debt securities issued by the Group which have certain terms and conditions attached relating to the payment of interest and principal such that they are treated as capital.

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, while other Tier 1 capital includes qualifying capital instruments such as PIBS.

Tier 2 capital
A further component of regulatory and financial capital as defined by CRD IV which for the Society is represented by certain impairment provisions.

Wholesale funding
The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less balances deposited by offshore customers.

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