Leeds Building Society

Annual Report and Accounts 2022

Contents

2022: How we performed

Gross residential lending

£5.0bn
(2021: £4.4bn)

We helped **42,500** more people have the home they want including **18,000** first time buyers

Total assets

£25.5bn
(2021: £22.5bn)

Savings balances

£17.5bn
(2021: £15.3bn)

We helped **85,500** more people save for their future

Average savings rate

1.15%
compared to the rest of the market average of **0.65%**[1]

An annual benefit to all our savers of **£80.5m**

Profit before tax

£220.5m
(2021: £163.7m)

Common Equity Tier 1 Capital

33.3%
(2021: 38.0%)

Reserves available to protect us from future problems

Customer satisfaction[2]

93%
(2021: 93%)

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

Colleague engagement[3]

8.0
(out of 10)

We're committed to being a great place to work

1. CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market. **2.** Overall customer satisfaction in a survey of 3,387 members from January to December 2022. **3.** Your Voice colleague survey, 1,350 respondents (87% response rate) in October 2022.

Strategic Report

Chair's Welcome

Last year was another year of exceptional turbulence and challenge for our members and colleagues alike. However, our purpose of putting home ownership within reach of more people, and offering a safe place for members' savings remains as relevant today as it was nearly 150 years ago when the Society was established.

I'm pleased to report that this clear focus, combined with the incredible efforts of our colleagues, led to the Society delivering a very strong performance for all its stakeholders.

Performance over 2022

Last year brought significant new challenges as the cost of living crisis began to engulf the country with large increases in energy prices, rising interest rates and a rapid uplift in the rate of inflation. This was compounded by the impact of the Government's mini budget, which caused a considerable economic shock.

Our focus throughout the year was three-fold: we continued, in a responsible manner, to support borrowers get a foothold on the housing ladder; we helped those borrowers who are struggling in this difficult climate; and we supported savers by providing competitive products and by passing on increases in interest rates to a significantly greater degree than the high street banks.

Through this the Society achieved an exceptionally strong financial performance in 2022 but, as a mutual, maximising profit is not an objective. Our aim over the long term is to optimise the delivery of benefits to members whilst generating sufficient profit to keep the Society secure, maintain our capacity to grow the business and invest for the future.

Our colleagues are at the heart of the Society's success and our people strategy was a particularly important area for us during the year, with the Society committed to further investment in training, development and succession planning so that we continue to attract and retain the best people and allow them to fulfil their true potential. Naturally, the cost of living pressures also affect our colleagues and we have looked to protect them, particularly those colleagues on lower pay, with appropriate interventions during the year.

We have also sought to play our part in providing additional support for the communities which we serve. We have showed our support in many ways. We have now raised over £500,000 for our national partner Dementia UK, as well as donating more than £100,000 to support the humanitarian disasters caused by the invasion of Ukraine. Supporting our members and the communities in which they live and work, is an integral part of our business.

In September, the whole nation was deeply saddened when the death of Her Majesty, Queen Elizabeth II was announced after 70 years of devoted service. Following a period of mourning when people paid their respects to Her Majesty, we were honoured when His Majesty, King Charles III visited Leeds in early November and officially opened our new head office.

This was a very proud day for everyone at the Society and we were delighted that His Majesty took so much time to talk to so many of our colleagues. We will remember the visit with great pride and fondness.

Board changes

Following a successful handover from David Fisher, Neil Fuller started his role as Chair of the Board Risk Committee (BRC), from 1 January 2022.

After just over five years as Non Executive Director, Lynn McManus stepped down from the Board in January 2023. Lynn has been offered a unique opportunity to take an executive role elsewhere and I wish her well with her new position. Lynn held the role of Chair of the Remuneration Committee since January 2019.

Annette Barnes, who has been on the Remuneration Committee since March 2021, will be appointed as the new chair, subject to regulatory approval. Additionally, Annette will also take on the role as the designated non executive for colleague engagement, which includes both attending Colleague Association meetings and liaising with colleagues directly, so their vital insight can be shared with the Board.

Due to the departure of Lynn, the Board asked David Fisher to extend his term into 2023. David has a vast amount of knowledge of the Society, which will provide the Board with additional resilience and continuity whilst we complete the recruitment of new non executive directors.

The hiring process has taken longer than anticipated, but we are committed to appointing the right people for these roles, so that the Board can continue to demonstrate robust and diverse thinking and decision making.

The Covid-19 pandemic prevented us from meeting members face to face in 2020 and 2021, so it was with great pleasure that we returned to an in-person AGM meeting last year.

Full details of this year's AGM have been sent to members and we welcome members' questions or comments relating to Board matters at any time – please email these to agm@leedsbuildingsociety.co.uk marked 'For the attention of Iain Cornish'.

Outlook

The UK is entering what is likely to be a period of recession, with continued high inflation rates causing ongoing pressure on household budgets. The likelihood of rising unemployment, flat or falling house prices, as well as much stronger competition in the mortgage and savings markets will all be factors for us to contend with in 2023.

The Society is a business focused on the long term and is in an extremely strong financial position. Whilst not sacrificing our resilience, we will use this strength prudently and responsibly to support our members and stakeholders through these difficult times. We will also continue to invest in our future.

Finally, I would like to thank our colleagues once again and congratulate them on what they have achieved throughout the last 12 months. Through their support of members, intermediary partners, local communities, as well as each other, they have contributed to what has been a very successful year for the Society.

Iain Cornish
Chair

23 February 2023

Chief Executive Officer's Highlights

2022 was a tremendously challenging year for us in a world where the concerns surrounding the Covid-19 pandemic were replaced by a cost of living and energy crisis triggered by the war in Ukraine and global issues in the supply of goods. All this was against a backdrop of domestic political upheaval, together with rapidly rising interest rates and soaring inflation.

Despite all these concerns, we have managed the business carefully to be in an even better position to help our members deal with the uncertainty we all now face. We delivered an excellent business performance, with many records broken and key milestones achieved.

Throughout the year, our continued support for the housing market enabled us to surpass all previous records. We achieved record gross mortgage lending of £5.0 billion as we really delivered on our purpose of helping to put home ownership within reach of more people than ever before.

As always, central to our success have been our members and colleagues and I would like to offer them my sincere thanks for their continued support and commitment. We will remain focused on supporting our members to ensure that the Society remains successful and sustainable for the long term.

Creating solutions to help people onto and up the housing ladder

Our record-breaking mortgage performance was just one reason why 2022 was a landmark year for the Society, with continued strong support for customers less well served by the wider market. We helped 18,000 first time buyers get a foothold onto the housing ladder – approximately one in three of all our mortgages now goes to helping first time buyers.

Having reaffirmed our purpose, we backed our thinking with real action, and we took the decision to withdraw from lending on second homes. We were the first lender to do this, and the decision was well received by industry experts as well as by those communities where second homes have had a detrimental impact on their locality. The decision has allowed us to direct more of our energies to helping other sectors, especially first time buyers.

As the UK's largest shared ownership lender, the Society maintained its strong performance in this sector, rewarded for the seventh consecutive year with the title of Best Shared Ownership Mortgage Lender in the 'What Mortgage' 2022 awards. We were also awarded the coveted Financial Adviser 5-star Service Award – great recognition for the excellent levels of customer service our colleagues deliver day in, day out.

During the year we launched a scheme which enabled those borrowers buying new homes with an A or B energy efficiency rating to borrow more than they could on an equivalent, less energy efficient property. This latest innovation is part of our ongoing work as we develop new ways of supporting our members in reducing their carbon footprint. Housing is responsible for 16% of the UK's total emissions[1], so it's important as a lender that we play our part and support our members in this new and developing market.

As a mutual, we are acutely aware of our commitment to our borrowers to be there for them, particularly when times get tough. Since December 2021, as the UK's economic situation worsened, the Bank of England increased the base rate on nine occasions by a total of 3.40%. In response to this, we increased our standard variable mortgage rate (SVR) by a total of 1.70%.

We also continued to work with those members at risk of financial difficulty, by offering them tailored support and guidance, as well as further extending our waiver of arrears fees until at least the beginning of 2024.

Our members had to face further worries as political upheaval and the reaction to the Government's mini budget caused the cost of fixed rate mortgages to increase rapidly. Although some lenders temporarily pulled out of the mortgage market altogether, we continued to offer products throughout, including those aimed at first time buyers and shared ownership customers.

We've been helping people save money and have the home they want for almost 150 years. We believe that to make our country prosperous and help grow our economy, everybody should have access to housing that is decent and affordable. Sadly, housing is now at its least affordable point since records began and for too many people the dream of owning their own home remains unfulfilled. For many others the security of a safe and decent home to rent at an affordable price is despairingly remote.

I firmly believe that our country needs to develop a long term plan to provide stability in the housing market by delivering more homes, supporting first time buyers to save for their deposit and extending affordable routes into homeownership. That's why we published 'Tackling the UK's Homeownership Crisis' – a clear set of public policy proposals that we believe should guide both the Government and the housing industry in their support of first time buyers.

Rewarding customers as well as investing for the future

After a decade of low interest rates in the UK, our savings members started to benefit from rising interest rates. By continuing to offer a competitive savings product range we saw record savings inflows into the Society during 2022. We consistently paid above the market average rate – which equated to an extra £80.5 million in our savings members' pockets. The extra value that we give to our savers is especially important – particularly now as we face into a cost of living crisis.

Our fixed rate savings products were particularly popular to savers and appealed to both new and existing savers alike. We now have savings balances of over £17.5 billion and over 580,000 saving members – the highest in the Society's history.

We really delivered on our purpose of helping to put home ownership within reach of more people than ever before.

1 Source: 2021 UK Greenhouse Gas Emissions, Final Figures.

I'm delighted that because of our ongoing competitively priced savings products we were able to attract so many new members but acknowledge the elevated demand for our savings products led, at some points, to long waiting times for our callers. We didn't always meet the high standards of service we strive for but, I'm pleased that through a combination of increased recruitment and training, the situation has now improved.

We were delighted to report that our profit before tax increased to £220.5 million – the highest in our history. But as a mutual, we are able to reinvest this money for the current and future benefit of our members and the Society. We do this by improving products and services as well as by paying higher savings rates and by helping our borrowers through these difficult times.

Through a rolling programme of improvement and refurbishment, we have also continued to invest in our 50 strong national network of branches. Our branches and our colleagues working in them are a tremendous asset for the Society and our continued investment in the network reinforces our commitment to offer a face to face service for our members where this is sustainable.

We know that great service comes from skilled and committed colleagues and I'm delighted our colleague engagement scores remain at a high level of 8.0 (out of 10), while customer satisfaction scores have reached a record of 93%. We were also awarded a Fairer Finance Gold Ribbon for savings accounts for the fifth year running. This was in recognition of our clarity in explaining products and our savers' high levels of satisfaction.

Our investment to make sure the Society is fit for the future, and keep on improving service for members and intermediaries, included bolstering the size and skills of key teams, including our contact centre as well as our IT and underwriting departments. It was with great pride therefore that our Contact Centre colleagues were awarded an Institute of Customer Service 'ServiceMark' in recognition of providing outstanding customer service.

The investment in our ambitious multi-year IT transformation is progressing to plan and on budget. During 2022 we successfully completed the transfer of our data centres, which boosted our IT resilience and security. We continue to invest in our online functionality and capacity for our members, and this remains a key focus for us to ensure our processes are simpler and quicker to use.

Serving our members and society for generations

Our fantastic people are key to our ongoing success, and they continue to demonstrate how mutual support and co-operation make a difference to each other and to our members.

We have taken steps to become a more inclusive and diverse organisation, supporting our people to share and embrace different perspectives. We sponsored Leeds Pride and took part in the incredible parade through the city, as well as championing Racial Equality Week and Black History Month.

Being a mutual, it's only right that we find ways to help colleagues, as well as members and communities, by sharing our success during difficult times as we've done throughout our history. Therefore, in July, we agreed that all permanent and fixed term contract colleagues, excluding chief officers and directors, received a £1,200 payment which reflected the amount by which expenditures were forecast to rise during the year. We also took the opportunity in January 2023 to increase our minimum salary levels by 14.6% to £22,000 – a reflection that our colleagues are rewarded fairly at all levels of the business.

The compassion and generosity of our colleagues were evident again in the speed and scale of donations for the humanitarian disaster caused by the invasion of Ukraine. With matched funding from the Society, more than £100,000 was given to relief efforts in both Ukraine and the UK, including refugee aid in our home city of Leeds.

In Peterborough, we redeveloped vacant office space above the Society's city centre branch for use as emergency accommodation for refugees. This has been a widely supported and collaborative effort with local businesses, stakeholders and colleagues, for which I offer my heartfelt thanks.

We also donated £25,000 to the Disasters Emergency Committee's Pakistan floods appeal, as well as donating £27,600 to Kevin Sinfield's fundraising efforts for his ex-Leeds Rhino teammate Rob Burrow's campaign to raise awareness of motor neurone disease (MND).

In September, the Fair Tax Foundation confirmed that the Society had been re-accredited with the Fair Tax Mark. Paying our fair share of tax is one of the principal ways we contribute to society, helping to fund the public services we all rely on. Transparency around our tax affairs is very important to us and to our members. In 2018, we were the first national high street financial institution to receive the Fair Tax Mark and have received re-accreditation each year since then – something we are very proud of.

Supporting our communities and causes our members care about are key to our identity as a mutual. We continued our enthusiastic support for our national partner Dementia UK, taking fundraising beyond £500,000. I'm also delighted to confirm that through the Closer to Home project, we will be hosting face to face specialist dementia care clinics in our branch network – a first for the Society.

We also more than tripled our funding to the Leeds Building Society Charitable Foundation to £300,000 per year. In 2021 we set ourselves a target of distributing £1.5 million by 2025 to local communities through a mixture of donations, grants, fundraising, volunteering, and sponsorship. I'm pleased to announce that we have now doubled this target, and we will now aim to donate at least £3 million to charities and local communities by 2025.

We maintained our successful, long-standing partnership with Leeds Rhinos for a record breaking 16th consecutive year and announced our sponsorship of Leeds 2023, a celebration of the culture and talent in our home city. We also became one of the main sponsors of the Leeds Digital Festival – a high profile event to showcase the city's credentials as a hi-tech centre and employment base.

Outlook: facing challenges together

As a mutual, we always keep the needs of our members and their communities at the heart of our business. We will continue to support our members through the cost of living crisis, whilst also balancing the various needs of our savers and our borrowers.

Our strong performance during 2022 means we are in a very good financial position to face into what could be a turbulent economic headwind.

In common with other successful modern businesses, we work towards a genuine purpose. But we have a distinction that it was the very reason we were founded almost 150 years ago, and we have been living up to it ever since. Combining this with a sustainable business strategy, innovative mindset and care for colleagues and customers means I look forward to the future with confidence.

As always, I'm grateful to you, our members, for your continued trust and confidence in our Society.

Richard Fearon
Chief Executive Officer

23 February 2023

Business Model and Strategy

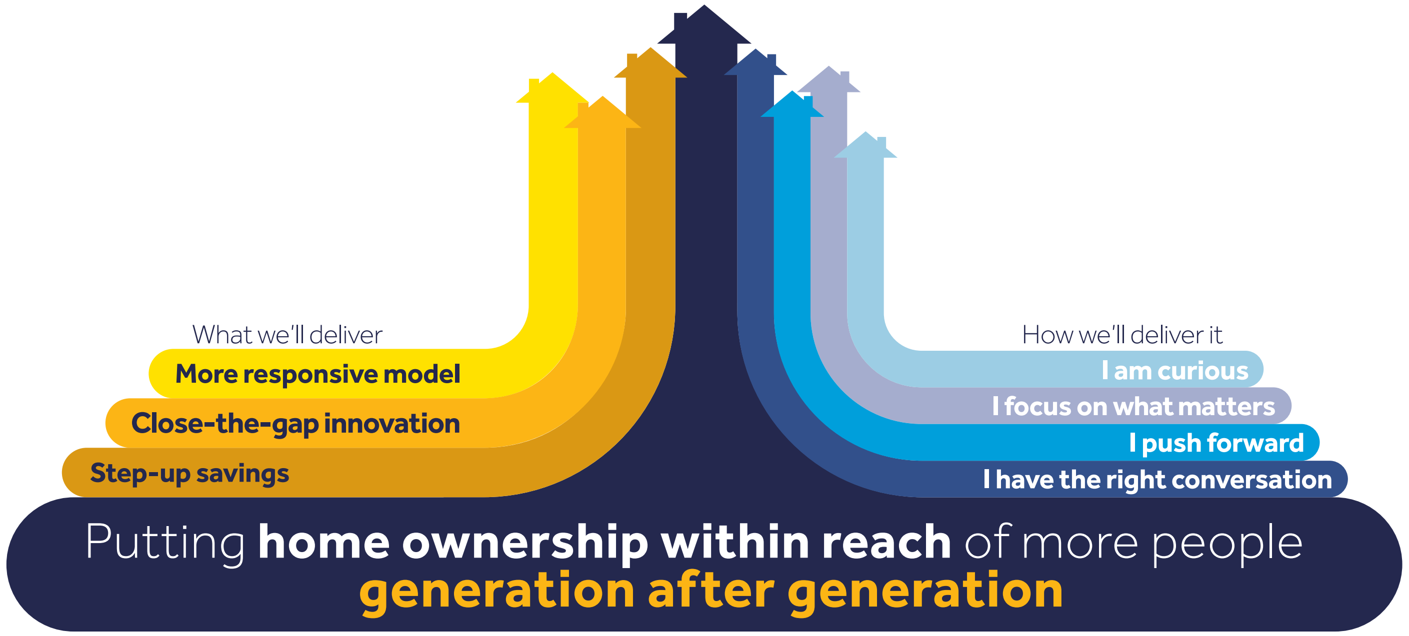
Year ended 31 December 2022

Leeds Building Society is the fifth largest building society in the UK, with assets of £25.5 billion. As a mutual organisation we are owned by our members and we act in the best interest of our members and wider stakeholders, over the long term.

Home ownership has always been an important focus for our business, as we believe more people should have the security of owning their own home. We are committed to supporting our members onto and up the housing ladder, as well as supporting them to remain in their home when faced with an uncertain economic and market environment among other challenges.

Our purpose

During 2022, we continued to embed our purpose, **"Putting home ownership within reach of more people – generation after generation"**, as well as our new strategic drivers and behaviours.



Strategic drivers: What we'll deliver

More responsive model – it's our responsibility to serve members and society for generations. We will build foundations that are strong and responsive to the changing context we will face.

Close-the-gap innovation – there are too many barriers to people getting the home they deserve. We will be relentless in partnering and creating solutions to help people onto and up the ladder of home ownership.

Step-up savings – savers are the lifeblood of our business. For them we will create experiences that are straightforward and human no matter the channel, and ensure that when people save with us they save with purpose.

Behaviours: How we'll deliver it

I am curious – seeking out expertise from different perspectives in the business, and looking outside for insight and inspiration.

I focus on what matters – doing the things that will make the biggest difference, and always doing the right thing for our members and our Society.

I push forward – taking action, making decisions and creating solutions to barriers.

I have the right conversation – facing into difficult conversations, and celebrating great work.

Our business model

Our purpose is delivered through our simple business model – providing a safe and rewarding place to save and supporting home ownership by providing a range of mortgages to our members.

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 into homes of their own. We offer mortgage products across mainstream residential, buy to let and a range of other segments, such as shared ownership and interest only.

We fund the majority of mortgage lending with members' savings, through a range of channels. We've continued to support savers with our rates averaging 1.15%[1] during the year. The remainder is funded from wholesale money markets on competitive terms, as well as reserves of previous profit, and government-supported funding schemes aimed at increasing the level of lending across the market.

Our strong liquidity position helps to make sure that there are sufficient funds 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. Environmental, Social and Governance (ESG) factors are considered when assessing the creditworthiness of our counterparties for liquidity investments and, if a counterparty was judged not to meet these criteria, then their limit may be rescinded.

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.

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.

We continue to invest in our mortgage systems to improve efficiency, speed up processing times and improve customer experience. This will help us to serve the evolving needs of more members, both through how they choose to do business with us and by providing products relevant to them. We continue to review opportunities to meet existing and new members' needs better, including the development of our products and distribution channels.

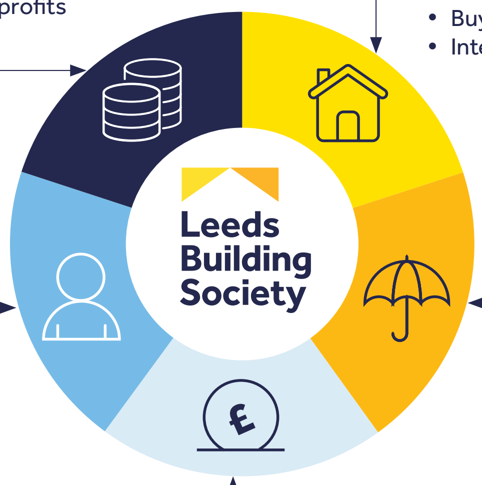
1 CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.

Business Model and Strategy continued

Our business model is summarised below:

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

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



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 business 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

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

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

A key element of our mutual business model is also providing social value to our stakeholders, and there are some examples of how we do this on the next page.

Our new Purpose Impact Report demonstrates the impact of our responsible business activities and clearly outlines our aim to drive positive social and environmental impact through what we do, now and into the future. The report is published on our website at leedsbuildingsociety.co.uk/press/financial-results/.

We deliver social value through the provision of...

Members and brokers

A range of mortgages – our mortgages enable borrowers to achieve the basic societal need of having a home. Our segmental focus provides access for those less well served by the wider market.

Competitive savings rates – we have a range of simple products designed to meet the different savings needs of our members and enable them to save for what's important to them.

A secure home for members' savings – our financial strength means we are able to generate robust profits that allow us to pay our fair share of tax to support essential services and make longer term decisions in the best interest of members.

Superior customer service – our colleagues are focused on supporting the differing and evolving needs of our members and brokers, generating consistently high levels of satisfaction.

Colleagues

Stable employment opportunities – we offer meaningful roles that are fairly rewarded. We have a supportive and inclusive culture, creating career development opportunities for all. Our engagement score places us in the middle range of the UK financial services sector benchmark.

Communities

Support for the communities in which we operate – we contribute directly to society through the work of the Leeds Building Society Charitable Foundation, our fundraising efforts and colleague volunteering scheme.

Environment

Products and services that reduce climate risk and environmental impact – the increased focus on climate issues presents further opportunities for the traditional mutual model to evolve and deliver innovative solutions that contribute to a sustainable future. We are also **taking actions to reduce our own emissions footprint**.

Third parties

Products and services through **partnerships with trusted third parties** – we use partners who are aligned with the Society's behaviours and whose goals and objectives are consistent with our responsible business aims.

Regulators

A strong focus on risk management and customer-centred decision making – our '**How We Do Business' standards**[2] set out how we continually strive to do the right thing for our members, colleagues and communities.

Investors

A safe and secure investment – we maintain our financial stability through strong income performance, a continued focus on cost efficiency and by keeping a robust liquidity position.

2 These can be found on our website at leedsbuildingsociety.co.uk/your-society/how-we-do-business/

Progress on 2022 corporate priorities

During the year, we've continued to deliver against our strategic drivers, by focusing on our corporate priorities. We've demonstrated our responsiveness through a changing economic and market environment, and have pushed forward on developing our innovation capability for the future, whilst also improving customer experience, products, and propositions for our saving members. Our progress against our corporate priorities is detailed below.

Corporate priority	Progress in 2022
More responsive model	
Ensure we have highly engaged and empowered colleagues, a diverse workforce and talent pipeline to respond to our changing context and needs	• We transitioned how we measure colleague engagement by introducing Peakon as a new supplier, utilising an average score across core engagement questions. In 2022 we achieved an engagement score of 8.0 (out of 10) which places us in the middle range of the UK financial services sector benchmark. • We invested in an inclusive leadership programme and are now measuring whether our leaders are fostering an inclusive environment as part of our broader internal inclusion and diversity measures. In addition, all leaders are required to have a personal objective for 2023 focused on the relevant leadership challenges in their area.
Build a sustainable technology platform and rapid transformation capability	• We've delivered the first phase of our technology roadmap, successfully moving several of our savings member journeys onto our new digital platform. • During 2022 we've implemented a significant amount of change to keep our technology safe and secure. As part of this, we concluded our data centre migration, and proved its enhanced technical resilience. • We significantly increased our capacity to deliver change, focusing on priority areas such as digital, where capacity has increased by 300%, to support strategic initiatives. We've driven substantial increases in the pace of our delivery (e.g. 70% more releases in savings and digital areas) and have also proven the responsiveness of our change model to evolving internal and external priorities.
Maintain the capital strength and cost efficiency to support our differentiated product mix and thrive through the cycle	• The level of profits we have generated in 2022 has enabled us to further increase the amount of capital we hold. Industry-wide changes in regulation have meant our capital ratios have fallen, but we remain highly capitalised. • Our costs have increased in the year as we have invested in colleagues and our technology, but we retain a close control over costs and a focus on operating efficiently. Our cost ratios remain among the best in our sector.
Lead the business and our members through the transition to net zero	• We continue to be carbon neutral for scope 1, 2 and selected scope 3[3] emissions, and we've been re-accredited with The Carbon Trust Standard for Carbon. • We've worked with sustainability experts, Carbon Intelligence, to better understand our emissions and as a result, we've set stretching targets to reduce our scope 1 and 2 emissions and climate-related risks – for further information, see our disclosures under the Task Force on Climate-related Financial Disclosures (TCFD) requirements on pages 48 to 79. • Our new Purpose Impact Report demonstrates the impact that we've made during the year on climate and the environment. For example, we're working closely with some major house builders around the Government's upcoming Future Homes Standard, supporting efforts to build more energy efficient homes.

3 In line with Climate Impact Partners' framework, The CarbonNeutral Protocol, this includes emissions from our business travel, fuel and energy related activities (FERA), waste generated in operations and home working.

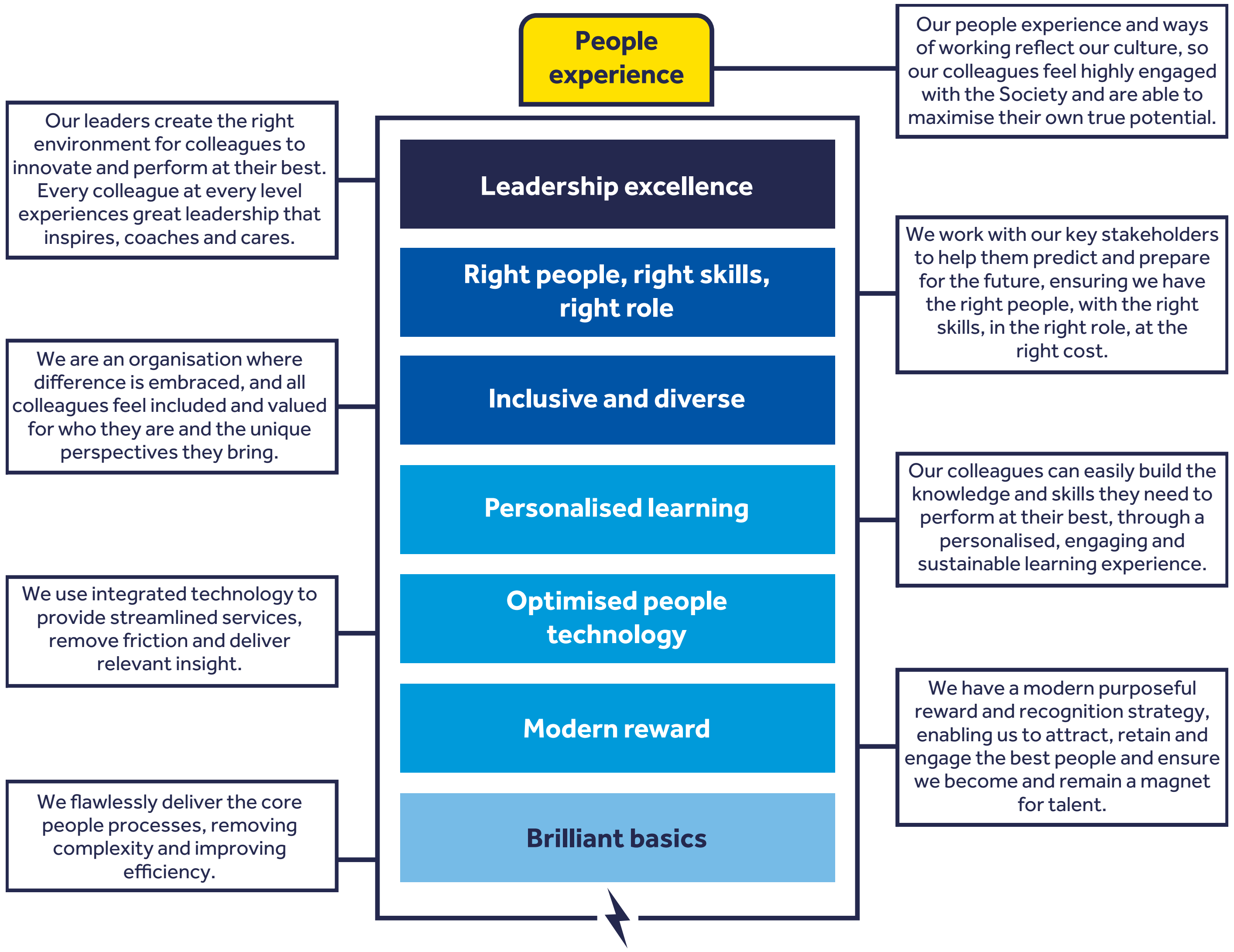
Corporate priority	Progress in 2022
Close-the-gap innovation	
Develop streamlined lending journeys to make it easy for members and brokers to do business with us	• During 2022, we've further improved our mortgage application system, Mortgage Hub, to become more responsive in an ever-changing market. For example, we've removed the need for a wet signature, and have brought in an automatic valuation instruction on application submission. • Our average application to offer speed has improved from 18 days in 2021 to 15 in 2022, with some cases now able to offer automatically within seconds on submission. Our broker Net Promoter Score reached 76 in July (our highest ever). • Our speed to launch mortgage products has improved from eight days in 2021 to four days in 2022 and we've made it easier than ever for members to arrange appointments to speak to colleagues through a new appointment booking tool.
Proactively spot opportunities to meet the needs of our members and intermediaries through our data and insights	• We've continued to gain an understanding of members' and our wider stakeholders' needs during the year, through a number of engagement surveys and by analysing call demand. We've modernised our reporting capabilities to enable advanced data visualisation and focused this on services directly impacting members. This insight has enabled us to prioritise processing and digital enhancements, including introducing confirmation of deposit and confirmation of documentation processes. • We continue to review and refine ESG risks within lending appetite and our supplier procurement process to protect the Society and members and align to climate strategy ambitions.
Develop an innovation capability and mindset focused on helping more people onto and up the property ladder	• We've identified three key areas of focus for us to partner and collaborate with the FinTech community in order to remove the barriers to home ownership: making home ownership more accessible and affordable, building savings habits and improving the mortgage journey. • We held ideation sessions with colleagues and third parties to devise solutions for specific member needs in relation to deposit building and accessing home ownership. We are currently building out these ideas into prototypes which have undergone customer testing and feedback in order to iterate and improve. • Colleagues were also encouraged to collaborate with each other and charities or community groups to pitch for a share of a £250,000 donation for good causes which included those which demonstrated innovation and support for people in need of a safe and secure home.

Corporate priority	Progress in 2022
Step-up savings	
Cherish our branch network and the service and loyalty it delivers	• We've continued to invest in our branches during the year, through maintaining all of our leasehold commitments and, where appropriate, securing renewals in line with the lease provisions, and we've also purchased the freehold to our branch in Norwich. • We've enhanced technology within our branches, including the provision of wifi and the centralisation of all servers, both designed to provide a more robust level of service. • Member satisfaction with our branch network remains extremely high, at an average of 98%[4] during 2022. • We continue to have one of the most efficient branch networks amongst our peer group according to the latest eBenchmarkers analysis[5].
Define a multi-channel experience that meets member needs and drives a step change in awareness, accessibility, and service	• We've partnered with accessibility information provider AccessAble, to help our members with disabilities find the information they need to know before they take a trip to any of our branches, and we've installed hearing loops in all of our branches to support members with hearing difficulties. • We've agreed a target standard for digital accessibility, and all new savings journeys have reached these standards, improving our overall conformity, along with several changes on the public site. • We've been continually tracking and monitoring member experience across all channels. As a result, we've improved a number of online customer journeys including password reset, forgotten username and online registration, with all of these journeys now working across all types of devices.
Define and deliver a savings member value proposition that creates connection beyond rate	• In 2022, despite the savings market growing more slowly than in previous years, we delivered over £2 billion in net retail savings in one year for the first time ever. This is because we've continued to offer great value to new and existing members. A key part of our success has been our response to the eight base rate changes over the last 12 months and ensuring we're offering products that are competitive to our peers (savings rates were on average 0.50%[6] above the rest of the market). • In October we launched a 21-month fixed rate savings bond in support of Dementia UK, whereby the Society will make a donation to Dementia UK based on total balances invested, equating to £114,000 over the 21 months. • In December we launched our new customer savings account opening journey for our eSaver product. It has performed well and is already providing insights, with two improvements applied to the journey so far. • We've been re-accredited with the Fairer Finance Gold Ribbon for our savings products, which recognises the good customer service we've offered to savers, our transparency and how well we handle complaints.

4 Branch satisfaction in a survey of 1,263 members from January to December 2022.
5 eBenchmarkers Savings Report, Spring 2022.
6 CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.

People

In 2022 we created a new people strategy. We have taken the best of our journey to date and combined it with external insight and fresh thinking to create a re-imagined people strategy to 'power up' our people to deliver our purpose and direct our focus through to 2025.



We have made significant progress in 2022 and the following pages highlight what we have done.

People experience

In 2022 we moved to using a new provider for our employee survey in order to align with our purpose and also enable us to benchmark our colleague experience more confidently against other organisations.

As 2022 represents our transition year, we have a new baseline for colleague engagement of 8.0 (out of 10), which places us in the middle range of the UK financial services sector benchmark, a position we will look to build upon.

We've also completed a comprehensive review of our culture by extending our engagement survey to measure how well our new behaviours are being embedded, alongside how colleagues, managers and leaders all experience our current culture day to day. We recognise that a vibrant, healthy culture is a key enabler of a thriving member-focused business delivering good customer outcomes.

These changes have allowed us to provide our people managers with rich insight, empowering them to understand the impact of their leadership. An 87% participation rate gives us confidence that this is representative of our colleague sentiment across the Society, so actions taken will be relevant and impactful.

We are also using this insight to inform what we focus on within each component of the people strategy 'battery'.

Inclusion and diversity

In 2022, we refreshed our approach to inclusion and diversity, to include broader diversity characteristics and to ensure that creating an inclusive culture became a core focus. Our refreshed inclusion and diversity strategy 'Being You: Transforming Us' aims to ensure every colleague feels valued and included for who they are and the unique perspectives they bring. You can read more about our strategy in our Purpose Impact Report, available on our website at leedsbuildingsociety.co.uk/press/financial-results/.

We've continued to focus on improving our gender and race representation on the Board and in our Leadership Team. The gender composition of our workforce is detailed below:

		2022		2021		2020		2019		2018	
		Female	**Male**	Female	Male	Female	Male	Female	Male	Female	Male
Colleague Group	Number	**926**	**596**	838	507	829	499	838	486	822	465
	Percentage	**61%**	**39%**	62%	38%	62%	38%	63%	37%	64%	36%
Leadership Team	Number	**49**	**90**	40	85	33	70	33	66	31	62
	Percentage	**35%**	**65%**	32%	68%	32%	68%	33%	67%	33%	67%
Directors*	Number	**3**	**8**	3	8	2	8	3	9	3	10
	Percentage	**27%**	**73%**	27%	73%	20%	80%	25%	75%	23%	77%

*number includes executive and non executive directors

2022 saw the launch of our new HR platform, which has enabled us to expand the data set we collect from our colleagues in relation to diversity, including protected characteristics data and broader fields such as socioeconomic data.

This data will enable us to better understand our diverse colleague representation at all levels in the Society and support us in measuring progress. As our data set improves, and as we continue to mature our inclusion and diversity strategy, we will engage with our Board and Senior Leadership Team to review and consider broadening our targets beyond gender and ethnicity to ensure that we have a truly diverse workforce in all senses, which is representative of the communities we serve.

Personalised learning

In 2022, we clearly defined our desired future state of personalised learning for all colleagues. This will provide a learning offer that is simple to access, relevant to an individual, and delivers an engaging experience.

To create more engaging and effective learning experiences for our contact centre colleagues, we have successfully piloted interactive simulations to build confidence with the identification and verification process.

We have also reviewed our induction programme for customer facing colleagues and have made a range of enhancements to reduce the time to competence, whilst building greater colleague confidence.

Modern reward

We have a long-standing commitment to fair pay for colleagues and in 2022 we undertook a strategic review of our fair reward approach. Our new fair reward principles give us confidence that we pay salaries which reflect the skills and experience required to attract and retain colleagues.

Since 2019, we have been a Real Living Wage employer, paying colleagues at least the Real Living Wage. Our minimum salary from January 2023 is £12.08 per hour, which is £1.18 above the Real Living Wage of £10.90 per hour.

In recognition of the challenges posed by the cost of living crisis, we awarded eligible colleagues (excluding our Senior Leadership Team) a £1,200 non consolidated payment (full time equivalent). Additionally, we brought forward our April 2023 pay review to January 2023, providing further support to colleagues, which included a minimum increase of 6% to eligible colleagues and 14.6% to colleagues on our minimum salary.

During 2022, we have improved our benefits offering to colleagues, with enhanced family leave pay and have launched other benefits to support wellbeing. All our colleagues continue to share in the Society's success by participating in an annual bonus scheme, which reflects the performance of the Society as well as individual contribution, determined by achievement of objectives and demonstration of behaviours.

Communications and ways of working

Communication and collaboration continue to be critical elements of our culture. In 2022 we launched a new colleague intranet platform and committed to an investment in collaborative technology for every colleague.

Using the enhanced engagement survey platform, we have been able to identify and respond to the things that matter most to our colleagues in real time. A core focus has been to communicate how the Society is navigating the cost of living crisis for our members and colleagues.

Many of our office-based colleagues are working in a hybrid way, with some of their time spent in the office and the remaining time working from home. Additionally, we offer a broad range of flexible working options and patterns, supporting colleagues to balance their home and work life effectively.

The Board

The Board recognises the critical role our colleagues play in powering up our purpose to meet the needs of members, generation after generation, and all Board members play an active role in supporting this.

In 2022, the Board prioritised meeting more colleagues in person as the pandemic subsided, including members of our inclusion and diversity forums who shared their lived experiences of work with them. Iain Cornish, Chair of the Board, met with each forum during the year and personally launched our 'This is Me' campaign which has seen our colleagues generously sharing their personal stories to help us better understand the true diversity of our workforce.

Since 2019, Lynn McManus, Non Executive Director and Chair of the Remuneration Committee, has had responsibility for representing colleagues' views at the Board. Lynn met with our Colleague Association three times during 2022 and has taken a keen interest in colleague matters, views and opinions. Annette Barnes has taken on this role from 2023.

Key performance indicators

We measure our performance against our strategic drivers using a number of key performance indicators (KPIs), including both financial measures, as defined under IFRS, and non financial measures. Alternative Performance Measures (APMs) given below are in common use across the financial services industry and are useful in explaining the performance of the business. The APMs are defined in the Glossary on page 245.

Home ownership

First time buyers	The number of new mortgage members in the year who are first time buyers, demonstrating our purpose of putting home ownership within reach of more people.	2022: 18,000 2021: 20,000 2020: 8,000 2019: 10,500 2018: 12,000	In 2022 we delivered our highest ever level of shared ownership lending and maintained our share of the first time buyer market.

More responsive model

Profit before tax	Profit before tax, as reported in the Income Statement, creating capital to support future business growth.	2022: £220.5m 2021: £163.7m 2020: £80.7m 2019: £88.0m 2018: £116.9m	Increased net interest income, driven by strong margins, increases in base rate and balance sheet growth, has increased profits to the highest level in our history, which will support ongoing achievement of our purpose.
Net interest margin	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.	2022: 1.50% 2021: 1.31% 2020: 0.99% 2019: 1.00% 2018: 1.15%	Strong mortgage margins and relatively low funding costs, along with a rising interest rate environment have in recent years enabled us to increase our net interest margin while supporting savers through paying above market average 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.	2022: 33.3% 2021: 38.0% 2020: 36.3% 2019: 33.6% 2018: 31.3%	Our high levels of profitability have meant we have grown the amount of capital we hold. Market-wide changes in the regulations for calculating the amount of capital we require have meant that our CET1 ratio has fallen, but our capital position remains very strong.
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.	2022: 6.2% 2021: 6.1% 2020: 5.8% 2019: 5.3% 2018: 5.5%	Our profits in the year have meant our capital has grown in excess of our balance sheet and driven an increase in the leverage ratio. In 2021, the regulator confirmed that this measure is not binding on the Society.

More responsive model (continued)

Cost to income ratio	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.	2022: 37.4% 2021: 43.9% 2020: 51.0% 2019: 53.5% 2018: 44.8%	Our costs have increased by 12% in the year due to investment in our colleagues and technology, for the benefit of current and future members. We continue to focus on operating as efficiently as possible over the long term, with this investment enhancing capabilities, productivity and ongoing resilience. A significant increase in income has supported a reduction in the cost to income ratio.
Cost to mean asset ratio	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 average total assets.	2022: 0.59% 2021: 0.58% 2020: 0.48% 2019: 0.50% 2018: 0.52%	The growth in our cost base has remained in line with the growth in our assets. We have developed greater flexibility in our investment expenditure to allow us to manage costs effectively.
Colleague engagement score	Colleague engagement is measured annually across all colleagues through our colleague survey. The Society's objectives are delivered by highly engaged colleagues.	2022: 8.0 2021 2020 2019 2018	We have changed the provider we use for our colleague survey so the 2022 results are not on a consistent basis with previous years. Our score of 8.0 (out of 10) places us in the middle of the range for the UK financial services sector benchmark, which is considered a good performance in the first year of this survey[7].

Close-the-gap innovation

New (gross) residential lending	The value of residential lending advanced by the Society during the year, including loans for house purchases, remortgages and further advances.	2022: £5.0bn 2021: £4.4bn 2020: £2.5bn 2019: £3.5bn 2018: £3.8bn	The mortgage market was very active for most of 2022 and our product proposition, focused on our purpose, allowed us to support members and deliver our highest ever level of new lending.
Net residential lending	Gross residential lending, less repayments of principal and redemptions.	2022: £2.0bn 2021: £1.5bn 2020: £0.0bn 2019: £1.0bn 2018: £1.0bn	Our record levels of new lending and competitive product transfer offering to existing customers coming to the end of their initial product term have supported an increase in net lending.

7 Your Voice colleague survey, 1,350 respondents (87% response rate) in October 2022.

Close-the-gap innovation (continued)			
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.	2022: 15 2021: 18 2020: 24 2019: 15 2018: 16	Continued investment in the Mortgage Hub and supporting technology have allowed us to speed up the process for issuing offers.
Broker Net Promoter Score	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.	2022: 63 2021: 56 2020: 46 2019: 54 2018: 49	Improvements to the Mortgage Hub have also simplified processes for brokers submitting applications and supported an improvement in satisfaction.
Step-up savings			
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.	2022: £17.5bn 2021: £15.3bn 2020: £14.2bn 2019: £14.5bn 2018: £13.9bn	Our attractive product range, particularly our fixed rate ISAs and increases in the variable rates we pay our existing savings members, have helped us deliver record net savings inflows in the year.
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.	2022: £80.5m 2021: £71.5m 2020: £82.8m 2019: £88.5m 2018: £81.5m	During the year we paid an average rate of 1.15%, compared to the rest of market average of 0.65%[8]. As base rate has risen we have increased the rates on our variable accounts, with the minimum rate paid on these accounts now 1.45%.
Customer satisfaction	The percentage of customers surveyed who described themselves as quite, very or extremely satisfied with the service received from the Society.	2022: 93% 2021: 93% 2020: 93% 2019: 91% 2018: 91%	Despite service pressures at some of our busiest times, we have maintained our customer satisfaction scores at their record level of the previous two years and we remain focused on delivering the service our members expect[9].

8 CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.
9 Overall customer satisfaction in a survey of 3,387 members from January to December 2022.

Responsible business

At the end of the second year of our responsible business strategy (2021 to 2025) we are pleased to report good progress. Following increased investment and a clear operational focus on demonstrating our commitment to being a responsible business, we can point to tangible outcomes, with 13 out of our 14 responsible business KPIs on target at the end of 2022, as illustrated on page 25. These targets will be kept under review to ensure we continue to stretch our ambition.

This year, as part of our aim to report in a clear and transparent way, we have created a separate Purpose Impact Report which outlines in more detail how we are delivering our responsible business strategy under our five key pillars: 'Supporting Home Ownership', 'Sustainable Communities', 'Inclusion and Diversity', 'Climate and Environment' and 'Trust and Transparency'. These themes were developed following extensive consultation with over 3,800 stakeholders on what responsible business issues were most important to them.

The report can be found on our website at leedsbuildingsociety.co.uk/press/financial-results/.

Key achievements this year

Supporting home ownership

- Our purpose-led strategy has supported 18,000 first time buyers in 2022. We're proud that one in three of our new mortgages helps a first time buyer onto the housing ladder.
- Withdrew from lending on second homes as part of our commitment to home ownership.
- Launched a clear set of seven public policy proposals to guide the Government and the housing industry in tackling the UK housing crisis.
- Awarded What Mortgage 'Best Shared Ownership Mortgage Lender' for seventh year running.
- Supported our members during market turmoil including:
  - Continuing to offer first time buyer and shared ownership products.
  - Honouring mortgage offers (including offered rate) to new customers for six months from date of issue[10].
  - No arrears fees if borrowers fall behind on their mortgage repayments until at least 1 January 2024, extending suspension of these fees since the start of the pandemic.
  - Tailored support to members who struggle with repayments or are in arrears.

Sustainable communities

- Awarded over £970,000 to over 160 charities in 2022.
- Met our £500,000 fundraising target for our charity partner Dementia UK.
- Raised over £100,000 in response to the Ukraine crisis and converted space above our Peterborough branch into accommodation for people fleeing the conflict.
- Donated £25,000 to support people impacted by the devastating floods in Pakistan.
- Reached over 3,900 pupils from 29 schools via our financial education programme.
- Colleagues volunteered more than 2,200 hours.
- £250,000 was awarded to colleague-nominated charities.
- Leeds Building Society Charitable Foundation awarded just under £230,000 in new grants to 107 charities, which align with its new purpose of helping people in need of a safe and secure home.

Inclusion and diversity

- Renewed our investment in the 'Mission INCLUDE' mentoring programme, with a further 24 colleagues participating.
- Continued our reverse mentoring programme, pairing nine senior leaders with nine colleagues of different and diverse ethnic backgrounds, as well as expanding to include an age reverse mentoring programme, pairing nine senior leaders with nine colleagues under 30.
- Inclusive leadership programme delivered to 141 leaders across the Society, with bespoke inclusion and diversity training delivered to all colleagues.
- Stepped up our inclusion and diversity communication, establishing a regular drumbeat of colleague stories and articles reflecting the key pillars of our strategy around learning and listening.
- Attended Leeds Pride as a visible employer sponsor, with over 100 colleagues and families attending.

10 We may withdraw an offer in limited circumstances, which include fraud, misrepresentation, or non disclosure of material information. Full terms and conditions are outlined in the mortgage offer.

- Delivered seven Society-wide inclusion and diversity webinars, all with a focus on growing understanding and raising awareness.
- Launched our 'This is Me' campaign, where our colleagues shared their lived experience on a variety of inclusion and diversity subjects, which helped create space for conversations.

Climate and environment

- Certified as a carbon neutral company by Climate Impact Partners[11].
- Completed assessment and quantification of the Society's full carbon footprint.
- Agreed new targets to reach net zero for our operations[12] by 2030 (or sooner), supported by multi-year investment in our property portfolio.
- Funding research into affordability of energy efficient Future Homes.
- Completed pilots for a range of new green mortgages which adhere to the Green Finance Institute's Green Home Finance Principles.
- Reflected energy efficiency savings in the affordability assessment for new build homes.
- Planted over 3,300 trees in partnership with Yorkshire Dales Millennium Trust.
- 79 colleagues donated 447 volunteering hours maintaining a mile of waterway behind our new energy efficient Leeds head office with the Canal & River Trust.

Trust and transparency

- The Society has been re-accredited as a Real Living Wage employer, a Disability Confident Employer and for the Fair Tax Mark.
- We continue to align ourselves to our Fair Pay Charter.
- We're committed to providing the best experience possible for our members and brokers, and here are a few examples of awards we received in 2022:
  - Financial Adviser 5-star Service Award for Mortgages and Cash Investment 2022.
  - Fairer Finance Gold Ribbon for Savings.
  - Institute of Customer Services ServiceMark accreditation.
- Our latest ESG audits demonstrate our credentials, with Sustainalytics placing us in the top 10% of lending peers and Vigeo Eiris placing us in the top 15% of industry peers.
- We have produced a standalone Purpose Impact Report to clearly outline our responsible business strategy and progress against our goals.
- Updated our 'How We Do Business' statement, which outlines our approach to responsible business.

Our responsible business goals

Two years into our five-year responsible business strategy, we have made excellent progress against all our targets, as set out on the next page. As a result, we have introduced a more ambitious community outreach target and redefined our climate and colleague engagement measures. Our Purpose Impact Report outlines progress in more detail.

11 For scope 1 and 2 market-based emissions and selected scope 3 emissions (business travel, fuel and energy related activities, waste generated in operations and home working).
12 Includes our scope 1 and 2 market-based emissions.

We set the following targets in 2021 to measure progress against our responsible business strategy. We are pleased to report good progress as outlined below and have reviewed and updated these targets to match our ambitions.

Supporting home ownership

Help 65,000 first time buyers into a home of their own by 2025.

Progress: Ahead
2022 target: 30,000 first time buyers supported by end of 2022
2022 actual: 38,000 first time buyers supported by end of 2022

Improve mortgage broker satisfaction scores by 20% by 2025.[13]

Progress: Ahead
2022 target: +54 Broker NPS
2022 actual: +63 Broker NPS

Maintain an average savings rate premium of at least 0.25% compared to market average.[14]

Progress: Achieved
2022 target: >0.25%
2022 actual: 0.50%

Climate and environment

Reduce absolute scope 1 and 2 market-based emissions by 90% by 2030.[15]

Progress: Ahead
2022 target: 10% reduction
2022 actual: 19% reduction

Reduce absolute scope 1 and 2 location-based emissions by 60% by 2030.[13]

Progress: Ahead
2022 target: 7% reduction
2022 actual: 43% reduction

Maintain carbon neutrality for scope 1 and 2 market-based emissions and selected scope 3 emissions, on the pathway towards net zero.[16]

Progress: Achieved[17]
2022 target: 0 tCO_2e
2022 actual: 0 tCO_2e

We're working towards alignment to an overall net zero pathway by 2050 or sooner. As part of this ambition we have updated our climate targets in 2022, and the new targets above replace our previous goals.

Inclusion and diversity

Achieve 12% overall ethnic minority representation among our colleagues by 2025.

Progress: Ahead
2022 target: 9.75%
2022 actual: 11.9%

Achieve 7% ethnic minority representation among leaders by 2025.

Progress: Ahead
2022 target: 4.6%
2022 actual: 7.2%

Improve gender diversity with 33% female Board members by 2025.

Progress: Behind
2022 target: 33%
2022 actual: 27%

Improve gender diversity with 35% female senior leaders by 2025.

Progress: On track
2022 target: 33.5%
2022 actual: 35.25%

Trust and transparency

Maintain high member satisfaction scores of over 90%.[13,18]

Progress: Achieved
2022 target: >90%
2022 actual: 93%

Maintain strong colleague engagement score which places us in line with the UK financial services sector benchmark.[19]

Progress: Achieved
2022 target: 8.0 (out of 10)
2022 actual: 8.0 (out of 10)

Sustainable communities

Provide £1.5m to charities and communities through grants, donations and sponsorship by 2025.

Progress: Ahead
2022 target: £600k by end of 2022
2022 actual: £1.4m by end of 2022

We have set a new, more ambitious target of providing £3m to communities by 2025.

Maintain our share of UK high street branches at higher than 0.5%.[20]

Progress: Achieved
2022 target: >0.50%
2022 actual: 0.62% (as at March 2022)

Key

Ahead – where the cumulative performance to date is >5% above the target on a pro-rata basis (where appropriate).

On track – where the cumulative performance to date is between 100%-105% versus the pro-rata target.

Behind – where the cumulative or in year performance is below the associated target.

Achieved – where the reported performance for the year is in line with or above the in year target.

13 Broker and member satisfaction figures are taken from a rolling 12 month average.
14 CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.
15 From a 2021 base year.
16 In accordance with Climate Impact Partners' CarbonNeutral Protocol, this includes emissions from our business travel, fuel and energy related activities, waste generated in operations, and home working.
17 Subject to independent verification which will be completed during 2023. Any additional carbon offset credits that need to be purchased as a result of verification / final emissions calculations will be bought during 2023.
18 Overall customer satisfaction in a survey of 3,387 members from January to December 2022.
19 In 2022 we moved to a new provider for our Employee Engagement Survey (Peakon) in order to align with our purpose and enable us to benchmark our colleague experience more confidently against other organisations.
20 Based on bank and building society UK business count data, Office for National Statistics.

Directors' regard to stakeholder interests

Our approach to corporate governance is based on the Principles and Provisions of the 2018 UK Corporate Governance Code (available at frc.org.uk). Although the Companies Act 2006 does not directly apply to us as a building society, the Code expects the Board to provide a statement of how it has carried out its duties under section 172 of the Companies Act 2006 in promoting the success of the organisation for the benefit of all our stakeholders. Further detail on the Board's activities, engagement with stakeholders and how it demonstrates its commitment to doing the right thing can be found in the Corporate Governance Report on pages 133 to 136.

The Board's approach

We consider the needs of a diverse range of stakeholders, which 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 our strategy. In particular, we consider 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. The Board recognises that agreeing a strategy, which is cognisant of key stakeholders, will optimise long term value creation and ensure relevance in a fast-changing environment.

Examples of two key decisions made by the Board during the year, and how stakeholder impact was considered, are shown on pages 30 to 32 – specifically the decision to approve the updated climate targets, and the 'voice of the colleague' Board sessions.

Our behaviours help to underpin a strong culture appropriate for a mutual organisation, encouraging actions that are in the best interests of members and other stakeholders. Demonstration of the behaviours 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 page 122.

Stakeholder engagement

We have set out below our key stakeholder groups and how we engage with them. Further information on the Board's engagement with each of these stakeholder groups can be seen in the Corporate Governance Report on pages 133 to 136. Key performance indicators relevant to members, colleagues and brokers can be seen in the Key Performance Indicators section on pages 20 to 22.

Stakeholder group	Why they are important to us	How we engage with them	Reporting to the Board
Members and brokers	Members own the Society, and the Society acts to benefit members' interests over the longer term. Most of our lending is done via brokers, who are key to our business model of helping members into homes of their own.	• Gain feedback though our online panel TalkingPoint. • Social media. • Trustpilot. • Independent external customer and broker research. • Annual General Meeting (AGM).	• Annual analysis of five-year forecast of member joiners and leavers and monthly reporting. • Regular reports on service performance and complaints. • Consideration of mutual dividend. • Reporting on savings rate benefit. • Consideration of member input on specific topics e.g. mortgage services.
Colleagues	Colleagues are critical to the success of the Society. High levels of engagement mean colleagues will be more productive, have a higher level of wellbeing and will go the extra mile for our members.	• Department and branch visits. • Yearly colleague survey. • Colleague Association. • Board-appointed colleague representative Lynn McManus (Non Executive Director) met with the Colleague Association three times in 2022. • Attendance by Iain Cornish (Chair) at diversity forum meetings. • Colleague development and wellbeing sessions. • Communication on matters relevant to colleagues and the Society.	• Colleague survey results. • Colleague update from colleague representative and 'voice of the colleague' Board sessions. • Colleague Association topics. • Pension scheme information. • Update on inclusion and diversity and progress against our targets. • Annual Speak Up policy review and approval.
Third parties	Our supplier partners are key to our ability to develop and deliver services to members and are an important aspect of how we are represented with our other stakeholders.	• Governance meetings at appropriate levels take place in accordance with the materiality of the relationship. • Our policies and standards drive a fair and transparent supplier selection and relationship management process for new and renewed requirements, proportionate to business risk.	• The Board receives regular updates on the progress made against our third party management roadmap and is involved in decisions on suppliers for key strategic projects. • Management information on suppliers and our approach to managing third party relationships. • Annual approval of modern slavery and transparency statement.
Communities	As a mutual, we strive to make a positive difference to the communities in which we operate.	• Annual General Meeting (AGM) voting for charity donations. • Engagement via communication with charity partners and their beneficiaries. • Colleagues nominate and volunteer for charities and community groups.	• Approval of our updated responsible business strategy targets and regular updates of progress against these. • Approval of increased investment in communities.

Business Model and Strategy continued

Stakeholder group	Why they are important to us	How we engage with them	Reporting to the Board
Environment	The Society is committed to minimising our impact on the environment in the places in which we operate, as well as managing environment-related risks. This is also an increasing focus for our wider stakeholders.	• Discussions held with a wide range of stakeholders, including government bodies, building society peers and third party experts such as Carbon Trust and external sustainability and consultancy specialists Carbon Intelligence.	• Progress reports on our climate data and insights. • Approval of green strategy and updated climate targets. • Detailed training on setting climate targets, including the requirements of the science-based net zero pathway and the activity required to meet these climate targets (training included material developed in partnership with Carbon Intelligence on the Society's climate targets and net zero methodology).
Regulators	Regulators are responsible for maintaining a safe and sound financial system, as well as ensuring consumer protection. Meeting regulatory requirements engenders trust from our stakeholders and demonstrates that we are doing the right thing.	• Regular dialogue and interactions with our regulators both directly, and through our industry bodies. • Monitoring regulatory publications from the regulators and wider stakeholder groups. • Reviewing regulatory publications and taking action as required.	• The Board receives updates on regulatory matters and a summary of key regulatory actions being undertaken by the Society. • Material dialogue and interactions with our regulators are shared with the Board as appropriate. • The Board has sight of the progress in delivery of regulatory actions. • In 2022, the PRA engaged directly with the Board to discuss the conclusions from the Periodic Summary Meeting.
Investors	Investors provide an important part of our funding, which supports our aim to help members into homes of their own.	• Individual meetings with key institutional investors, group presentations, attendance at investment conferences and investor events. • Regular and close dialogue is maintained with credit rating agencies, including formal annual review meetings.	• Investor relations approach considered as part of the wholesale funding strategy, contained within the overall treasury strategy, as approved by the Assets and Liabilities Committee.

Members and brokers

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.

Further details on engagement with our members can be seen within the Corporate Governance Report on page 134 and in our new Purpose Impact Report.

Colleagues

Consideration of diversity in the workplace is a key focus for the Society, which is supported through our wellbeing, gender diversity, race equality and LGBTQ+ colleague forums and our new disability forum. Further information on inclusion and diversity can be found in the People section on page 18 and our new Purpose Impact Report.

We engage with our colleagues through an annual survey, gaining insight into how colleagues experience the Society and the impact of its leadership, highlighting areas of strength as well as areas of the colleague experience to prioritise. We provide colleagues with access to a personalised learning experience, as well as benefits including wellbeing support and a long-standing commitment to fair pay.

Further information on engagement with colleagues can be found in the People section on page 17 and within the Corporate Governance Report on pages 135 to 136.

Third parties

Our supply chain includes suppliers of goods and services, including professional services (such as conveyancing services), IT platform services (access and administration) and IT software licences.

In 2022 we continued to grow our third party management capability in recognition of the increasingly important role our suppliers play in our ability to thrive in a demanding business climate. We select suppliers based on their ability to reliably deliver services that enhance our members' experience, their alignment to the Society's behavioural standards and the measurable benefit we receive.

Our Third Party Management Policy includes a clear risk-based classification of suppliers which enables us to take a more consistent and risk-appropriate approach to our management of each engagement.

Communities

Leeds Building Society was set up to help members save and buy homes of their own. As a mutual, 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. Examples of this include our charity partnerships, donations, fundraising and colleague volunteering for charities and organisations who provide support within these communities, as well as 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.

More detail, as well as further information on responsible business at Leeds Building Society, can be found within the Responsible Business section on pages 23 to 25 and our new Purpose Impact Report.

Climate and environment

We continue to take the impacts of climate change seriously. During 2022, the Board approved revised climate targets aligned to the principles of the Science Based Targets initiative and has overseen the implementation of our green strategy – see key decision case study on climate targets on pages 31 and 32. The Society's green strategy has been designed to support our key stakeholders through an orderly transition to a greener, net zero economy by 2050 or sooner. This includes engaging and supporting our members and colleagues to reduce their carbon footprint, working collaboratively to understand and reduce the emissions from our supply chain and partnering with industry stakeholders to develop our climate response.

We continue to report on our carbon emissions in our climate disclosures which are aligned to the TCFD requirements. These aim to help stakeholders understand how we are managing the risks and opportunities associated with climate change. More information on this can be found on pages 48 to 79 and also within our new Purpose Impact Report.

Regulators
We have an open and transparent relationship with our regulators – the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Regular meetings are held with the PRA which are attended by our Chief Financial Officer and Chief Risk Officer along with members of the Senior Leadership Team. Whilst we are not relationship managed by the FCA, we adopt both a proactive approach (for example, updating the FCA of any new material issues arising), and a reactive approach (for example, completing regulatory returns and surveys as prescribed by the FCA from time to time).

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.

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 or reducing costs. This means that we can continue to operate successfully in the future for the benefit of all of our stakeholders.

Examples of two such key decisions made in 2022 are given below and a summary of Board activities during the year can be found in the Corporate Governance Report on pages 132 to 133.

Approval of updated climate targets (November 2022)

Stakeholders impacted

environment | members | colleagues | communities | third parties

Context

The Board understands that climate change is an important global issue, which is affecting all communities and countries around the world. Given that 16% of the UK's carbon emissions come from homes[21], we understand that we, along with the rest of the industry and the Government, have an important role to play in reducing these emissions.

Given the reduction of our scope 3 emissions from mortgaged properties is largely outside of our direct control and will be subject to the Government delivering on its net zero commitments and improvements in the energy efficiency of UK homes, we have not yet set targets for our scope 3 emissions. However, we remain committed to playing our part in resolving the challenges to enable alignment with net zero.

During the year, we worked with our external partner, Carbon Intelligence, to gain a better understanding of our greenhouse gas emissions. This has enabled the Board to approve new interim near term targets for scope 1 and 2 emissions, to better align with an overall net zero pathway by 2050 or sooner.

Considerations and discussion

The Board is cognisant of potential impacts on stakeholders of climate change decisions, and that these impacts could be varying and conflicting. In setting the new targets to reduce our emissions, the Board carefully considered and discussed stakeholder implications in the context of the Society's purpose and strategy and the current external environment, including uncertainties around government policy that will be required to meet net zero targets.

By considering all stakeholders, the Board ensured that an appropriate balance was achieved between credibility and stretch of the targets, whilst minimising the risk of creating unintended negative consequences in the near term. For example, targets which aim for an immediate and significant reduction in emissions would positively impact the climate and the environment, and subsequently the climate impact on members' homes. However, if not set in the right way, both by individual companies and across the wider industry, targets (such as a very strict lending policy regarding energy efficiency of properties) could also lead to climate-related mortgage prisoners – those who are unable to remortgage or sell their homes due to these being less energy efficient.

Outcomes and actions

- The updated climate targets, focused on reductions to our scope 1 and 2 emissions from the operation of our buildings, were approved (see more detail in our TCFD disclosures on pages 48 to 79).
- Alongside these targets, the Board emphasised that we should continue to explore how to best influence reductions in our indirect scope 3 emissions (generated by our suppliers and our mortgaged properties) to ensure purposeful progress is made over the course of the next decade.
- We will continue to work with the Government and the industry, including lobbying via UK Finance, to encourage and support development of green mortgage products and greener homes.

'Voice of the colleague'

Stakeholders impacted

colleagues | members | communities

Context

The Board values the relationships with our stakeholders and in recent years has purposefully sought to develop its focus on how to maintain and develop those relationships and ensure that our decisions take stakeholder impact into consideration.

In order to do this, the Board has taken the decision to focus on its engagement, particularly with colleagues, through a programme of direct colleague interaction by a variety of means, for example, by inviting colleagues to present at Board meetings in dedicated sessions entitled 'voice of the colleague'. Members of the Board have also attended meetings of the colleague-led inclusion and diversity forums and, more recently, invited members of these forums to attend an informal session with the Board to share their lived experiences and discuss where the forums willl focus their future plans.

21 Source: 2021 UK Greenhouse Gas Emissions, Final Figures.

Considerations and discussion

Throughout the year the Board received presentations from colleagues which revolved around various themes including: the challenges with delivering the Society's new purpose; hybrid working; automation; the challenges faced by colleagues in their roles; cultural dynamics within their department; and what changes could be made to improve colleague and member experience. In addition, several colleague members from our inclusion and diversity forums were invited to an informal session with the Board and were invited to share their lived experiences and discuss where the forums willl focus their future plans. At 31 December 2022, the Society's inclusion and diversity forums covered the areas of disability, gender diversity, LGBTQ+, race equality and wellbeing.

Outcomes and actions

The Board has, over the year, concluded that its direct engagement with colleagues has been extremely beneficial to not only understand their views and day to day challenges, but also to monitor culture and gauge the ongoing response to the Society's new purpose. The positive feedback and engagement indicate how our purpose has really resonated with colleagues at all levels and colleagues feel part of its delivery. Given the positive outcome of such engagement, the Board intends to schedule more 'voice of the colleague' sessions at Board meetings and Board committees during 2023.

Financial Review

Year ended 31 December 2022

Throughout 2022, the economic environment in the UK has been challenging for our members and the Society, with the rising cost of living, geopolitical instability and the Bank of England increasing base rate in response. Despite this uncertainty, we have performed strongly, continuing to serve our members and delivering on our purpose of putting home ownership within reach of more people.

Our robust underlying financial position supports the Society and its members through these uncertain times and also allows us to re-invest into the Society for the long term benefit of members, generation after generation. In 2022, we have achieved record levels of new lending and helped 18,000 first time buyers on to the housing ladder, in line with the guiding principles of the Society's purpose.

It remains important that we balance the interests of our savings and mortgage members through this period of rising market interest rates. We have significantly increased our minimum savings rate and maintained highly competitive savings products throughout the period. In addition we have opted to not pass on full base rate increases to our mortgage holders, and renewed our decision to suspend the charge of arrears fees until at least 1 January 2024, so that we can continue to support members in financial difficulties. In making these choices, we aim to serve our members, whilst also considering the long term sustainability of the business by managing current and future financial risks.

This report includes a number of alternative performance measures (APMs) which are not defined in International Financial Reporting Standards, but provide useful additional information about our financial performance and position[1]. Further information on the calculation of APMs and reconciliation to equivalent statutory measures can be found on page 245.

Mortgage lending

We provide residential mortgages in the UK, through a network of approved mortgage brokers and directly to customers through online and telephone channels. We fund the majority of mortgage lending with members' savings, through a range of channels, while the remainder is funded from other financial institutions, including central bank schemes, on competitive terms.

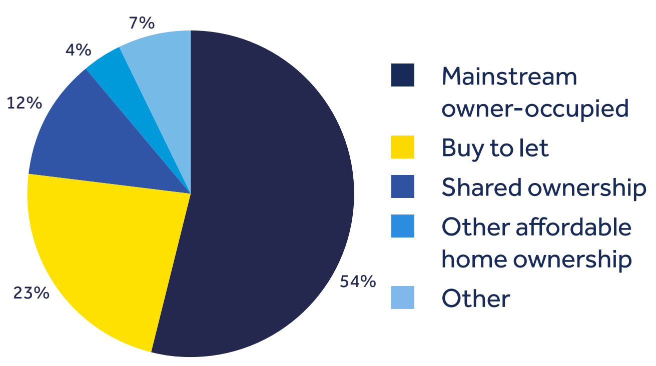
Our approach to mortgage lending is driven by our purpose of "putting home ownership within reach of more people – generation after generation". This purpose is fulfilled by supporting borrowers in key market areas such as shared ownership customers, as well as first time buyers and later life borrowers.

During the year we have invested further in the Mortgage Hub, our core mortgage application system, to make the process smoother and faster, with our quickest applications taking as little as 25 seconds for an offer to be made. This helps us to provide a great service to brokers and customers and to increase our lending volumes whilst staying efficient. We have also continued to invest in our mortgage support capability to assist customers who find themselves in financial difficulty. Reflecting the high quality of the mortgage book and lending controls, arrears have stayed relatively stable during the year. However, we are mindful that the cost of living crisis is likely to result in more members experiencing financial pressure and have taken steps to ensure we are well placed to provide extra support when it is needed.

Gross new lending during the year was £5.0 billion (2021: £4.4 billion). The increased level of lending was driven by continued strong demand across the market throughout the first half of the year, against a backdrop of low interest rates and high demand for housing. Towards the end of the year the mortgage market slowed significantly due to economic instability and customer affordability challenges. In keeping with our purpose, we continued to serve the market by ensuring products were available throughout the uncertainty.

The chart below shows the mix of new lending by product type in 2022.

2022 new residential lending by type



The focus of our purpose is on home ownership and helping people onto the housing ladder and this is reflected in the level of shared ownership and other affordable home ownership lending. Buy to let remains an important part of our lending mix as it allows us to balance risks across our book and supports the long term financial resilience of the Society. We also recognise that good quality rental accommodation is an important part of the UK housing market and many people are using it as a stepping stone towards home ownership.

1 Financial information refers to the performance of the Group, as reported on pages 186 to 240.

Our share of new mortgage lending was 1.6% (2021: 1.4%) compared to our natural market share of 1.2% (2021: 1.2%)[2].

Our lending policy reflects an appropriate balance between supporting home ownership and protecting borrowers and the Society. During the year we updated our policy in response to the challenging economic environment and credit criteria were tightened in response to the rise in the cost of living.

The average loan to value of new lending in 2022 was 65.1% (2021: 67.4%), reflecting our balanced, risk-managed approach to lending with lower risk lending enabling the delivery of more of our most purposeful lending.

Overall net lending increased to a record £2.0 billion (2021: £1.5 billion). Redemptions remained in line with our expectations, with more customers redeeming in the second half of the year as their mortgage products matured. Many customers decided to keep their mortgage with the Society at the end of their initial term and used our product transfer offering. We support members by offering product transfers to all customers at the end of their initial product term who are up to date on their mortgage repayments.

Profitability

The Income Statement for the year is summarised below:

	2022 £m	2021 £m
Net interest income	359.6	282.2
Fees, commissions and other income	2.4	5.3
Fair value gains / (losses)	14.7	(0.5)
Total income	**376.7**	**287.0**
Management expenses	(141.0)	(126.0)
Impairment (charge) / credit on loans and advances to customers	(11.9)	4.1
Other impairments and provisions	(3.3)	(1.4)
Profit before tax	**220.5**	**163.7**
Tax expense	(58.6)	(43.5)
Profit after tax	**161.9**	**120.2**

We made a profit before tax in 2022 of £220.5 million (2021: £163.7 million), the highest in our history. This significant increase is primarily due to a rise in net interest income, driven by higher market rates and lending volumes coupled with our strong margin performance carried forward from lending since the pandemic.

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. We also use profits to reinvest into the Society, to improve the experience and offering to our members and our colleagues.

Net interest income

	2022 £m	2021 £m
Net interest income	359.6	282.2
Mean total assets	24,013.8	21,576.7
	%	**%**
Net interest margin	1.50	1.31

Net interest income is our principal form of income and has increased by 27% year on year, driven by balance sheet growth and elevated margins from higher net lending rates and increases in the base rate. Mortgage margins on new lending have been strong since the latter part of 2020, driven by high levels of demand as borrowers reassessed their needs during and following the pandemic. Although demand reduced as market interest rates and affordability challenges increased in the second half of 2022, supply remained somewhat restricted, which continued to support margins.

Funding costs have remained low relative to historic levels, as a result of elevated savings arising through the pandemic as people moderated spending down to essentials. We have continued to offer competitive rates to members throughout the year and our attractive product range has enabled us to achieve record net retail savings inflows of £2.1 billion (2021: £1.0 billion) in the year, further enabling us to fund our purpose and give back value to members.

As base rate has risen through the year, our savings members benefited from several rate increases and our minimum member variable savings rate increased to 1.45%. During the year we paid an average rate of 1.15% (2021: 0.79%) to our savers, compared to the rest of the market average rate of 0.65% (2021: 0.29%)[3].

2 Share of new mortgage lending and natural market share are calculated using UK mortgage market data obtained from UK Finance. Natural market share represents the Society's gross UK mortgage exposures at 31 December 2022 as a proportion of total UK mortgage market balances.

3 CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.

Fees, commissions and other income

We offer home insurance and other services to our members through relationships with third parties and the Society earns commission on these products. Other income also includes rental income, foreign exchange movements and other ancillary fees and receipts.

Fair value gains and 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 profit or loss. Changes in fair value are primarily due to timing differences, which will trend to zero as the asset or liability reaches maturity.

During the year, significant increases in market interest rates have resulted in fair value gains of £14.7 million (2021: £0.5 million charge). These gains have largely been recorded on our collateral loan secured on a pool of equity release mortgages and on swaps which have been transacted to manage the interest rate risk associated with fixed rate mortgage and savings products.

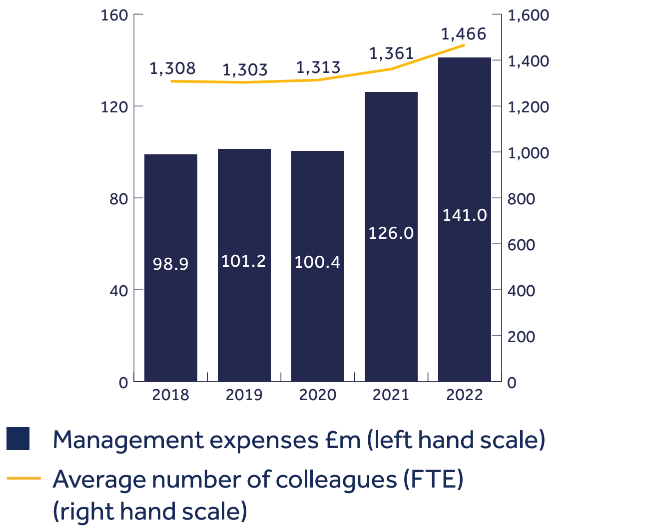
During the second half of the year we introduced cash flow hedge accounting to manage volatility and mitigate some of the impact of these movements. The adoption of cash flow hedging enabled us to recognise £112.9 million of fair value movements related to pipeline mortgage swaps in the cash flow hedge reserve as opposed to the income statement.

Management expenses

Management expenses for the year are summarised below:

	2022 £m	2021 £m
Colleague costs	83.8	73.0
Other administrative expenses	46.3	43.9
Depreciation and amortisation	10.9	9.1
Total management expenses	**141.0**	**126.0**
	%	**%**
Cost to income ratio	37.4	43.9
Cost to mean asset ratio	0.59	0.58

Management expenses £m and colleague numbers



In the year, management expenses have increased by 11.9%. As in previous years, we aim to operate as efficiently as possible, controlling our costs so that our cost ratios remain among the best in our sector. This is particularly important when faced with current market inflationary pressures.

We have continued to invest in technology that improves the experience of members and brokers, such as the Mortgage Hub, with the benefits reflected in our improved broker Net Promoter Score of 63 (2021: 56). We have also maintained our investment into the branch network as we recognise the value our members place on engaging with our colleagues through this channel. Our enhancements to the branch network also have a particular focus on environmentally friendly initiatives to align with our purpose.

For those members who prefer to deal with us online, we have a number of initiatives underway to improve the experience of our digital customers. We recently launched a pilot of our new account opening journey and are working on similar improvements for other customer journeys.

We continue to invest in our colleagues. Emphasis has been placed this year on developing the right talent and capability to deliver on our purpose and consequently the average number of colleagues (full time equivalent) employed by the Society in 2022 has increased to 1,466 (2021: 1,361). We have also provided additional support to our colleagues in response to the cost of living crisis.

Although costs have increased in year, we have developed a greater degree of flexibility to speed up or slow down project related spend to manage our overall cost position therefore allowing us to be more agile when responding to the current uncertainty, so that we can serve our members in the best way.

Impairments and provisions

The table below summarises the impact of impairments and provision charges in the year:

	2022 £m	2021 £m
Residential loans	12.0	(3.9)
Commercial loans	(0.1)	(0.2)
Impairment charge / (credit) on loans and advances to customers	**11.9**	**(4.1)**
Other impairments and provisions	3.3	1.4
Total impairments and provisions	**15.2**	**(2.7)**

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.

Despite the challenges faced by borrowers as a result of high inflation, the number of borrowers in arrears has remained broadly flat over the year, with the proportion in arrears by 1.5% of balance or more reducing from 0.66% to 0.58%.

However, provisions for residential impairment have increased significantly during the year as a result of the heightened economic uncertainty and the expectation of further challenges ahead. The macroeconomic scenarios used for calculating impairment have been revised to reflect the current and emerging economic pressures, including high levels of inflation and the high interest rate environment. The central scenario has been updated and forecasts a rise in unemployment as employers will attempt to reduce costs in the anticipated sustained inflationary environment during the next two years.

The uncertain economic environment is also reflected in the alternative modelled scenarios, overlays and post model adjustments. In particular, we have considered the effect of rising mortgage rates on customers' ability to maintain mortgage repayments. The key judgements and estimates involved in the calculation of impairment loss provisions are set out in note 2 of the accounts on pages 197 to 203.

The impact for the financial year is a £12.0m charge (2021: £3.9 million credit) which equates to a cost of risk of 0.06% (2021: (0.02%)). Total balance sheet impairment loss provisions against residential mortgages at 31 December 2022 are £48.0 million (2021: £37.3 million), as summarised below:

	2022 £m	2021 £m
UK	41.8	30.4
Overseas	6.2	6.9
Total residential impairment provisions	**48.0**	**37.3**
UK coverage	*0.21%*	*0.17%*

Impairment of properties

We revalue our freehold and long leasehold office and branch properties every three years. The latest valuations were undertaken at 31 December 2022 and showed a £5.7 million (10.8%) reduction in values, driven by falls in market rents due to the current economic uncertainty. £1.9 million of this reduction was recognised in the revaluation reserve with the remaining £3.8 million recognised as impairment.

Taxation

The income tax expense of £58.6 million (2021: £43.5 million) represents 26.6% (2021: 26.6%) of profit before tax. We pay UK corporation tax at the prevailing rate of 19% for 2022 (2021: 19%) and also pay the 8% surcharge on banking profits over a £25 million threshold.

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 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.

The Audit Committee reviews our tax policy annually. This provides a framework for the operation, planning and oversight of tax and tax risk to ensure compliance with relevant legislation. The policy has been 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.

Assets

Our strong lending and savings growth is reflected in overall balance sheet growth of 13.3% from £22.5 billion to £25.5 billion.

	2022 £m	2021 £m
Residential loans	20,372.3	18,340.3
Commercial loans	8.6	10.4
Other loans	164.4	218.0
Impairment provision	(52.1)	(41.5)
Loans and advances to customers	**20,493.2**	**18,527.2**
Liquid assets	4,580.7	3,646.8
Derivative financial instruments	679.9	219.3
Fair value adjustments	(585.9)	(169.1)
Fixed and other assets	346.0	289.5
Total assets	**25,513.9**	**22,513.7**

Loans and advances to customers

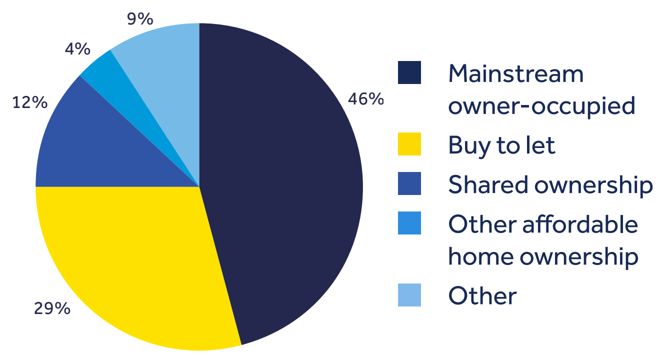
Our loans and advances to customers comprise mainly UK residential mortgages. Our legacy overseas residential and UK commercial loan portfolios continue to reduce, with no new lending taking place. Other loans include a collateral loan that represents a pool of equity release mortgages purchased from a third party, where some of the risks relating to those mortgages were retained by the third party.

Residential mortgage asset quality	2022 %	2021 %
Proportion of mortgages in arrears[4]	0.58	0.66
Balance-weighted average indexed LTV of mortgage book	48.8	50.5
Balance-weighted average LTV of new lending	65.1	67.4

UK residential mortgage balances

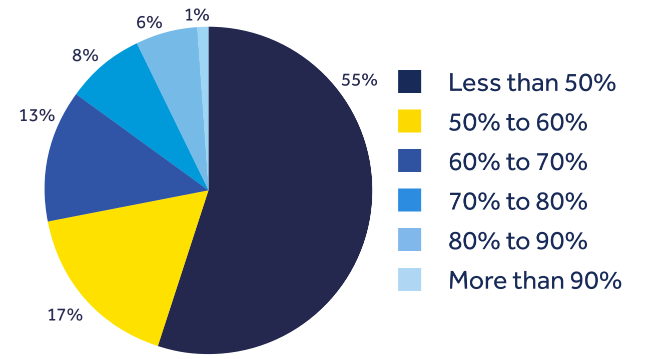
The Society's purpose focuses us on enabling home ownership, with a particular emphasis on first time buyers and products such as shared ownership. The mix of our mortgage book as a whole reflects our segmental lending strategy of recent years, with buy to let and shared ownership making up significant proportions of the book alongside mainstream owner-occupied.

2022 UK residential mortgage balances by type



The distribution of the loan to value profile of the portfolio is shown below and reflects our balanced approach to lending and the effects of house price inflation in recent years reducing loan to values.

2022 UK residential mortgage balances by indexed LTV



Liquid assets

Liquidity ratios	2022 %	2021 %
Liquidity Coverage Ratio	195.4	187.2
Liquid assets as a percentage of shares and borrowings	20.15	17.90

The level of liquid assets, which includes cash reserves with the Bank of England, as well as investments in other assets, varies throughout the year depending on the level of funding receipts compared to mortgage completions and other obligations. The level of liquidity required is closely monitored and considers forecasted and stressed outflows on a dynamic basis. We have increased our levels of liquidity during 2022 and the year end position is strong, which provides protection and flexibility in this uncertain economic environment.

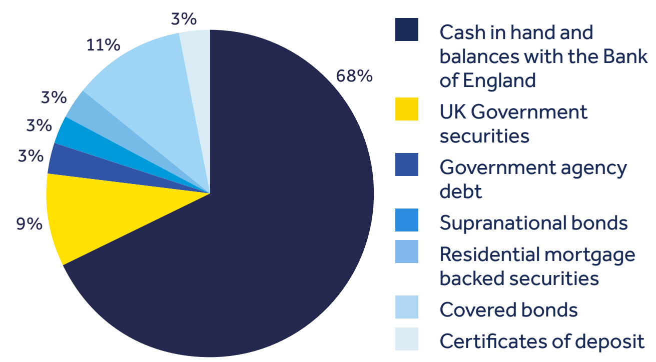
4 Arrears of more than 1.5% of the balance or in possession

Financial Review continued

At 31 December 2022 liquidity included £4.1 billion of High Quality Liquid Assets (2021: £3.4 billion), which are either in cash or are readily realisable as cash when required. 100% of our liquidity assets are rated A or above (2021: 100%). We also have access to additional contingent liquidity through the Bank of England's Sterling Monetary Framework.

The mix of liquid assets at 31 December 2022 is shown below.

2022 liquidity portfolio



The PRA monitors liquidity under the Capital Requirements Regulation (CRR) framework. Our Liquidity Coverage Ratio (LCR) is 195.4% (2021: 187.2%), significantly in excess of the regulatory minimum of 100%.

Liabilities

A summary of our liabilities is shown below:

	2022 £m	2021 £m
Shares	17,520.4	15,258.0
Wholesale funding	5,209.1	5,111.0
Derivative financial instruments	251.9	166.8
Other liabilities	519.0	136.6
Subordinated liabilities	309.1	339.4
Subscribed capital	197.6	227.3
Total liabilities	**24,007.1**	**21,239.1**
Equity attributable to members	1,506.8	1,274.6
Total liabilities and equity	**25,513.9**	**22,513.7**

Key ratios	2022 %	2021 %
Wholesale funding as proportion of total borrowing	22.9	25.1

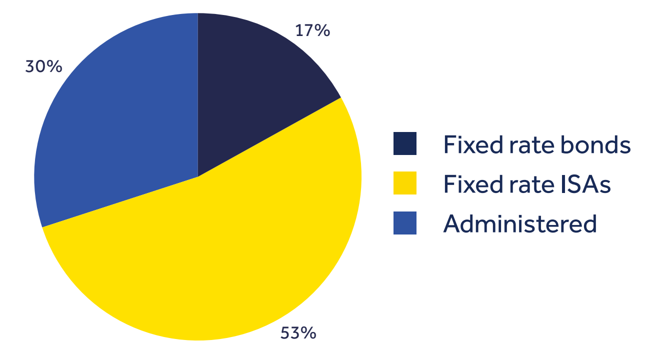
Shares (retail savings)
As a mutual building society, we remain committed to providing savers with a safe home for their money, as well as a compelling proposition and competitive interest rates. Our savings members are vital to us and the achievement of our purpose, as their funds allow us to support more people into home ownership. Achieving record net retail savings growth of £2.2 billion (2021: £1.1 billion) further supports this purpose and we are investing in our branch network and our online channel to provide our savings members with the service they require, however they choose to interact with us.

Our savings balances now stand at £17.5 billion (2021: £15.3 billion) and our 2022 growth has been particularly driven by our popular fixed rate ISA products which have had market-leading rates during the year.

We aim to support our members through this challenging period of higher living costs by paying attractive rates while managing current and future financial risks. We continue to pay above average market rates to our members, with our average rate for the year of 1.15% (2021: 0.79%) being 0.50% (2021: 0.50%) above the rest of the market average of 0.65% (2021: 0.29%)[5].

We offer our members a range of savings products including easy access and fixed rate bonds and ISAs. The chart below shows the mix of savings balances by rate type, with fixed rate ISAs now making up over half of our book (2021: 41%).

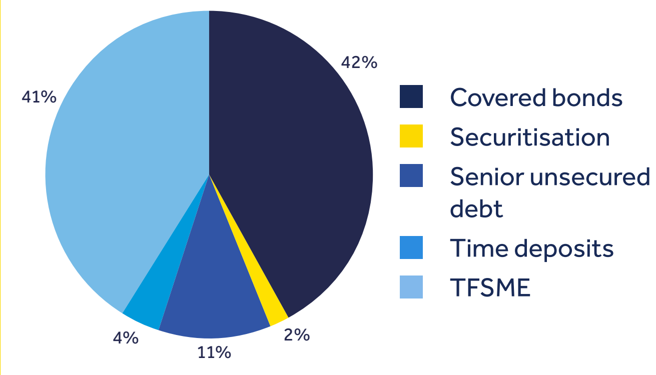
2022 retail savings balances by types



Wholesale funding
Total wholesale funding at 31 December 2022 was £5.2 billion (31 December 2021: £5.1 billion), representing 22.9% of total funding. Our Net Stable Funding Ratio (NSFR), a measure of the stability of our funding sources relative to our assets, was 139.9% (2021: 150.6%), well above the regulatory minimum of 100%.

In 2022 we issued two £500 million covered bonds to support the overall funding plan. We timed these transactions to avoid significant market volatility and were pleased with their success which has resulted in higher liquidity balances ahead of more economic uncertainty and known repayments of other funding. We also conducted a tender of our April 2023 covered bond, which has further reduced our refinancing requirement in 2023 and boosted the risk profile of our liabilities. The mix of our wholesale funding portfolio at 31 December 2022 is shown below:

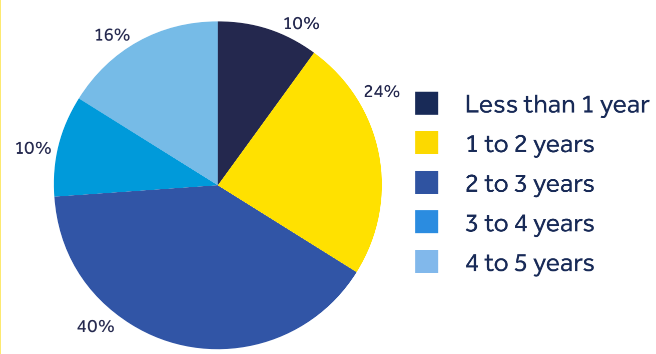
2022 wholesale funding portfolio



Our final TFSME drawings were made in October 2021 and the scheme is now closed.

The maturity profile of our wholesale funding is shown below:

2022 wholesale maturity



We maintain robust 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	Stable
Fitch	A-	F1	Stable

Derivative financial instruments
We transact derivative financial instruments to mitigate the risks within the balance sheet, primarily interest rate risk associated with offering fixed rate mortgage and savings products. In accordance with accounting standards, derivatives are initially recognised at fair value on the date that they are transacted and are subsequently re-measured monthly at their fair value.

Interest rates have risen significantly during the financial year and, as a net recipient of floating rates on swaps, this has resulted in both an increase in the balance sheet position and the recognition of a net fair value gain.

We make use of fair value hedge accounting to reduce volatility in profits by hedging exposures to variability in the fair value of financial assets and liabilities. Changes in the fair value of derivatives that are designated in 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.

During the financial year, we adopted cash flow hedge accounting which has enabled us to recognise £112.9 million of fair value movements related to pipeline mortgage swaps through other comprehensive income (cash flow hedge reserve) rather than the Income Statement.

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.

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 (IRB) approach to calculate our capital requirement for most of our residential mortgage book since 2018.

Total regulatory capital has increased by £164.2 million during 2022 to £1,622.9 million (2021: £1,458.7 million). This is mainly due to retained profits accumulated during the year, which are added to the general reserve.

At the start of 2022, updated prudential regulation changed the IRB approach for calculating capital requirements. We have applied a temporary adjustment to our calculations to reflect the estimated impact of these changes while we await regulatory approval of our updated IRB models. Until this happens, the adjustment is subject to change.

5 CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.

Financial Review continued

As a result of the regulatory changes and growth in our mortgage book, risk-weighted assets (RWAs) have grown by £932.7 million during 2022. Our CET 1 ratio, calculated on a transitional basis, has reduced to 33.3% from 38.0% at 31 December 2021.

The following table shows the composition of our regulatory capital as at 31 December 2022. More detailed disclosures can be found in the Pillar 3 document available on our website.

Capital resources	2022 £m	2021 £m
Total equity attributable to members (excluding cash flow hedge reserve)	1,425.5	1,274.6
Less pension surplus, intangible assets and other regulatory adjustments	(37.2)	(45.9)
Common Equity Tier 1 (CET1) capital	**1,388.3**	**1,228.7**
Additional Tier 1 capital	–	2.5
Total Tier 1 capital	**1,388.3**	**1,231.2**
Tier 2 capital	234.6	227.5
Total regulatory capital resources	**1,622.9**	**1,458.7**
Senior non preferred notes	350.0	350.0
Total MREL eligible resources	**1,972.9**	**1,808.7**
Risk-weighted assets (RWAs)	**4,163.9**	**3,231.2**

CRD V capital ratios[6]	2022 %	2021 %
CET1 ratio	33.3	38.0
Total capital ratio	39.0	45.1
Total MREL ratio	47.4	56.0
UK leverage ratio[7]	6.2	6.1[8]

Capital requirements

Pillar 1
We hold capital to meet Pillar 1 requirements for credit risk, operational risk and market risk. The IRB approach to capital modelling allows us to calculate our capital requirements using internally determined risk parameters that reflect the specific risks of our residential mortgage book. The standardised approach is applied to all other credit risk 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 2022, the regulatory requirement was 2.90% of risk-weighted assets, a point in time estimate set by the PRA during the year.

Capital buffers
In common with other banks and building societies, we are required to hold capital buffers that can be used to absorb the impact of a stress scenario. Our buffer comprises the following elements:

- Sector-wide capital conservation buffer, set at 2.5%.
- Macroprudential countercyclical capital buffer currently set at 1% of RWAs for exposures to the UK.
- Additional requirements calculated through the Internal Capital Adequacy Assessment Process (ICAAP) 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 perform regular stress tests on our capital base and these tests have consistently demonstrated a 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 2022 the CET 1 ratio would have been two basis points lower and the UK leverage ratio would be unchanged.

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
MREL aims to increase resilience within the financial sector and reduce the risk to taxpayers if a firm were to fail. As part of this, the Bank of England has stated a preferred resolution strategy for the Society of bail-in, due to our balance sheet being in excess of £15 billion. As a result we are required to hold both recovery and resolution MREL requirements.

We are currently within the transitional period for MREL, so our requirements are 18% of RWAs, which will apply until 20 July 2023. End state MREL requirements are two times minimum regulatory requirements plus any regulatory buffers. We have capital resources considerably in excess of both transitional and end state requirements and continue to forecast significant headroom moving forward.

New and emerging regulation
Changes to IRB models under revised capital requirements applied from January 2022 have increased RWAs. Further refinement is ongoing across the industry in relation to these regulations and this is expected to be finalised in 2023. The Society is expected to retain significant headroom over risk appetite following the finalisation of these regulatory changes.

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

Financial outlook

Going into 2023, the outlook for the UK economy remains unclear, with a rising cost of living and continued high levels of inflation and global political instability. Whilst higher interest rates are positive for savers, they have increased the cost of borrowing for mortgage customers and therefore uncertainty for many of our members. As our mortgage holders come to the end of their product term, we remain committed to supporting them, and balancing their interests with those of our savers.

As we navigate through these uncertain times, we will continue to utilise our expertise in key segments that helps us achieve our purpose of putting home ownership within reach of more people. We will manage growth and invest in the business, supported by strong efficiency ratios, a keen awareness of risk and our members' interests at the heart of every decision.

The strength of our balance sheet and our business model are set up to generate sustainable levels of profitability across the economic cycle and as we progress through the current challenges. We are resolute in delivering on our purpose of balancing support for members through this difficult time with maintaining a resilient balance sheet and ensuring sustainable profit.

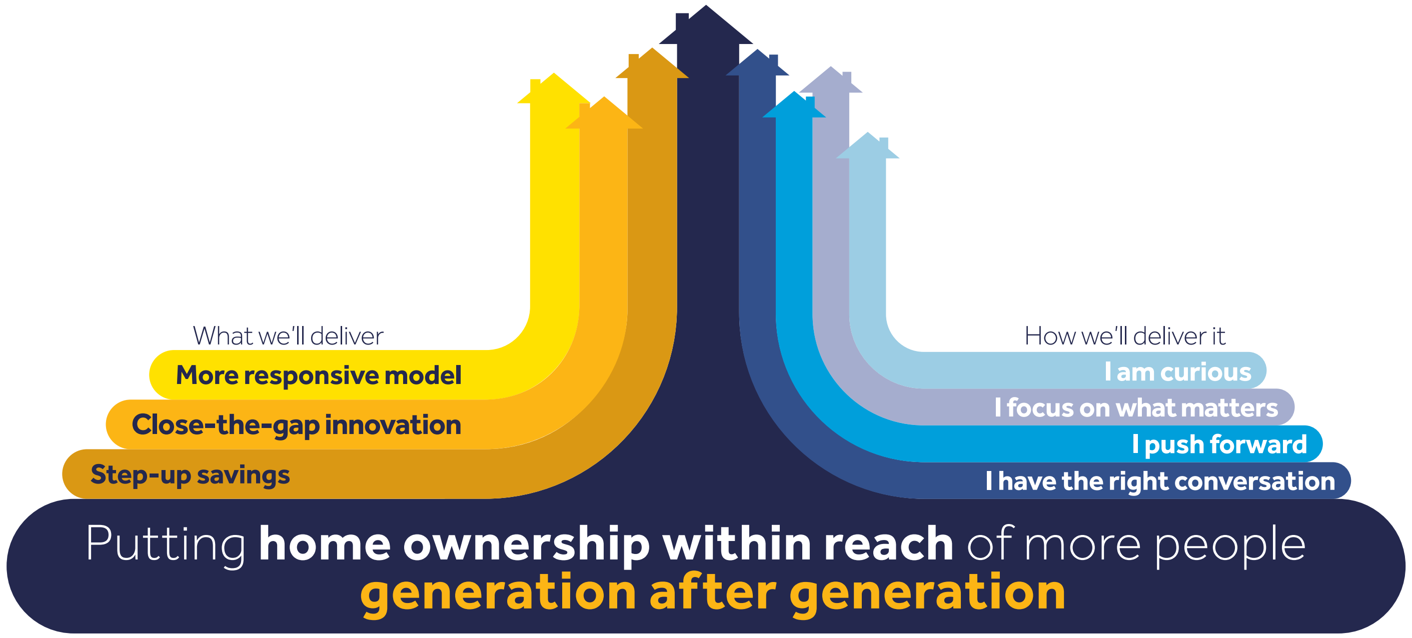
6 The capital ratios are calculated as relevant capital divided by risk-weighted assets and the leverage ratio is calculated as Tier 1 capital divided by total exposure (total assets per the prudential group consolidated position subject to some regulatory adjustments).
7 The UK leverage ratio represents the UK regulatory regime which excludes deposits with central banks from the leverage exposure measure. The UK regime does not apply to the Society as the applicable threshold set by the regulator (more than £50 billion of retail deposits) is considerably in excess of the Society's balance. Despite not being captured by this regime, the Society continues to exceed the minimum 3.25% regulatory expectation.
8 2021 UK leverage ratio presented on a transitional basis.

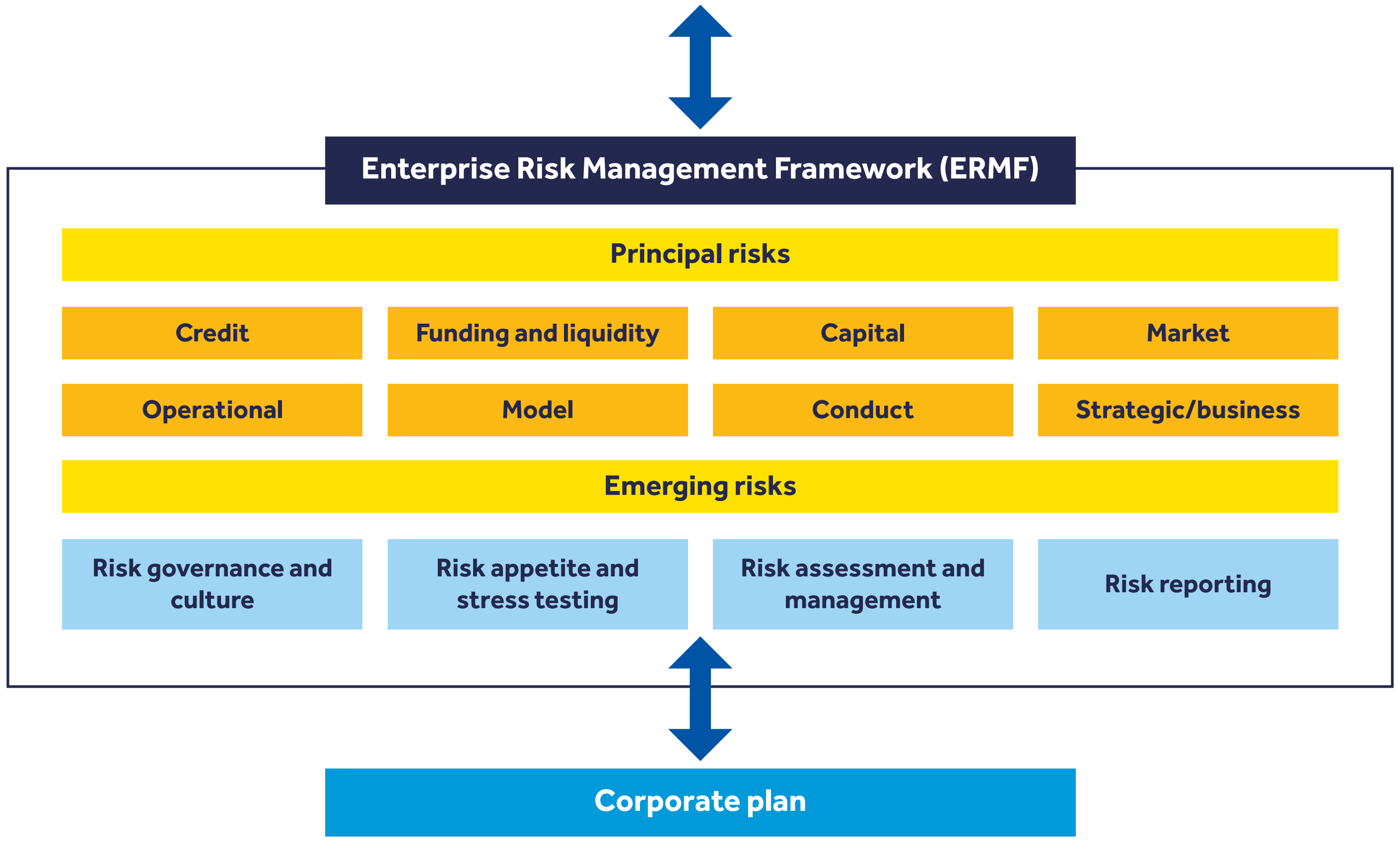
Risk Overview

Year ended 31 December 2022

Our purpose can only be achieved if risks are identified, understood and managed effectively. By understanding the nature of our risks, we can make informed decisions and reduce anticipated performance variability, which supports delivery of our strategic objectives and protection of our longer term viability and members' interests.

We deliver our purpose through a corporate strategy, which is built upon three strategic drivers (as described on page 10). Inherent within this strategy are eight principal risk categories. These comprise: credit; funding and liquidity; capital; market; operational; conduct; model and strategic/business risks. For each of these principal risk categories, we operate an appropriate Enterprise Risk Management Framework including risk governance, appetite setting, policies and key risk indicator reporting. 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.





Enterprise Risk Management Framework

To ensure that risks are appropriately managed across the organisation, the Society operates a Board-approved Enterprise Risk Management Framework (ERMF), which sets out a structured approach to identifying, assessing, controlling and monitoring risks.

Further information on the Society's ERMF and its key components can be found on pages 82 to 85 within the Risk Management Report.

Risk profile

The risks that the Society is exposed to fall into two separate categories:

1. Principal risks

The Society has identified eight principal risks, which are inherent within our strategy and have the potential to significantly impact performance or viability. These principal risk categories remain consistent with those disclosed within the 2021 Annual Report and Accounts. Further information can be found on pages 86 to 108 of the Risk Management Report.

With regard to climate change, the Society does not view climate-related risks as a separate principal risk category, but as risk factors that have a bearing across the Society's principal risk universe. Refer to pages 48 to 79 for details of our assessment of the potential impacts of climate-related risks.

2. Emerging risks

Emerging risks are new or evolving risks where the impact is uncertain but they have the potential to materially impact the Society's performance or strategic objectives.

When assessing emerging risks, we consider the likelihood of the risk materialising and the potential impact on our business strategy and stakeholders. These risks are considered by the Board and Board Risk Committee (BRC), on an ongoing basis, as part of our strategic and business planning processes.

The most significant emerging risks are described below, together with key developments and a summary of actions we are taking to manage the risk.

Economic and geopolitical risks:	
Overview	**Mitigating actions**
• The outlook for the UK economy remains highly uncertain. Elevated levels of inflation and increasing interest rates have eroded household real income and lowered consumption. Consequently, the UK economy is now expected to enter a period of recession during 2023. • Against this economic backdrop, activity in the housing market is forecast to moderate and house prices reduce further. Larger than anticipated impacts may threaten the delivery of strategic objectives. • Geopolitical risks remain prevalent, which may negatively impact the UK economy, including the ongoing war in Ukraine, a potential second independence referendum in Scotland and renegotiation of the Northern Ireland protocol agreed as part of Brexit.	• Macroeconomic risks are regularly assessed under both central and stressed conditions to understand and manage the impact on the business model e.g. tightening of lending appetite (volume, risk premia and mix). • Horizon scanning and close monitoring of key economic data and forecasts to support timely management response. • Maintain robust levels of capital and liquidity, supported by frequent stress testing and sensitivity analysis to understand the impacts on the Society's balance sheet.

Risk Overview continued

Affordability risks:	
Overview	**Mitigating actions**
• During 2022, mortgage affordability challenges have continued to develop, with heightened levels of inflation driven by demand and supply side pressures and rising energy prices eroding household disposable income. • Affordability pressure on household finances is also starting to emerge from the significant increase in interest rates during 2022, as members transition from their current (lower) fixed rate mortgage products onto higher pay rates. • Whilst some market commentators believe that inflation may have already peaked it is still expected to outpace wage growth in the near term. In addition, further increases to interest rates are expected during 2023 which will also place additional pressure on households.	• Closely monitoring the performance of the Society's lending portfolios and the appropriateness of credit policies, criteria and affordability assessments versus prevailing conditions. In particular, the Society has adjusted the stressed interest rate used in affordability assessments to account for the higher interest rate environment. • Credit provisions have been increased reflective of the expected deterioration in the UK economy. • The Society has continued to invest in its Mortgage Services department to ensure it is adequately resourced to manage the potential heightened number of members in financial difficulty. • Deployment of pre-delinquency strategies to proactively engage members who may find themselves in financial difficulty.

Operational resilience risks:	
Overview	**Mitigating actions**
• Geopolitical risks have heightened the operational resilience risk profile of the Society over the short to medium term. • The most material operational impacts relate to a heightened cyber threat landscape, supply chain disruption and potential power outages from volatility in the energy markets. • Resilience to such threats and an ability to respond effectively remain essential to protect the Society and maintain the trust of our members and the confidence of regulators.	• The Society manages resilience related risks through its Operational Resilience Framework and regularly tests its response to potential resilience events. • The Society continues to invest in its IT security and operational controls to improve overall resilience and combat these evolving threats. • The Society has undertaken an impact assessment to understand potential direct and indirect vulnerabilities for our key suppliers, and continues to monitor developments closely.

Change risk:	
Overview	**Mitigating actions**
• The Society has a multi-year change portfolio to deliver several major strategic priorities and new complex regulatory requirements. The volume of change activity, along with time and resource constraints, could lead to heightened execution, operational and people risks.	• The Society continues to prioritise, manage and implement change in line with its strategic plans while assessing execution risks and taking appropriate mitigating action. • In addition, the Society continues to invest in its change management processes, capabilities and governance to mitigate the execution risks associated with change.

People risk:	
Overview	**Mitigating actions**
• The UK labour market remains very tight, with unemployment trending at historically low levels. This has resulted in higher levels of wage inflation and an excess of demand versus supply across various niche skill sets required by the Society, such as IT and digital. The Society's success is dependent on attracting and retaining skilled and highly performing colleagues.	• The Society has continued to invest in its people strategy across various dimensions including: – Salary and reward benchmarking. – Implementation of flexible/hybrid working arrangements. – Career development pathways. – Roll out of a new inclusion and diversity strategy. • Detailed resource planning and close monitoring of attrition levels are in place to ensure the Society proactively manages the associated risks to deliver its strategy.

Climate change risk:	
Overview	**Mitigating actions**
• Climate risk continues to be classified as an emerging risk due to uncertainty surrounding the exact nature and timing of the impact on the Society's strategy and operations. Both transitional and physical risks could materially affect the Society's eight principal risks, with impacts dependent on the future path of climate change and timescales of government intervention and actions. • Stakeholder expectations continue to rise with regards to the Society's management and response to climate risk, which could present heightened reputational risks.	• During 2022, the Board approved a green strategy, along with a set of revised targets in relation to climate change. • The Society has continued to embed its Climate Risk Management Framework across the organisation, including use of climate risk factors and data in our mortgage lending policy and credit decisioning processes. • Scenario analysis is undertaken to assess possible future climate-related risks and exposures that may impact the Society. • Refer to pages 48 to 79 of the Strategic Report for further information on how the Society manages the risks from climate change.

Regulatory risk:	
Overview	**Mitigating actions**
• The volume, scale and complexity of regulatory change continues to shape our operating environment. There are a number of key regulatory instruments on the horizon, which will need careful implementation e.g. IRB capital models, Basel 3.1 and Consumer Duty.	• 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.

Viability Statement

Year ended 31 December 2022

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 42 to 45.

Assessment of longer term prospects

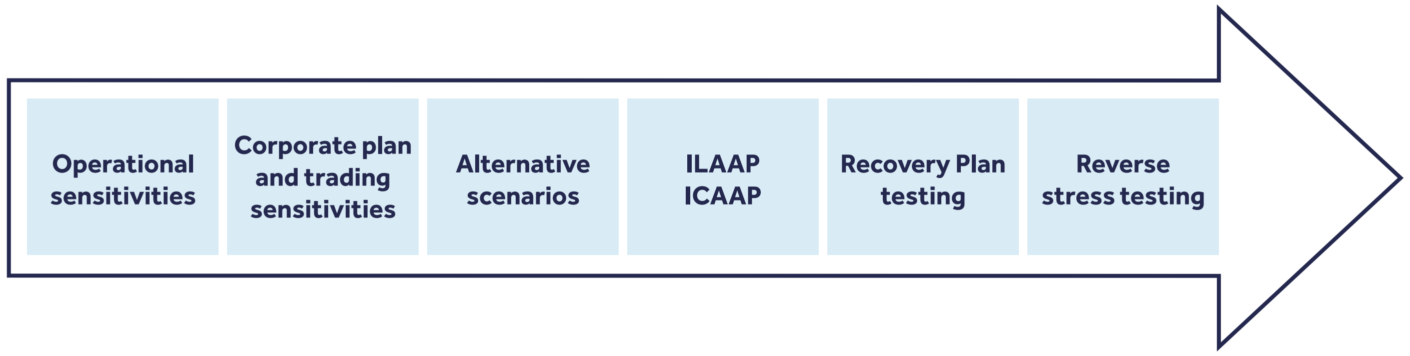
Our business model, purpose statement and strategic drivers are set out on pages 10 to 12. The Board receives strategic updates throughout the year, which assess the business model across multiple dimensions, including threats from principal and emerging risks, additional scenarios that may occur and stress testing. The directors have also reviewed our strategy in respect of the environment, considering the opportunities and risks to the Society's business from climate change. This includes physical risks to the Society's mortgage stock and own properties and transitional risks as the UK migrates to a net zero economy.

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 Board's consideration.

These reviews concluded that the Society remains in a strong and resilient financial position which will enable us to support members, colleagues and communities through the current period of economic uncertainty and is well placed to build on its position. Our purpose statement and strategic drivers reflect the environment in which we now operate and aim to maintain the relevance of our business model, including managing and mitigating potential threats.

Financial and operational stress testing

The Society utilises a stress testing programme which includes regular operational planning exercises and more formal risk assessments. The elements of this programme, ranked in order of increasing severity, are summarised as follows:



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 alternative scenario modelling processes assess these forecasts under a range of macroeconomic scenarios which reflect the current uncertainty in the macroeconomic environment and the behaviours and needs of current and potential future members.

The Board assesses the Society's capital and liquidity viability through the ICAAP and ILAAP. These consider our ability to withstand severe capital and liquidity stresses set out by regulators. The processes incorporate 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 headroom over regulatory requirements and would have sufficient capital resources to withstand both the central and stressed scenarios under current and confirmed future requirements.

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.

Further stress testing, including Recovery Plan testing, is carried out on each of the principal risks outlined on pages 86 to 108. 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.

Reverse stress testing considers a range of specific scenarios which would cause the Society to fail and concluded that, since such scenarios are unlikely to occur, they do not pose a risk to the viability of the business.

Stress testing of operational resilience is undertaken to verify that the Society has appropriate measures in place for the delivery of key customer facing services during a stress event. This is performed using a number of severe but plausible scenarios, including third party failure, cyber attack, IT and system failures and loss of key premises. The testing demonstrated that resilience is broadly in line with expectations and supports the ongoing viability of the business.

The Society assesses its resilience to people risks and capabilities by regularly conducting talent and succession planning reviews for key roles, up to and including the Board. We also identify and monitor key person risks for roles with strategic importance and mitigate these where appropriate to maintain operational resilience and to safeguard continuity of service.

The risk management process, detailed on pages 82 to 85, 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.

Assessment period used for reviewing viability

The Board considers the viability of the Society over a three year period to 31 December 2025. 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 Board's consideration of viability.

Assessment of viability

The Board has assessed the financial impact of the modelled stress scenarios and the outcomes from operational resilience testing described previously. Based on these assessments the Board believes that:

- Our business model remains appropriate and will continue to be relevant as the operating environment evolves.
- 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 an 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 evidenced as we operated effectively under the stress of the global pandemic and the economic disruption seen during 2022.

The Board has 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 2025.

Climate-Related Financial Disclosures

Year ended 31 December 2022

"Climate change remains one of the biggest challenges currently facing us all. Now, more than ever, we need to work together to urgently address the causes.

We're committed to playing our part by reducing our carbon footprint on a pathway towards net zero, and we will continue to work with key stakeholders to help them to do the same so that there is an orderly and equitable transition to net zero."

Andrew Greenwood
Deputy Chief Executive Officer

Our climate disclosures are aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework, which is structured around four key pillars and aims to provide consistent disclosures and information on the Society's exposure to, and management of, climate risks and opportunities.

1. Governance	2. Strategy	3. Risk management	4. Metrics and targets
The Society's governance arrangements around climate-related risks and opportunities.	Actual and potential impacts of climate risks and opportunities on the Society's business, strategy, and financial planning.	The processes used by the Society to identify, assess, and manage climate-related risks.	The metrics and targets used by the Society to assess and manage relevant climate-related risks and opportunities.
▶ See section 1	▶ See section 2	▶ See section 3	▶ See section 4

Climate-related disclosures overview

The Society signed up as a TCFD supporting signatory in 2021 and we are committed to implementing the recommendations fully in line with the principles of our responsible business strategy and requirements under the Companies (Strategic Report) (Climate Related Financial Disclosure) Regulations 2022.

Good progress continues to be made against the 11 TCFD recommendations, with several important activities completed during 2022 to enhance our understanding of climate risks and opportunities and further develop our strategic targets and response plans.

We recognise that this is just the start of a multi-year journey to support the orderly transition to a greener, net zero economy and we will continue to develop our targets, plans and disclosures in line with emerging standards and good practice (for example, forthcoming recommendations from the UK's Transition Plan Taskforce (TPT) and the International Sustainability Standards Board (ISSB)).

Summary of progress against TCFD recommendations

TCFD recommendation	Key progress areas	Future priorities 2023+	Further details
1. Governance			
a) Describe the Board's oversight of climate-related risks and opportunities.	• Climate objectives defined and included in 2022 objectives for all members of the Senior Leadership Team. • Target operating model for the management of climate risks and opportunities refined and embedded. • Net zero and decarbonisation training delivered to the Senior Leadership Team and Board.	• Oversight of progress against our climate targets. • Oversight of changes in the Society's climate risk profile. • Development and refinement of transition plans, targets and disclosures. • Implementation of climate risk training to the wider colleague population.	**Section 1.1**
b) Describe management's role in assessing and managing climate-related risks and opportunities.			**Section 1.2**

TCFD recommendation	Key progress areas	Future priorities 2023+	Further details
2. Strategy			
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	• Assessment of climate risks and opportunities reviewed and enhanced. • Partnered with Carbon Intelligence, a sustainability consulting firm, to calculate and baseline emissions across our full value chain (including scope 3 emissions). • Revised near term emissions reduction targets and decarbonisation plans for our scope 1 and 2 operational emissions developed and approved by the Board. • Scenario analysis capabilities further developed.	• Implementation of actions to support our near term climate targets. • Development of long term transition plans and targets for our full value chain. • Wider stakeholder engagement across our value chain, including our members and material suppliers. • Further development and roll-out of our green finance proposition and partnerships. • Development of our scenario testing capabilities.	**Section 2.1**
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.			**Section 2.2**
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.			**Section 2.3**
3. Risk management			
a) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	• Climate risk and control review completed, to assess climate risks on a present and future basis. • Physical and transition risk factors and data embedded in our mortgage lending policy and credit decisioning processes. • Monitoring of climate physical and transitional risk data for our mortgage book. • Climate risk factors embedded into third party management processes.	• Review, update and refinement of our climate risk appetite in line with agreed net zero targets and transition plans. • Further analysis of climate transition risks following finalisation of government net zero policy proposals. • Development of our climate data architecture and reporting capabilities.	**Section 3.1**
b) Describe the organisation's processes for identifying and assessing climate-related risks.			**Section 3.2**
c) Describe the organisation's processes for managing climate-related risks.			**Section 3.2**

TCFD recommendation	Key progress areas	Future priorities 2023+	Further details
4. Metrics and targets			
1. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	• Monitoring of climate-related key risk indicators (KRIs) and management information (MI). • Scope 3 emissions (categories 1 to 15) baselined and disclosed for the first time in accordance with the GHG protocol. • Decarbonisation plans and revised targets for our scope 1 and 2 operational emissions agreed, guided by the principles of a science-based net zero pathway. • Verified as carbon neutral (scope 1 and 2 market-based emissions plus selected scope 3 emissions[1]).	• Development and refinement of climate-related internal MI, KRIs, and external disclosures. • Implementation of decarbonisation plans for our scope 1 and 2 operational emissions. • Further analysis of material scope 3 categories (purchased goods and services and investments) and refinement of calculation methodologies to enable development of long term transition plans and targets for these emissions.	**Section 4.1**
2. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.			**Section 4.2**
3. Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks.			**Section 4.3**

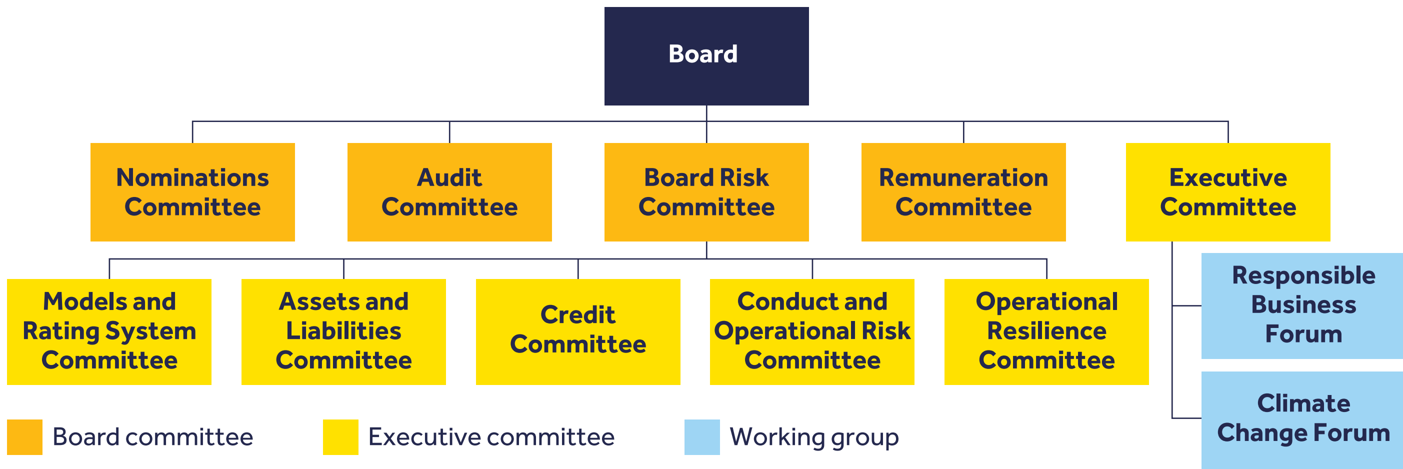
Governance and assurance approach

These disclosures have been subject to internal review and validation and have been reviewed by the Audit Committee before approval by the Board. Our greenhouse gas emissions are also subject to annual validation and accreditation by independent third parties.

Production of these disclosures is governed by a policy standard which covers, inter alia, adequacy, verification, frequency and medium of publication of the disclosures. There is currently no external audit requirement in relation to these disclosures.

Section 1 – Climate risk governance

The Society has embedded appropriate governance arrangements to identify and manage the risks and assess the opportunities associated with climate change. Where appropriate, this integrated model has used existing committees and built on their area of responsibility and expertise.



1 In line with Climate Impact Partners' framework, The CarbonNeutral Protocol, this includes emissions from our business travel, fuel and energy related activities (FERA), waste generated in operations, and home working.

Climate-Related Financial Disclosures continued

Section 1.1 – Board-level oversight of climate-related risks

Committee	Role	Meetings with climate-related items	Activities and areas of focus in 2022
Board	The Board has ultimate accountability for overseeing the implementation of our purpose led strategy, including the management of climate-related risks. Whilst the Board fulfils some of these duties directly, other responsibilities are cascaded through the Society's committee structure. See pages 120 to 122 for further details of the Society's governance arrangements.	3	• Oversight of implementation of the Society's responsible business and green strategies and associated targets and objectives. • Review of the external environment and competitor benchmarking. • Deep dive on the risks and opportunities of climate change on the private rental sector. • Review and approval of new climate targets for our operational emissions, aligned with the principles of an SBTi net zero pathway.
Board Risk Committee	The Board has delegated responsibility to the Board Risk Committee for overseeing the identification and management of current and future risks associated with climate change in line with its stated appetite.	4	• Oversight of Society-wide programme of climate activities and deliverables. • Approval of credit risk climate backstop controls and incorporation of climate factors into the Society's lending policy. • Review and approval of outputs and conclusions from climate stress testing activity, as part of the ICAAP. • Monitoring of a suite of climate risk indicators and climate management information.
Audit Committee	The Audit Committee assists the Board in ensuring that the internal systems of control and external disclosures relating to climate change are appropriate.	3	• Training on ESG reporting requirements, including TCFD and associated controls. • Review of climate risk and control self-assessment outputs.
Remuneration Committee	The Remuneration Committee oversees the design and implementation of reward structures to ensure they appropriately motivate colleagues, whilst underpinning the longer term viability of the Society.	1	• Review, approval and monitoring of 2022 climate-related objectives for all the Senior Leadership Team, and assessment of associated impacts on variable remuneration.

Section 1.2 – Management level oversight of climate-related risks

Executive risk committees

The Board Risk Committee is supported by five executive risk committees, each of which focus on discipline(s) of the risk universe and how these are influenced by climate change factors.

Forum	Chair	Responsibilities	Meetings with climate-related items	2022 discussion topics
Credit Committee	Chief Commercial Officer	Oversees the management of risks from climate change on the Society's residential mortgage portfolio and the development of associated policy and appetite.	4	• Climate credit controls and policy. • Impacts on borrower affordability assessments. • Climate risk credit MI.
Assets and Liabilities Committee	Chief Financial Officer	Oversees the management of treasury related risks impacted by climate change (e.g. funding and liquidity, market risk and capital) and the development of associated policy and appetite.	2	• Treasury policy. • ICAAP scenario analysis.
Conduct and Operational Risk Committee	Chief Customer Officer	Oversees the management of conduct and operational risks from climate change (e.g. customer detriment and physical damage to the Society's operational properties) and the development of associated policy and appetite.	2	• ICAAP scenario analysis.
Operational Resilience Committee	Chief Operating Officer	Oversees the management of resilience risks from climate change (e.g. disruption to operations from physical climate events such as flooding and increased supply chain costs) and the development of associated policy and appetite.	2	• Climate risk training. • Climate resilience deep dive.
Models and Rating System Committee	Deputy Chief Executive Officer	Oversees the development and use of models used to quantify and profile the Society's climate risk exposures, and the development of associated policy and appetite.	2	• Climate model materiality. • Climate model methodology and developments.

Climate-Related Financial Disclosures continued

Given the cross-cutting nature of climate risk, the Society also operates two cross-functional governance forums, which are responsible for the day to day oversight of climate-related risks under the oversight of the Executive Committee:

Forum	Chair	Responsibilities	Times met during 2022	2022 discussion topics
Responsible Business Forum	Chief Strategy and Insights Officer	Ensures appropriate alignment of climate change initiatives to the Society's responsible business strategy.	4	• Oversight of responsible business strategy. • Progress updates from Climate Forum.
Climate Forum	Chief Risk Officer	Delivery of climate activities including compliance with PRA SS3/19, industry best practice and operational implementation of the green strategy.	5	• Embedding of climate target operating model and deliverables. • Green strategy and climate targets. • Property refurbishment strategy. • Climate communications.

Senior Management Function
Responsibility for managing climate-related risk has been assigned to the Deputy Chief Executive Officer, as the appropriate Senior Management Function under the PRA's Senior Managers Regime. This includes ensuring that climate-related financial risks are adequately reflected in risk management frameworks, and that the Society can identify, measure, monitor and report on its exposure to these risks.

Training and awareness
Ensuring robust understanding of climate-related risks and opportunities is crucial for colleagues at all levels of the organisation. During the year, both the Board and Senior Leadership Team undertook training facilitated by external specialists on the Science Based Targets initiative (SBTi) and approaches for setting climate targets. Wider colleague engagement has been facilitated through colleague roadshows and internal communications during the year.

Remuneration
During 2022, climate factors were reflected in the Society's remuneration scheme for the first time with all members of the Senior Leadership Team required to have a personal objective linked to climate priorities within their area of responsibility. Supporting the transition to net zero has also been included as one of the Society's ten corporate priorities under our revised purpose to help put home ownership within reach of more people generation after generation.

Section 2 – Climate risk strategy

Section 2.1 – Our approach

The Board has approved a climate strategy centred around supporting the orderly transition to a greener, net zero economy by 2050 or sooner.

This strategic aim will be underpinned by a transition plan setting out our strategic pillars, targets and capabilities that will be required to support our net zero ambitions. We intend to continually review, update and disclose progress against our plans and targets in the coming years as our strategy evolves, in line with changes in the external environment and net zero standards and guidance. Refer to section 4 for further detail on current targets and action plans.

Climate strategic framework

Climate change strategic aim

Support the orderly transition to a greener, net zero economy by 2050 or sooner

Transition plan

Climate strategic pillars

Our carbon footprint	Support transition to net zero	Climate-related risks
Reduce the Society's own operational emissions	Help key stakeholders reduce emissions across our value chain	Measure, manage and disclose climate risks and opportunities

Climate targets

1	Reduce our absolute scope 1 and 2 market-based emissions 90% by 2030 from a 2021 base year	2	Reduce our absolute scope 1 and 2 location-based emissions 60% by 2030 from a 2021 base year	3	Maintain carbon neutrality for scope 1 and 2 market-based emissions and selected scope 3 emissions, on the pathway towards net zero

Climate capabilities and enablers

Green finance	Data	Disclosure	Engagement	Governance	Operating model	Risk management

Transition plan roadmap

Develop capabilities	Mobilise plans	Net zero
Progress to date	Near term targets and actions	Long term aims
2016, 2020, 2022	2025, 2030	2050

Key achievements:

- Reduced our scope 1 and 2 market-based emissions by 95% between 2016 and 2022.
- Carbon Trust accreditation held since 2018 and verified as carbon neutral since 2021.
- Inaugural green strategy agreed and TCFD disclosures published in 2022.
- Full carbon footprint baselined in 2022 (including scope 3 emissions).
- Near term targets agreed in 2022 to reduce our own operational emissions (scope 1 and 2) in line with the Paris Agreement aim to keep future temperature increases below 1.5°C.

Our operations:

- Reduce our absolute scope 1 and 2 emissions by 90% (market-based approach) and 60% (location-based approach) by 2030 from a 2021 base year.
- Maintain carbon neutrality for scope 1 and 2 market-based emissions and selected scope 3 emissions on the pathway to net zero.

Our value chain:

- Engage with key stakeholders to address the challenges of scope 3 emissions and develop near term and long term net zero aligned transition plans and targets.

Transition to net zero:

- Accelerate actions and align our operations and value chain with a pathway to achieve net zero by 2050 or sooner.
- Neutralise hard to abate residual emissions through investment in carbon removal solutions.

Pillar 1 – Our carbon footprint
We're committed to reducing the climate change impacts from our own operations (scope 1 and 2 emissions) in line with Paris Agreement goals to limit future temperature increases to 1.5°C.

Since our 2021 TCFD report, we have set ambitious near term targets, guided by the principles of a science-based net zero pathway, to reduce our absolute scope 1 and 2 emissions by 90% (using a market-based approach) and by 60% (using a location-based approach) by 2030 from a 2021 base year. This means that we will transition our remaining electricity to renewable sources, remove gas from our remaining properties, and complete an ambitious multi-million pound refurbishment programme across our branch estate to enhance the energy efficiency of the buildings and reduce consumption in line with the latest net zero standards.

We're also maintaining our commitment to be carbon neutral (for our scope 1 and 2 market-based emissions and selected scope 3 emissions). This means we will purchase high quality carbon credits to voluntarily offset our residual emissions to zero whilst we are taking action to permanently eliminate them, but offsets will not be relied upon to meet our reduction targets. Refer to section 4 for further details.

Pillar 2 – Supporting the transition to net zero
In addition to our own operational emissions, we are also committed to reducing the indirect emissions from our full value chain (referred to as scope 3 emissions), in line with a 2050 science-based net zero pathway.

We're just at the start of the journey, but during 2022 we completed an assessment to calculate and baseline our full scope 3 emissions footprint and identify the most material categories that we need to focus our efforts on in the coming years. These include emissions from our supply chain and the goods and services that we buy, mortgaged properties that we finance, and employee business travel, commuting and homeworking.

We acknowledge the potential size of these emissions and importance of reducing them to achieve net zero, but many of the levers required to do so are outside the direct control and influence of the Society. For example, reducing emissions from the mortgaged properties that we finance will be heavily reliant on delivery of the UK Government's net zero strategy, improvements in the energy efficiency of UK homes and decarbonisation of energy supplies.

Targets

90%

reduction of our absolute scope 1 and 2 emissions by 2030 from a 2021 base year using a market-based approach

60%

reduction of our absolute scope 1 and 2 emissions by 2030 from a 2021 base year using a location-based approach

A careful balance is also required to ensure an orderly and just transition is achieved, without creating negative unintended consequences (such as climate mortgage prisoners). For this reason, we have not yet set formal targets for scope 3 and instead we will focus our immediate efforts on helping to resolve the challenges around these emissions, so that credible net zero targets can be set. A series of strategic actions have been agreed in this regard to ensure we continue to make purposeful progress during 2023. Refer to section 4 for further details.

Pillar 3 – Managing the risks from climate change
Whilst the transition to a low carbon economy creates opportunities, it will also be accompanied by risks, which must be understood and effectively managed. The Society has integrated climate change risks into its Enterprise Risk Management Framework (ERMF), which facilitates the appropriate identification, management, monitoring and reporting of climate-related risks. Our approach to climate risk management is set out further in section 3.

During 2023, our focus will be on continuing to enhance our risk management capabilities and insights through development of our scenario testing approach and data sources, deep dive assessments of material risk categories, monitoring of changes in the external landscape and development of our disclosures and internal reporting.

Section 2.1 – Stakeholder considerations
Our climate strategy has been designed to consider the requirements of our key stakeholders:

- Support members to reduce their carbon footprint.
- Education around potential impacts of climate change risks.

- Green partnerships/sponsorship and volunteering activities.
- Purchasing carbon offset credits to improve the environment.

- Work with key suppliers to understand and reduce our supply chain emissions.
- Identify and mitigate potential resilience risks from adverse climate impacts.

- Encourage, educate, and support colleagues to reduce the Society's carbon footprint.
- Support participation in community events to improve the local environment.

- Provide disclosure around the Society's climate strategy, targets, and exposures.
- Demonstrate the Society understands and manages its exposure to climate risk.

- Demonstrate that the Society understands and manages its exposure to climate risk.
- Deliver compliance with regulatory requirements.

Section 2.2 – Memberships and affiliations
The Society has partnered with or joined the following organisations to increase our knowledge and understanding of climate-related risks and opportunities:

hometrack	We have partnered with Hometrack and their data partners Ambiental and Terrafirma to obtain industry-leading climate risk data and insights for our mortgage portfolio. Data is also delivered at the point of origination for new mortgage lending, enabling the Society to incorporate climate change metrics into our mortgage origination strategy and decisioning processes.
Green Finance Institute	We were one of the first building societies to sign up to the Green Finance Institute's Green Home Finance Principles which promote a consistent methodology for the application of financial proceeds towards the purchase or retro-fit of domestic buildings that achieve verifiable environmental benefits.
PCAF	We are a member of the Partnership for Carbon Accounting Financials (PCAF) to better understand the challenges of measuring and reporting emissions associated with our mortgage portfolio.
CARBON TRUST	We have held the Carbon Trust Standard for Carbon since 2018. 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 it in future.
Carbon Intelligence Part of Accenture	During 2022, we partnered with leading sustainability experts, Carbon Intelligence, to baseline our scope 1, 2 and 3 emissions and set climate targets. We will continue to work with Carbon Intelligence in 2023 to implement our transition plans and refine our strategy and targets.

Section 2.3 – Climate-related risks and opportunities over the short, medium and long term

Time horizons

The time horizons over which financial risks and opportunities from climate change may be realised are uncertain and may occur outside of traditional planning horizons. The Society assesses these risks and opportunities as set out in the table below:

Time horizon		Description
Short term	0 to 3 years	Our horizon for assessing business model viability
Medium term	3 to 5 years	Our financial planning horizon
Long term	5 to 30 years	Our climate risk stress testing horizon

Climate-related risks

Risks to the Society from climate change arise through two primary channels, or risk factors: physical and transition risk.

Summary of key climate risk physical risk drivers and relevance to our business model

Climate risk factor	Description	Key drivers	Relevance[2]	Horizon
Physical risks	Arise from the increased severity and frequency of extreme climate and weather-related events.	Flooding	● High	Long term
		Subsidence	● Medium	
		Coastal erosion	● Medium	
		Heatwaves	● Medium/Low	
		Wildfires	● Medium/Low	
		Hurricanes	● Low	
		Water stress	● Low	
		Desertification	● Low	
Transition risks	Arise from the process of adjustment towards a low carbon economy.	Government policy	● High	Medium term
		Carbon pricing	● Medium	Medium/Long term
		Consumer sentiment	● Medium	
		Investor sentiment	● Medium	
		Technological change	● Low	Long term

Refer to sections 2.5 and 3.2 for further details of our assessment of these risks, potential impacts and current mitigants in place.

Climate-related opportunities

As well as risks, we have also identified several potential climate-related opportunities as part of our support of the transition to a net zero economy.

Opportunities	Description	Stakeholders	Horizon
Green finance	Development of innovative new financial products to help members reduce their carbon footprint.	• Members • Communities • Investors	Short/ Medium term
Communication	Engagement with colleagues, members, and suppliers to increase understanding of climate-related risks and drive the transition to net zero.	• Members • Colleagues • Third party suppliers	Short term
Partnerships	Collaborate with key organisations to increase knowledge, develop good practice and lobby for change.	• Third party suppliers • Industry bodies • Government and regulators	Medium term

Section 2.4 – Climate change impact on our business, strategy, and financial planning

As a UK-based mutual that is focused on residential mortgage lending, with no appetite for any exposure to carbon-intensive industries, our business model is most likely to be impacted by climate-related risks and opportunities in the following ways:

Key potential impacts	Our response and future plans
Physical risk	
• Future rises in temperatures and precipitation in the UK have the potential to impact the credit quality of our mortgage portfolio e.g. damage to properties from flooding and erosion leading to reductions in the value of mortgage collateral or impacting borrowers' ability to repay the debt. • An increase in adverse weather events, such as flooding, may impact the resilience of our operations through damage to our premises, infrastructure, and disruption to our critical third party services and colleagues. • Macroeconomic shocks in the UK due to increased global disruption from climate change may impact our future profitability and growth because of increased unemployment and falling house prices.	• Partnered with Hometrack to assess property level physical risk profile. • Climate data incorporated into our mortgage origination process and lending policy and underwriting. • Scenario analysis completed as part of our 2022 ICAAP to better understand the potential financial impacts from physical risks. Refer to section 2.6 for further details. • Physical risk profile of our key operational sites, branches and key third parties assessed.

2 Reflects our assessment of the relevance of these risks based on our current business model and operating environment.

Climate-Related Financial Disclosures continued

Key potential impacts	Our response and future plans
Transition risk	
• Changes in government policy, such as minimum energy standards for homes, have the potential to impact the future credit quality of our mortgage book i.e. reductions in house prices where properties do not meet minimum standards, and stresses to borrower affordability due to the cost of making energy efficiency improvements and rising energy prices. • Rising carbon prices caused by the transition to net zero could negatively impact our future income where emission offsets are purchased to reduce our carbon footprint. • Increasing demand for green mortgage and savings in the UK may impact our future profitability and growth if we fail to adapt to meet changing consumer preferences. • An increased focus from stakeholders on green credentials may impact our reputation if the risks and opportunities are not effectively managed and disclosed.	• Scenario analysis completed in the 2022 ICAAP to assess financial impacts from the transition to minimum energy ratings. • Backstop credit controls implemented in line with minimum requirements for energy ratings. • Development of green commercial proposition and green customer communications. • Alignment with TCFD for climate-related disclosures and consideration of emerging new requirements. • Climate targets developed and implemented to minimise and reduce our emissions over the medium to longer term.

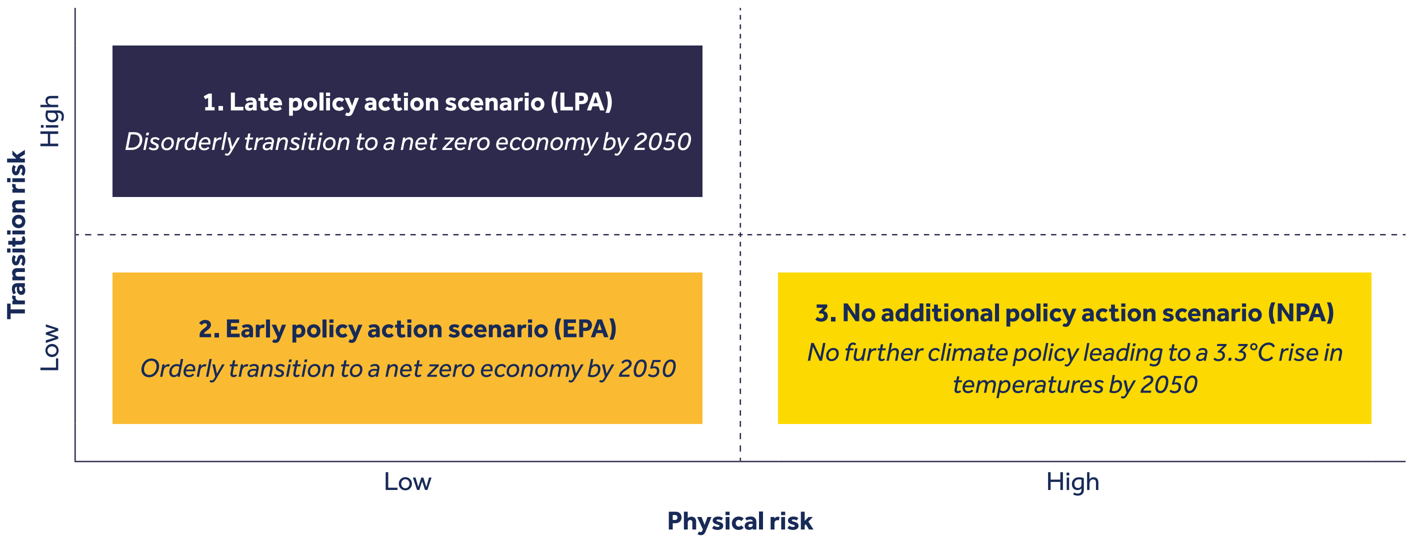
Section 2.5 – Scenario analysis

The Society has developed a proportionate approach to climate risk scenario analysis as part of our Internal Capital Adequacy Assessment Process (ICAAP), to understand the potential future impacts of climate change on our overall risk profile and to inform strategic planning.

Scenario testing approach

Aligned with the Bank of England's Climate Biennial Exploratory Scenario exercise, the Society models three climate-related scenarios as part of our ICAAP. The scenarios assess the potential financial impacts from different combinations of physical, transition and economic risks over a 30-year time horizon (2022 to 2050s). Impacts on expected losses are modelled based on a static balance sheet[3] (i.e. no run off of assets and liabilities and no management actions).

Climate change scenarios



3 Excluding residual commercial loans and Gibraltar and Spanish mortgages. Outstanding balances are de minimis and were therefore excluded from the analysis.

2022 Climate change scenario descriptions and key assumption

	Late policy action (LPA)	Early policy action (EPA)	No policy action (NPA)
Description	Disorderly transition to a net zero economy by 2050	Orderly transition to a net zero economy by 2050	No further climate policy leading to a 3.3°C rise in temperatures by 2050
Transition risk	High	Medium	Limited
Transition begins	2031	2022	N/A
Nature of transition	Late and disorderly; new climate policy from 2030	Early and orderly; new climate policy from 2022	Only climate policies in place pre-2022
EPC ratings	All properties reach their maximum potential rating by 2030s	All properties reach their maximum potential rating by 2020s	No change
Peak carbon price	£690/tonne CO_2	£580/tonne CO_2	N/A
Physical risk	Limited	Limited	High
Mean global warming[4]	1.8°C increase	1.8°C increase	3.3°C increase
Emissions RCP[5]	2.6	2.6	8.5
Economic impact (UK)	Sudden recession	Temporary downturn	Permanent downturn

Scenario conclusions

The exploratory climate scenario analysis completed during 2022 has provided the following insights:

- Modelling of climate change impacts continues to be complex and highly uncertain. This is primarily due to the longer term time horizons that the risks are expected to materialise over (versus the relatively short behavioural lives of the current mortgage book) and uncertainties around the timings and impacts of future government climate policies.
- The Society continues to have limited potential exposure to physical risk, both currently and under a range of future climate pathways modelled over the next 30 years (see figures 1, 2 and 3), due to the geographically diversified and low LTV profile of our UK-focused mortgage portfolio.
- More material potential impacts have been observed through transition risks. For example, 48% of the mortgaged properties in our portfolio with a valid energy performance certificate (EPC) were rated D or lower at 31 August 2022 (see figure 4) and are therefore more exposed to changes in government policy for minimum energy ratings.
- Transitional impacts were greatest under a late transition scenario, where actions to achieve net zero are disorderly and concentrated in a short time period during the 2030s. As a result, total expected losses under this scenario were almost three times higher than an orderly scenario. Despite these potential impacts, the Society's business model and capital position were found to be resilient to the risks under all three of the scenarios modelled.
- Based on current progress, there is an increasing probability of a disorderly scenario materialising between 2030 and 2050. In this context, the Society is closely monitoring exposure to transitional risks and factoring this into strategic decision making where appropriate. We intend to continue to refine and enhance our scenario testing capabilities in future years as additional data becomes available and further industry good practice emerges.

4 Increase in average global temperatures compared to pre-industrial levels.
5 Equivalent Representative Concentration Pathway (RCP) developed by the Intergovernmental Panel on Climate Change (IPCC) to model different climate futures based on the volume of greenhouse gas emissions. RCP 2.6 is a very stringent pathway where emissions fall to zero by 2100 and keep temperature rises below 2°C. RCP 8.5 is a pathway where emissions continue to rise throughout the 21st century.

Figure 1 – 2050s flood risk profile[6]

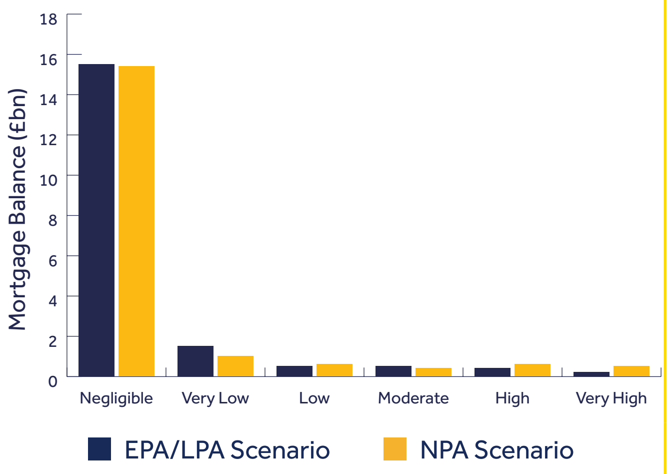


Figure 2 – 2050s coastal erosion risk profile[6]

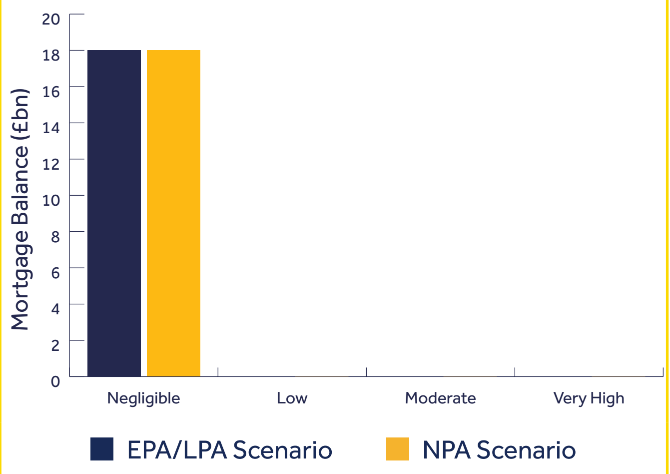


Figure 3 – 2050s ground hazard risk profile[6]

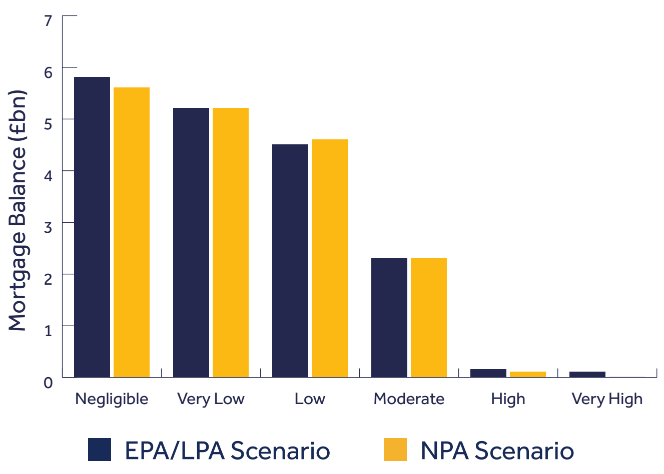
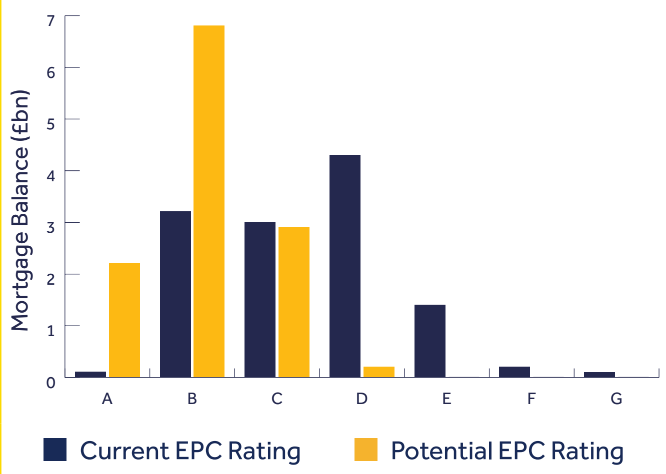


Figure 4 – Current and potential EPC ratings[6]



Impacts on our longer term strategy
Using the scenario insights, we have implemented the following actions to support the development of our green strategy and mitigate against the evolving risks from climate change:

- Investment in our climate risk management capabilities to ensure that we are well positioned to respond and adapt quickly to changes in the external environment.
- Development of our green finance proposition to support members through the transition to net zero.
- Lending policy controls have been implemented to manage exposure to transitional and physical risks.

We will continue to use scenario analysis to monitor the potential impacts of climate change on our business model and adapt our strategy accordingly.

Section 3 – Climate risk management

Section 3.1 – Integration of climate change in risk management

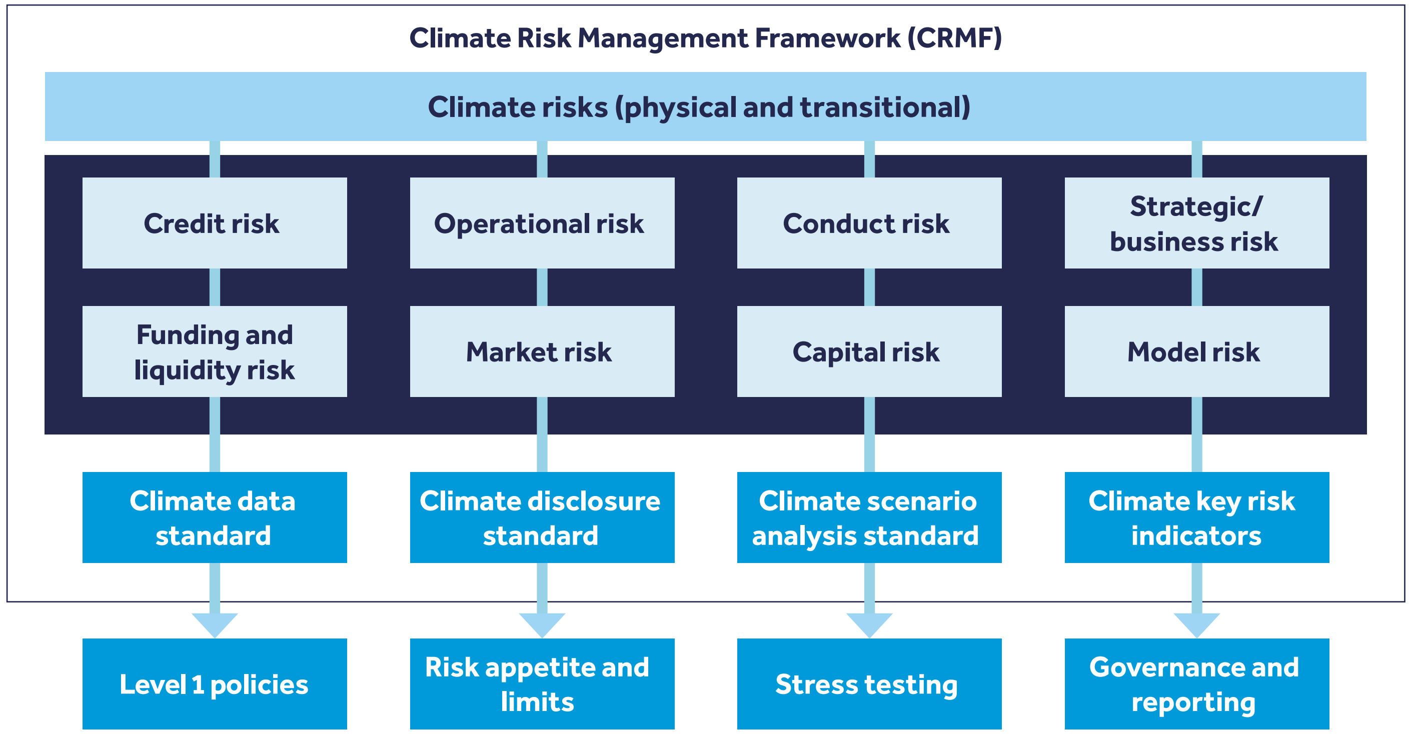
Climate risk management framework
The Society has developed a Climate Risk Management Framework (CRMF) to ensure that climate risks and opportunities are appropriately identified, measured, managed, monitored, and reported.

The Society does not view climate-related risks as a separate principal risk category, but as risk factors that have a bearing on existing risks across the Society's principal risk universe.

6 Based on the mortgage portfolio as at 31 August 2022.

The management of climate-related risks and opportunities has been incorporated into existing governance and risk management processes, where appropriate, and ensures that the risks are being managed in line with Board-approved appetite.

Enterprise Risk Management Framework (ERMF)



Risk appetite
Our climate risk appetite has been defined in line with current good practice guidance, combining a qualitative statement with measures the Society uses to assess adherence to appetite over a time period reflective of the risks from climate change.

Aim	**Climate change strategic aim** Support the orderly transition to a greener, net zero economy by 2050 or sooner
Appetite	"The Society has a low tolerance for ESG risks in order to create long term value for its key stakeholders and protect its brand and reputation."
Supporting measures	• Reduce absolute scope 1 and 2 emissions by 90% by 2030[7], using a **market-based approach**. • Reduce absolute scope 1 and 2 emissions by 60% by 2030[7], using a **location-based approach**. • Maintain **carbon neutrality** for scope 1 and 2 market-based emissions and selected scope 3 emissions[8], on the pathway to net zero. • Maintain negligible/low exposure to **physical climate risks** (flooding, ground hazards, and coastal erosion), both currently and under a high emissions 30-year representative scenario (as defined under the ICAAP). • Limit exposure to transition risks through our credit policy and criteria. • Maintain zero appetite for the funding of fossil fuel and other carbon-intensive industries.

7 From a 2021 base year.
8 Emissions from our business travel, fuel and energy related activities (FERA), waste generated in operations, and home working.

Climate-Related Financial Disclosures continued

Section 3.2 – How climate risks are identified, assessed and managed

Climate risk operating model

A climate change operating model has been established to assist the Board and Deputy CEO in the effective identification and management of climate risks. A central strategy and risk management hub ensures there is close alignment between the Society's purpose and climate risk appetite and policy and provides direction to relevant functional areas that have accountability for the management of each aspect of climate risk.

Three lines of defence

The Society defines roles and responsibilities in relation to climate risk under a three lines of defence (3LOD) approach, reflective of the Society's size and complexity.

3LOD	Climate-related remit
First line (Business lines)	• Development of the Society's green strategy and wider responsible business strategy. • Identification, assessment and management of climate change risks across the Society. • Member and colleague engagement campaigns.
Second line (Risk division)	• Maintenance of the Climate Risk Management Framework. • Climate risk monitoring and reporting. • Development of climate scenario analysis and stress testing.
Third line (Internal Audit)	• Independent assurance of the adequacy and effectiveness of first and second line risk management, on a risk-based approach. • Supplemented by external assurance reviews as required.

Assessment and management of climate-related risks

The Society uses its CRMF to assess how climate change risks could impact each of the Society's principal risks. Our current assessment of potential impacts against each of our eight principal risks is presented on the following pages along with key mitigants and climate risk metrics in place to manage the risk. The assessment is based on available data and insights and should be viewed in the context of the current complexity and high degree of uncertainty around future climate change.

Summary of climate-related risks, potential impacts and mitigants

● = High potential impact ● = Medium potential impact ● = Low potential impact

Risk factor	Risk description	Horizon	Mitigants	Climate risk metrics
Credit risk				
Physical risk ● (medium)	• Increasingly frequent/ severe flooding, subsidence, and erosion from climate change causes physical damage to properties, negatively impacting the value of the collateral. • Higher insurance/repair costs for members, impacting debt serviceability. • Increased default risk for wholesale counterparties exposed to climate change.	Long term	• Automated flood and ground risk assessment as part of the credit decisioning process. • Credit policy controls. • Building insurance required under mortgage terms and conditions. • Stressed affordability assessments. • Postcode concentration limits. • LTV limit structure for lending segments. • Semi-annual back book assessment of physical risks under multiple climate pathways and stresses. • ESG assessments for wholesale counterparties.	• % mortgage balances with high/very high physical risk. • Stressed credit risk losses.
Transition risk ● (high)	• Changes in government policy negatively impact house prices and borrower affordability (e.g. minimum EPC ratings). • Transition to a green economy impacts borrower affordability (e.g. rising energy costs). • Macroeconomic downturn from climate change impacts house prices and borrower affordability (e.g. higher unemployment).	Medium term	• EPC data incorporated into automated credit decisioning processes and assessed as part of underwriting for certain products. • Credit policy controls. • Stressed affordability assessments. • Semi-annual back book assessments of EPC ratings to assess concentration risks. • Transitional risk stress testing conducted as part of ICAAP assessment. • Horizon scanning for technological changes, changes in consumer sentiment or government policy.	• % mortgage balances with current EPC >C. • % mortgage balances with potential EPC >C. • Stressed transitional credit risk losses.

Climate-Related Financial Disclosures continued

Risk factor	Risk description	Horizon	Mitigants	Climate risk metrics
Strategic/business risk				
Physical and transition risk	• Loss of income from an increase in the severity and frequency of climate events. • Changes in member expectations relating to the provision of green strategic objectives. • Reputational impact of carbon footprint of products and services leading to lower member attraction and retention.	Medium term	• Responsible business and green strategies, including the setting of appropriate appetite and targets for climate risk. • Green product proposition and governance. • ICAAP stress testing and sensitivity analysis. • Disclosures articulating the Society's approach to climate risk management. • Horizon scanning and assessment (e.g. regulatory change). • Member engagement and education.	• Climate targets, refer to section 4. • External ESG ratings. • Adverse publicity. • Carbon prices. • Climate risk landscape.
Operational risk				
Physical risk	• Branches or offices are damaged, or loss of systems, processes or data, due to physical impacts (e.g. flooding). • Increased incidence of environmental perils affecting the delivery of third party goods and services. • Internal capability affected by physical events preventing colleagues from accessing the office or branches. • Regulatory breaches or censure.	Medium/ Long term	• Corporate insurance policy. • Business continuity planning and operational resilience factored into our investment strategy (e.g. additional flood defences for our new head office site in Leeds). • Disaster recovery testing. • ICAAP operational risk Pillar 2A assessment. • Remote working capabilities. • Environment factors considered as part of supplier due diligence. • Supplier audits and recovery testing. • Regulatory horizon scanning and compliance assessments.	• Number of Society properties with high/very high physical risk. • Number of supplier sites with high/very high physical risk. • % employees located in high physical risk area. • Stressed operational losses.
Transition risk	• Increased supply chain costs due to climate-related inflationary pressures. • Reputational damage from third party relationships.	Medium term	• Supplier due diligence and exit planning. • Supplier relationship meetings to engage and monitor progress with implementing climate targets and plans.	• Number of critical suppliers without a climate risk assessment.

Risk factor	Risk description	Horizon	Mitigants	Climate risk metrics
Model risk				
Physical and transition risk	• Increased reliance on complex models to understand climate-related risks over longer term horizons to support current day decision making. • Models are based on the latest climate science, with historic performance not an indicator of future performance. • A lack of transparency around model assumptions and limitations results in incorrect decision making.	Medium/ Short term	• Model Risk Policy requirements and materiality assessment. • Independent model validation reports. • Data completeness checks and reconciliations. • Variance analysis and associated commentary to understand key trends. • Model documentation and localised procedures. • Credit risk and modelling subject matter experts. • Third party management arrangements/oversight.	• *Under development.*
Funding and liquidity risk				
Physical and transition risk	• Erosion of savings deposits (e.g. due to property retro-fit costs or loss of income from climate-related macroeconomic or transitional impacts). • Reduction in savings balances due to a change in member preferences towards green products. • Increased cost of wholesale funding due to a change in investor appetite for green bonds. • Increased losses from counterparties with a higher exposure to climate risk.	Medium/ Long term	• Annual ILAAP and recovery planning processes. • Daily monitoring of the Society's liquidity position and early warning indicators. • Weekly cash flow forecasting. • Liquidity management actions under the Recovery Plan. • Climate risk disclosures articulating the Society's approach to the management of climate risk. • Green product proposition and governance.	• Number of liquidity investments with high climate risk. • Carbon prices.

Risk factor	Risk description	Horizon	Mitigants	Climate risk metrics
Market risk				
Physical and transition risk	• Changes in market pricing as a result of the implementation of new climate policies (e.g. rising price of renewable energy and carbon offsets). • Changes in the value of certain financial assets and liabilities as a result of macroeconomic events in response to climate change (e.g. interest rate movements). • Changes in member behaviour in relation to their mortgage or savings deposits.	Long term	• ICAAP stress testing and sensitivity analysis. • Implementation of the Market Risk Policy and associated limit structure. • Environmental factors are considered annually as part of counterparty credit limit assignment. • Regular testing of the liquidity of market securities. • Monitoring and recalibration of behavioural life models for savings and mortgages.	• *Under development.*
Conduct risk				
Physical and transition risk	• Potential liability and conduct risks from green propositions and assumed advice. • Inappropriate treatment of members who are in financial difficulty as a result of the impacts of climate change. • Increased member activity (e.g. increased call volumes) resulting from physical risk, impacting the Society's service capacity.	Medium/ Long term	• Product governance framework. • Credit risk appetite and policy. • Colleague training, with regular oversight and assessment. • Compliance monitoring reviews. • Complaints handling and resolution procedures. • Resource planning and business continuity arrangements.	• % mortgage balances with high or very high physical or transitional risk. • Complaints related to climate risk.
Capital risk				
Physical and transition risk	• Reduction in capital from changes in risk weighted assets and impairment provisions for mortgages as a result of climate-related events. • Increase in operational losses linked to climate events. • Impairment of balance sheet assets, such as premises or branches, due to either physical damage or transitional impacts.	Long term	• The annual ICAAP considers the risk profile of the Society across all its principal risk categories (including the impact of climate change). • Further alternative scenarios and sensitivity analysis. • Credit risk appetite and policy.	• Stressed physical and transitional credit risk losses.

Section 4 – Climate risk metrics and targets

Section 4.1 – Climate risk targets, actions and performance

The Society is committed to the global call to action on climate change, recognising the critical and urgent role that the financial services industry has in supporting the response.

A key area of focus for us in 2022 was completing the measurement and baselining of our full emissions footprint (including scope 3, which we are disclosing for the first time this year). This has enabled us to better understand emissions hot spots and begin the process of developing climate targets and action plans for scope 3.

Our greenhouse gas (GHG) emissions

The Society's GHG reporting has been completed in accordance with requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the UK's Streamlined Energy and Carbon Reporting (SECR) regulations.

Reported emissions have been calculated using the World Resources Institute and the World Business Council for Sustainable Development GHG Protocol, which is the internationally recognised standard for the measurement, management, and reporting of GHG emissions. The Society has set its organisational GHG emissions boundary using the operational control approach, which captures GHG emissions linked to entities under our control.

Reported emissions encompass the seven GHGs defined under the Kyoto Protocol and are broken down into three main categories:

Category	Control	Source	Disclosure	Description
Operational emissions				
Scope 1	Direct	Our buildings	Mandatory	Direct GHG emissions that originate from assets that the Society owns or controls e.g. emissions from the combustion of gas to heat branches or fugitive emissions from ventilation systems.
Scope 2	Indirect	Purchased electricity	Mandatory	Emissions from the generation of purchased electricity. Under the GHG Protocol, the Society is required to report scope 2 emissions of both market and location-based approaches. Market-based approach – reflects emissions from energy that the Society has purposefully chosen e.g. renewable electricity. Location-based approach – reflects emissions from purchased energy based on the average emissions intensity on the grids upon which consumption occurs, such as using UK Government grid average emissions factors.
Value chain emissions				
Scope 3 (Category 1 – 14)	Indirect	Upstream and downstream activities	Voluntary	Indirect emissions from activities linked to the provision of our products and services (predominantly from the third party goods and services that we purchase).
Scope 3 (Category 15)	Indirect	Downstream activities	Voluntary	Indirect emissions from the use of our products, services and investments (predominantly from the mortgaged properties that we finance).

Table 1 below outlines the Society's GHG emissions for 2022, with comparison to 2021 (our baseline year for reporting purposes), in line with reporting requirements under SECR. Our 2021 disclosures for gas, fugitive emissions and business travel have been restated[9] following an exercise to baseline and validate the calculations. Prior year disclosures are provided in table 2 for comparative purposes.

We have calculated a data score of 1.89 for our scope 1 and 2 market-based emissions and 2 for our scope 1 and 2 location-based emissions using the PCAF methodology (with 1 being the highest data quality and 5 the lowest quality). This reflects the high proportion of actual vs estimated consumption data and average emissions factors used in the calculations.

Table 1 – 2022 SECR reporting[10 11]

	Market-based approach			Location-based approach		
Emissions (tCO_2e)	**2022**	**2021 (Baseline)**	**Change**	**2022**	**2021 (Baseline)**	**Change**
Scope 1						
Diesel	1	0	–	1	0	–
Gas	34	45	(25%)	34	45	(25%)
Fugitive emissions	20	12	56%	20	12	56%
Scope 2						
Electricity	7	18	(64%)	493	906	(46%)
Total scope 1 and 2	**61**	**75**	**(19%)**	**547**	**963**	**(43%)**
Scope 3						
Business travel	156	103	52%	156	103	52%
Total scope 1, 2 and 3 business travel	**217**	**178**	**22%**	**703**	**1,066**	**(34%)**
Purchased carbon offsets	(217)	(178)	22%	(217)	(178)	22%
Net carbon outturn	**0**	**0**	**0%**	**486**	**888**	**(45%)**
Other metrics						
Emissions per FTE (scope 1 and 2)	0.04	0.06	(25%)	0.37	0.71	(47%)
Energy consumption (Mwh)	2,732	4,491	(39%)	2,732	4,491	(39%)
Energy consumption per FTE	1.86	3.30	(44%)	1.86	3.30	(44%)
Data score	1.89	–	–	2.00	–	–

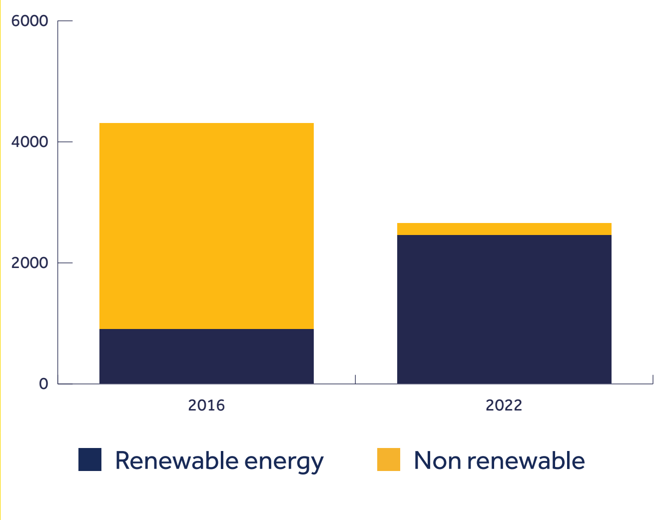
Table 2 – SECR prior year disclosures

	Market-based approach	Location-based approach
Emissions (tCO_2e)	**2021**	**2021**
Scope 1		
Diesel	–	–
Gas	41	41
Fugitive emissions	0.01	0.01
Scope 2		
Electricity	18	906
Total scope 1 and 2	**59**	**947**
Scope 3		
Business travel	32	32
Total scope 1, 2 and 3 business travel	**91**	**979**
Purchased carbon offsets	(91)	(91)
Net carbon outturn	**0**	**888**

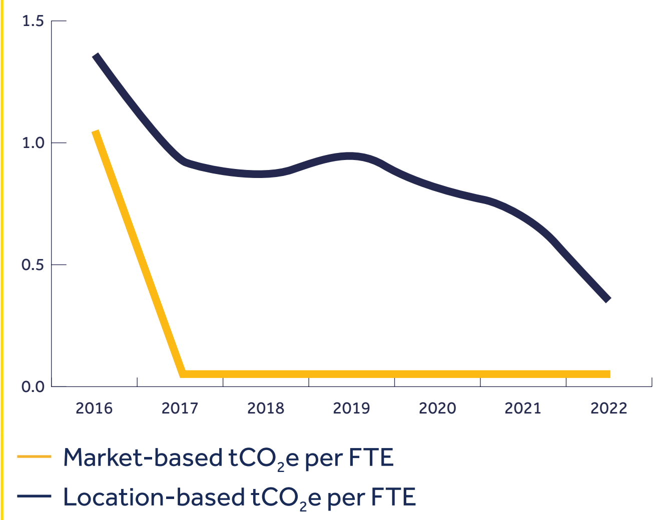
On a market-based approach, our scope 1 and 2 emissions have reduced by 19% since 2021 (95% since 2016 when we first started reporting) due to a reduction in the consumption of gas and increased use of renewable electricity.

On a location-based approach, our scope 1 and 2 emissions have reduced by 43% since 2021 (67% since 2016). This has been driven by reductions in the consumption of electricity following the consolidation of three of our existing head office sites into one and the divestment of another legacy contingency site during 2022, as well as a lower emissions conversion factor for electricity due to a higher proportion of renewable vs fossil fuel generated electricity on the UK National Grid in 2022.

Energy consumption (Mwh)

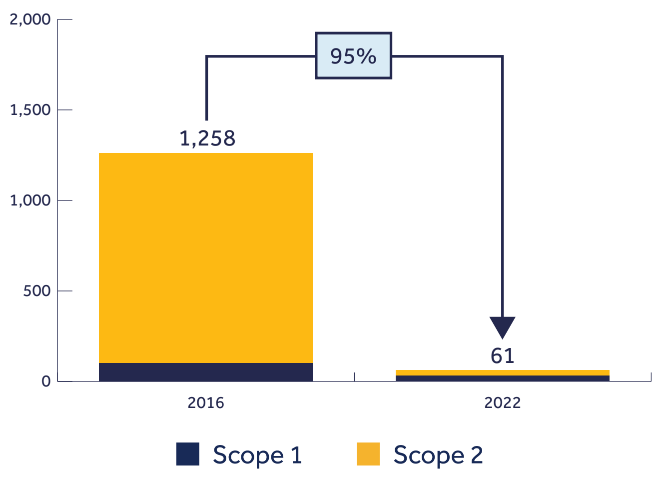


Emissions intensity ratios (per FTE)

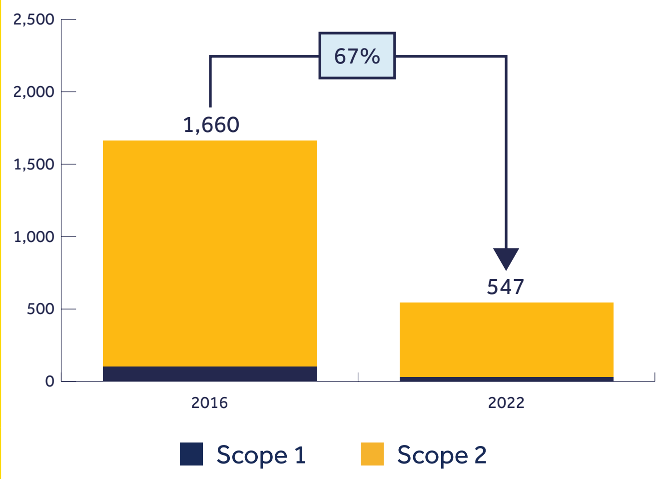


9 The adjustments did not change the net carbon outturn for 2021, with additional voluntary carbon credits purchased during 2022 to offset the difference.
10 tCO_2e stands for tonnes of carbon dioxide equivalent (the recognised measure for GHG emissions).
11 Offsets for our 2022 emissions will be finalised once final energy consumption data is available and has been independently verified.

Market-based emissions (tCO_2e)



Location-based emissions (tCO_2e)



Section 4.1.1 – Our operational scope 1 and 2 emissions

Targets

Since our 2021 disclosures, we have agreed two new ambitious and stretching near term targets for our scope 1 and 2 emissions as part of our strategic aim to support the orderly transition to net zero by 2050 or sooner:

Market-based		Location-based	
↓90% By 2030	Reduce our absolute scope 1 and 2 emissions by 90% by 2030, from a 2021 base year using a **market-based methodology**.	↓60% By 2030	Reduce our absolute scope 1 and 2 emissions by 60% by 2030, from a 2021 base year using a **location-based methodology**.

These targets have been guided by the principles of a science-based net zero pathway and will align our scope 1 and 2 operational emissions with the Paris Agreement goal to limit future temperature increases to 1.5°C. This means we will reach net zero for our scope 1 and 2 emissions by 2030 on a market-based approach, and more than halve scope 1 and 2 emissions on a location-based approach by the end of the decade.

To achieve these targets, we have agreed a multi-million pound investment plan to upgrade all our offices and branches to the latest net zero standards by 2030. We will also transition all our energy usage to renewable sources by 2027.

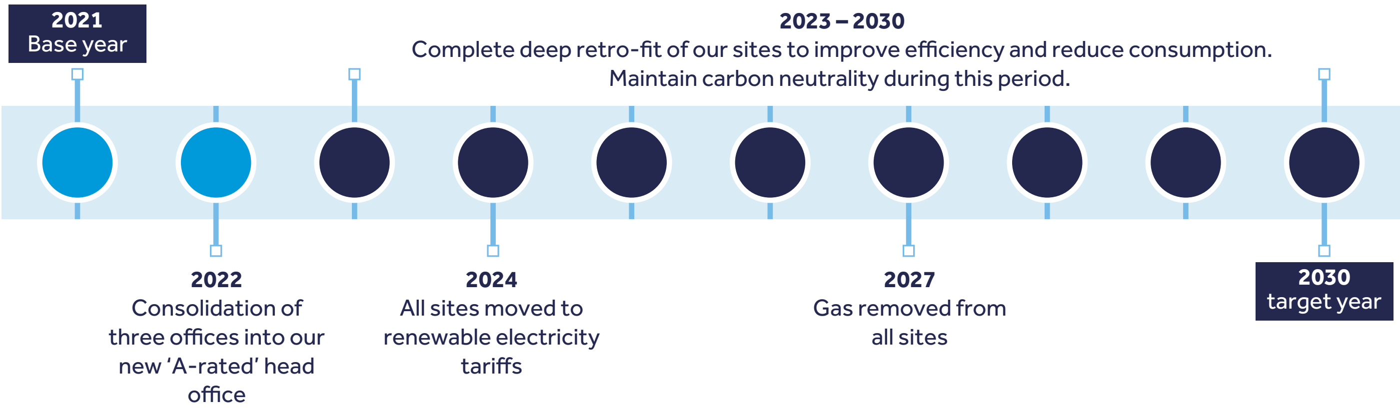
We're committing to maintaining carbon neutrality for our scope 1 and 2 market-based emissions and selected scope 3 emissions[12]. We will purchase only high quality verified carbon credits to offset our residual emissions to zero whilst we are taking action to permanently eliminate them. Offsets will not be relied upon to meet our reduction targets. Once we have reached our net zero market-based target, we will offset any residual hard to abate emissions through investment in nature-based or man-made carbon removal projects.

Scope 1 and 2 transition plan

The key actions that will be taken over the remainder of the next decade to deliver our operational scope 1 and 2 emissions reduction targets are set out at figure 1.

12 In accordance with Climate Impact Partners' CarbonNeutral Protocol, this includes emissions from our business travel, fuel and energy related activities (FERA), waste generated in operations, and home working.

Figure 1 – Scope 1 and 2 operational emissions reduction plan



Progress against targets

Figures 2 and 3 below demonstrate current progress against our operational scope 1 and 2 reduction targets.

Figure 2 – Progress against our 90% market-based target

Current status: ● Ahead of target

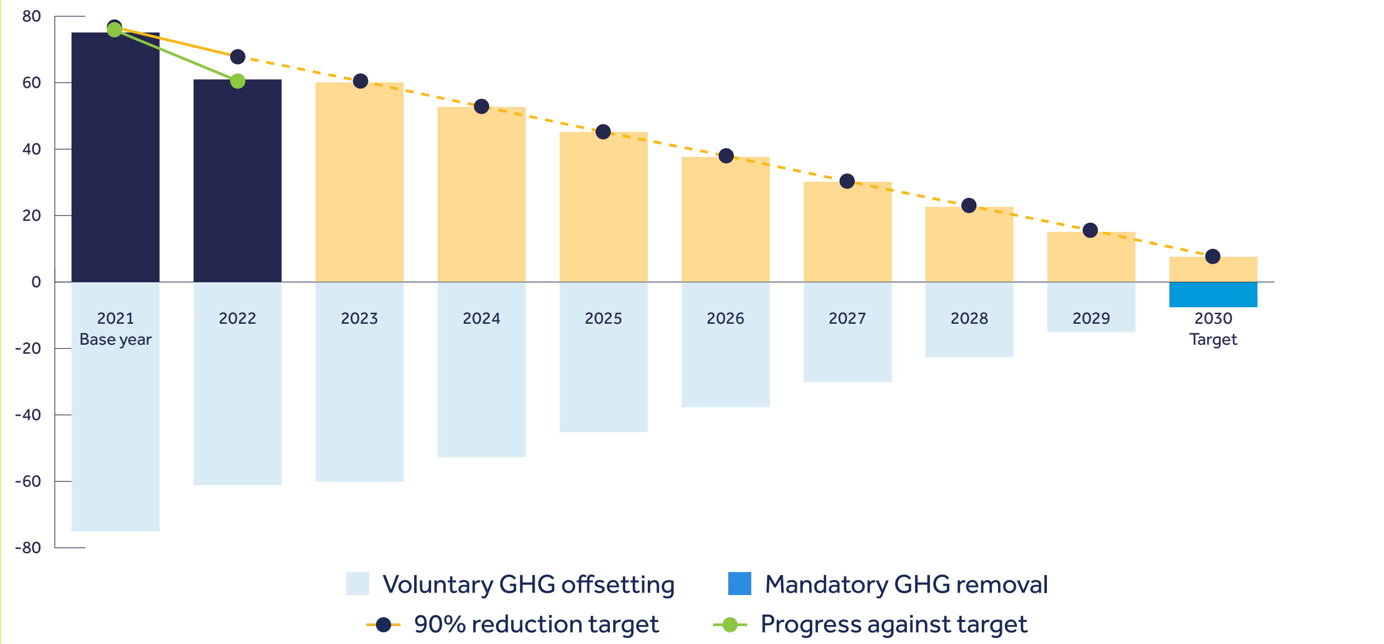
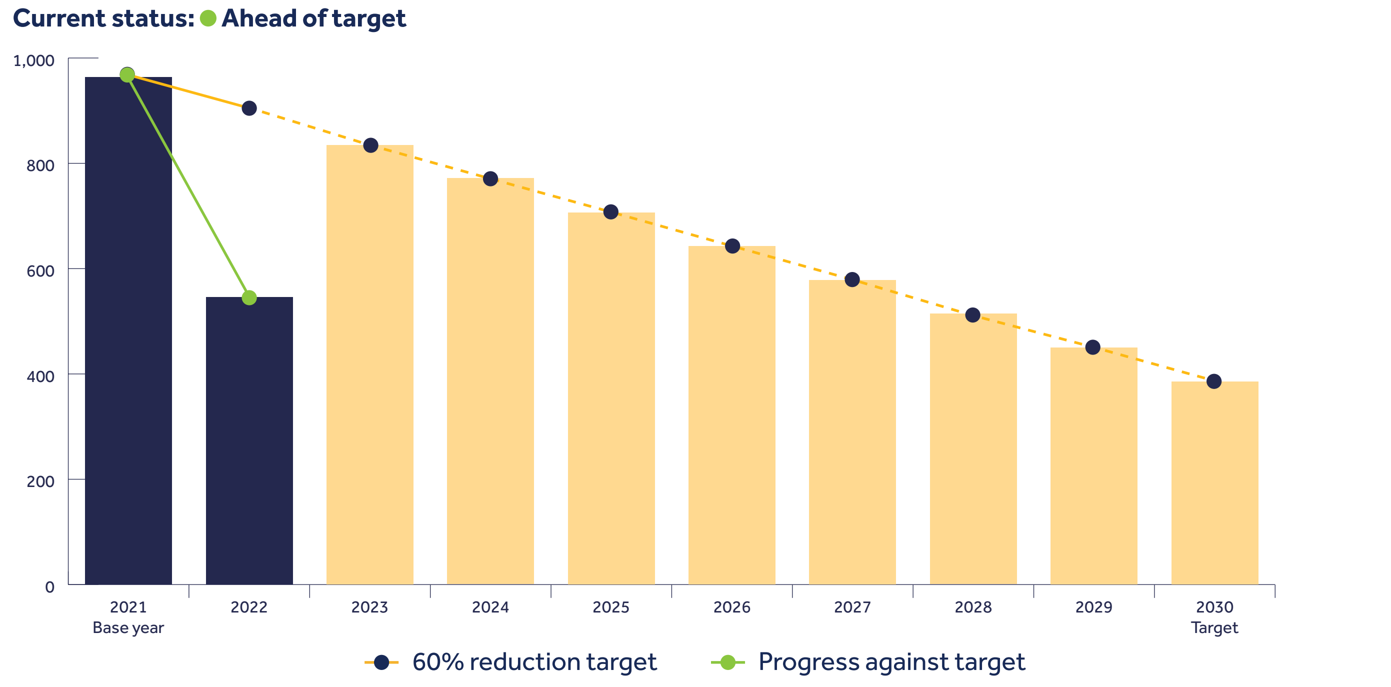


Figure 3 – Progress against our 60% location-based target



To maintain our carbon neutral status, we're working with Climate Impact Partners, a specialist in carbon market solutions for climate action.

During 2022, we achieved CarbonNeutral company certification in accordance with The CarbonNeutral Protocol, the leading global framework for carbon neutrality, and had an independent assessment of our scope 1 and 2 market-based emissions and selected scope 3 emissions.

CLIMATE IMPACT PARTNERS

CERTIFIED CARBON NEUTRAL® company

CarbonNeutral.com

Our offsetting programme delivers finance to projects which are reducing and removing emissions now, supporting the transition to a low carbon global economy. All the projects are independently verified to assure emission reductions or removals are occurring. This ensures the highest environmental integrity in our commitment to have an immediate, positive impact on the climate.

Section 4.1.2 – Our value chain scope 3 emissions

During 2022, we completed a full assessment and baselining of our scope 3 value chain emissions, in partnership with Carbon Intelligence, a leading sustainability consultancy. This has enabled us to gain a better understanding of our full emissions footprint and identify categories where we now need to focus our attention to begin the process of defining reduction plans and targets and improve the quality data used for the calculations. We have based our assessment on the methodologies set out in the GHG Protocol Scope 3 Accounting and Reporting Standard. Nine of the 15 scope 3 categories have been identified as relevant for our business model.

Table 3 – Assessment of scope 3 emission categories

Scope 3 category	Description	Relevance[13]	Influence[14]	Data quality[15]
Categories 1-8 (upstream activities)				
Category 1 – Purchased goods and services	Goods and services purchased as part of our operational activities during the reporting period.	High	Medium	Low
Category 2 – Capital goods	Capital goods purchased during the reporting period.	Medium	Medium	Medium
Category 3 – Fuel and energy related activities (FERA)	Extraction, production and transportation of fuels and energy purchased in the reporting period.	Low	Medium	Medium
Category 4 – Upstream transportation and distribution	Transportation and distribution of products and services purchased in the reporting period.	Low	Medium	Medium
Category 5 – Waste generated in operations	Disposal and treatment of waste generated from our operations during the year.	Low	High	Medium
Category 6 – Business travel	Transportation of employees for business-related activity in the reporting period.	Low	High	Medium
Category 7 – Employee commuting and homeworking	Transportation of employees between their homes and worksites and emissions while working from home in the reporting period.	Medium	High	Low
Category 8 – Upstream leased assets	Operation of assets leased during the reporting period.	N/A	N/A	N/A
Categories 9-14 (downstream activities)				
Category 9 – Downstream transportation and distribution	Transportation and distribution of products and services sold during the reporting period.	N/A	N/A	N/A
Category 10 – Processing of sold products	Processing of intermediate products sold in the reporting period.	N/A	N/A	N/A
Category 11 – Use of sold products	End use of goods and services sold in the reporting period.	N/A	N/A	N/A
Category 12 – End of life treatment of sold products	Waste disposal and treatment of products sold in the reporting period.	N/A	N/A	N/A
Category 13 – Downstream leased assets	Operation of assets owned by the Society during the reporting period.	Low	High	Low
Category 14 – Franchises	Operation of franchise during the reporting period.	N/A	N/A	N/A
Category 15 (downstream activities)				
Category 15 – Investments	Operation of investments (including mortgaged properties) during the reporting period.	High	Low	Medium

13 Based on our assessment of materiality of the categories, reflective of our business model (high to low).
14 Reflects our ability to influence reductions in the emissions (high to low).
15 Reflects availability and completeness of data used to calculate the emissions (high to low).

Climate-Related Financial Disclosures continued

Scope 3 – Categories 1-14
As at 31 December 2021, purchased goods and services accounted for most of our scope 3 category 1-14 emissions. We have used a spend-based methodology[16] to calculate these emissions aligned with the GHG Protocol and assigned a data score of 5 based on principles of the PCAF standard. This score is reflective of the use of average emissions factors to estimate the emissions because actual supplier emissions are unavailable. We intend to work with our key suppliers to improve data quality during 2023 as part of plans to monitor and reduce our supply chain emissions.

As indicated by the data scores[17] in table 4, our calculations for the remaining categories are also based on a large proportion of estimated data because actuals are not currently available. As this data quality improves, we will update our calculations and re-baseline our disclosures where there are any material changes.

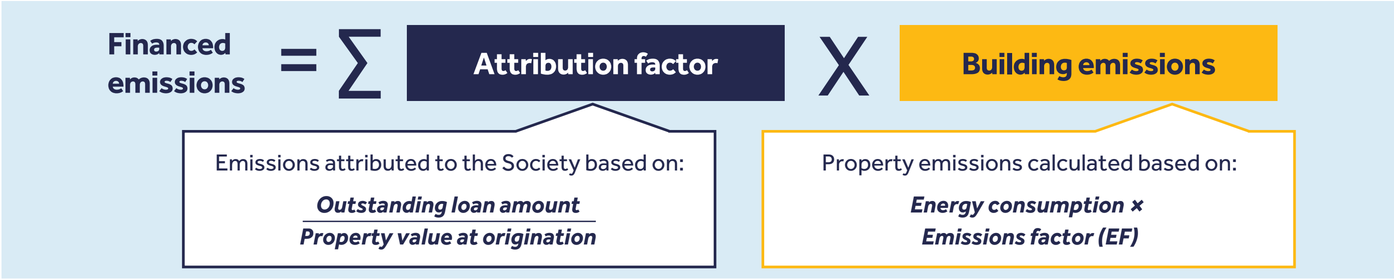
Table 4 – Scope 3 category 1-14 emissions at 31 December 2021 (our baseline year)

Scope 3 category		2021 baseline (tCO_2e)	% total	Data score[17]
Purchased goods and services[16]		17,292	76.3%	5.00
Capital goods		2,544	11.2%	5.00
Fuel and energy related activities (FERA)	*Upstream emissions of purchased fuels*	8	0.0%	2.03
	Upstream emissions of purchased electricity	257	1.1%	
	Transmission and distribution losses (T&D)[18]	80	0.4%	
Upstream transportation and distribution		409	1.8%	5.00
Waste generated in operations[18]		2	0.0%	2.00
Business travel	*Air, public transport, rented/ leased vehicle, and taxi[18]*	85	0.4%	3.84
	Hotel accommodation[18]	18	0.1%	
Employee commuting and homeworking	*Commuting*	1,496	6.6%	5.00
	Homeworking[18]	431	1.9%	
Downstream leased assets		40	0.2%	4.00
Total scope 3 category 1-14		**22,663**	**100%**	
Subject to voluntary offsetting		(616)	3%	
Net outturn		**22,047**		

Scope 3 – Category 15
Using the methodology prescribed by PCAF, the Society has calculated the scope 3 category 15 emissions from the UK residential mortgaged properties that we financed at 31 December 2021.

16 Annual spend per supplier (converted from £ to $ using the average spot exchange rate) * emission factor (derived from the appropriate Quantis emission category).
17 A data score has been applied to each category based on the principles of the PCAF standard (1= highest data quality; 5 = lowest data quality).
18 Emissions categories that are subject to voluntary carbon offsetting.

Figure 4 – PCAF methodology for calculating financed emissions



In applying the PCAF methodology, we have used the following approach to calculate the attribution factor and building emissions:

- All UK residential mortgages on the Society's balance sheet as at the reference date of 31 December 2021 have been included in the calculation.
- The outstanding loan balance as at the reference date has been used, including the balance of any further advances on these properties, divided by the original property valuation. The attribution factor has been capped at 100% where a further advance has resulted in a loan to value of greater than 100%.
- Where available, property level EPC reports have been used to estimate energy consumption for properties and therefore our calculation excludes unregulated emissions (for example, emissions linked to the charging of an electric vehicle). We believe that this approach gives a more accurate view of the emissions directly associated with the properties that we are financing.
- Where an EPC report is not available or is more than 10 years old and no longer valid (38% of the Society's properties), a proxy for estimated emissions has been applied using the average of the Society's actual EPC data (as at 31 December 2021).
- Point in time emission factors for gas and electricity have been used (2012, based on the current EPC SAP methodology).

Using the PCAF standard, a data score of 3.56 has been attributed to our scope 3 financed emissions, reflective of the high proportion of estimated data used in the emissions calculation. This is an industry-wide issue, but the Society expects the data score to improve over time as data availability continues to mature.

Table 5 – Scope 3 financed emissions for our mortgage portfolio[19] at 31 December 2021

Scope 3 mortgage portfolio data	31 December 2021
Total mortgaged properties	168,731
Total mortgage lending	£18.43 bn
% of properties with a valid EPC	62%
PCAF data score	3.56
Absolute financed emissions (tCO_2e/year)	**290,493**
Physical emissions intensity ($kgCO_2e/m^2$/year)	**20.26**
Economic emissions intensity (tCO_2e/£m lent/year)	**15.76**

Scope 3 action plan
There are several inherent challenges around accurately measuring and setting credible targets to reduce scope 3 emissions, many of which are outside the direct control of the Society. These include the availability and quality of data, a lack of co-ordinated government policy and support to help drive the transition, and barriers limiting the supply and demand for green mortgage finance. In particular, any future targets to reduce emissions from the mortgages that we finance will require careful consideration to ensure they support the transition without creating unintended consequences for vulnerable homeowners (for example, penalising those who cannot afford to pay to improve the energy efficiency of their home, which could potentially create climate mortgage prisoners).

19 Excluding residual commercial loans and Gibraltar and Spanish mortgages. Outstanding balances are de minimis and were therefore excluded from the analysis.

For this reason, we haven't yet set targets for our scope 3 emissions, but we remain committed to playing our part in resolving the challenges, and have set several key actions to progress in 2023 as part of the development of our scope 3 transition plans and targets:

- Review and develop our green finance proposition and innovative partnerships to help members navigate the barriers to greening their homes.
- Engage with all our material suppliers to improve the data quality for our purchased goods and services and encourage them to set science-based reduction targets.
- Lobby the government and other industry bodies to ensure that appropriate policies, advice and support is in place to help homeowners transition to net zero.
- Review our colleague proposition and roll out mandatory training to encourage the adoption of greener choices for commuting, business travel and homeworking.
- Enhance our scope 3 data sources and reporting methodologies.

Section 4.2 – Climate risk metrics

Physical risk

As at 31 August 2022, the Society's UK mortgage portfolio[20] demonstrated a low current and future risk posture for flooding, ground hazards and coastal erosion, under a range of stress scenarios.

Table 1 – Summary of physical risk metrics as at 31 August 2022

	Present day			Low emissions scenario (2050s)			High emissions scenario (2080s)		
	Properties	Exposure (£m)	% of book	Properties	Exposure (£m)	% of book	Properties	Exposure (£m)	% of book
Flood risk									
Negligible	140,322	15,311	78.7%	140,660	15,349	78.9%	140,045	15,276	78.5%
Very low	13,836	1,508	7.8%	11,449	1,294	6.4%	4,339	488	2.4%
Low	3,401	391	1.9%	3,687	416	2.1%	4,270	479	2.4%
Moderate	2,991	333	1.7%	4,438	457	2.5%	4,823	561	2.7%
High	5,069	558	2.8%	4,995	549	2.8%	7,920	886	4.4%
Very high	2,906	291	1.6%	3,296	327	1.8%	7,128	701	4.0%
Unmatched	9,864	1,283	5.5%	9,864	1,283	5.5%	9,864	1,283	5.5%
Coastal erosion									
Negligible	162,234	17,933	90.9%	162,216	17,930	90.9%	162,155	17,924	90.9%
Low	7	1.1	0.0%	5	0.8	0.0%	3	0.4	0.0%
Moderate	10	1.1	0.0%	21	2.7	0.0%	33	3.6	0.0%
Very high	4	0.9	0.0%	13	2.1	0.0%	64	8.1	0.0%
Unmatched	16,134	1,738	9.0%	16,134	1,738	9.0%	16,134	1,738	9.0%
Ground hazards risk									
Negligible	54,701	6,102	30.7%	51,938	5,783	29.1%	51,078	5,684	28.6%
Very low	48,818	5,371.2	27.4%	48,030	5,248.7	26.9%	48,161	5,257.9	27.0%
Low	40,457	4,122.4	22.7%	43,955	4,557.4	24.6%	43,659	4,509.9	24.5%
Moderate	17,375	2,241.0	9.7%	17,420	2,246.5	9.8%	18,398	2,378.5	10.3%
High	885	97	0.5%	884	96	0.5%	880	96	0.5%
Very high	19	3	0.0%	28	4	0.0%	79	10	0.0%
Unmatched	16,134	1,738.3	9.0%	16,134	1,738.3	9.0%	16,134	1,738.3	9.0%

20 Excludes de minimis legacy commercial, Gibraltar and Spanish lending portfolios, which are closed books in run-off and have therefore been excluded from the analysis.

Notes:

1. Unmatched refers to properties where we have been unable to source physical risk data.
2. Low emissions scenario equates to a 1.8°C increase in global temperatures by 2050s. High emissions scenario equates to a 3.3°C increase in temperatures by 2080s.

Transition risk metrics

The Society currently uses EPC data as the primary way of assessing the potential impact of transition risk. An EPC shows the energy performance of a property based on a traffic light rating from A to G (with A being the best and G the worst). Ratings show the estimated energy cost (heating and lighting) and associated carbon emissions for the property. Current and potential ratings (after considering available energy efficiency improvements) are provided on the EPC report.

EPC ratings for our UK mortgage portfolio are monitored to provide an overall view of the energy efficiency (and potential emissions) of our mortgaged properties and transition risk impacts from potential future changes to government policy. Table 2 presents the current and potential EPC profile of our UK residential mortgage portfolio as at 31 August 2022.

Table 2 – Summary of EPC ratings for our mortgage portfolio as at 31 August 2022

	Current EPC rating			Potential EPC rating		
EPC rating	Total mortgage book	Owner-occupied	Buy to let	Total mortgage book	Owner-occupied	Buy to let
A	0.4%	0.5%	0.1%	19.3%	27.2%	4.1%
B	27.2%	38.2%	6.2%	56.2%	52.9%	62.6%
C	24.5%	19.8%	33.5%	22.6%	18.3%	30.8%
D	34.8%	29.4%	45.1%	1.7%	1.3%	2.3%
E	11.1%	9.8%	13.7%	0.2%	0.2%	0.2%
F	1.6%	1.9%	1.1%	0.0%	0.0%	0.0%
G	0.4%	0.4%	0.3%	0.0%	0.0%	0.0%
Average[21]	C	C	D	B	B	B

Overall, 57% of the Society's total UK mortgage portfolio was matched with a valid EPC[22]. Of those properties, 52% had a current EPC rating of C or better, which is consistent with our disclosures in 2021. The average rating for the total portfolio with a valid and matched EPC was C (compared to a UK average of D[23]). Based on potential EPC ratings, 98% could reach C or better and the average for the total portfolio would increase to B. During 2022, we have trialled the use of artificial intelligence to model proxy EPCs where an actual rating is not available. A wider roll out of this modelled data is planned for 2023 to improve our understanding of the portfolio risks and associated emissions.

Other climate-related metrics

The Society has a suite of internal key risk indicators (KRIs) to support the monitoring of climate risks, as outlined in Section 3.2. These KRIs will continue to be refined and built out over time, as more data becomes available and new risks emerge.

Refer to the Purpose Impact Report published on our website for details of additional climate and environmental related metrics, such as waste management.

21 Average EPC rating based on number of properties.
22 Only properties that are newly built, sold, leased or rented out are required to have an EPC under current UK regulations. An EPC is only valid for 10 years therefore we have excluded any EPCs older than this from the analysis.
23 Source: data provided by Hometrack.

Non Financial Information Statement

Year ended 31 December 2022

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 11 and key indicators of performance are on pages 20 to 22.
- Our approach to managing our impact on the environment and to managing the risks arising from climate change is explained on pages 48 to 79. Further details of some of the actions already undertaken as part of our responsible business strategy are set out in our Purpose Impact Report.
- 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 17 to 19.
- 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 division (second line) and Internal Audit (third line), using a risk based approach.

Approval of the Strategic Report

This Strategic Report (on pages 3 to 80) has been approved by the board of directors and is signed on behalf of the Board.

Andrew Conroy
Chief Financial Officer

23 February 2023

Risk Management Report

Approach to Risk Management

Year ended 31 December 2022

The Enterprise Risk Management Framework (ERMF) integrates various risk management processes to consistently support the development and implementation of our strategy. The framework sets out a structured approach to identify, assess, control and monitor risks. The ERMF is periodically reviewed by the Board Risk Committee (BRC), on behalf of the Board. The Chief Risk Officer (CRO) has responsibility for its implementation.

The ERMF	is integral to the way we manage our business...
Risk governance and culture	Society strategy
Risk appetite and stress testing	Risk appetite Sets appetite in the context of our principal risks to our strategy and corporate plan
Risk assessment and management	
Risk reporting	Business performance Manages and monitors business performance against strategy, plan and appetite

by enabling us to...

- Identify and understand the key risks, which could impact the delivery of our strategy and corporate objectives.
- Increase the range of strategic opportunities through consideration of risks, creating value for our members.
- Provide assurance to the Board that risks are being identified and managed effectively, in line with its expectations.
- Reduce performance variability through anticipation of the risks that may affect performance and taking action to minimise potential disruption.
- Effectively allocate resources based on robust risk-based information.

The main components of the ERMF are outlined below:

Risk governance and culture

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

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 committees, each with distinct mandates in their terms of reference.

BRC provides independent oversight of the effective management of risks, on behalf of the Board, and is supported by five executive risk committees, each focusing on a particular risk discipline. These committees are decision making in nature and operate within delegated mandates and limits provided by the Board or BRC. Our committee structure as at the year end is as follows:

Board
Chair: Iain Cornish
- Safeguards member interests.
- Ensures robust risk management systems and internal controls are in place.
- Sets risk appetite.
- Leads, develops and implements the Society's culture.

Nominations Committee
Chair: Iain Cornish
- Reviews the structure size, diversity and composition of the Board.
- Oversees succession planning and identifies candidates to fill Board vacancies.

Audit Committee
Chair: Gareth Hoskin
- Monitors the integrity of external financial reporting.
- Reviews the effectiveness of systems of internal controls.
- Assesses the effectiveness, performance and independence of the Internal Audit function.

Board Risk Committee
Chair: Neil Fuller
- Reviews the Society's risk exposures and oversees the ERMF.
- Develops strategic risk appetite and the Society's ICAAP, ILAAP and RRP for Board approval.

Remuneration Committee
Chair: Lynn McManus[1]
- Ensures remuneration policies, principles and practices support the long term interests of the Society.

Models and Rating System Committee
Chair: Andrew Greenwood
- Supports BRC in relation to model risk matters and maintenance of the IRB Rating System.

Assets and Liabilities Committee
Chair: Andy Conroy
- Supports BRC in relation to balance sheet risk matters.

Credit Committee
Chair: Andy Moody
- Supports BRC in relation to lending related matters.

Conduct and Operational Risk Committee
Chair: Parveen Kaur
- Supports BRC in relation to conduct, customer related and operational risk matters.

Operational Resilience Committee
Chair: Rob Howse
- Supports BRC in relation to operational resilience matters.

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.

1 Annette Barnes was appointed Chair of the Remuneration Committee (subject to regulatory approval) in January 2023.

Three lines of defence model and the Risk division

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

First line (Business lines)	Second line (Risk division)	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. • 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 division is independent from operational business divisions and ensures we follow a consistent approach to risk management. It is led by the CRO, who reports directly to the Deputy Chief Executive Officer, with separate independent engagement with the Chair of BRC. The Risk division 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*** – the Board and Senior Leadership Team are expected to demonstrate our behaviours to set the tone for all colleagues.
- ***Accountability*** – to support the delivery of our strategy and business objectives, individuals at all levels are held accountable for risk management.
- ***Effective communication*** – an environment of open and transparent communication is encouraged around all business processes and decision making.
- ***Incentives and performance management*** – an appropriate incentive scheme and other HR frameworks are operated to promote and align with the desired risk culture.

Risk appetite and stress testing

Risk appetite framework

A key element of the ERMF is the Strategic Risk Appetite (SRA) framework. This comprises qualitative statements and quantitative metrics to set the parameters within which 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 eight principal risk categories and it is reviewed on an annual basis. Performance against appetite is monitored continually and we have developed appropriate early warning indicators and escalation procedures to anticipate and respond to risk profile changes. SRA metrics are used in corporate planning and stress testing to measure and validate our long term viability, under both plausible and more severe scenarios.

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 a stress testing framework 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.
- 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 and operational resilience planning	Sensitivity analysis and a suite of alternative scenarios are used to assess the corporate plan under a range of plausible stresses. Operational resilience stressing is an embedded part of corporate planning.
Prudential risk assessments	ICAAP – an internal assessment of whether we have sufficient capital, given current risks, as well as future risks from our strategy, under conditions as set out by the Board and the PRA. ILAAP – an internal assessment of whether we have sufficient liquidity and stable funding to withstand a range of severe liquidity stresses.
Climate change	Scenario analysis is used to assess the potential financial and non financial impacts of climate-related risks. Refer to pages 48 to 79 for further details.
Recovery plan	Scenario analysis is used to inform the development of a suite of recovery actions (primarily capital and liquidity) to be used under extreme stress and to set and validate operational protocols.
Reverse stress testing	An assessment of the stress scenarios under which we would potentially become unviable. This examines potential 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 and 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 the context of our business environment, strategy and objectives. A summary of the four 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 and evaluation – a range of methodologies is used to identify risks, to understand their severity and likelihood to impact on the delivery of our strategy and to inform risk evaluation and treatment. We then evaluate and prioritise risks to inform decision making and to optimise the allocation of resources.

Risk treatment – we select and deploy appropriate risk responses, balancing the potential benefit derived versus cost, effort and implications for key stakeholders. The principal mechanisms for risk treatment are the deployment of suitable control actions, governance or assurance oversight, along with management information monitoring 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. We use 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 division.

Principal Risks

Year ended 31 December 2022

1. Credit risk

Definition

The risk that residential borrowers or wholesale counterparties fail to meet their current or future financial obligations.

Sources of credit risk

The Society's sources of credit risk arise from loans and advances to customers (retail credit risk) and through treasury activities from the investment of liquidity and use of derivatives to manage market risks (wholesale credit risk). The table below presents an overview of the Society's credit risk profile as at 31 December 2022[1]:

	Group 2022		Group 2021	
Audited	£M	%	£M	%
Cash in hand and balances with the Bank of England	**2,958.1**	**11.5**	2,538.7	11.3
Loans and advances to credit institutions	**235.9**	**0.9**	159.0	0.7
Investment securities	**1,386.7**	**5.4**	949.1	4.2
Derivative financial instruments	**679.9**	**2.6**	219.3	1.0
Loans and advances to customers	**20,493.2**	**79.6**	18,527.2	79.9
Total	**25,753.8**	**100.0**	22,393.3	100.0

Retail credit risk

Retail credit risk primarily arises from the Society's residential mortgage lending activities. The Society has non material legacy commercial (2022: £8.6 million; 2021: £10.4 million) and Spanish residential mortgage (2022: £55.7 million; 2021: £58.9 million) portfolios, which are closed portfolios in active run-off. On this basis the following sections primarily focus upon UK residential lending exposures and practices.

Managing retail credit risk

The key mitigants in relation to retail credit risk are as follows:

- A Board defined appetite, supported by the Credit Risk Policy, limit frameworks and management reporting.
- The Society focuses its lending in areas of specific expertise.
- Continuous review of performance against appetite.
- Forward looking assessments of adherence to appetite and limits.
- The Society's underwriting processes use a range of tools including use of credit scoring models, affordability stress testing, automated decisioning and suitably qualified underwriters in assessing mortgage applications. Underwriting processes are kept under close review to ensure they reflect risks in the prevailing environment.
- Independent appraisal of collateral, such as valuations.
- Dedicated Mortgage Support function engages with members at an early stage to discuss financial difficulties.
- Oversight of the Society's lending portfolios is provided by a dedicated second line Credit Risk team.
- Stress testing assesses vulnerabilities within credit portfolios and informs pre-emptive actions.
- Benchmarking of credit controls and performance.

Monitoring retail credit risk

The Society operates various first line functions to monitor the retail credit profile on a continuous basis (retail and wholesale). This is overseen by both the second and third lines of defence, through their monitoring and assurance activities. The Society's monitoring processes, including the use of early warning indicators, and governance protocols, ensure timely escalation to senior management if there is a deterioration in credit quality.

The Society monitors the appropriateness of its lending policy and appetite on a constant basis, with a formal review of the policy by the Board at least annually. The performance of our retail exposures versus appetite and policy is reviewed by the Credit Committee at each meeting and is also reported through to BRC.

1 Financial information throughout the Risk Management Report refers to the Group position, as reported on pages 186 to 240.

Retail credit risk profile

The table below is a breakdown of the Society's retail credit portfolio as at 31 December 2022. The portfolio remains diversified across a number of segments with no significant change in exposure profile compared to the prior year.

Audited	Group 2022 £M	Group 2021 £M
Mainstream owner-occupied	**9,387.8**	8,102.0
Buy to let	**5,827.7**	5,511.0
Shared ownership	**2,509.5**	2,201.0
Other affordable home ownership	**847.9**	845.0
Other	**1,799.4**	1,681.3
Total retail mortgages	**20,372.3**	18,340.3
Collateral loan which represents a pool of equity release mortgages	**155.4**	155.1
Total gross exposure (contractual amounts)	**20,527.7**	18,495.4
Impairment loss provisions	**(48.0)**	(37.3)
Fair value adjustments to collateral loan	**6.5**	60.4
Total net exposure	**20,486.2**	18,518.5

Geographic concentration

The table below provides a breakdown of the geographic concentration of the Society's retail credit portfolio as at 31 December 2022. The Society's mortgage portfolio remains well diversified, reflecting the national coverage of our distribution channels.

Audited	Group 2022 %	Group 2021 %
Scotland	**8.1**	8.3
North East	**3.9**	3.7
Yorkshire and Humberside	**8.9**	8.8
North West	**9.5**	8.9
Midlands	**14.7**	14.0
East of England	**9.9**	9.9
South West	**10.0**	10.0
Greater London	**13.0**	14.0
South East	**15.2**	15.7
Wales	**3.6**	3.5
Northern Ireland	**2.8**	2.8
Spain	**0.3**	0.3
Other	**0.1**	0.1
Total	**100.0**	100.0

Collateral

Retail mortgages are all fully secured on residential property. Collateral values are assessed at the point of origination and in line with the Society's lending policy. The Society requires collateral to be valued by an appropriately qualified method, 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 and the value of the underlying security, which is known as the loan to value (LTV) percentage. 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.

Principal Risks continued

The Society's lending policy permits owner-occupier applications with a maximum LTV of 95% and buy to let mortgages with a maximum LTV of 80%, with scope to tighten these criteria if required. Higher LTV lending is subject to enhanced underwriting criteria.

The indexed LTV analysis of the Society's retail mortgage portfolio as at 31 December 2022 is as follows:

Audited	Group 2022 £M	Group 2022 %	Group 2021 £M	Group 2021 %
Less than 10%	**225.0**	**1.1**	169.4	0.9
10% to 20%	**1,042.9**	**5.1**	802.7	4.4
20% to 30%	**2,240.3**	**11.0**	1,704.4	9.3
30% to 40%	**3,498.4**	**17.2**	2,787.8	15.2
40% to 50%	**4,147.6**	**20.2**	3,737.0	20.4
50% to 60%	**3,395.8**	**16.7**	3,580.6	19.5
60% to 70%	**2,701.3**	**13.3**	2,459.8	13.4
70% to 80%	**1,705.6**	**8.4**	1,879.2	10.2
80% to 90%	**1,220.2**	**6.0**	915.0	5.0
90% to 100%	**191.5**	**0.9**	295.7	1.6
More than 100%	**3.7**	**0.1**	8.7	0.1
Total	**20,372.3**	**100.0**	18,340.3	100.0

Overall the Society's LTV profile has remained broadly stable with higher LTV new lending offset by house price growth in 2022. At 31 December 2022 the average LTV of the portfolio stood at 48.8% (2021: 50.5%).

Retail credit performance

The following table sets out information about the credit quality of the Society's retail mortgages as at 31 December 2022[2]. Classification into low, medium or high risk bandings is based on internal rating grades, which approximately translate into the Internal Ratings Based (IRB) probabilities of default (PD) shown in the table. An explanation of the classification of loans into Stages 1 to 3 can be found in note 1(e) of the accounts.

Underlying retail credit performance has remained stable with an increase in Stage 2 balances reflecting the risk associated with increased cost of living pressures and the potential rate shock for borrowers reaching fixed term maturity. A post model adjustment has been applied to increase the level of provisions held, to reflect this increased risk (see note 2(b) of the accounts).

Audited **Group 2022**		Stage 1 £M	Stage 2 £M	Stage 3 £M	Total £M
Retail mortgages					
Low	IRB PD < 2.02%	**16,154.5**	**2,270.5**	**25.9**	**18,450.9**
Medium	IRB PD ≥ 2.02% and < 25.97%	**800.1**	**689.9**	**25.3**	**1,515.3**
High	IRB PD ≥ 25.97%	**10.7**	**225.1**	**170.3**	**406.1**
Total gross exposure		**16,965.3**	**3,185.5**	**221.5**	**20,372.3**
Impairment loss provision		**(5.1)**	**(31.6)**	**(11.1)**	**(47.8)**
Net exposure		**16,960.2**	**3,153.9**	**210.4**	**20,324.5**
Loan commitments					
Low	IRB PD < 2.02%	**1,010.6**	**–**	**–**	**1,010.6**
Medium	IRB PD ≥ 2.02% and < 25.97%	**37.5**	**–**	**–**	**37.5**
High	IRB PD ≥ 25.97%	**3.6**	**–**	**–**	**3.6**
Total gross exposure		**1,051.7**	**–**	**–**	**1,051.7**
Impairment loss provision		**(0.2)**	**–**	**–**	**(0.2)**
Net exposure		**1,051.5**	**–**	**–**	**1,051.5**

2 Loans measured at amortised cost and loan commitments represent amounts committed.

Audited Group 2021		Stage 1 £M	Stage 2 £M	Stage 3 £M	Total £M
Retail mortgages					
Low	IRB PD < 2.02%	15,327.6	1,106.2	19.2	16,453.0
Medium	IRB PD ≥ 2.02% and < 25.97%	863.5	583.1	26.9	1,473.5
High	IRB PD ≥ 25.97%	17.5	214.0	182.3	413.8
Total gross exposure		16,208.6	1,903.3	228.4	18,340.3
Impairment loss provision		(9.3)	(11.6)	(16.1)	(37.0)
Net exposure		16,199.3	1,891.7	212.3	18,303.3
Loan commitments					
Low	IRB PD < 2.02%	1,285.6	–	–	1,285.6
Medium	IRB PD ≥ 2.02% and < 25.97%	42.2	–	–	42.2
High	IRB PD ≥ 25.97%	0.6	–	–	0.6
Total gross exposure		1,328.4	–	–	1,328.4
Impairment loss provision		(0.3)	–	–	(0.3)
Net exposure		1,328.1	–	–	1,328.1

The table below provides further information on the Society's retail mortgages by payment status as at 31 December 2022[3]. Overall, past due balances as a percentage of the portfolio have remained stable with small increases in past due balances up to three months being partially offset by a reduction in balances more than three months in arrears, evidencing a continued resilience in credit quality of the portfolio to date.

The table includes £6.6m (2021: £4.8m) of loans and advances secured on residential property in Spain that are past due. At 31 December 2022 no Spanish properties were in possession (2021: £1.0m).

Audited	Group 2022 £M	Group 2022 %	Group 2021 £M	Group 2021 %
Not past due	**20,122.8**	**98.8**	18,105.8	98.8
Past due up to 3 months	**136.3**	**0.7**	115.2	0.6
Past due 3 to 6 months	**41.0**	**0.2**	43.2	0.2
Past due 6 to 12 months	**36.6**	**0.2**	39.8	0.2
Past due over 12 months	**29.8**	**0.1**	31.0	0.2
Possessions	**5.8**	**–**	5.3	–
Total gross exposure	**20,372.3**	**100.0**	18,340.3	100.0

Forbearance

The Society continues to invest in developing and enhancing its arrears management strategies to minimise credit risk losses, whilst ensuring that customers are treated fairly. The Society 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 Society and the primary aim of forbearance is to enable a complete recovery of the mortgage through the full repayment of arrears (on sustainable terms) and to minimise the risk of the customer losing their property. 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 overleaf provides further information on loans existing at 31 December 2022, 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.

3 Excludes impairment loss provisions

The level of loans that are reported as in forbearance has remained largely stable reflecting the relative levels of arrears seen in 2022. The reduction in balances reported as forborne reflects revised criteria to identify only those term extensions where the borrower was deemed to be experiencing financial difficulty as in forbearance. Forbearance balances also now exclude balances where a concession has been agreed. These balances were previously reported within 'Other payment arrangements'.

Audited **Group 2022**	**Capitalisation £M**	**Transfer to interest only £M**	**Term extension £M**	**Other payment arrangements £M**	**Total forbearance £M**
Not past due	**8.4**	**10.3**	**22.7**	**15.1**	**56.5**
Past due up to 3 months	**4.4**	**3.5**	**4.1**	**3.8**	**15.8**
Past due over 3 months	**8.4**	**4.1**	**3.6**	**10.9**	**27.0**
Total forbearance	**21.2**	**17.9**	**30.4**	**29.8**	**99.3**

Audited Group 2021	Capitalisation £M	Transfer to interest only £M	Term extension £M	Other payment arrangements £M	Total forbearance £M
Not past due	7.9	8.2	107.1	29.3	152.5
Past due up to 3 months	3.8	1.3	–	21.0	26.1
Past due over 3 months	6.5	1.3	–	37.6	45.4
Total forbearance	18.2	10.8	107.1	87.9	224.0

Retail credit risk outlook

- The deteriorating macroeconomic conditions and affordability challenges are expected to result in a heightened credit risk profile, due to an increased number of borrowers potentially in financial difficulty and reductions in house prices.
- Management will continue to closely monitor the performance of the Society's lending portfolios and the appropriateness of the credit policies and appetite, versus prevailing conditions. In addition, the Society continues to make appropriate preparations for the expected macroeconomic downturn in its Mortgage Support team.

Wholesale credit risk

Wholesale credit risk arises from the Society's liquidity portfolio and derivatives used to manage market risk. Overall, the Society has a low appetite for wholesale credit risk, with exposures restricted to high quality counterparties with a low risk of failure.

Managing wholesale credit risk

The key mitigants in relation to wholesale credit risk are as follows:

- A Board defined appetite, supported by the Wholesale Credit Risk Policy, including concentration limits.
- Review of performance versus appetite conducted at least monthly and more frequently during times of stress.
- All counterparty credit lines are reviewed at least annually, based on internal analysis, credit default swap spreads, geographic location, ESG posture and other market intelligence.
- The portfolio is monitored regularly by a dedicated first line team, with oversight provided by the Risk division.
- Daily exchange of collateral and other netting arrangements for derivative exposures.

Monitoring wholesale credit risk

A dedicated first line function monitors the wholesale credit profile of the Society on a daily basis. This is overseen by both the second and third lines of defence through their monitoring and assurance activities. The Society's monitoring processes and governance protocols ensure timely escalation to senior management if there is a deterioration in credit quality.

Each wholesale credit line is formally reviewed at least annually, with outputs overseen by the Assets and Liabilities Committee (ALCO). The performance of the wholesale credit portfolio versus appetite and policy is reviewed by ALCO at each meeting and also reported through to BRC.

Wholesale credit risk profile

Credit ratings

The Society's liquidity portfolio is comprised of cash reserves at the Bank of England, loans and advances to credit institutions and debt securities. An assessment of the wholesale credit profile of the liquidity portfolio, based upon external credit ratings[4], is outlined in the table below. As at 31 December 2022, circa 100% of the portfolio was rated as A or above.

Audited **Group 2022**	**Aaa £M**	**Aa1-Aa3 £M**	**A1-A3 £M**	**Unrated £M**	**Total £M**
Cash in hand and balances with the Bank of England	**–**	**2,958.1**	**–**	**–**	**2,958.1**
Loans and advances to credit institutions	**–**	**70.7**	**165.2**	**–**	**235.9**
Investment securities					
UK Government securities	**–**	**396.7**	**–**	**–**	**396.7**
Government agency debt	**133.0**	**–**	**–**	**–**	**133.0**
Supranational bonds	**125.9**	**–**	**–**	**–**	**125.9**
Covered bonds	**461.4**	**–**	**–**	**–**	**461.4**
Residential mortgage backed securities	**144.3**	**–**	**–**	**–**	**144.3**
Certificates of deposit	**–**	**25.0**	**100.4**	**–**	**125.4**
Total liquid assets	**864.6**	**3,450.5**	**265.6**	**–**	**4,580.7**
	18.9%	**75.3%**	**5.8%**	**–**	**100.0%**

Audited Group 2021	Aaa £M	Aa1-Aa3 £M	A1-A3 £M	Unrated £M	Total £M
Cash in hand and balances with the Bank of England	–	2,538.7	–	–	2,538.7
Loans and advances to credit institutions	–	62.2	96.8	–	159.0
Investment securities					
UK Government securities	–	215.1	–	–	215.1
Government agency debt	186.6	–	–	–	186.6
Supranational bonds	184.6	–	–	–	184.6
Covered bonds	273.7	–	–	–	273.7
Residential mortgage backed securities	89.1	–	–	–	89.1
Certificates of deposit	–	–	–	–	–
Total liquid assets	734.0	2,816.0	96.8	–	3,646.8
	20.1%	77.2%	2.7%	–	100.0%

Geographic concentration

The majority of the Society's liquidity portfolio continues to be invested within the UK. The geographical domicile of the portfolio is outlined below:

Audited	**Group 2022 £M**	**Group 2022 %**	Group 2021 £M	Group 2021 %
UK	**4,221.2**	**92.3**	3,275.4	89.8
Germany	**104.4**	**2.3**	136.6	3.7
Canada	**79.1**	**1.7**	50.0	1.4
Australia	**25.0**	**0.5**	–	–
Netherlands	**25.0**	**0.5**	–	–
USA	**–**	**–**	0.2	–
Global Supranational	**90.4**	**2.0**	119.5	3.3
European Supranational	**6.8**	**0.1**	36.0	1.0
Asia Supranational	**28.8**	**0.6**	29.1	0.8
Total liquid assets	**4,580.7**	**100.0**	3,646.8	100.0

4 The lower of either Fitch or Moody's.

Principal Risks continued

Wholesale credit impairments
The Society's accounting policy for the calculation of impairment on liquid assets is detailed in note 1(e). All liquid assets were classified as at Stage 1 throughout the reporting period and, as such, the impairment loss provision for these assets is immaterial.

Collateral
The nature of a financial instrument determines the level of collateral required. Loans and debt securities are generally unsecured except for asset backed securities, which are secured by a collection of financial assets.

From a derivatives perspective, the Society centrally clears all eligible derivative classes through indirect membership with a central counterparty clearing house (CCP) under the terms of a Cleared Derivatives Execution Agreement (CDEA). Derivatives that cannot be cleared via a CCP are managed bilaterally under the terms of industry-standard International Swaps and Derivatives Association (ISDA) Master Agreements and Credit Support Annexes (CSA). Under these arrangements, collateral is exchanged between the counterparties of the transaction to mitigate some of the counterparty credit risk inherent in outstanding derivative positions.

Derivative transactions are usually settled on a gross basis and therefore there is no netting in the financial statements. The credit risk associated with a derivative counterparty is reduced through the Society's legal right to offset, whereby negative valuation positions are offset by positive positions for a given counterparty.

The table below shows the net exposure after reflecting the impact of netting agreements and collateral:

Audited **Group 2022**	**Gross amount[5] £M**	**Master netting agreements £M**	**Cash collateral £M**	**Net amount £M**
Financial assets				
Derivative financial instruments	**679.9**	**(199.8)**	**(493.6)**	**(13.5)**
Financial liabilities				
Derivative financial instruments	**251.9**	**(199.8)**	**(26.9)**	**25.2**

The Society also enters into repurchase agreements (repos) with counterparties with whom the Society has both a Global Master Repurchase Agreement (GMRA) and an active credit line in place. The credit risk that arises from such transactions is managed under the terms of the GMRA, through the monitoring and appropriate transfer of collateral.

Wholesale credit risk outlook
- Due to the current macroeconomic uncertainties and geopolitical risks, the Society will continue to monitor the performance of the wholesale portfolio closely and maintain an appropriate investment strategy and wholesale credit risk profile.

2. Funding and liquidity risk

Definition
The Society defines its funding and liquidity risks as follows:
- Funding risk is the inability to generate sufficient stable funding, or only do so at excessive cost.
- Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due.

Sources of funding and liquidity risk
The Society raises funding through two sources: retail savings deposits from our members and investments from wholesale counterparties. Funding risk primarily arises from a failure to deliver an appropriately diversified funding strategy. This could result in a loss of customer or investor confidence and inhibit the ability of the Society to refinance or raise new funding, or only at an excessive cost.

The Society's main source of liquidity risk relates to the ability of members to withdraw retail deposits at little or no notice. All potential sources of liquidity risk are assessed under severe but plausible stress scenarios as part of the annual ILAAP process, with outputs used to inform our liquidity risk appetite and determine a minimum level of on balance sheet liquidity.

5 As reported in the Statement of Financial Position.

Managing funding and liquidity risk
The key mitigants in relation to funding and liquidity risk are as follows:
- A Board defined appetite, supported by the Funding and Liquidity Policy, including concentration limits.
- The Society's liquidity position is monitored on a daily basis by a dedicated first line team, with oversight provided by the Risk division.
- An ILAAP assessment is conducted at least annually, to determine the level of liquidity resources required under stressed conditions.
- A portfolio of high quality liquid assets is maintained and regularly tested.
- Access to central bank funding, through prepositioned collateral.
- Review of performance versus appetite is conducted at least weekly and more frequently during times of stress.
- Stress testing and sensitivity analysis is conducted frequently to understand the impact of severe, but plausible scenarios and to inform pre-emptive actions.
- Maintenance of a Recovery Plan, including a trigger and alert framework to identify the emergence of a stress and actions to respond accordingly.

Monitoring funding and liquidity risk
The Society's Treasury function is responsible for monitoring potential liquidity or funding risks and performance against appetite and limits on a daily basis. Oversight and assurance of liquidity and funding risks is achieved through the three lines of defence model.

ALCO is the Society's primary committee for overseeing the management of potential liquidity or funding risks. Performance versus appetite is also reported through to BRC.

2022 liquidity position
The Society maintained a strong liquidity position throughout 2022. As at 31 December 2022, the Society's Liquidity Coverage Ratio was 195.4% (2021: 187.2%), which was considerably above minimum regulatory requirements (100%).

Our liquidity strategy and limit structure ensures that the liquidity portfolio remains appropriately diversified across various instruments and durations. At 31 December 2022, the Society's liquidity portfolio mainly consisted of cash held at the Bank of England and other high quality assets. Levels of on-balance sheet liquidity have increased during the year, providing protection and flexibility in light of the uncertain economic environment. The Society also retains access to significant levels of off-balance sheet liquidity.

Audited	**Group 2022 £M**	Group 2021 £M
Cash in hand and balances with the Bank of England	**2,958.1**	2,538.7
UK Government securities	**396.7**	215.1
Other qualifying securities	**712.2**	659.0
High Quality Liquid Assets	**4,067.0**	3,412.8
Other on-balance sheet securities	**513.7**	234.0
Total	**4,580.7**	3,646.8

2022 funding risk position
As a mutual organisation, the Society is predominately funded through retail funding, which comprised 77.1% of the Society's share and deposit liabilities at 31 December 2022 (2021: 74.9%).

The Society also raises wholesale funding via capital markets through a well-established wholesale franchise. Our wholesale funding strategy and limit structure ensures that the wholesale portfolio remains appropriately diversified across various instruments, currencies, duration and investor type.

At 31 December 2022, total wholesale funding was £5.2 billion (2021: £5.1 billion), representing 22.9% of total funding (2021: 25.1%).

Principal Risks continued

During the year the Society issued two £500 million covered bonds to support our overall funding plan. We also conducted a tender of our April 2023 covered bond, which has further reduced our refinancing requirement in 2023.

Audited	Group 2022 £M	Group 2022 %	Group 2021 £M	Group 2021 %
Deposits from banks	**28.4**	**1%**	18.9	–
Amounts drawn under Term Funding Scheme	**2,240.0**	**43%**	2,240.0	44%
Other deposits and amounts owed to other customers	**229.7**	**4%**	297.5	6%
Debt securities in issue:				
Certificates of deposit	**5.0**	**–**	6.0	–
Senior unsecured debt	**299.1**	**6%**	768.8	15%
Covered bonds	**2,296.5**	**44%**	1,627.6	32%
Residential mortgage backed securities	**110.4**	**2%**	152.2	3%
Total	**5,209.1**	**100%**	5,111.0	100%

As at 31 December 2022, 92% (2021: 83%) of the Society's wholesale funding portfolio was denominated in sterling. All euro denominated issuances are converted to sterling using cross currency swaps.

Audited	Group Sterling £M	Group Euro £M	Group Total £M
Deposits from banks	**28.4**	**–**	**28.4**
Amounts drawn under Term Funding Scheme	**2,240.0**	**–**	**2,240.0**
Other deposits and amounts owed to other customers	**229.7**	**–**	**229.7**
Debt securities in issue:			
Certificates of deposit	**5.0**	**–**	**5.0**
Senior unsecured debt	**299.1**	**–**	**299.1**
Covered bonds	**1,872.5**	**424.0**	**2,296.5**
Residential mortgage backed securities	**110.4**	**–**	**110.4**
Total at 31 December 2022	**4,785.1**	**424.0**	**5,209.1**
Total at 31 December 2021	4,258.2	852.8	5,111.0

The expected maturity profile of the Society's wholesale funding portfolio is outlined below, based on the earlier of the first call date or the contractual maturity date. The maturity profile of the portfolio remains concentrated between two and five years.

Audited	Group 2022 £M	Group 2022 %	Group 2021 £M	Group 2021 %
Less than one year	**507.7**	**9.8%**	740.8	14.5%
One to two years	**1,272.4**	**24.4%**	602.8	11.8%
Two to five years	**3,429.0**	**65.8%**	3,268.1	63.9%
More than five years	**–**	**–**	499.3	9.8%
Total	**5,209.1**	**100.0%**	5,111.0	100.0%

On 1 January 2022, the Net Stable Funding Ratio (NSFR), which is measurement of stable funding, was implemented as a binding regulatory requirement in the UK. As at 31 December 2022, the Society's NSFR ratio stood at 139.9% (2021: 150.6%), which is significantly above the regulatory minimum of 100%.

Maturity profile of financial assets and liabilities

The adjacent table analyses financial assets and liabilities based on the remaining period between 2022 year end and the contractual maturity date. In practice, the contractual maturity will differ to actual repayments, whereby customers' behaviours result in liabilities being held for longer than their contractual maturities and assets repaid earlier.

During 2022, near term net liquidity gaps reduced as the Society increased the proportion of its savings balances that are fixed term.

Audited **Group 2022**	Repayable on demand £M	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	More than 5 years £M	Total £M
Financial assets						
Cash in hand and balances with the Bank of England	**2,958.1**	**–**	**–**	**–**	**–**	**2,958.1**
Loans and advances to credit institutions	**235.9**	**–**	**–**	**–**	**–**	**235.9**
Investment securities	**–**	**25.3**	**739.6**	**453.8**	**168.0**	**1,386.7**
Derivative financial instruments	**–**	**6.6**	**44.5**	**592.6**	**36.2**	**679.9**
Loans and advances to customers						
Loans fully secured on residential property	**18.6**	**9.1**	**42.9**	**636.7**	**19,617.0**	**20,324.3**
Other loans	**–**	**–**	**–**	**0.7**	**168.2**	**168.9**
Fair value adjustment for hedged risk on loans and advances to customers	**(0.5)**	**(0.3)**	**(1.2)**	**(18.4)**	**(565.5)**	**(585.9)**
Total financial assets	**3,212.1**	**40.7**	**825.8**	**1,665.4**	**19,423.9**	**25,167.9**
Financial liabilities						
Shares	**5,133.9**	**142.2**	**5,223.8**	**6,970.3**	**50.2**	**17,520.4**
Fair value adjustment for hedged risk on shares	**(29.5)**	**(0.8)**	**(30.0)**	**(40.1)**	**(0.3)**	**(100.7)**
Derivative financial instruments	**–**	**–**	**39.5**	**151.5**	**60.9**	**251.9**
Amounts owed to credit institutions	**–**	**9.1**	**3.5**	**2,255.8**	**–**	**2,268.4**
Amounts owed to other customers	**–**	**140.8**	**87.5**	**1.4**	**–**	**229.7**
Debt securities in issue	**–**	**–**	**266.8**	**2,444.2**	**–**	**2,711.0**
Subordinated liabilities	**–**	**–**	**–**	**–**	**309.1**	**309.1**
Subscribed capital	**–**	**–**	**–**	**–**	**197.6**	**197.6**
Total financial liabilities	**5,104.4**	**291.3**	**5,591.1**	**11,783.1**	**617.5**	**23,387.4**
Net liquidity gap	**(1,892.3)**	**(250.6)**	**(4,765.3)**	**(10,117.7)**	**18,806.4**	**1,780.5**

Audited Group 2021	Repayable on demand £M	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	More than 5 years £M	Total £M
Financial assets						
Cash in hand and balances with the Bank of England	2,538.7	–	–	–	–	2,538.7
Loans and advances to credit institutions	159.0	–	–	–	–	159.0
Investment securities	–	34.8	198.1	591.7	124.5	949.1
Derivative financial instruments	–	–	75.5	125.2	18.6	219.3
Loans and advances to customers						
Loans fully secured on residential property	15.3	9.3	45.8	599.3	17,633.3	18,303.0
Other loans	–	–	0.9	0.1	223.2	224.2
Fair value adjustment for hedged risk on loans and advances to customers	(0.1)	(0.1)	(0.4)	(5.5)	(163.0)	(169.1)
Total financial assets	2,712.9	44.0	319.9	1,310.8	17,836.6	22,224.2
Financial liabilities						
Shares	6,659.4	1,126.6	3,442.4	4,008.6	21.0	15,258.0
Fair value adjustment for hedged risk on shares	(31.8)	(5.5)	(16.4)	(19.1)	(0.1)	(72.9)
Derivative financial instruments	–	0.4	5.1	61.4	99.9	166.8
Amounts owed to credit institutions	–	4.0	14.3	2,240.6	–	2,258.9
Amounts owed to other customers	–	205.1	89.7	2.7	–	297.5
Debt securities in issue	–	–	427.7	1,627.6	499.3	2,554.6
Subordinated liabilities	–	–	–	–	339.4	339.4
Subscribed capital	–	–	–	–	227.3	227.3
Total financial liabilities	6,627.6	1,330.6	3,962.8	7,921.8	1,186.8	21,029.6
Net liquidity gap	(3,914.7)	(1,286.6)	(3,642.9)	(6,611.0)	16,649.8	1,194.6

Principal Risks continued

The following tables detail the Society's remaining undiscounted contractual cash flows for its non derivative financial liabilities including interest, which will be accrued to those instruments, except where the Society is entitled and intends to repay the liabilities before their maturity.

Audited **Group 2022**	**Repayable on demand £M**	**Less than 3 months £M**	**3 to 12 months £M**	**1 to 5 years £M**	**More than 5 years £M**	**Total £M**
Shares	**5,133.9**	**142.9**	**5,300.0**	**7,163.1**	**56.4**	**17,796.3**
Amounts owed to credit institutions	**–**	**9.1**	**3.6**	**2,431.3**	**–**	**2,444.0**
Amounts owed to other customers	**–**	**141.3**	**88.6**	**1.4**	**–**	**231.3**
Debt securities in issue	**–**	**–**	**271.2**	**2,630.4**	**–**	**2,901.6**
Subordinated liabilities	**–**	**2.6**	**2.6**	**15.8**	**352.6**	**373.6**
Subscribed capital	**–**	**5.4**	**5.4**	**43.4**	**309.0**	**363.2**
Total financial liabilities	**5,133.9**	**301.3**	**5,671.4**	**12,285.4**	**718.0**	**24,110.0**

Audited Group 2021	Repayable on demand £M	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	More than 5 years £M	Total £M
Shares	6,671.7	1,105.6	3,492.6	4,087.8	20.3	15,378.0
Amounts owed to credit institutions	–	172.5	11.3	2,147.6	–	2,331.4
Amounts owed to other customers	–	217.7	79.2	3.1	–	300.0
Debt securities in issue	–	5.0	428.5	1,641.2	501.3	2,576.0
Subordinated liabilities	–	2.6	2.6	21.0	352.6	378.8
Subscribed capital	–	1.7	5.0	13.4	354.0	374.1
Total financial liabilities	6,671.7	1,505.1	4,019.2	7,914.1	1,228.2	21,338.3

The following table details the Society's contractual maturity for its derivative financial instruments. The table is based on the undiscounted gross inflows and outflows. 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.

Audited **Group 2022**	**Less than 3 months £M**	**3 to 12 months £M**	**1 to 5 years £M**	**More than 5 years £M**	**Total £M**
Swap contracts	**21.4**	**89.1**	**63.1**	**(71.2)**	**102.4**

Audited Group 2021	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	More than 5 years £M	Total £M
Swap contracts	4.9	9.6	(34.5)	103.3	83.3

Encumbrance

Asset encumbrance occurs where some of the Society's mortgages or treasury assets are used as collateral to support secured funding or central bank operations. The main sources of the Society's encumbered assets relate to mortgages used to collateralise our covered bond and securitisation programmes and participation in the Bank of England's Term Funding Scheme, with additional incentives for SMEs (TFSME). The Society has established an appropriate limit to ensure that collateral is available to support current and future funding requirements under normal and stressed conditions.

Asset encumbrance at 31 December 2022 is set out in the table below.

Audited	**Encumbered £M**	**Unencumbered £M**	**Total £M**
Cash in hand and balances with the Bank of England	**–**	**2,958.1**	**2,958.1**
Loans and advances to credit institutions	**70.7**	**165.2**	**235.9**
Investment securities	**75.3**	**1,311.4**	**1,386.7**
Derivative financial instruments	**–**	**679.9**	**679.9**
Loans and advances to customers	**6,917.3**	**13,575.9**	**20,493.2**
Other assets	**389.7**	**(629.6)**	**(239.9)**
Total at 31 December 2022	**7,453.0**	**18,060.9**	**25,513.9**
Total at 31 December 2021	6,684.0	15,829.7	22,513.7

External credit ratings

During 2022, both Fitch and Moody's affirmed the Society's long and short term credit ratings as well as the outlook. The Society's credit ratings are as follows:

	Long term	**Short term**	**Outlook**	**Date of last credit opinion**
Moody's	A3	P-2	Stable	March 2022
Fitch	A-	F1	Stable	November 2022

Outlook

- Funding markets in 2023 present a heightened level of uncertainty due to the expected economic downturn and increased competition for retail savings as firms start to refinance TFSME drawings.
- The Society carries strong levels of on balance sheet liquidity into 2023 and remains well positioned to address any liquidity or funding uncertainty that may arise through a combination of its retail and wholesale franchises.

3. Market risk

Definition

The risk that movements in interest rates and foreign currency adversely impact our capital and earnings.

Sources of market risk

The primary market risk faced by the Society is interest rate risk, whereby our net interest income and value of assets and liabilities are exposed to movements in interest rates. The main sources of our interest rate exposures relate to the duration repricing mismatch between assets and liabilities, basis risk from linkage of assets and liabilities to different reference rates and product optionality. The Society's interest exposures all arise from the banking book, as we do not operate a trading book.

The Society also has foreign currency risk exposures as a result of raising funds, purchasing investment securities in foreign currencies, as well as a legacy residential mortgage portfolio in Spain. The Society's policy is not to run any speculative foreign exchange positions.

Managing market risk

The key mitigants in relation to market risk are as follows:

- A Board defined appetite, supported by the Market Risk Policy, including concentration limits.
- The Society's market risk exposures are monitored frequently by a dedicated first line team, with oversight provided by the Risk division.
- Market risk positions are managed by the offsetting of assets and liabilities and use of derivatives. Derivatives are used to hedge market risk exposures, where a natural hedge is not feasible.
- Stress testing and sensitivity analysis are conducted frequently to understand the impacts of movements in interest and foreign exchange rates on value and income.
- Monthly review of performance against appetite.

Monitoring market risk

The Society's Treasury function is responsible for monitoring market risk and performance against appetite and limits on a frequent basis. Oversight and assurance of market risk is achieved through the three lines of defence model.

ALCO is the Society's primary committee for overseeing the management of market risks. Performance against risk appetite is also reported through to BRC.

2022 market risk position

Key developments in relation to market risk during 2022 were as follows:

- Throughout 2022, the Society continued to manage market risk in a structured and disciplined manner, to ensure exposures were identified, measured and managed within the boundaries of risk appetite set by the Board.
- Following a material rise in inflation, the Bank of England raised base rate several times during the year and there was a significant period of volatility in market rates following the Government's autumn mini budget.
- In light of market conditions, the Society has retained close oversight of its market risk exposures and product offerings, making tactical adjustments to the balance sheet structure in response to the evolving external environment. This has also been complemented by stress testing and sensitivity analysis to understand the impacts under various interest rate paths.

Interest rate exposures

The following table provides a summary of the interest rate repricing profile of the Society's assets and liabilities as at 31 December 2022. 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 Society assets and liabilities. The non interest bearing balances have been included in a separate column.

Audited **Group 2022**	**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	**4,088.5**	**225.0**	**211.8**	**60.1**	**–**	**–**	**(4.7)**	**4,580.7**
Loans and advances to customers	**3,813.6**	**1,224.2**	**3,260.5**	**12,213.1**	**(5.8)**	**–**	**(12.4)**	**20,493.2**
Total interest bearing assets	**7,902.1**	**1,449.2**	**3,472.3**	**12,273.2**	**(5.8)**	**–**	**(17.1)**	**25,073.9**
Total non interest bearing assets	**–**	**–**	**–**	**–**	**–**	**–**	**440.0**	**440.0**
Total financial assets	**7,902.1**	**1,449.2**	**3,472.3**	**12,273.2**	**(5.8)**	**–**	**422.9**	**25,513.9**
Liabilities								
Shares	**5,276.1**	**1,241.3**	**3,982.4**	**6,970.4**	**50.2**	**–**	**–**	**17,520.4**
Wholesale funding	**4,020.7**	**45.3**	**44.5**	**1,143.7**	**–**	**–**	**(45.1)**	**5,209.1**
Subordinated liabilities	**–**	**–**	**–**	**–**	**349.4**	**–**	**(40.3)**	**309.1**
Subscribed capital	**–**	**–**	**–**	**–**	**200.0**	**25.0**	**(27.4)**	**197.6**
Total interest bearing liabilities	**9,296.8**	**1,286.6**	**4,026.9**	**8,114.1**	**599.6**	**25.0**	**(112.8)**	**23,236.2**
Total non interest bearing liabilities and equity	**–**	**–**	**–**	**–**	**–**	**–**	**2,277.7**	**2,277.7**
Total liabilities and equity	**9,296.8**	**1,286.6**	**4,026.9**	**8,114.1**	**599.6**	**25.0**	**2,164.9**	**25,513.9**
Effect of derivatives	**2,717.9**	**453.6**	**469.4**	**(3,318.9)**	**(322.0)**	**–**	**–**	**–**
Interest rate sensitivity gap	**1,323.2**	**616.2**	**(85.2)**	**840.2**	**(927.4)**	**(25.0)**	**(1,742.0)**	**–**

Audited Group 2021	Less than 3 months £M	3 to 6 months £M	3 to 6 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	3,193.9	8.7	144.2	291.9	–	–	8.1	3,646.8
Loans and advances to customers	3,182.8	1,249.5	2,758.2	11,062.2	231.7	–	42.8	18,527.2
Total interest bearing assets	6,376.7	1,258.2	2,902.4	11,354.1	231.7	–	50.9	22,174.0
Total non interest bearing assets	–	–	–	–	–	–	339.7	339.7
Total financial assets	6,376.7	1,258.2	2,902.4	11,354.1	231.7	–	390.6	22,513.7
Liabilities								
Shares	7,785.9	1,175.6	2,266.9	4,008.6	21.0	–	–	15,258.0
Wholesale funding	3,825.9	454.6	50.0	773.0	–	–	7.5	5,111.0
Subordinated liabilities	–	–	–	–	348.9	–	(9.5)	339.4
Subscribed capital	–	–	–	–	200.0	27.3	–	227.3
Total interest bearing liabilities	11,611.8	1,630.2	2,316.9	4,781.6	569.9	27.3	(2.0)	20,935.7
Total non interest bearing liabilities and equity	–	–	–	–	–	–	1,578.0	1,578.0
Total liabilities and equity	11,611.8	1,630.2	2,316.9	4,781.6	569.9	27.3	1,576.0	22,513.7
Effect of derivatives	6,314.4	501.7	(676.4)	(5,979.0)	(160.7)	–	–	–
Interest rate sensitivity gap	1,079.3	129.7	(90.9)	593.5	(498.9)	(27.3)	(1,185.4)	–

The Society assesses potential interest rate impacts on its earnings and the value of its assets and liabilities through stress testing and sensitivity analysis.

From an earnings perspective, the Society measures the potential impact on its net interest income under interest rate paths. The key assumptions used in this modelling are as follows:

- A constant balance sheet is assumed with all assets and liabilities maturing during the year being reinvested in like for like products and a constant average spread.
- Managed rate products receive full pass through of changes in market interest rates.
- Scenarios are applied to the prevailing interest rates at the reporting date.
- There are no floors applied to interest rates or to customer rates in any scenario.
- The sensitivities do not take account of any management actions.

In addition, the Society monitors the impact of various parallel and non parallel rate shocks to the value of its assets and liabilities. The key assumptions used in this modelling are as follows:

- The balance sheet at the report date is run off over its remaining expected duration.
- Downward shocks allow the yield curve to go negative subject to a floor.
- The effect of external hedging is included.
- The Society's reserves and core stable savings balances are allocated in line with Board approved limits.

The following table outlines the impacts against a range of value and earnings-based assessments[6]. At the year end the Society's balance sheet remained positioned so that net interest income would benefit from rising interest rates.

6 Reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, product pricing, market conditions and strategic changes to the balance sheet mix, and should not therefore be considered a guide to future performance.

Principal Risks continued

Audited **Group**	**+200bps 2022 £M**	+200bps 2021 £M	**-200bps 2022 £M**	-200bps 2021 £M
Annual earnings impact	**21.3**	48.8	**(20.8)**	(101.6)
Market value sensitivity	**(27.7)**	(18.9)	**26.7**	(4.1)

Foreign exchange exposures

The carrying amount of the Society's foreign currency denominated monetary assets and monetary liabilities at the reporting date is outlined in the table below:

Audited **Group**	**Assets 2022 £M**	Assets 2021 £M	**Liabilities 2022 £M**	Liabilities 2021 £M
Euro	**431.8**	824.0	**430.4**	821.9

At the year end, the Society had 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 is minimised. At 31 December 2022, a 10% movement in the sterling: euro exchange rate would result in a movement of £1.3m (2021: £0.2m) in profit or loss or other equity.

Outlook

- Financial markets are expected to remain volatile in 2023 as central banks tighten monetary policy further to address elevated levels of inflation.
- Management will continue to monitor financial markets and changes in customer behaviours under a volatile interest rate environment and proactively manage the Society's balance sheet to ensure that future earnings and value are protected.

4. Capital risk

Definition

The risk that the Society has insufficient quality or quantity of capital resources to meet current or future business requirements.

Sources of capital risk

Capital risk arises where the Society has insufficient capital resources to support strategic objectives and plans or regulatory requirements. This could arise due to a depletion of the Society's capital resources as a result of risk crystallisation, through a significant increase in risk-weighted assets as a result of regulatory changes or economic deterioration or increases in minimum capital requirements, such as the countercyclical capital buffer.

Managing capital risk

The key mitigants in relation to capital risk are as follows:

- A Board defined appetite, supported by the Capital Management Policy and capital strategy.
- Monthly review of performance against appetite.
- An Internal Capital Adequacy Assessment Process (ICAAP) is conducted at least annually, to assess the level of capital required to support current and future business activities.
- The Society's capital position is monitored by a dedicated first line team, with oversight provided by the Risk division.
- Stress testing and sensitivity analysis is conducted to understand the impact on the Society's capital position, under a range of severe scenarios.
- Maintenance of a Recovery Plan, including actions to generate and/or preserve capital in response to a severe stress.

Monitoring capital risk

The Society has a dedicated first line team responsible for managing and monitoring the Society's capital position. Oversight and assurance of capital risk is achieved through the three lines of defence model.

Capital planning is integrated into the Society's wider strategic and financial planning processes to assess the Society's capital position on a forward-looking basis. Capital performance versus appetite is reviewed by ALCO at each meeting and is also reported through to BRC.

Key developments in 2022

Key developments in relation to capital risk during 2022 were as follows:

- Changes to prudential regulation in the UK, taking effect from January 2022, have necessitated redevelopment of Internal Rating Based (IRB) model suites across the industry. In common with all UK IRB firms, the Society is redeveloping its mortgage model suite and is expected to implement a revised set of models during 2023. Under these revised requirements, the Society's risk weighted asset percentage is expected to increase and result in a reduction of the Society's total capital ratio. Since 1 January 2022 the Society has applied a post model adjustment to its current IRB rating system as an estimation of the potential impact of transitioning the new model suite. For further details, refer to the Society's 2022 Pillar 3 disclosure, located on our website. Notwithstanding this change, the Society expects to retain significant capital headroom versus risk appetite and minimum regulatory requirements.
- During the fourth quarter of 2022 the PRA published CP16/22 – Implementation of Basel 3.1 Standards. The consultation paper outlines the residual reforms in relation to Basel 3 not yet implemented, including revision to the standardised and IRB approaches for residential mortgages, the introduction of an aggregate output floor and revisions to market risk and operational risk capital requirements. Whilst the detailed impacts of the consultation paper will be assessed during 2023 ahead of the expected implementation in 2025, initial assessments suggest that the Society will retain significant headroom over minimum capital requirements.
- During the year the Financial Policy Committee announced an increase in the UK's countercyclical buffer to 2%. This buffer requires firms to hold additional capital to prevent a build-up of systemic risk in times of heightened lending, provide loss absorbing capacity and act as an incentive to reduce lending. The increased buffer requirement applies from 5 July 2023.

Capital position

The following table shows the Society's capital position as at 31 December 2022. More detailed disclosures can be found in the Pillar 3 Disclosures available on our website.

Unaudited	**Group 2022 £M**	Group 2021 £M
Capital resources		
Common Equity Tier 1 (CET1) capital	**1,388.3**	1,228.7
Additional Tier 1 capital	**–**	2.5
Total Tier 1 capital	**1,388.3**	1,231.2
Tier 2 capital	**234.6**	227.5
Total regulatory capital resources	**1,622.9**	1,458.7
Senior non preferred notes	**350.0**	350.0
Total MREL eligible resources	**1,972.9**	1,458.7
Risk-weighted assets (RWAs)	**4,163.9**	3,231.2
CRD V capital ratios (note 1)	**%**	%
CET1 ratio	**33.3**	38.0
Total capital ratio	**39.0**	45.1
Total MREL ratio	**47.4**	56.0
UK leverage ratio (note 2)	**6.2**	6.1

Note 1. 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).

Note 2. The UK leverage ratio represents the UK regulatory regime which excludes deposits with central banks from the leverage exposure measure. The UK regime does not apply to the Society as the applicable threshold set by the regulator (more than £50 billion of retail deposits) is considerably in excess of the Society's balance. Despite not being captured by this regime, the Society continues to exceed the minimum 3.25% regulatory expectation.

During 2022, the Society maintained significant headroom above minimum regulatory requirements under the various requirements of the UK's capital regime. Movements in the Society's key capital ratios during the year are as follows:

- The Society's total capital ratio has reduced to 39.0% from 45.1% due to the application of the post model adjustment to risk-weighted assets due to the changes in regulation noted on the previous page, which has been partially offset by strong profitability.
- The leverage ratio has increased to 6.2% from 6.1% as the level of profitability during the year outpaced balance sheet growth.
- Similar to the total capital ratio, the Society's Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio has decreased during the year due to the impact of the post model adjustment to risk-weighted assets (2022: 47.4%, 2021: 56.0%).

Outlook

- The Society plans to submit a final IRB model suite for regulatory approval during 2023, in line with the regulatory IRB roadmap. Overall, we currently expect the capital impact of the revised IRB model suite to be broadly in line with the temporary post model adjustment applied to the current IRB rating system. For further information please refer to our 2022 Pillar 3 disclosure on our website.
- Management will assess the potential future capital impacts of the Basel 3.1 Consultation Paper released by the PRA.
- The Society's end-state Minimum Requirements for Own Funds and Eligible Liabilities (MREL) requirement (two times our minimum regulatory requirements) will become binding from July 2023. The Society expects to continue to maintain a significant excess over the end state MREL requirement.

5. Model risk

Definition

The risk of incorrect decision making, based upon the inputs or outputs of models, due to errors in the development, implementation or use of such models, leading to financial loss, a deterioration in the Society's capital or liquidity position, non compliance with relevant regulations and reputational damage.

Sources of model risk

Models are inherently uncertain as they are imperfect representations of the real world, based upon a set of assumptions and theoretical methodologies, which may not translate into an accurate future outcome.

The Society uses models across a broad range of business activities, including informing business decisions and strategies, determining capital adequacy, provisioning, retail and wholesale credit decisioning, risk measurement and stress testing.

The level of risk relating to an individual model is assessed through a materiality rating. The Society has developed a quantitative approach to determine the materiality rating of each model, reflective of the model's complexity, use and potential impact assessment. The outputs of the materiality assessment determine the approval path through governance and the degree, frequency and depth of review and validation requirements. The materiality ratings for each model are reviewed on a semi-annual basis to ensure they remain representative of the risks associated with each model.

Managing model risk

The key mitigants in relation to model risk are as follows:

- A Model Risk Management Framework consisting of the Model Risk Policy and Standards, which set the Society's minimum standards in relation to model documentation, development, implementation, validation and change.
- Board defined appetite, which establishes the Society's tolerance for model risk.
- A model inventory is maintained, acting as a Society-wide repository of key model artefacts.
- A materiality assessment is conducted semi-annually on all models within the inventory. This defines the appropriate level of governance, dependent on model materiality rating.
- Model owner reviews are submitted through governance on a cyclical basis, in line with model materiality ratings.
- Models are validated independently from model owners prior to use and on a cyclical basis, in line with model validation standards and materiality ratings.
- Controls around post model adjustments are defined under the Model Risk Management Framework to ensure they are appropriately governed and transparent.
- Annual attestations are completed by model owners to confirm that they have complied with the requirements of the Model Risk Policy.

Monitoring model risk

Model owners represent a first line of defence for monitoring model risk, with oversight provided through independent model validation and second and third line assurance activity.

The Models and Rating System Committee (MRSC) is the Society's primary body for overseeing model risk. This forum assesses whether models are fit for purpose through periodic model reviews and monitors model risk exposure on a Society-wide aggregated basis. Material model issues are reported to BRC.

Key developments in 2022

Key developments in relation to model risk during 2022 were as follows:

- During 2022, the PRA published a consultation paper (CP06/22 – Model Risk Management Principles for Banks) and a draft supervisory statement, which aims to support firms in strengthening their policies, procedures and practices to identify, manage and control the risks associated with the use of models. Based upon an initial self-assessment, the Society believes it is well placed against the new requirements, but recognises that further work will be necessary to continue to enhance its risk maturity in line with evolving regulatory expectations. A finalised policy statement is expected to be published in early 2023 with a twelve month implementation period.
- The Society has continued with the development and validation of its IRB rating system during the year. As part of this process the Society has held regular engagement with the regulatory authorities to ensure its revised model suite is aligned with expectations. The Society plans to submit a final IRB model suite for regulatory approval during the first half of 2023, in line with its regulatory IRB roadmap.
- The changes experienced in the UK economic environment during 2022, such as heightened levels of inflation, the speed of interest rate rises and market volatility have impacted the performance of some of the Society's models. This has meant that the historical data upon which some models were built have become less representative under current conditions. This is being closely monitored through established governance, and where appropriate, affected models have been updated or a model adjustment applied in order to reflect the prevailing climate.

Outlook

- The Society plans to further enhance its model risk management framework during 2023, reflective of market risks and to comply with the finalised regulatory rules following CP06/22.
- We will continue to maintain close oversight of model inputs and outputs under the prevailing external environment to ensure they remain appropriate or adjusted based on quantitative and qualitative considerations.

6. Operational risk

Definition

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

Sources of operational risk

The main drivers of operational risk are classified as follows:

- People risk
- Information security (including cyber) risk
- IT risk
- Operational resilience risk
- Third party management risk
- Financial crime risk
- Data risk
- Legal and regulatory risk
- Financial reporting risk

Principal Risks continued

Managing operational risk
A summary of the key mitigants for operational risk is as follows:
- A Board defined appetite, supported by an appropriate suite of operational risk related policies.
- Monthly review of performance against 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 across the Society.
- Incident management processes are overseen by the second line Operational Risk and Incident Management team to ensure timely reporting, response and recovery.
- The control environment is validated by the first line through Risk and Control Self-Assessments (RCSA), control testing and oversight procedures.
- Oversight of operational risk and controls is provided by the Risk division.
- Maintenance of an operational resilience framework and associated testing programme, incorporating business continuity, information technology risk, information security and third party management, to ensure the provision of resilient services to members.
- Maintenance of a financial crime strategy and policy which is overseen by a dedicated Financial Crime Prevention team. The financial crime risk and control environment is formally assessed through the annual Money Laundering Reporting Officer report to BRC.
- Stress testing is used as part of the ICAAP to ensure the Society retains sufficient capital for extreme, but plausible, operational risk events.

Monitoring operational risk
Day to day operational risk is monitored by first line business functions, including regular critical control testing and quarterly reviews of key divisional risks with senior management and direct reports. Oversight of first line activity is provided by both the second and third lines of defence through monitoring and assurance activity.

The Conduct and Operational Risk Committee (CORC) and the Operational Resilience Committee (ORC) provide oversight as to how operational risks are being managed across the organisation. Performance against appetite is reviewed through these committees and is also reported through to BRC.

2022 operational risk performance
Operational resilience risk
Throughout 2022, the focus has been on the resilience of the Society in light of the extraordinary external conditions, to ensure continuity of service to members, including additional scenario testing over contingency plans for disruption to the UK power supply and oversight over third party supplier resilience.

During 2022, the Society's response to the regulatory requirements for both operational resilience and outsourcing and third party management was implemented and we continued to build our operational resilience capabilities, including continuing scenario testing and impact tolerances for important business services.

IT risk
Under the Society's IT roadmap, we finalised the transfer of our in-house production systems to new and more resilient data centres during 2022, with minimal impact on live services. Investment has also continued into enhancing the resilience of internal platforms to provide the foundations of sustainable and responsive digital experiences. Development of agile methodologies continues to progress to allow the Society to deliver better outcomes at a faster pace.

Information security risk
In response to the increased threats related to the Ukraine conflict in the first half of the year, the Society re-prioritised security-focused development activity. Ransomware remains a key threat to all companies. In response, the Society's cyber strategy has evolved to consider the next level of mitigations needed over the longer term and increased scenario testing to ensure appropriate response activity are effective.

Data risk
Throughout 2022, the Society has invested in the development of capabilities for understanding and managing data through an ongoing initiative, including enhanced governance arrangements and trials of new solutions for both storing and analysing data, which will continue into 2023.

People risk
The challenging recruitment market remains a key area of focus and is being tracked by the appropriate teams and committees. Oversight of key person risk continues to mature and focuses on four key lenses: operational resilience, resolution, strategic importance and key individual knowledge and expertise. Mitigation plans have been agreed, where required.

The Society has also revised its people strategy to support the delivery of its purpose. As part of this strategy, we have refreshed our approach to inclusion and diversity to ensure that creating an inclusive culture is a core focus.

Change risk
The Society continues to progress an ambitious change agenda for the benefit of its members. Management retains close oversight of our change portfolio through an Executive Transformation Committee and supporting governance and delivery structures, which ensure that change capacity and resources are appropriately utilised and prioritised against strategic goals, that risks to the Society from change activity are understood and managed appropriately, and that the Society is able to flex the portfolio appropriately in response to external events. During 2022, priorities have flexed in response to the external environment, ensuring that activity is appropriately focused on key areas of demand.

Financial crime
The financial crime landscape remains challenging, with sophisticated malicious actors continuously testing firms' controls and adapting their strategies to identify and exploit vulnerabilities. Authorised push payment fraud remains a key threat to members, with increasingly complex and sophisticated social engineering techniques being employed. Keeping pace with changes to sanctions related to the war in Ukraine is also a priority. In response, the Society's financial crime strategy continues to focus on enhancing analytic and control capabilities, to enable a more responsive model to mitigate against evolving threat methodologies.

Third party risk
The Society increasingly relies on key third parties to deliver certain aspects of our services to members. The Society has continued to evolve its third party management processes to ensure material suppliers are identified and are capable of maintaining their services to us even in a stressed environment.

Legal and regulatory risk
The Society has a robust process in place for ensuring new regulation is identified and implemented effectively. During 2022, the Society enhanced its processes in response to changes in regulations, including the management of continuity in resolution and management of material outsourcing.

Outlook
The uncertainty in the external political and economic environment experienced during 2022 is expected to continue in 2023.

The Society will monitor developments to identify and respond to issues as they emerge and adopt resilience frameworks to ensure that we can maintain our services to members. The Society is well placed to manage these changes effectively.

In addition, we will also look to further develop our people strategy and continue to progress our technology roadmap which includes a review of potential future banking platform options.

7. Conduct risk

Definition
The risk that actual or potential customer detriment arises, or may arise, from the way the Society conducts its business.

Sources of conduct risk
Conduct risk can arise from how we behave and how we carry out our business. We assess drivers of conduct risk against the following categories:

- Product design and development.
- Right products, right people, right way.
- Post sales and servicing.
- Governance, risk and culture.
- Business model and strategy.

Conduct risks can arise at any stage of the customer journey and risk assessments are carried out as part of our normal business processes so we can understand, mitigate and monitor them. Where we recognise something has gone wrong, we carry out root cause analysis to reduce the chance of it happening again and ensure any customer detriment is appropriately redressed in a fair and transparent way.

Monitoring conduct risk
- First line colleagues are responsible for managing potential conduct risks through their day to day activities. Oversight of first line activity is provided by both the second and third lines of defence through monitoring and assurance.
- CORC and BRC monitor the delivery of good customer outcomes through management information, oversight updates and outputs from the product governance framework.

Managing conduct risk
The following controls and procedures help to mitigate conduct risk:

- A Board defined appetite, underpinned by the Conduct Risk Policy and Standards.
- The product governance framework ensures products are developed to meet customer needs and their ongoing suitability for the target market is frequently assessed.
- Customer facing colleagues are suitably trained, with competency regularly assessed. Ongoing coaching and development are in place for all customer facing colleagues.
- Processes and controls are in place to ensure product literature is clear and transparent and all Society processes are written in accordance with regulatory expectations.
- The Society's Complaints Handling Policy and supporting processes ensure that complaints are addressed with empathy and sensitivity through a fair and transparent process.
- The Society operates appropriate post sales handling to facilitate good customer outcomes, ensuring customers do not face unreasonable barriers to product changes, to switching providers, or making a complaint.

2022 performance
In 2022 we continued to respond to changing market and customer dynamics, particularly in consideration of rising interest rates and the cost of living crisis:

- The Society continued its investment in people and systems in the Mortgage Support department, which deals with customers in financial difficulties. Particular focus was given to the ongoing coaching and development of colleagues, to support them in dealing with customers likely to exhibit some form of vulnerability or those impacted by the cost of living crisis. Quality assurance testing continued throughout the year, with corrective actions being taken where appropriate. The Society continued to not charge arrears fees in 2022.
- Mortgage lending criteria were reviewed to ensure the Society continued to lend responsibly and underwriting resource was increased to deal with higher than expected volumes. Stress rates and affordability assessments were tightened to respond to rising interest rates and the cost of living crisis.
- Despite market turmoil in the final quarter of the year, the Society was able to maintain a range of mortgage products on sale. Additionally, a range of mortgage products was maintained throughout the year for customers wanting to switch their mortgage at the end of their deal.
- Complaints were handled in line with policy and standards. Complaints data published by the Financial Conduct Authority (FCA) during 2022 ranked the Society fourth best in banking (retail savings products) and tenth for home finance. Similarly, the Financial Ombudsman Service (FOS) ranked the Society third best, with 95% of our complaints being closed within 15 days. Root cause analysis was completed routinely, with corrective action being taken to prevent recurrence. Complaint results and root causes are reported to CORC, with an annual summary report to the Board.
- In 2022 work commenced to prepare for Consumer Duty, in readiness for July 2023 implementation. The FCA published the final policy statement and associated guidance in July 2022 and the Society completed a gap analysis against the requirements. An implementation plan was approved by the Board in October and a project has been mobilised to deliver the required actions.

Outlook
- We will continue to monitor and respond to any further customer impacts from the cost of living crisis, paying particular attention to the impact on customers in financial difficulty.
- A Consumer Duty project has key milestones to deliver in the first half of 2023 and these will be closely tracked through the steering committee, with updates to the Board or non executive director Consumer Duty Champion, as appropriate.
- The Society will continue to deliver its Mortgage Support transformation roadmap, with close oversight from BRC.
- System based changes will continue for savings and mortgages to improve customer outcomes and experience, including those with vulnerabilities and additional needs.

8. Strategic/business risk

Definition
The risk that the Society fails to formulate or execute an appropriate strategy and business model in response to the external environment, threatening our longer term viability or inhibiting delivery of our purpose.

Sources of strategic/business risk
The main sources of strategic/business risk arise from the following:

- Over or under diversification in our business model (geography, products, funding or exposures) inhibiting delivery of strategic objectives.
- Failure to develop and execute an appropriate strategic plan and objectives.
- Failure to adapt to changes in the external environment e.g. macroeconomic, political, technological advances, competition, and changes in consumer preferences.

Monitoring strategic/business risk
Strategic/business risks are monitored through the Society's horizon scanning processes, with appropriate escalation channels in place. These risks are also considered as part of the Society's strategic and financial planning processes.

The Executive Committee (ExCo) and Management Committee (ManCo) provide oversight as to how strategic risks are being managed. Performance against appetite is reviewed through these committees and at relevant BRC and Board meetings.

Managing strategic/business risk
The following controls and procedures help to mitigate strategic/business risk:

- The direction of business and investment activity are set by an annual strategic planning process in the context of the changing regulatory, technological, and competitive landscape.
- A Board defined appetite, supported by a suite of appropriate policies.
- The corporate planning process assesses the business environment on a regular basis, and the plan is approved by the Board.
- Competitor and market performance is assessed by regular thematic reviews.
- Maintenance of a responsible business strategy and targets, which ensures that the Society's purpose and strategy remain aligned with our stakeholder expectations.
- Stress testing is used to understand performance under a variety of severe, but plausible, scenarios.
- Independent risk reporting, including horizon scanning, assesses the operating environment of the Society and performance against strategic plans and objectives.

2022 performance

In 2022 we continued to respond to the changing market and customer dynamics, particularly in consideration of rising interest rates and the cost of living crisis:

- Conditions within the Society's operating environment deteriorated during the second half of 2022, as the cost of living crisis and higher interest rates started to take effect. This has reduced customer affordability and has also started to reduce activity within the UK housing market.
- Following the mini budget in September, there was a period of heightened volatility within the financial markets, which resulted in many lenders withdrawing all of their mortgage products from the market. During this time, the Society was able to retain a presence within its key markets.
- Since the reopening of the mortgage market in October, competition has remained strong. From a savings perspective, price competition has also started to increase as lenders look to refinance the Bank of England's Term Funding Scheme (TFSME). We have continued to carefully monitor the market positioning of our products and responded accordingly.
- Our cost to income ratio decreased during the year to 37.4% versus 43.9% in 2021, supported by higher income. The Society maintains an efficient business model relative to peers, which supports further investment in operations. In this regard we have continued to progress an ambitious change agenda, to support member experience and further strengthen our resilience.

Outlook

- We expect more challenging conditions within our operating environment during 2023 against the backdrop of heightened macroeconomic uncertainty and strong competition within both mortgage and savings markets.
- We will continue to closely monitor external developments and assess potential impacts under both central and stressed conditions.
- Progress with our strategic change portfolio will also be closely monitored, to ensure that transformation projects are appropriately prioritised and effectively delivered to support delivery of our strategic objectives.

Governance

The Board of Directors

Year ended 31 December 2022

The biographies of each member of the Board demonstrate the reasons why the strengths and experience of each director contribute to our long term and sustainable success.

Iain Cornish

Chair and Independent Non Executive Director

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

Board committees: Chair of Nominations Committee

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 trustee and treasurer of Macmillan Cancer Support.

"As Chair, my role is to lead the Board and oversee the development and delivery of the Society's strategy. Over the last year, the Board's focus has been on testing and supporting management to make judgements about how best to balance the interests of savers and borrowers in an environment of rising living costs and increasing interest rates, whilst also continuing to deliver on our purpose and on supporting colleagues. Over the next year I anticipate a similar set of priorities in what is forecast to be a period of declining economic activity with continued cost of living pressures, however, the Board will also make sure that the Society remains focused on the successful delivery of essential long term investments."

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 ten 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 CEO, Richard is responsible for developing and proposing the Society's strategy, objectives and plans, and maintaining our business model and culture.

Other roles: Richard is Chair of the UK Finance Mortgages Product and Service Board.

"One of my priorities as CEO is ensuring our members are at the heart of every decision we make. Our purpose has supported us in navigating the disruption caused in the current economic climate and we continue to effectively serve members and uphold 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."

Annette Barnes

Independent Non Executive Director

Appointed: February 2019

Board committees: Member of Board Risk and Remuneration committees

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.

Annette is the Society's Consumer Duty Champion.

Other roles: Annette is a non executive director of GlobalData plc, Quilter Life & Pensions Limited and Quilter Investment Platform Limited.

"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's for me to challenge and support management, so that collectively we can continue to meet the changing needs of members, colleagues and other stakeholders. The Board really focuses on the needs of all of its stakeholders, and for me, that's a huge part of the role."

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

Other roles: Andrew is a trustee for Saltmine Trust.

"The global economy has been significantly impacted as a result of the Covid-19 pandemic and more recently by market volatility, and this, as you would expect, has impacted many firms in the financial services sector, as well as many of our members.

My focus is to ensure we support our members and colleagues by safeguarding the Society's financial position. This continues to be my priority, as I lead our Finance division into 2023."

David Fisher

Independent Non Executive Director

Appointed: March 2012

Board committees: Member of Audit, Board Risk and Remuneration committees

Strengths and experience: With more than 30 years' experience in financial services, David's career began at Halifax Building Society. Since then, he's 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. David was Chair of Board Risk Committee until December 2021.

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 a member of the Board Risk Committee and Audit Committee is to ensure we are financially resilient and have robust systems in place to manage risks throughout the business, which include our risk management framework and internal controls. I'm extremely impressed with how the management team has responded 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."

Neil Fuller

Independent Non Executive Director

Appointed: December 2020

Board committees: Chair of Board Risk Committee and member of Audit Committee

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 bring value and further strengthen the Board. Neil was appointed as Chair of Board Risk Committee from January 2022.

"I believe the experience I've gained as Chief Risk Officer at different organisations and my understanding of risk management and the principal risks facing the financial services sector bring value to the Board. The ethics of a mutual resonate strongly with me and I very much enjoy working with the Society."

Andrew Greenwood

Deputy Chief Executive Officer

Appointed: Deputy Chief Executive Officer in May 2021 and Executive Director in 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 roles. Having developed extensive experience of working in a highly regulated environment, Andrew was the Society's Chief Risk Officer from 2011 to 2022 and, during this period, was responsible for developing and leading the Risk division, which comprises a number of specialist teams.

Andrew's current line management responsibilities comprise the Risk, Human Resources, Learning and Development and Property and Business Services functions and, in the latter part of 2022, he took on responsibility for the Mortgage Services function.

Andrew currently chairs the Models and Rating System Committee and is a member of a number of risk focused committees. He also regularly attends the Board Risk Committee and the Audit Committee.

"Having worked for the Society for more than 20 years, I have extensive experience of risk management and a strong knowledge of the organisation, its people and culture. 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 other directors understand the model framework, which underpins assumptions and decision making. This role continues to be important as we adapt to changes in the economy."

Gareth Hoskin

Independent Non Executive Director

Appointed: November 2015

Board committees: Chair of Audit and member of Board Risk, Nominations and Remuneration committees

Strengths and experience: Gareth has acquired extensive experience during his 30 years working in financial services, both in the UK and abroad. 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 Audit Committee of Saga plc and a non executive director and Chair of Acromas Insurance Company Ltd. He's also advisor to the Board of Green Park Partners Ltd.

"As Chair of the Audit Committee, it's 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's my role to provide challenge, where required, and to use my experience from the past 30 years to oversee the Society's reporting and audit processes."

Rob Howse

Chief Operating Officer

Appointed: Chief Operating Officer in September 2019 and Executive Director in May 2021

Strengths and experience: Before joining Leeds Building Society, Rob spent over ten years in a number of senior executive technology, operations and change roles mainly at RBS and Lloyds Banking Group, where he was focused on retail banking. His earlier career included time in Telecoms, the Royal Navy and 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's responsibilities include transformation, technology and operational resilience, and he's Chair of the Executive Transformation Committee and the Operational Resilience Committee.

Other roles: Rob is Chair of the UK Finance Digital, Technology and Cyber Product and Service Board.

"My extensive experience of technology, transformation and operational resilience strengthens the execution of the Board's strategic agenda and helps assure day to day operations. I've used this experience to ensure that the Society continues to operate safely while still investing in our long term future and improving the way that we work every day."

Lynn McManus

Independent Non Executive Director

Appointed: September 2017

Board committees: Chair of Remuneration and member of Audit, Board Risk and Nominations committees

Strengths and experience: Lynn joined the Board in September 2017 bringing more than 20 years' experience within financial services. She's 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 designated non executive for colleague engagement. In her role as Chair of the Remuneration Committee, she's 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 Beatson Cancer Charity.

Lynn stepped down from the Board in January 2023.

Anita Tadayon

Independent Non Executive Director

Appointed: October 2021

Board committees: Member of Board Risk Committee

Strengths and experience: Anita joined the Board in October 2021 with over 25 years' experience and a strong track record in transformation. Anita has held a number of senior roles and has developed a great deal of expertise in combining technology and change along with the development and design of customer journeys. Anita is currently employed by BT Group as Global Portfolio & Digital Product Roadmap & Lifecycle Director. Previously she ran a Design Function in BT Consumer and worked for both Sky and British Gas in Transformation. Anita also brings FCA regulatory knowledge from her time with British Gas, where she was responsible for the conduct team within customer operations. Anita has an MBA from London Business School.

Other roles: Anita is a director of Tadayon Consulting Limited and Global Portfolio & Digital Product Roadmap & Lifecycle Director for the BT Group.

"I'm delighted to be on the Board as a non executive director and feel strongly about the values associated with mutuality. I believe that my knowledge and experience provide different insights and experience to the Board, thereby adding value and depth to the decision making process."

The Executive Committee

Year ended 31 December 2022

As executive directors of the Board, Richard Fearon, Andrew Greenwood, Andrew Conroy and Rob Howse, whose biographies can be found on pages 111 to 114, are also members of the Executive Committee (ExCo). Details of the other members of the ExCo are set out below:

Caroline Hill

Chief People Officer

An experienced Group Chief People Officer with a particular passion for change and cultural transformation. Caroline has over 25 years' experience in HR and operational roles in FTSE groups, mutuals, SMEs and entrepreneurial businesses across different sectors. Caroline has several years of financial services experience at C Suite Level – she was Chief People and Strategy Officer at Wesleyan and a member of the HR executive team level at Santander UK. Caroline joined the Society in February 2022 from KPMG UK, where she was Head of People for the Audit function. Caroline leads our People and Property functions and is accountable for ensuring that we have the right people with the right skills in the right roles to deliver our purpose.

Parveen Kaur

Chief Customer Officer

Parveen joined the Society in October 2022 from Lloyds of London, where she was Head of Operations. Prior to Lloyds, Parveen enjoyed a long and successful career in financial services, having worked for Royal Bank of Scotland, ABN AMRO Bank and Bank of America, where she had responsibility for retail banking operations and contact centres across Everyday Banking, Mortgages, Complaints, Remediation, Customer Services, Fraud and Webchat. Latterly, at Lloyds, Parveen became the accountable executive for digital operations and the deployment of artificial intelligence across the business. Parveen is passionate about people and has been successful in working and transforming diverse teams. Parveen's strong and varied experience will complement our Executive Committee.

Andy Mellor

Chief Risk Officer

Andy has worked in financial services for over 20 years, with experience of performing a variety of senior roles in building societies, banking and consultancy. Andy worked in specialised treasury roles prior to risk management, internal audit and advisory roles. Andy's recent focus has been on developing the Risk division, as part of the risk strategy refresh. Following his appointment as Risk Director, he joined the ExCo in March 2021 and then became Chief Risk Officer in October 2022.

Andy Moody

Chief Commercial Officer

Andy has over 20 years' experience in financial services, having operated in various senior risk, commercial and consulting roles. Andy joined the Society in 2012 and has held the roles of Director of Credit Risk and Deputy Chief Risk Officer. Since 2019 he has operated as the Chief Commercial Officer, in which he has overall responsibility for our products, their distribution and digital channel. More recently, he acquired responsibility for the brand and marketing teams.

Nick Young

Chief Strategy and Insights 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. Prior to joining the Society, Nick held a number of different product strategy and commercial roles in the savings and personal current account business areas at a large UK bank. He is responsible for leading the Strategy and Insights division, with functional responsibility for strategy, responsible business, customer insight, data and internal communications. Nick is also chair of the Responsible Business Forum.

Our ExCo is chaired by 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. In 2022, ExCo responded to the volatility in the market and met more frequently, to deal with decisions and any challenges arising as a result of the changes to the economy and cost of living crisis. ExCo delegates some of its duties to, and is supported by, a number of committees as set out below:

Committee	Key priority
Management Committee (ManCo)	ManCo comprises the Senior Leadership Team and acts as a sounding board for ExCo. It monitors performance against our corporate priorities, provides input into our strategy (with a particular focus on people, culture and ESG) and supports the development and maintenance of the Society's culture and values.
Pricing Committee	The main role of the Pricing Committee is to approve new product pricing for our savings and mortgage products.
Executive Transformation Committee (ETC)	The ETC provides oversight of the Society's change portfolio to ensure it is aligned to our overall strategic vision.
Balance Sheet Optimisation Group (BSOG)	BSOG supports ExCo and the Assets and Liabilities Committee with monitoring of key financial measures and early warning indicators, along with agreeing tactical decisions to optimise the current and future balance sheet.
Cost Optimisation Group (COG)	COG was established in the fourth quarter of 2022 to provide a forum which seeks to balance cost control with agility and responsiveness ensuring that future growth in the cost base is driving value and delivering purpose.

Corporate Governance Report

Year ended 31 December 2022

Introduction from the Chair

2022 has been another challenging year, with volatility and cost pressures creating a period of uncertainty for many of our members. Our strong leadership, and the culture in which we operate, has enabled us to keep our members at the forefront of what we do and has enabled us to continue to support members, manage risks effectively and maintain the Society's financial resilience.

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 our activities, with particular emphasis on how we engage with our stakeholders. We also want to share with you how stakeholders' consideration is embedded in the decision making process. Some of our key areas of focus are outlined below.

Evaluating Board effectiveness

To ensure our long term success and sustainability, we recognise the importance of assessing our own performance on a regular basis and the need to continuously evolve and become more agile and innovative in the way we think and operate.

In 2021 an external performance assessment was carried out, followed by an internal assessment in 2022. In 2022, the Board revisited the themes arising from the 2021 review and assessed the progress made against the agreed actions. In 2022, the approach for the internal assessment was enhanced to include observations from the wider governance structure as well as incorporating the results of the Board committees' effectiveness reviews. Overall, the Board was found to be operating effectively and a small number of actions and improvement opportunities were agreed. Themes arising from the review included inclusion and diversity in terms of Board and Board committee composition, the ways to promote innovation at Board level through disruptive thinking, how presentations made to the Board could be refined to optimise the impact and ways to promote greater agility in decision making.

More detailed information on the evaluation process is available to read on pages 128 and 129 of this report.

People

In 2022, the Board received an update on the people strategy, with a focus on driving delivery of our purpose and responding to the dynamic shift in colleagues' expectations of work. At the heart of this strategy is the enablement of colleagues to be their best self at work. In 2022, we transitioned how we measure colleague engagement across the Society by introducing a new supplier and adopting their methodology, an average score across core engagement questions. This change has provided our leaders and people managers with richer insight on colleagues' sentiment and their experience of working at the Society and has also introduced more robust external benchmarking.

In April the Board reviewed and endorsed our revised inclusion and diversity strategy, 'Being You: Transforming Us'. Our new strategy is focused on creating an inclusive culture that enables all our colleagues to thrive, whilst continuing to develop and attract diverse candidates to support us in being representative of the communities we serve. The Board continued to support this agenda through participating in a 'This is Me' campaign, sharing their lived experiences to help create conversation and grow understanding across the Society. The Board also took time as part of a focused learning session to explore how to be an upstander, which was facilitated by external experts. The directors also met several of our colleague-led inclusion and diversity forum members and listened to their own individual lived experiences and what more could be done to further support our inclusion and diversity strategy. During 2022, our new HR platform was launched, which has enabled us to expand the data set we collect from our colleagues in relation to diversity, including protected characteristics and broader fields such as socioeconomic data. In November, it was agreed that the targets set in 2021 for gender and ethnicity should be revisited in future years to support a clear roadmap through to 2030, as well as widen their focus beyond gender and race to reflect our inclusion and diversity strategy more fully.

In 2022 we have continued to work towards the targets we had set for both gender and ethnicity at Board and senior management level to 2025. Whilst the targets for female representation at Board level have not been met (27% at 31 December 2022 versus a target of 33%), we were delighted to have met the target at senior management level (35.25% versus a target of 35% by 2025). We also achieved our target on ethnic minority representation at senior management level (7.2% versus a 2025 target of 7%). As we continue to mature our inclusion and diversity strategy we will consider broadening and evolving our targets beyond gender and ethnicity to ensure that we have a truly diverse workforce.

Stakeholder dialogue

The Board recognises the importance of listening to and gathering views of each of our stakeholders and how these are integral to the Board's decision making processes. This year, we have focused on ways to broaden the channels we use for engagement and the methods for bringing stakeholder views directly and indirectly into the Boardroom. It is vital that we listen to our members to understand their needs and provide the right products and support. We have stepped up our activity to support members through the current economic challenges, by increasing the opening hours of our contact centre, reviewing our suite of forbearance measures, continuing with the suspension of arrears fees into 2023 and encouraging members to talk to us sooner should they be in financial difficulty. These activities and our approach to seeking the right outcomes for our members are also aligned with new Consumer Duty rules issued by our regulator requiring higher and clearer standards of consumer protection across financial services from the middle of 2023 onwards.

Our AGM is a key touch point for engaging with our members and in 2022 we were delighted we were able to invite members to attend in person for the first time since 2019. We focused on enhancing our engagement with members by delivering more information to members via our dedicated AGM Hub on the Society's website and invited members to raise questions on the day or submit questions in advance. Members of the Board also met with members after the meeting to discuss individual queries and areas of interest.

Colleague engagement is undertaken by a variety of means. Following a successful trial last year, the 'voice of the colleague' has been established as a regular agenda item at Board meetings, whereby updates have been received directly from colleagues in person or through video presentations. This has been an extremely useful tool for Board members to gather insight and hear directly from colleagues on the topics which are important to them. Members of the Board have also attended meetings of the colleague-led inclusion and diversity forums, Colleague Association meetings as well as conducting several branch and departmental visits.

More information on the ways in which we engage with our stakeholders is available on pages 133 to 136 of this report and on pages 26 to 32 in the Strategic Report.

Auditor appointment

Throughout the year, a detailed tender process has been undertaken for the appointment of a new external auditor. The Audit Committee established a sub committee to conduct the tender and selection process, which included three firms being invited to the final stage. Regular updates were provided to the Board throughout the process and in November, the Audit Committee recommended two potential firms to the Board for appointment, with a preference for Ernst and Young LLP (EY), and the Board agreed with the recommendation. Approval of EY's appointment will be sought from members at the 2024 AGM, and subject to that approval, EY will be responsible for the delivery of the external audit for the year ending 31 December 2024.

More information on the appointment of EY is included in the Audit Committee Report on page 150.

Technology and innovation

A regular item for discussion at Board meetings in 2022 has been our continuing plans to invest in technology in response to the changing needs of our members, as well as an update to the Board on how the underwriting journey had been optimised for customers and brokers through the use of data.

To reinforce the Board's commitment to improving our technology and to ensure Board members have the technical support required, it was agreed in 2022 to appoint an independent Board technical adviser, who would report to the Chair and support the Board with its oversight of the Society's technology roadmap. An appointment for this role was made in March 2022 and the successful candidate provides advice and expert views on key decisions and risks. In addition to this appointment, the Board has received several externally facilitated training sessions on technology from industry experts.

The Board agreed the appointment has been extremely successful, with valuable insight being shared with the Board and agreed to extend the appointment into 2023.

Iain Cornish
Chair of the Board

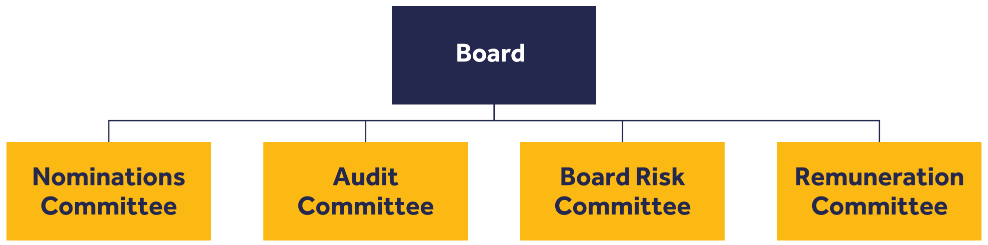
23 February 2023

Our approach to corporate governance

Our approach to corporate governance is based on the principles and provisions of the UK Corporate Governance Code (the Code), published by the Financial Reporting Council, in so far as they are relevant to a building society (as set out in the Building Societies Association Guidance) and I am pleased to confirm that our governance arrangements meet the relevant requirements of the Code. A copy of the Code is available at frc.org.uk.

This report sets out how the Board has operated throughout 2022 and how it has applied the provisions of the Code.

Our governance structure



The role and responsibilities of the Board

The primary role of the Board is to lead the Society and to ensure its long term success, whilst meeting the needs of our current and future members. The Board is responsible for setting and implementing the strategy which will enable the Society to fulfil its purpose. The Board has formal terms of reference, which incorporate a clear set of roles and responsibilities and a schedule of matters reserved for its decision, which sets out material items that should be retained for its own approval.

Examples of matters which fall within the Board's remit are listed below. Full details of the Board's role, responsibilities and matters reserved for its decision can be found within the Matters Reserved for the Board and the Board's Terms of Reference, both of which are available on our website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees/.

Board responsibilities
Annual approval of the Society's risk appetite
Annual review and appoval of the Society's annual and interim financial statements
Annual review of the effectiveness of our systems of internal control
Proposals for the appointment, re-appointment or removal of external auditors
Annual approval of our Speak Up Policy
Monitor the performance of the Society and its capital and liquidity requirements
Develop and implement the people strategy
Brand strategy
Set the tone and monitor culture
Approve and oversee technological enhancements to the Society's operations
Development and oversight of the Society's purpose and strategy
Board evaluation
Stakeholder engagement including seeking the right outcomes for our members

How does the Board operate?

The Board is led by the Chair and operates through a series of scheduled meetings, as often as is necessary to discharge its obligations and to ensure the smooth running of the Society. The Board generally holds at least ten meetings per year, with two additional meetings dedicated to planning and strategy. With the onset of the pandemic in 2020, the Board scheduled additional interim meetings to review and discuss, amongst other items, the ongoing impact of the pandemic and the operations of the Society, as well as colleague wellbeing, operational resilience and performance and any changes or amendments to financial forecasts. A small number of interim meetings continued into early 2022, but these have now ceased following agreement by the Board that additional meetings would only be convened when necessary.

For each Board meeting, a comprehensive and timely set of papers is provided in advance. The Board receives regular items at every meeting, such as the minutes of the previous meeting, minutes of any Board committee meetings held since the previous meeting, an action schedule, schedule of key matters, business performance scorecard and updates on regulatory matters and business transformation.

Our governance structure enables management and the Board to operate effectively, ensuring appropriate decision making processes and controls are in place. It also allows the Board to delegate certain duties to its dedicated Board and management committees, each of which has a detailed terms of reference which documents the level of delegated authority it has and its areas of focus. Copies of each Board committee's Terms of Reference can be found on our website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees/.

Oversight is maintained through regular updates from the Chair of each committee at Board meetings and through the individual updates from each executive director, including the Chief Executive Officer. Members of the Executive Committee (ExCo) also attend Board meetings as required to provide updates from each division, any pertinent matters and market trends. This provides Board members with regular touch points and close visibility of all areas of the business, as well as the external environment.

Membership of each Board committee is comprised of independent non executive directors, most relevant to their 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 and senior leaders in attendance, as and when required. Details on each committee, the activities undertaken in 2022 and their membership can be found in each committee's individual report from pages 137 to 168.

Effective and considered Board decision making

As outlined above and below, the Society has a strong governance framework in place with carefully documented lines of delegation and authority which underpin how decisions can be made.

Purpose, strategy, and stakeholder impact are at the heart of the Board's decision making process, which is supported by the quality and timeliness of the information and the papers it receives.

Good quality reporting is vital for effective and informed decision making. The materials provided to the Board are reviewed regularly to ensure the information provided is high quality, clear and concise. During meetings in 2022, the Board also regularly reflected on the quality of papers, behaviours and discussions, which provided real time feedback, to generate continual improvement.

From a stakeholder perspective, supporting papers are required to include information on the key stakeholder groups which may be impacted by the outcome of any decisions made and how they have been considered. Members of the Board are then required to take stakeholder impacts into account when considering and approving recommendations.

Further information and an example of how stakeholders' interests were considered in some of the key decisions made during the year can also be found in the Strategic Report on pages 26 to 32.

Board and Board committee meetings and attendance in 2022

In the period to 31 December 2022, there were 14 scheduled meetings of the Board. Attendance by executive and non executive directors at all Board and Board committee meetings of which they are members, along with the number of meetings held is set out below. In accordance with good practice, executive directors do not have membership rights at Board committee meetings.

	Board	Audit	Board Risk	Nominations	Remuneration
Number of meetings held in 2022	**14**	**6**	**8**	**5**	**7**
Annette Barnes	14	–	8	–	7
Andrew Conroy	14	–	–	–	–
Iain Cornish	14	–	–	5	–
Richard Fearon	14	–	–	–	–
David Fisher	13	6	8	–	7
Neil Fuller	14	6	8	–	–
Andrew Greenwood	14	–	–	–	–
Gareth Hoskin	12	6	7	4	6
Rob Howse	14	–	–	–	–
Lynn McManus	14	6	8	4	7
Anita Tadayon	13	–	6	–	–

The Chair, CEO and other executive and non executive directors were also regular attendees at Board committee meetings throughout the year as detailed in the committee reports on pages 137 to 168.

Culture

We are proud to have a strong and positive culture which has helped us to create a successful business, ensures our continued and long term success and provides colleagues with an engaging and rewarding place of work.

The Board recognises that it is important to set the cultural tone from the top and in doing so has role modelled the adoption of the Society's behaviours that form part of our purpose. An explanation of our purpose is set out on page 10 in the Strategic Report. Throughout the year Board members have proactively focused on their behaviours through the Board effectiveness review and a facilitated session exploring each behaviour in the context of their role.

To ensure every colleague understands the Society's behaviours and how that pertains to them individually, several resources and interventions have been made available to all, including the launch of a self-evaluation tool; team activities to explore each behaviour and online training for each behaviour. In addition, our leaders have been invited to participate in a 360-degree development feedback process, focused exclusively on the behaviours. To support this further, the annual appraisal process requires colleagues to demonstrate how they consistently display the expected behaviours throughout the year.

In 2022 we commissioned an external review of how we measure culture with a specialist provider. An output of this work has been the development of a culture dashboard, comprising measures of colleague advocacy, belief in our purpose and customer empathy. The culture dashboard will be introduced in 2023 and will enable the Society to baseline our culture, benchmark against our sector and track progress. The dashboard approach reflects our belief that there is no single measure of culture.

A key input into this dashboard will continue to be colleague sentiment, which we measure via the colleague engagement survey. With the transition to a new provider in 2022, we also took the opportunity to ensure that we are assessing a comprehensive view of engagement, comprising belief, advocacy, satisfaction and loyalty. The new survey has empowered our people managers and leaders to respond to key themes in the data in real-time. For example, colleagues can submit anonymous comments or questions through the survey platform, all of which are reviewed by the senior management team. The core themes arising from colleague commentary centred around reward, job sustainability and having the tools required to enable them to work successfully. The Chief Executive Officer addressed these themes directly in an internal update to colleagues.

An additional element to the culture dashboard is a specific focus on our behaviours and we invited colleagues to describe what they experience day to day and to also assess the behaviours they see their leaders demonstrating every day. We are proud to have a strong and positive culture and one which we can continue to build upon. More information on our people experience is available in the Strategic Report on pages 17 to 19.

In addition to the colleague engagement survey, the Board monitors culture all year round through a variety of means, including branch and departmental visits, updates from the designated non executive for colleague engagement, attendance at the Colleague Association meetings, meetings with our inclusion and diversity forum leads and through presentations from colleagues at Board meetings, an initiative which was introduced in 2021 and continued into 2022. You can read more about this in the stakeholder section of this report on page 135.

Whistleblowing

Our culture welcomes open and transparent discussions and we encourage colleagues to feel empowered and confident in raising any concerns which in turn allows us to take appropriate action quickly. All colleagues are encouraged to raise a concern through our whistleblowing procedures without fear of retribution, victimisation or detriment, should they encounter or suspect wrongdoing. Through the implementation of further initiatives, such as inclusive leadership, annual refresher training, the Society's behaviours and richer data from the engagement survey, it is expected this strong culture of speaking up will continue to be demonstrated. We will continue to focus on this key indicator of culture by including a Speak Up metric as part of the culture dashboard from 2023. In 2022, there were no instances of which we are aware, where events have occurred where a Speak Up could have been raised and an opportunity was missed.

At least annually, the Board reviews our Speak Up arrangements and any reports arising. The annual approval of our Speak Up Standard is included on the schedule of key matters reserved for the Board and was last approved in October 2022, based on the recommendation of the Audit Committee. Gareth Hoskin, Non Executive Director and Vice Chair, continues to be the Society's appointed Whistleblowers' Champion.

We have continued to reinforce the internal arrangements for raising concerns, through providing colleagues with ongoing communication, training and awareness.

Inclusion and diversity

As referred to earlier in this report, the Board has continued to place great importance on inclusion and diversity and this has been a priority when reviewing the composition of the Board and succession planning.

We believe a gender balanced workforce is good for business, good for our members and is 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 is committed to increasing the representation of women and has agreed a target of 33% for females on the Board and 35% in our Leadership Team.

As of 31 December 2022, three members of the Board were female, representing 27% of the total Board membership. Whilst we have not met the target of 33%, we are confident of making material progress against our targets in the near future, as a result of the actions and measures currently underway. In terms of the Leadership Team (our top three levels of management), 35.25% were female, a 3% increase since 2021, which also meets our target for 2025 of 35%, set in 2021.

What have we done in 2022?

- Board members participated in our 'This is Me' campaign, sharing their lived experiences to help create conversation and grow understanding across the Society.
- Established menopause champions to further grow our wellbeing agenda.

- Launched a colleague wellbeing app that provides support on a variety of issues including fertility, male health, menopause and early parenthood.
- We continue to make progress towards achieving Disability Confident Level 3, with a colleague-led disability forum established this year to support our activity.
- An inclusive leadership programme was delivered to senior leaders across the Society, with bespoke training delivered to all colleagues.
- We continue to support the Race at Work Charter and are entering into our second year of ethnic minority reverse mentoring with an additional programme focused on age reverse mentoring.
- Talent development programmes to support colleagues with meaningful interventions, enhancing the development and retention of diverse talent.

We have continued to enhance our inclusion and diversity activity through our colleague-led forums – gender, wellbeing, race equality, LGBTQ+ and disability. The forums work closely together to increase colleague awareness and to promote an inclusive culture where diversity is celebrated throughout. All forums are represented at the newly formed Inclusion and Diversity Steering Committee, which is chaired by the Deputy Chief Executive Officer. The Board receives updates on the activities of each forum and both executive and non executive members of the Board have attended various forum meetings throughout the year.

Division of responsibilities

The division of principal responsibilities of the Chair, CEO and Senior Independent Director is reviewed against their distinct job descriptions and is documented for review and approval by the Board each year. The table below demonstrates how responsibilities are clearly defined for each of these roles which are held by different people, as well as those for the executive directors, non executive directors and the Secretary.

The Chair's principal role is to lead the Board and provide support to the executive team without being involved in day to day management activities. The CEO's role is to focus on the day to day running of our business and the implementation of the strategy.

All directors work closely with the Secretary, who provides advice on any Society or governance related matters as well as having access to independent professional advice, if required, at the Society's expense.

Role	Key accountabilities
Chair: Iain Cornish	• The effective running of the Board and guardian of the Board's decision making processes. • To support the CEO in the development of strategy and more broadly to provide oversight and advice. • 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 and monitoring of the Society's culture and behaviours, in line with the Society's purpose, 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, including an external evaluation at least every three years. • To promote the highest standards of integrity, probity and corporate governance.

Role	Key accountabilities
Chief Executive Officer: Richard Fearon	• To propose, develop and implement the Society's strategy, corporate priorities and purpose, 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 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 to ensure appropriate behaviours are demonstrated in line with our purpose. • 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. • To promote and conduct the affairs of the Society with the highest standards of integrity, probity and corporate governance. • To discharge the allocated PRA/FCA Prescribed Responsibilities and FCA Business Activities via the Society's management forums in line with the Society's Enterprise Risk Management Framework.
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.
Non executive directors: Annette Barnes David Fisher Neil Fuller Lynn McManus Anita Tadayon	• To help develop and constructively challenge proposals on strategy, ensuring a high level of conduct and positive outcomes. • 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. • To set our risk appetite and to ensure that the integrity of financial information and controls are robust and fit for purpose. • To approve the corporate plan and monitor performance against agreed corporate priorities. • To have oversight of the culture, reward and talent management strategies whilst ensuring management performance achieves the corporate goals. • To ensure the Society operates with the highest level of governance as set out in the Code and to assist in the discharge of PRA/FCA prescribed responsibilities and FCA business activities via management forums, in line with the Enterprise Risk Management Framework. • To promote the fair treatment of all members/customers. • To be sufficiently and appropriately informed of the matters under discussion and to represent and have regard to the interests and views of the Society's stakeholder groups, including but not limited to members.

Role	Key accountabilities
Executive directors: Andrew Greenwood Andrew Conroy Rob Howse	• To be responsible for and have oversight of the day to day management of the Society. • To escalate issues to the rest of the Board on a timely basis. • To set the strategy of the Society alongside the rest of the Board and ensure the necessary business activities are undertaken in order to meet strategic objectives and delivery of strategy overall. • To ensure that prudential, conduct and operational risks are adequately controlled. • To ensure the Society operates within the agreed risk appetite and internal risk framework.
Secretary: Katherine Tong	• To provide advice and updates to the Board in respect of all governance related matters and best practice guidance. • To provide support to the Board to ensure that complete and timely papers are received in advance of all Board and Board committee meetings. • To act as a point of contact for all Board members and provide advice as required. • To provide all necessary support to ensure the Board can function effectively with the appropriate resources in place.

Composition, succession and evaluation

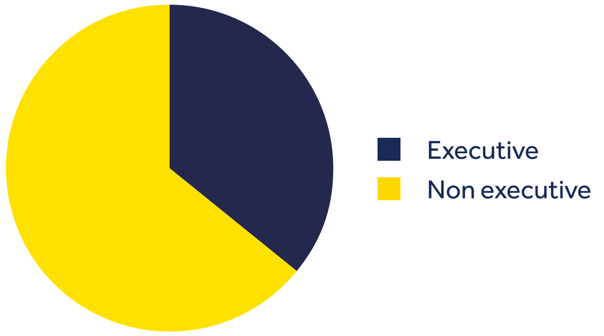
The composition of the Board remained consistent throughout 2022 with no changes to its membership, however it was announced in December 2022 that Lynn McManus would be stepping down in January 2023 to pursue a unique opportunity in an executive role, with another financial institution. Following his nine year tenure, it had been planned for David Fisher to retire from the Board at the end of 2022. However, to further support succession planning, to allow time for a carefully planned recruitment process to be followed and to maintain a strong composition, David, together with the Board, agreed to extend his appointment into 2023. The Board assessed David's independence earlier in the year and is confident that it remains unimpaired. David continues to provide challenge, encourages thoughtful discussion at both Board and Board committee meetings and his contribution as a member of the Board continues to be considered invaluable. He has extensive 'through the economic cycle' banking experience, which the Society will benefit from during 2023.

"It has been a privilege to serve on the Board of the Society over the last five years. The passion of colleagues to do the right thing for our members has been remarkable. As the colleague representative on the Board I have had the opportunity to witness this dedication on many occasions.

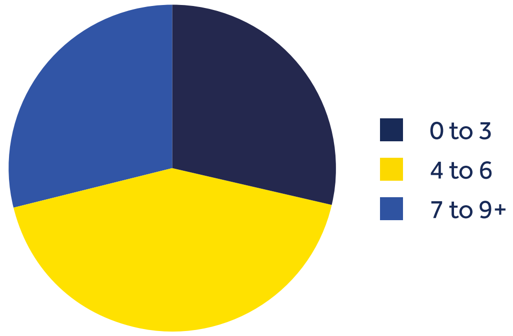
As I end my time on the Board I would like to wish the Society, members and colleagues, every success in the future." Lynn McManus, January 2023.

The Code requires at least half of the Board, excluding the Chair, to be made up of independent non executive directors. As at 31 December 2022, the Board comprised eleven directors; four executive directors and seven independent non executive directors. Succession plans are considered regularly by the Nominations Committee and recruitment is underway for further Board appointments to be made in 2023.

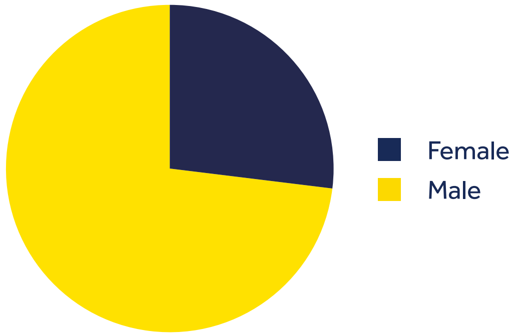
Executive and non executive composition (as at 31 December 2022)



Tenure of non executive directors (years) (as at 31 December 2022)



Gender diversity of the Board (as at 31 December 2022)



The Board considers and acts upon recommendations for appointments from the Nominations Committee. As required by the Society's rules, following their initial appointment by the Board, directors must be elected to the Board by members in a general meeting. Since 2015, in line with the recommendations of the Code, all directors have stood for annual re-election at the AGM. In accordance with the Society's Rules, the Board elects its Chair and Vice Chair, annually, at its first meeting following the AGM. More information on the recruitment process and the criteria used is included in the Nominations Committee Report on pages 137 to 142.

In accordance with the Society's Rules, members are entitled to nominate candidates for election to the Board, subject to compliance with PRA and FCA requirements.

Time commitment

The expected time commitment of the non executive directors, including the Chair, is set out in writing in their appointment letter and is usually a minimum of three days per month.

Prior to their appointment, all new candidates are required to provide details of any other external appointments or positions they hold, to ensure they have sufficient capacity to undertake the role and to assess if there are any potential, perceived or actual conflicts of interest owing to their other appointments.

Should an existing non executive or executive member of the Board wish to take up a new external appointment, it should be referred to the Board for consideration and, if appropriate, approval (in terms of any potential conflict of interest and time commitment).

All directors are then 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.

During the year, no Board members held more than the prescribed number of directorships under Article 91 of the Capital Requirements Directive IV, namely appointments should be limited to either: (a) one executive directorship role and two non executive directorship roles or (b) four non executive directorship roles. A list of all external appointments held by Board members as at 31 December 2022 is shown in the Annual Business Statement on page 243.

Independence and conflicts of interest

All directors have a duty to disclose and notify the Board of any potential or actual conflicts of interest which should then be considered and, if appropriate, approved by the Board. The Board has Conflicts of Interest Standards which set out the procedures for declaring and authorising any conflicts of interest, provides examples of what would constitute a conflict of interest and refers Board members to the Secretary for advice where required.

Corporate Governance Report continued

A detailed register of any potential or actual conflicts of interest is maintained by the Secretary and is submitted to the Nominations Committee and to the Board for review and consideration at least annually, to ensure that all declarations remain acceptable. The Secretary will also ask Board members to confirm periodically if there have been changes or updates to the register. In addition, and where relevant, the Chair will also discuss any potential or actual conflicts of interest with each non executive director in their annual appraisal to ensure there are no changes.

The independence of non executive directors is also considered annually, as part of the conflicts of interest review. Independence is assessed against the criteria set out in the Code. In 2022, the Board considered all non executive directors, including the Chair, to remain independent in character and judgement and that there were no circumstances which were likely to impair their independence.

Criteria for independence
The Board assesses independence according to the following list of circumstances which are likely to impair, or could appear to impair, a non executive director's independence:

- Is or has been an employee of the Society or group within the last five years.
- Has, or has had within the last three years, a material business relationship with the Society, either directly, or as a director or senior employee of a body that has such a relationship with the Society.
- Has received or receives additional remuneration from the Society apart from a director's fee, participates in a performance-related pay scheme, or is a member of the pension scheme.
- Has close family ties with any of the Society's advisers, directors or senior colleagues.
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies.
- Has served on the Board for more than nine years from the date of their first election. To facilitate effective succession planning and the development of a diverse Board, this period can be extended for a limited time.

As David Fisher exceeded his nine year tenure in March 2021, the Nominations Committee and the Board closely considered and confirmed that they were satisfied that he remains independent and is likely to do so, for the remaining period of his extended appointment.

In 2022, the Board 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 and considered that all members of the Board had sufficient time to fulfil their role.

Board evaluation 2022

The Code requires boards to undertake a formal and rigorous annual evaluation of their own performance and that the evaluation should be externally facilitated at least every three years. The Board was last evaluated externally in November 2021 by Russell Reynolds which concluded that the Board was "performing well – with no urgent action required". Following the 2021 evaluation process, a detailed report outlining the outcomes and any actions or suggested areas of improvement was provided to the Board in January 2022.

In 2022, it was agreed to undertake a revised approach for an internal evaluation which would also incorporate the effectiveness reviews of the Board committees. The internal evaluation was undertaken in September 2022 and comprised a questionnaire to be completed by all Board members, ExCo members and the Secretary, as internal stakeholders and by the independent Board technical adviser and Deloitte, as external stakeholders. The evaluation also included observation of an Audit Committee meeting and a Board Risk Committee meeting. The results, along with insights from the annual Board committee effectiveness reviews, were consolidated and presented to the Nominations Committee and subsequently to the Board, for discussion and agreement of any relevant actions. The review concluded that the Board was operating effectively and that a continuation of the focus on behaviours would be beneficial. It was also discussed that the Board should continue to regularly reflect, in real time, on the quality of papers, behaviours and discussions to ensure focus and drive efficiency. The Chair would continue to encourage open and transparent reflections in this manner.

The overall actions and themes arising out of the 2022 internal evaluation along with details of the progressed actions from the 2021 external evaluation, are summarised below:

Theme	Actions and progress from the 2021 and 2022 Board review
Board composition	• The skills matrix has been extended to include the full Board rather than just non executive directors. • A specialist diverse search firm was appointed for Board recruitment. • Succession planning has been elevated to support future planning for both executive and non executive positions. • Continue to seek relevant external input. • Review Board committee succession plans.
Board leadership and Society purpose	• Hearing directly from stakeholders within the boardroom remained an important area of focus during 2022 (for example, the 'voice of the colleague' featured in a number of Board meetings via video and in person presentations from colleagues). • More direct interaction and discussion was invited at the Board Strategy Conference to disrupt and push thinking. • Maintain focus on the appropriateness of detailed debate.
Board governance and performance	• Interim meetings cancelled for the remainder of 2022 with the option to re-introduce if required in response to internal and/or external factors. • Governance structure agreed to be appropriate, with the introduction of behavioural conscience; wherein colleagues provide in the moment feedback on how the behaviours have been displayed in meetings. • Board members are requested to provide real time reflection during meetings on the quality and content of supporting papers. • Following observations, it was found that meetings were well run, productive challenge was made and clarification sought where required. • No material actions required as there was strong agreement that the governance process works well.

All Board committees also periodically evaluate their own performance and effectiveness, and that of the committee Chairs, through a series of questions which are sent to all members and regular attendees of the committees. This process identifies any areas where members may require further training or development to discharge their duties effectively, or where the overall performance or approach of the committee or Chair could be improved. The evaluation process followed in 2022 concluded that committees were, overall, meeting their terms of reference.

Directors' induction, development, and individual performance evaluation

On appointment, all new directors receive a comprehensive induction programme, which is tailored to their individual requirements and based on their own existing skills and expertise and the specific Board and Board committee roles they are due to undertake.

The Chair works closely with the Human Resources team to map the induction programme and has regular discussions with new NEDs on progress. The programme is designed to be reflective of the role the new director 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.

A newly appointed director would typically meet with the Chair on a regular basis to discuss a wide range of topics, including strategic items, market trends, corporate objectives and performance against these and expectations of the role. The new appointee also receives the terms of reference for any Board committees of which they would become a member, attends an introductory meeting with the Chairs and Secretaries of each Board committee and receives detailed guidance on the Board's Conflict of Interest Policy from the Society Secretary. They would also be provided with various documents to familiarise themselves with, such as our director's information manual, the Corporate Governance Code and the Building Societies Association's guidance on the Code. In addition, if any specialist training is required, we engage with appropriate external providers.

Example of the key areas of focus in the NED induction programme are outlined below:

Theme	Colleague responsible
Board structure, appraisals, role and performance expectations.	Chair
Society's purpose and corporate structure. This includes visits to: branches, Direct Mortgage Unit, Contact Centre, Savings, Mortgage Lending and Mortgage Services.	Chief Executive Officer
Overall financial priorities, corporate plan and strategy.	Chief Financial Officer
Review of priorities including IT roadmap, operational resilience and cyber security strategy and separate meeting with the independent Board technical adviser.	Chief Operating Officer
People strategy, Board effectiveness reviews and annual performance review process.	Chief People Officer
Finance review and to arrange a separate meeting with the external auditors.	Director of Finance Operations
Prudential and enterprise risk key governance issues including second line cyber security and resilience.	Chief Risk Officer
Review of financial planning and decision support.	Director of Financial Planning
Review of change and change management methodology.	Director of Mortgage Transformation
Review of responsible business strategy and transition to net zero.	Chief Strategy and Insights Officer
Overview of product development and pricing.	Director of Products
Review of conduct risk. Provide the expectations of a NED and their fiduciary duties. Provide an overview of Board procedures and protocols.	Director of Legal and Compliance and Secretary
Overview of the role and responsibilities of the Internal Audit function.	Chief Internal Auditor

Anita Tadayon, Non Executive Director – Reflection on the NED induction programme
Following Anita's appointment to the Board in 2021, she participated in the Society's detailed non executive induction programme. As part of the programme, the induction pack provided Anita with further information on a range of important areas of focus, including for example, the Society's business strategy, corporate priorities, people strategy and culture, key governance processes and director duties.

In order to supplement the detailed induction pack, a schedule of meetings was held with key colleagues from the executive, the non executive and wider leadership team, alongside regular meetings with the Chair to discuss a range of topics covering both the internal and external environment. The sessions held with the Chair and the executive directors are outlined in the table above.

Anita cited the value of the scheduled meetings with Society colleagues which had improved her knowledge of the business and the financial services industry more generally, given this was a new sector relative to her previous experience. Anita also found her regular meetings with the Chair to be most helpful particularly in the first months after her appointment, to gain a deeper understanding of how the Board operates and to highlight the key concerns and areas of focus for the Board at that time.

Anita also has regular, informal meetings with her senior leadership 'buddy' to provide progress updates on the activities of the management committees and any other pertinent areas. Anita found that having an assigned 'buddy' facilitated her induction and learning about the business, and again informed her understanding of the key areas of focus for the Board.

Anita reflected on her time on the Society's Board so far and felt the Board continues to be very receptive to the new perspective she brings to Board discussions in light of her background, together with her current management role at BT, which in turn demonstrates the value of having a more diverse Board.

Throughout their appointment on the Board, each non executive director is assigned a 'buddy', who is either an executive director or a member of the ExCo. Each buddy holds regular, informal meetings with their assigned non executive director to provide progress updates on the activities of the management committees they are members of and any other pertinent areas.

Individual director evaluation and appraisal
Individual director performance and contribution is assessed through regular dialogue with the Chair and an annual appraisal is held at the end of each calendar year. The appraisal process is led by the Chair and involves a discussion on each Board member's personal development, any training requirements and their contribution to Board discussions and any reflections they may have on pertinent matters. In addition, confirmation is sought that the individual director has sufficient time to discharge their fiduciary duties and are not conflicted in any way which would mean they are unable to fully perform their role.

Evaluation of the Chair's performance
The Chair's performance is evaluated by Gareth Hoskin as the Senior Independent Director, and incorporates feedback provided from both the non executive and the executive directors, which is then discussed at the January Board meeting. In 2022, the Board, without the Chair being present, discussed that the Chair's overall style is collegiate and engaging and he is a strong and effective chair.

Board training and development
To maintain continuous professional development, all directors have a clear set of 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 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 informs Board and committee discussions and decisions.

The Board and each committee have an annual training plan, which sets out agreed areas of training to be provided throughout the year. Members of the Board are invited to suggest topics and themes where training and development is required, throughout the year. In addition, Board members are encouraged to correspond with industry peers and attend externally facilitated events and seminars to maintain and develop knowledge and gain insight into matters which impact the Society.

In 2022, the Board received training on several topics including: climate and related targets, cyber risk, IRB modelling, directors' duties, technology roadmap education and the macroeconomic environment. The Board also received several deep dive sessions from internal colleagues. These provided a more in-depth overview of topics such as i) data strategy, which looked at new data management tools and how these could be used to enhance the Society's data related processes; ii) housing issues, which focused on affordability, mortgage accessibility and the issues of demand versus supply; and iii) inclusive leadership and the skills required to become an upstander or ally.

Board activities in 2022

The Board redefined the Society's purpose in 2021 which consequently formed the basis of the 2022 corporate priorities (see pages 14 to 16). Alongside the Board's responsibilities shown on page 120 some of the key areas of Board activity during 2022 are shown below.

Activity	Objective
People strategy update	To ensure we have highly engaged and empowered colleagues.
Review of the Society's inclusion and diversity strategy	To ensure we have a diverse workforce and talent pipeline to respond to changing needs.
Overview and updates to our IT infrastructure Technology roadmap education	To ensure we build a sustainable platform and have the capability for rapid transformation.
Review of the responsible business strategy Update on the green strategy ESG strategy and mutuality review	To lead the business through the transition to being net zero by 2050.
'Voice of the colleague' presentations from Contact Centre, Customer Support, Mortgage Lending and Credit Risk	To aid understanding and assist with the development of streamlined lending journeys and make it easy for members and brokers to do business with us.
Brand foundations and consumer brand strategy review	To ensure we attract and retain members and provide a service that meets their needs.
Branch update	Cherish our branch network and the service and loyalty it delivers.
Data strategy updates Trading updates	Proactively spot opportunities to meet the needs of our members and intermediaries through our data and insights.
Strategic discussion session on housing issues	Develop an innovation capability and mindset focused on helping more people onto and up the property ladder

Strategy conference

Each year the Board holds two conferences, for strategy in May and for planning in October. Each conference has a detailed agenda and supporting information to provide the basis for a discussion on strategic plans and objectives. The key focus in 2022 was to discuss how the Board proposes to navigate through the current uncertainty and how we can best support our members through these difficult times.

A number of items were discussed at this year's Board Strategy Conference, a summary of which is set out below:

Topic	Purpose and outcome
Trading in a volatile market and meeting member needs	**Purpose:** To outline the uncertain backdrop and approach undertaken this year, including proposal of a revised planning framework and principles to help management navigate through this volatile period. **Outcome:** The Board understand the context the corporate plan is set within and agreement of the proposed trading principles.
Indicative scenarios and outputs	**Purpose:** To present a credible corridor of macro and market outcomes that will help define the range of financial performance and provide a platform from which to set longer term investment plans. **Outcome:** Agreed ranges for profit before tax, lending volumes and an acknowledgment of the key sensitivities and external interventions that could materially impact results.
Long term balance sheet quality	**Purpose:** To provide an overview of the factors that management will be considering when making choices that support a sustainable level of income and a high quality balance sheet in the longer term. **Outcome:** An understanding of the key factors considered by management.
Cost and investment	**Purpose:** To provide an overview of the Society's cost profile and associated benefits, alongside an approach for tracking value from investment in colleagues and systems to optimise our cost position. **Outcome:** An understanding of the investments made and agreement on how cost optimisation will be achieved moving forwards.

Stakeholder engagement

The Board recognises the diverse range of our stakeholders and the importance of assessing and understanding their needs. Established engagement channels are in place for each stakeholder group to ensure their views are considered in the overall decision making process. The Board receives insight from each stakeholder group through a combination of direct and indirect engagement and through the reports it receives at Board or Board committee level.

The diagram below displays who we consider as our key stakeholder groups and detailed insight is provided overleaf on how we actively engaged with our members and colleagues during 2022. Further details on our stakeholders and why they are important to us along with an example of how stakeholders are taken into account as part of the decision making process can be found on pages 26 to 32 of the Strategic Report.

Members

We regularly engage with our members to understand what is important to them and to gain insight into the products and services they'd like to receive, particularly in the current economic climate where many members' needs have changed significantly.

Engagement channel	Activity
TalkingPoint	TalkingPoint is our online customer panel which we use to invite members to tell us what they think and to give feedback on a wide range of subjects, from the Society itself, to our new products and services. As at the end of December 2022, the TalkingPoint panel had 2,843 members. Throughout 2022, a number of research activities were undertaken, including for example, where we asked members about the following topics: • Savings maturity – research to understand members' experience of the savings maturity process, which provided valuable insight to inform customer journey planning. • Insurance letter testing – we asked members to provide feedback on the content of three home insurance letters along with their understanding of the actions to be taken on receipt of the letters. • Digital currency – this research looked to understand our members' opinions and use of digital currencies such as Bitcoin and Ethereum. The findings were used by the Strategy team to provide insight into the potential impact of digital currencies and central bank digital currencies. • Regular Saver (purpose product) – research to provide member insight into a potential new savings product specifically designed to help people save to get on the property ladder and to inform future product offerings.
AGM	In April 2022, we welcomed the opportunity to hold our first physical meeting since the onset of the pandemic and invited members to attend our AGM in person. We were delighted to meet with our members face to face. Our AGM is an important date in our calendar and our single biggest member engagement event. Over the last two years we have focused on improving our AGM engagement activity and encouraging members to ask questions and take part by voting on our resolutions and in the elections and re-elections of our directors. In 2022 we also invited members to vote on some updates to our Rules to improve the resilience of the AGM process. Members voted in favour of all resolutions and our Rules have now been updated and are available to view on our website (leedsbuildingsociety.co.uk/your-society/about-us/rules/).

Engagement in action

For the 2022 AGM, we enhanced the AGM Hub on our website to provide members with more interactive information about the Society and to help members choose how to vote on the proposed resolutions. We also provided members with detailed answers to a number of frequently asked questions and on some key issues. Members were also invited to submit questions in advance of the AGM, all of which were answered directly in writing, by telephone or at the meeting itself.

The questions we received were largely centred around several themes, including remuneration, the diversity of the Board, the Society's response to climate change and savings interest rates.

Colleagues

The Board maintains a variety of both formal and informal channels by which it engages with and listens to colleagues, to identify any themes or concerns, and as a means of monitoring our culture.

Engagement channel	Activity
Virtual updates are delivered to each division from the relevant executive director or member or ExCo	Sessions are scheduled quarterly and include an update on the Society's performance along with updates relevant to their division. Colleagues are also provided with the opportunity to raise questions they may have.
Annual colleague engagement survey	A formal engagement survey is undertaken each year to provide insight on colleague views, emerging issues, themes, and any areas of concern.
Designated non executive for colleague engagement	The Board considers this an important role which allows colleague views to be heard at Board level. It allows Board members to obtain a full and rich understanding of colleague views across the organisation and ensures their views are represented and discussed and consequently taken into consideration as part of the Board's overall decision making process. It also provides an additional means to monitor culture and colleague opinions more closely. Regular updates are provided to the Board by the designated non executive for colleague engagement regarding insights gained through colleague meetings, branch visits and attendance at the colleague forum meetings.
'Voice of the colleague' – video presentations from colleagues delivered at Board meetings, and in person meetings with colleagues	Colleague views have been heard in the Boardroom through a series of video presentations from Contact Centre and Mortgage Lending. Furthermore, inclusion and diversity forum representatives attended a Board meeting and had focused time sharing their lived experiences of work with the Board directly. Plans are also in place to develop this further in 2023 by inviting more colleagues to attend and present papers at both Board and Board committee meetings.
Attendance by Board members at colleague inclusion and diversity forums and colleague association meetings	Several non executive and executive board members, including the Chair, have attended colleague forum meetings to listen to the topics being discussed, gain insight into the activities undertaken by each forum as well as answering any questions on the Society's inclusion and diversity agenda.
Virtual insights sessions delivered by non executive director	Anita Tadayon, Non Executive Director, led a developing insights session with the Society's colleagues on how to unlock future user experience and innovation.
Branch and departmental visits by non executive directors	A number of non executive directors have undertaken visits to branches and departmental visits throughout the year to meet with colleagues and discuss matters with them directly.
Attendance at meetings of the Colleague Association	The Colleague Association works on behalf of colleagues to help ensure we provide a great place to work. The Association's committee is made up of six volunteer colleagues. It provides guidance, welfare support and legal assistance for its members and is a forum for colleagues to provide feedback to senior management and the Association's committee has regular meetings with senior managers in respect of business performance, culture, reward and any other employment matters directly affecting terms and conditions. In 2022, the Association met with the Chair, Iain Cornish, CEO, Richard Fearon and had regular meetings with Caroline Hill, Chief People Officer.

The designated non executive for colleague engagement role was reviewed in 2022 against best practice and that of our peers. The review found that the role played by Lynn was operating well and there were no gaps or areas which required immediate improvement.

When Lynn steps down from the Board in 2023, Annette Barnes has been appointed to fulfil this role.

Engagement in action
In 2022, Lynn McManus, in her capacity as the designated non executive for colleague engagement, attended meetings with the Colleague Association. The Association also had regular meetings with Caroline Hill, Chief People Officer, and met with the Chair and the CEO. The Association reported that it felt it was able to have the right conversations with the senior management team and that feedback from colleagues was very positive throughout 2022.

The Association is confident it has been listened to and supported effectively by the senior management team.

Lynn carried out several branch and departmental visits and took an active role in reviewing colleague feedback received as part of the Society's annual colleague engagement surveys.

Lynn also reported that the increases to reward packages in both 2021 and 2022 had been received positively by colleagues, as had the announcement to move to a hybrid way of working. Lynn also reported the high level of engagement from colleagues across all divisions with the Society's new purpose and how colleagues really felt included and part of the positive work being undertaken by the Society and the objectives it is working towards.

Approved by the board of directors and signed on behalf of the Board.

Iain Cornish
Chair

23 February 2023

Nominations Committee Report

Year ended 31 December 2022

Nominations Committee highlights from 2022

- Neil Fuller appointed as Chair of Board Risk Committee from January 2022
- Annette Barnes appointed as the non executive Consumer Duty Champion
- Revised approach for the internal Board evaluation

Committee membership during 2022

- Iain Cornish (Chair) – since April 2021
- Gareth Hoskin – since January 2019
- Lynn McManus – since April 2020
- Katherine Tong – Committee Secretary

Number of meetings and attendance

- Four scheduled meetings
- One additional meeting held
- Attendance records from each meeting in 2022 are included on page 122 of the Corporate Governance Report.

Introduction from the Chair

Dear member

I am pleased to present our 2022 report on the Nominations Committee, which reviews and summarises our activities over the past year. The report also provides more detailed information on the role and responsibilities of the Committee.

Focus of the Committee during 2022
Key areas of focus for the Committee in 2022 have included Board succession planning and recruitment, progression of the 2021 external Board evaluation actions, the 2022 internal Board evaluation, as well as a review of the Board's skills matrix and the competency and annual appraisal framework for non executive directors.

Throughout the year, inclusion and diversity remained high on the agenda, with detailed discussions taking place, alongside an in-depth review and refresh of our inclusion and diversity strategy. Our new strategy is focused on creating an inclusive culture, which enables all our colleagues to thrive, whilst continuing to develop and attract diverse candidates to support us in being representative of the communities we serve. The Board recognises the lead role it has to play in furthering this agenda and has supported several events throughout the year. The Chair has joined each of our five colleague-led forums to hear about their activity and how they support the progression of the inclusion and diversity strategy. More information is available in our Purpose Impact Report on the Society's website: leedsbuildingsociety.co.uk/press/financial-results/.

The Committee continued to oversee the Society's governance arrangements to ensure we operated within a strong governance framework and in accordance with the recommendations of the UK Corporate Governance Code (the Code).

Board appointments
As I have outlined in the Corporate Governance Report, there were no changes made to the composition of the Board during 2022. However, Lynn McManus stepped down from her position as a non executive director in January 2023 to pursue an executive role with another financial institution. Consequently, to support succession plans and to provide resilience whist we recruit, David Fisher has agreed to extend his role into 2023. Several changes to committee compositions have also been agreed. With effect from January 2023 and subject to regulatory approval, Annette Barnes has been appointed as Chair of the Remuneration Committee.

The Committee considered Annette's skill set and her experience on the Remuneration Committee and agreed she was a strong candidate. It was also discussed that Annette had capacity to fulfil the role requirements given her other time commitments.

Annette has also been elected by the Board to replace Lynn as the designated non executive for colleague engagement as well as being appointed as the Consumer Duty Champion.

In addition, the Committee was actively involved in overseeing the recruitment of additional members of the Senior Leadership Team and the recruitment process of new non executive directors which is currently underway.

Iain Cornish
Chair of Nominations Committee

23 February 2023

What is the Nominations Committee responsible for?

A summary of the Committee's role and the activities undertaken in 2022 is detailed below.

Nominations Committee responsibilities

- Oversight of succession planning for directors and the Senior Leadership Team.
- Succession planning for the Board and its committees.
- Oversight of the appointment process for Board candidates.
- Agreeing the approach for the annual Board evaluation review.
- Review of the Board Conflict of Interest Policy, including monitoring any potential or actual conflicts of interest.
- Development of a diverse pipeline for succession.
- Ongoing assessment of the independence and time commitment of non executive directors.

Board composition

Committee role	The Committee is accountable to the Board for ensuring the Board and its committees consist of directors with the appropriate balance of skills, experience, background and opinions, to fully discharge their duties in a highly effective manner. The Committee is also responsible for setting and agreeing the diversity targets at Board level and approving the Board Diversity Policy on an annual basis.
Activities in 2022	There were no changes to the composition of the Board in 2022, but Lynn McManus stepped down from the Board in January 2023, following her successful appointment to an executive role with another financial institution. An additional meeting of the Committee was convened in November to discuss the impact of this on Board and committee composition and succession planning, as well as to receive an update on Board recruitment more generally. As reported in the Corporate Governance Report, David Fisher reached his nine year tenure in March 2021. It was originally agreed that his tenure would be extended to the end of 2022 to support succession plans. However, to help us manage the imminent departure of Lynn and to provide some resilience and continuity, it has been agreed with David that he will remain on the Board into 2023. The Committee determined it was satisfied he remained independent, which is assessed periodically by the Committee and there was strong evidence of challenge and diverse thinking. As with all of our Board directors, his appointment is dependent on his re-appointment at the 2023 AGM. As a result of Lynn's departure, the Committee considered and agreed a number of consequential changes to committee composition. More information on this is included in the succession planning section of this report. Board recruitment is underway to appoint new non executive directors, with the assistance of Warren Partners, an executive search firm with which the Society has no connection or conflict of interest.

Succession planning

Committee role	The Committee is responsible for the consideration of the succession planning for the Board, including non executive directors and executive directors. It also considers the membership of the Board committees and makes recommendations to the Board on all these matters, as well as providing oversight of succession plans for the Senior Leadership Team. The Committee is required to review the leadership needs of the organisation at regular intervals and ensure the development of a diverse pipeline for succession to ensure the continued ability of the Society to operate effectively and ensure its long term success.
Activities in 2022	Throughout the year, the Committee regularly reviewed the composition of the Board and its supporting 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 qualifications is reviewed through the completion of a skills matrix. This was considered alongside the current composition of the Board and the Board tenure plan, to aid a detailed discussion with regard to the Board's succession planning requirements. The Committee also periodically reviewed the length of tenure of each non executive director and the potential impact on Board committee membership of those directors who are nearing the end of their term of appointment. This aids forward planning, promotes the continual refresh of skills and experience on the Board and, together with the composition review, provides insight and direction into the search process for new non executive directors. Following the departure of Lynn McManus, the Committee reviewed the composition of each Board committee. Consequently, and following completion of a detailed handover, it was agreed that Annette Barnes (non executive director) would replace Lynn as Chair of the Remuneration Committee, in January 2023 (subject to regulatory approval). Prior to her appointment, Annette had already served as a member of the Committee since March 2021. Lynn conducted a full handover to Annette, with additional support provided by the Chief People Officer, Deputy Chief Executive Officer and Chief Risk Officer. To support the transition to the new role, Annette's induction was also tailored to include meetings with members of the Reward team. **Appointment of a Board adviser** As referenced in the Corporate Governance Report, in 2022, the Board agreed to appoint an independent Board technical adviser. Nominations Committee members initially reviewed the proposal for this appointment and recommended it to the Board for approval. **Our NED network** As reported in 2021, to help develop a talent pipeline of future non executive directors, the Leeds NED Network was set up by the Society, with the objective of establishing relationships with potential diverse candidates and to provide candid insight on the role of a non executive and the skills and experience required, both at the Society and more generally across financial services. Meetings continued to be held in 2022 at which a wide range of topics were discussed with a number of high calibre individuals in attendance. These sessions have been received positively and additional meetings are planned to take place in 2023. **Skills matrix** The NED skills matrix is designed to focus on the skills and experience required by the Board, to effectively support the business over our strategy horizon. The range of skills within the matrix reflects the complexity of non executive director roles and the responsibilities and governance requirements of the regulatory regime. The Committee conducts a full review of the skills matrix each year, the outputs of which helps to determine gaps and priorities for succession planning.

Nominations Committee Report continued

Activities in 2022 continued	In 2022, it was agreed that climate change should be added to the matrix as an additional skill/knowledge area. Alongside this, a new section on behaviours and mindset (aligned to the Society's purpose) was added to the matrix. In addition and arising from a suggestion in the 2021 external Board effectiveness review, the Committee agreed to extend the skills matrix to include executive directors, providing a full Board skills matrix. In line with the updates to the skills matrix, the Committee also reviewed the competency framework for the non executive directors. This underpins the recruitment process, performance and coaching and appraisal activity. Updates were made to the NED competency framework to ensure it is future-focused, aligned to the stated behavioural shifts that the Board have already recognised and reflects external research on competencies required for fully effective boards. The Committee considered that the updates to the NED competency framework rebalanced the focus and introduced greater simplicity to enable relevant assessment of competence in the annual appraisal. In addition, the Committee discussed how it will be necessary in future to ensure that Board induction and ongoing training actively enabled attainment of these competency expectations and that Board succession planning and recruitment must also align accordingly. **Board re-appointments** The Committee is responsible for reviewing the re-appointment of all non executive directors at the end of each three year term. Non executive directors are appointed for a period of three years and are usually expected to serve two terms. These terms are subject to ongoing performance evaluations and annual re-election by members at the AGM. Non executive directors may also be proposed for a third term, up to a maximum of a further three years (nine years in total, but can be longer in very limited circumstances), provided they are considered to remain independent from the Society. On re-appointment, a refresher training programme, informed by their performance evaluation and the future requirements of the NED role, is provided to each non executive director as appropriate.

Board effectiveness

Committee role	To ensure the Board evaluates its own performance and that of its members (at least annually). The actions arising from the reviews are overseen by the Committee. At least once every three years, the Committee is required to commission an external review of Board effectiveness. The Committee is also responsible for the ongoing assessment of the independence and time commitment of non executive directors to ensure everyone can fully discharge their duties to the Board.
Activities in 2022	**Board evaluation** In January 2022, the Committee considered the process followed for the 2021 Board external evaluation. It was agreed that the overall process had been well executed and some valuable points had been raised for exploration and action. The approach for the 2022 internal evaluation was reviewed and revised to include observations from two Board committee meetings to assess behaviours and the contributions from members and attendees, as well as including insight from the Board committee effectiveness reviews and the newly appointed independent Board technical adviser. In addition and in the same way as in previous years, the evaluation comprised a questionnaire, which was completed by all members of the Board, members of the Executive Committee, the Secretary and the external auditor. The internal review concluded that the Board, including its members, are operating effectively. More information on the process and the outcome of the review is included in the Corporate Governance Report on pages 128 and 129.

Activities in 2022 continued	**Board appraisals** In 2022, a review was conducted of the annual appraisal procedure for the non executive directors and a more streamlined process has been adopted to reflect the new NED competency framework. **Review of independence and conflicts of interest** During the year, the independence of all non executive directors was assessed against the criteria set out in the Code and their length of service. The Committee simultaneously considered potential conflicts of interest by undertaking a review of the Board Conflicts of Interest Register, alongside the external appointments and time commitments held by each director. Detailed discussions have been held to assess David Fisher's independence, given the agreement to extend his appointment further into 2023 following his nine year tenure ending in 2021. Due to his continued scrutiny and challenge at Board and in committee meetings, it was agreed he continued to demonstrate independence and diverse thinking and his tenure had not impaired this. Consequently, the Committee concluded that all directors remain independent and that all appointments remained appropriate. Further details on the 2022 review process, conflicts of interest, external directorships and the associated time commitments are contained within the Corporate Governance Report on pages 118 to 136.

Governance

Committee role	The Committee is responsible for ensuring the Board meets the Principles and Provisions of the UK Corporate Governance Code (the Code) and regulatory sourcebooks relevant to the remit of the Committee – specifically those regarding conduct, accountability and management arrangements.
Activities in 2022	In 2022, following a detailed review of compliance against the Code, the Committee received an update to confirm the Society complies with the Code, insofar as it is possible for a building society, with no further actions required. The Committee was also advised of the new FCA requirement, to appoint a non executive Consumer Duty Champion. The primary role of the appointed Champion is to support the Chair and CEO in raising Consumer Duty regularly in all relevant discussions and to challenge the Board and management on how it is embedding Consumer Duty and focusing on consumer outcomes. The Committee reviewed the requirements for the role against the current composition of the Board and due to her skill set, experience and strong knowledge of conduct-related matters, it was agreed that Annette Barnes would take up the role. Due to the preparatory work underway in advance of Consumer Duty coming into force in July 2023, the Chair agreed with Annette that the appointment would be effective immediately, to ensure the Board had sufficient oversight of the project from an early stage.

Inclusion and diversity

Inclusion and diversity are considered in many of the discussions we have. The Committee is responsible for ensuring the composition of the Board and the Senior Leadership Team is inclusive and diverse and reflects the Society's strategic ambition – the Society is an organisation where all colleagues should be valued and included for who they are and the unique perspectives they bring. We see diversity as a very broad and complex area, which includes, for example, seeking to achieve a balanced mix of skills, experience, backgrounds, and qualifications within the workforce. We recognise that all differences bring benefits – particularly in decision making, where varying viewpoints can add real value. We take inclusion and diversity very seriously; we are not complacent, and we understand that we have much more to do. We recognise that inclusion and diversity go beyond 'just meeting targets' and the new strategy is the foundation to engage all colleagues at the Society, from the Board to the branch network.

In 2022, the Committee reviewed and approved the updates to the Board inclusion and diversity statement and signed off a refreshed inclusion and diversity strategy. More information is available in the Corporate Governance Report on page 123 and the Society's statement on inclusion and diversity is available on the Society's website at leedsbuildingsociety.co.uk/your-society/financial-information/diversity/.

The table below sets out the Society's position against the 2022 targets for gender and ethnicity representation on the Board and in the leadership team, as at 31 December 2022.

Element	Proposed target for 2025	Current position at 31 December 2022
Board gender diversity	33%	27%
Leadership Team gender diversity	35%	35.25%
Ethnic minority representation – Board	One Board member	One Board member
Ethnic minority representation – Leadership Team	7%	7.2%
Ethnic minority representation – colleagues	12%	11.9%

Gender pay
We continue to make progress in being a Society where difference is embraced, and all colleagues feel included and valued.

We welcome the focus on driving 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 59% of our workforce is female.

Our gender pay gap is driven by the make-up of our workforce, as we have fewer women than men in more senior and, therefore, more highly paid roles. We remain confident our pay approaches are fair and gender neutral. 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 page 18 and in our Purpose Impact Report.

Key areas of focus in 2023

In 2023, the Committee will focus on succession planning and the recruitment of new non executive directors, being mindful of the inclusion and diversity targets in place and the skills and experience required on the Board.

Audit Committee Report

Year ended 31 December 2022

Audit Committee highlights from 2022

- Competitive tender for new external auditor completed
- Internal Audit maturity assessment undertaken and roadmap produced for evolution of the function
- Annual Report and Accounts recommended to the Board for approval
- Integrated assurance shows control environment is effective and proportionate

Committee membership during 2022

- Gareth Hoskin (Chair) – member since January 2016
- David Fisher – member since May 2017
- Lynn McManus – member since September 2017
- Neil Fuller – member since January 2021

Number of meetings and attendance

- Six meetings during the year with 100% attendance from Committee members plus a further six meetings of the external audit tender sub committee
- Meetings regularly attended by other Board members including the Chair, CEO and CFO. The Chief Internal Auditor, representatives of the Finance and Risk divisions and other relevant business areas, plus senior external audit personnel also in attendance
- Two private meetings with the external auditor and two with the Chief Internal Auditor, not attended by management

Introduction from the Chair

Dear member

I am pleased to present my report on the work of the Society's Audit Committee in relation to the financial year ended 31 December 2022.

The Committee comprises solely non executive directors so that it is independent of executive management. The Committee acts with authority delegated to it by the Board and reports directly to the Board. All members of the Committee have recent and relevant financial services experience and competence in accounting, finance or risk management.

Our core responsibilities relate to the following four areas:

Appropriateness and integrity of our **external financial reporting**	Adequacy and effectiveness of our **systems of internal control** and risk management	Effectiveness, performance and independence of the **Internal Audit** function	Independence, performance and objectivity of the **external auditor**

In 2022, the difficult economic environment, with rising inflation and volatility in market interest rates, and the knock on impacts to the mortgage and savings markets, have presented challenges to the Society which are reflected in the work of the Committee.

In particular, the uncertain economic environment means that greater reliance is placed on management judgement in certain areas of financial reporting and Committee members have spent considerable time reviewing and challenging these judgements for both the Interim Financial Report and the Annual Report and Accounts.

Audit Committee Report continued

It is vital that our internal control and risk management systems continue to operate effectively to protect the business and our members in these uncertain times, and all three lines of defence have focused on maintaining a strong control environment. I am pleased that the Committee has been able to conclude 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, with a third party maturity assessment this year concluding the function is high performing and fit for purpose. However, Internal Audit and the Committee recognise the need for them to continue to evolve to maintain these high standards and we were interested to hear the team's plans for the next few years. Internal Audit's regular updates to the Committee have generated significant discussion and challenge, so that committee members could be satisfied that their work was focused on the most appropriate areas of risk throughout the year.

Another key area of focus for the Committee in the year was the tender for a new external auditor as our current auditor is approaching the end of their maximum permitted term. Committee members devoted considerable time this year to the tender, in addition to their usual Committee workload, and I was delighted that we were able to recommend two very strong candidate firms to the Board, who agreed with our preference to appoint Ernst & Young LLP. They will take over as our auditor for the financial year ending 31 December 2024, subject to approval from our members at the 2024 AGM.

As a Committee, we recognise the importance of strong corporate governance and the increasing regulatory expectations in the areas of internal controls and external audit. In the autumn the Financial Reporting Council (FRC) published its draft minimum standards for audit committees. Although the standards are initially applicable to FTSE350 companies, they are considered to represent best practice for all businesses of our size and we will review and incorporate changes where appropriate.

Gareth Hoskin
Chair of Audit Committee

23 February 2023

What the Committee did during 2022

External financial reporting

The Committee reviewed the Society's Interim Financial Report, published in July, and its Annual Report and Accounts, on behalf of the Board. Following detailed discussions and challenge of management, we were able to recommend these to the Board for approval. All Board members either attended the committee meetings where the final financial statements were reviewed or received an individual briefing from the Audit Committee Chair, so that all directors were aware of the matters discussed and the challenges raised with management.

The Committee also provides oversight of the Society's regulatory reporting and our Pillar 3 Disclosures, which were produced on a half yearly basis for the first time this year. We considered material overarching judgements applied by management in the preparation of these reports and approved the governance arrangements around their production, noting the assurance provided by the second line Risk division.

Preparation of the financial statements requires management to adopt certain accounting policies as appropriate for our business and make judgements, estimates and assumptions. Further details of the work undertaken to examine and challenge the most significant areas are set out in the table overleaf, with additional information in note 2 of the accounts. Having considered and challenged management and the external auditor's reports on the approaches adopted, we were able to conclude that they were appropriate.

The Board has also asked the Committee to confirm that the Annual Report and Accounts, as a whole, presents a fair, balanced and understandable view of the Society's position and prospects. In assessing this, we considered the process for the production, review and challenge of the report and whether this would result in a balanced and consistent report.

We read the narrative sections of the report, considering whether the content was consistent with our knowledge and understanding of the business and the wider environment, as well as other information provided to the Board throughout the year. We also reviewed and approved the inaugural Purpose Impact Report which is to be published at the same time as the Annual Report and Accounts.

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 residential mortgages, these provisions are calculated using complex statistical models which incorporate historical default and loss experience information. Significant judgement and estimation is required in determining whether there has been a significant increase in credit risk, in setting forward looking economic scenarios and the probability weighting of those scenarios. Management judgement is also required on the nature and size of post model adjustments where risks are identified that are not sufficiently covered by the modelled provisions and scenarios. Further details of the estimates and judgements used are set out on pages 197 to 203.	Following substantial redevelopment of the models used for calculating residential impairment loss provisions in 2021, changes to the models this year have been minor and primarily focused on addressing model performance limitations previously requiring post model adjustments. We were supported in our assessment of residential impairment loss provisions by the Models and Rating System Committee (MRSC), which reviewed the model changes in October 2022, and Credit Committee, which approved the tests used to determine whether a significant increase in credit risk has occurred, the approach to the non UK loan portfolio and provided preliminary approval of the final provisions, including post model adjustments. During 2022 there has been significant economic uncertainty, which has provided a challenge when selecting appropriate economic scenarios for provisioning. Management's proposed scenarios and weightings were initially reviewed and refined by the Balance Sheet Optimisation Group before being presented to the Committee for feedback ahead of reporting dates. To support the Committee's review of the assumptions, management provided benchmarking information and comparison to external third party forecasts. We also noted the challenge to specific assumptions provided by the external auditor and management's response to this. As in the previous year, the potential impacts of inflationary pressures on mortgage affordability have required additional consideration. This need has been heightened in the second half of 2022 by actual and forecast increases in base rate driving higher mortgage payments as customers reach the end of their fixed rate term. In November, management provided us with details of the multiple considerations, including internal and external benchmarking, being used to assess the affordability impacts on provision levels. We provided feedback on management's approach to be incorporated into the final calculations. In January 2023, management reported to us their final proposed provisions, including post model adjustments. These were supported by key metrics such as coverage rates and proportions of loans in Stages 2 and 3, benchmarking data and sensitivity analysis. The Committee assessed the work performed and asked questions on the approach taken with the main focus on the range and sensitivities of the affordability post model adjustment due to the level of inherent uncertainty. Having considered management's reports, the assurance from other committees and feedback from the external auditor, we concluded that the impairment models remain appropriate, the assumptions used are reasonable and that the post model adjustments at the 2022 year end are appropriate in the circumstances. Therefore, the Committee concluded that the level of impairment provisions at 31 December 2022 is reasonable.

Area of focus	How the Committee responded
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, which is measured 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. The key estimates and sensitivities are shown on pages 203 and 204.	The model used by management to calculate the fair value of the collateral loan was reviewed by our second line Risk division during the year under our model risk governance overseen by MRSC. The model was assessed as being fit for purpose. The assumptions used in the model are primarily evidence based, using historic data on the performance of the underlying mortgages or external market data. However, a significant level of judgement is required in selecting the discount rate. Volatile market conditions and rising interest rates have led management to make a minor amendment to their approach to the discount rate. With markets returning to an interest rate environment aligned to that when the mortgages were originated, management were able to remove a previous overlay, which we had challenged in prior periods. Management explained the assumptions used, the judgements applied in deriving these for the interim and year end accounts and the sensitivity of the model output to changes in these assumptions. We probed the approach taken and questioned management on the magnitude of the changes in assumptions. We also asked management to set out the rationale to justify the overall movement in fair value for the year, noting the interaction with the fair values of the associated derivatives. We received and discussed this information at the January 2023 meeting. Since there is no directly comparable market data available and a significant level of judgement is required in the valuation, a wide range of valuations could be considered reasonable. Taking into consideration management's explanations, the sensitivity analysis provided and the views of the external auditor, the Committee concluded that the fair value recorded in the financial statements for the collateral loan was within a reasonable range.
Fair value of the RPI linked derivative hedging the collateral loan (equity release swap) We hold derivative financial instruments to mitigate risks from movements in market rates. The valuation of the RPI linked derivative hedging the collateral loan requires management judgement in the modelling approach and assumptions used.	The RPI linked derivative is valued using a model developed in 2021. The model is governed by the Society's Model Risk Policy. The majority of the assumptions in the model are derived from market observable data, with the only significant unobservable input being the profile of the swap balance. Since this is a 'balance guaranteed' swap, this is assumed to match the modelled profile of the underlying equity release mortgages. The external auditor has reported to us a simplification observed in the approach to modelling the contractual cap and floor for RPI. Since the approach is consistent with the approach to the valuation of the collateral loan, and thus has an offsetting impact within the Income Statement, both management and the Committee have concluded that the adopted approach is materially appropriate. Having considered management's valuation, the rationale supporting this and the results of the external auditor's independent valuation, the Committee concluded that the valuation of the derivative in the accounts is appropriate.

Area of focus	How the Committee responded
Hedge accounting Changes in the fair value of derivatives are recognised in the Income Statement immediately. However, if strict accounting criteria are met, these instruments may be designated in accounting hedge relationships.	Management continues to apply the hedge accounting rules of IAS 39 to certain of our derivative portfolios. During the year the Society adopted cash flow hedge accounting in order to mitigate the volatility in profits arising from swaps used to economically hedge mortgage applications and offers where the mortgage has not yet completed. Management provided the Committee with training on the accounting requirements of cash flow hedge accounting and also their proposals for the practical implementation of these requirements. We also noted that management sought assurance from the external auditor ahead of the end of the year that the early months of implementation were compliant and appropriate. The Committee was provided with regular updates through the year on the hedge relationships in place and the results of effectiveness testing which showed all hedges remained effective throughout the year. The nature of hedge accounting means that the external auditor performs detailed substantive testing of management's results, including reperformance of hedge effectiveness testing and derivative valuation. We discussed the results of this testing with the external auditor and management. The Committee satisfied itself that hedge accounting has been appropriately applied in the financial statements and that management's hedge effectiveness testing performed throughout the year was materially appropriate. The Committee concluded that amounts recognised in the financial statements are fairly stated and that appropriate disclosures have been made.
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 the Society will continue in business for the next 12 months. The Board is also required to provide a statement on the longer term viability of the Society. These assessments have been delegated to the Audit Committee.	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 by the business to forecast and 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 to operate over the period of assessment, even in the event of an economic downturn or adverse stress. In order to support the directors' conclusions on viability, management provided a report 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, including the annual reports produced by the second and third lines of defence, the Committee was also satisfied that the Viability Statement is appropriate.

Systems of internal control

Maintaining effective systems of internal control is crucial for the Society to be able to deliver our purpose and to safeguard our members' money and our own assets. We operate 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 Board Risk Committee and delivered through established governance mechanisms and a three lines of defence assurance model. Further details on the ERMF can be found on pages 82 to 85.

The Audit Committee is responsible for reviewing the adequacy and effectiveness of these controls and risk management systems and we are supported by all three lines of defence, as part of an integrated assurance model, in order to carry out our duties, as set out overleaf.

First line management	Second line Risk division	Third line Internal Audit
• Responsible for design, documentation, operation and monitoring of internal controls. • Six monthly assessment of design and effectiveness of controls through Risk Control Self Assessment (RCSA). • Regular scheduled testing of critical controls. • Report to the Committee on request where specific matters of concern raised by second or third line.	• Regular reviews of specific processes and functions. • Oversight and review of risk registers and RCSA process; report to Audit Committee on outcome of RCSA. • Review results of management's critical control testing. • Annual report to the Committee on enterprise wide view of risks and controls.	• Independent, risk based assessments of effectiveness and adequacy of controls in specific areas of business. • Cyclical independent testing of critical controls, aiming to cover each control at least once every three years. • Report to the Committee summarising findings from each review and tracking of actions. • Annual summary to the Committee of observations and themes in relation to control environment.

The Committee reviewed and approved the 2022 work plan for the second line Prudential Risk and Compliance Monitoring teams and the Internal Audit plan, which is refreshed on a quarterly basis to allow a focus on the most important areas at a particular time and takes into account reviews undertaken by the second line as part of an integrated assurance model.

The annual report from the Risk division showed that our control environment is substantially effective and proportionate to our operations while our operational risk culture continues to mature. Where weaknesses in controls had been identified these were receiving the appropriate level of attention from management, with remedial actions in progress. A particular focus from Risk during the year has been to challenge management on the impact on risks and controls arising from the volatile economic environment and cost of living crisis.

Internal Audit's work during 2022 has been aligned to the Society's purpose in order to focus on corporate priorities as well as key areas of the control environment. Internal Audit concluded that the Society's risk and control framework is mostly designed appropriately and operating effectively, with some areas for improvement. Overall, it did not find any control weaknesses likely to be material to the financial statements based on the assurance work delivered.

The external auditor also assesses the design and effectiveness of certain financial reporting, operational and IT controls as part of its procedures to reach an audit opinion on the Annual Report and Accounts. The auditor reported its findings to the Committee and no material issues were raised in this report.

Overall, based on the evidence provided by all three lines of defence, the Committee concluded that the Society's systems of internal control and risk management were appropriate and operated effectively through 2022.

Internal Audit

Internal Audit plays a vital role in the ERMF because it acts independently of the rest of the business to provide a reliable third line of defence. The Board has delegated the role of overseeing the effectiveness, performance and independence of the Internal Audit function to the Audit Committee. The Chief Internal Auditor reports directly to the Chair of the Audit Committee to maintain their independence from executive management.

We approved the Internal Audit Charter and Terms of Reference which detail the scope, purpose, authority and responsibilities of the function, noting that these reflect industry best practice. We also reviewed the Chief Internal Auditor's objectives for the year.

Internal Audit provides regular reports to the Committee setting out progress against the plan of work and the latest plan for upcoming reviews, together with updates on resourcing and performance metrics. We assessed the coverage provided by the audit plan and the effectiveness of delivery and debated any challenges arising with the Chief Internal Auditor.

During the year, Internal Audit engaged a third party to undertake a maturity assessment of the function. This provided a review of the current position against best practice and guidance on areas of focus as the function evolves. The Committee was pleased that Internal Audit was assessed as being high performing and fit for purpose.

In response to a recommendation from the third party review, Internal Audit subsequently provided us with a more detailed 'roadmap' for changes to the function and approach to the delivery of improvements over the next three to five years to maximise efficiency and use of resources. Following discussion, the Committee was supportive of the proposals and approved the resourcing requirements to deliver them.

To further support us with our 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. This self-assessment did not highlight any areas of non compliance.

Internal Audit also provides an annual declaration of independence, which confirmed that there was no impairment of its independence. Further, since the Chief Internal Auditor has been in role for more than seven years, the Committee undertook a review of their independence and satisfied itself that they remain independent.

Based on work throughout the year, the Audit Committee is satisfied that Internal Audit had sufficient resources with the appropriate skills, competencies and qualifications to deliver appropriate coverage of the Society's risk areas. We are pleased to note that the Internal Audit function is independent, effective and compliant with applicable standards.

External auditor

The Committee is responsible for overseeing the Society's relationship with the external auditor so that the auditor remains independent and effective.

Deloitte LLP's current tenure as external auditor is 18 years, having first been appointed in 2005 and then re-appointed following a competitive tender process in 2016. The maximum auditor tenure allowed by regulation is 20 years. The current audit engagement partner is Matthew Bainbridge who was appointed this year. In advance of Matthew's appointment he met with the Committee Chair to discuss his knowledge and experience and how these would enable him to lead a high quality audit of the Society.

Audit partner and firm rotation are important tools for maintaining objectivity and during 2022 the Committee ran a tender for the Society's next external auditor, further details of which are provided overleaf.

The external auditor provided the Committee with an audit planning document for review and challenge, setting out the scope, materiality, coverage and timing of the audit work and the qualifications and expertise of the audit engagement partner and key members of the audit team. We evaluated the significant risks identified by the auditor against management's assessment of the significant areas of judgement and risks. We also reviewed and approved the auditor's engagement letter and fees.

The external auditor provided us with regular reports on the progress of its work throughout the audit cycle and the areas in which it has challenged management. We discussed these reports during Committee meetings with management present and in private sessions with the external auditor. We challenged them on the timing of certain aspects of their work so that potential issues in complex areas of accounting could be identified early and resolved well ahead of the accounts signing.

To support the Committee's view of audit quality, the auditor also provided us with an overview of how the firm had responded to the FRC's Audit Quality Review report on the firm for 2021/22 (published in July 2022).

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 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 2022, including one-off items, represented 18% of the audit fees for the year.

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

External audit tender
In February the Committee decided to undertake a competitive tender during 2022 for the appointment of the Society's next external auditor, with the intention that they will be in place from the 2024 financial year.

The tender was led by the Chair of the Committee, with a sub committee appointed to run the process, to allow it to progress outside the normal Audit Committee timetable, with six meetings scheduled at appropriate points in the process. All Audit Committee members were appointed to the sub committee. Other key stakeholders, including the Chair, CEO and CFO, were invited to attend certain meetings as guests without voting rights. A register of conflicts of interest was maintained, with no material concerns recorded.

All six remaining 'Tier 1' audit firms, excluding Deloitte, were invited to express an interest in participating in the tender. Having reviewed the willingness of firms to participate, confirmations that the firms were independent, the firms' Audit Quality Review reports for 2020/21 published by the FRC and their relevant industry experience, four firms progressed to the formal tender proposal stage.

The firms were asked to provide written responses to our tender which we scored based on the following criteria, designed to demonstrate their ability to provide a high quality audit, including a robust challenge to management:
- The results of the FRC's 2021/22 Audit Quality Reviews, published in July, and the firms' responses to these.
- Audit team personnel, in particular the relevant industry experience and technical expertise of the lead audit partner and other senior team members, and their ability to build constructive working relationships with the Committee and management.
- An understanding of the Society's business model, culture, business risks and industry.
- Audit approach, with a focus on the structure and timing of audit work, the involvement of technical specialists and the balance of decision making between the local audit partner and central teams.
- Innovation, including how the audit process will add value and provide insight to the Audit Committee.

Firms were also asked to complete a technical exercise to provide practical evidence of the audit team's ability to understand technical matters, provide robust challenge to management and articulate their opinions clearly.

Three firms submitted written responses and, having reviewed these against the agreed criteria, all three firms were taken forward to present to the sub committee ahead of the final decision. Presentations covered firms' approach to quality, delivery, communication and use of specialists in the audit and also included another technical exercise to bring to life the firms' ways of working and provide practical information to enable comparison of their technical competence and ability to share insight.

We scored the presentations against pre-determined audit quality criteria to inform our final decision. We also obtained references on the proposed lead audit partners. We considered all the evidence gathered throughout the process, including interactions between the firms and management, and were unanimous in our recommendation of two potential audit firms to the Board and our preferred appointee.

The Board considered our proposals at its November meeting and agreed with our recommendation that Ernst & Young LLP (EY) be appointed as the Society's external auditor with effect from the financial year beginning on 1 January 2024. The appointment will be subject to a vote of the Society's members at the AGM in April 2024.

Other matters

Whistleblowing
The Society's whistleblowing policy is known internally as the Speak Up Standard. Although whistleblowing is a matter reserved for the Board, the Chair of the Audit Committee is the Society's Whistleblowers' Champion and the Committee reviews our policy on behalf of the Board and recommends it 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. The report noted that our approach is fully compliant with regulatory requirements and that there is good awareness amongst colleagues, supported by positive responses to internal colleague survey questions. We have a strong culture where the majority of colleagues feel comfortable to speak up and where survey results identify this is not the case, action is taken to understand why.

Taxation
The Committee reviewed and approved our Tax Strategy and Tax Risk Management Policy. As part of the approval of the tax policy, management confirmed to us that the policy had been complied with throughout the year.

Audit Committee effectiveness
Each committee meeting concludes with a review of whether the meeting has been effective and conducted in line with the Society's behaviours. This review includes commentary from independent observers wherever possible.

The Committee also undertakes an annual self-assessment of its effectiveness, via anonymous questionnaires to all members and regular attendees at meetings. The results of the review were very positive and concluded that the Committee had functioned well and in accordance with its Terms of Reference (ToR) and no significant areas for remedial action were noted. The review also concluded that the Chair continues to be effective, actively encouraging debate and seeking input from all committee members.

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 2022 and are published on our website.

All committee members are required to keep their knowledge and awareness both recent and relevant. The Committee is kept up to date with changes to accounting standards and regulatory focus areas for financial reporting through reports and training from management and the external auditor. Separate training materials are also provided where particular topics of relevance are identified by members or attendees. In 2022, additional training was provided on cash flow hedge accounting, climate disclosures and trends in Internal Audit effectiveness.

The year ahead
In 2023, we expect to receive further clarity on regulatory changes to support the Government's 'Restoring trust in audit and corporate governance' proposals. We will work with management and the external auditor and hold them to account to make sure that the Society is compliant with regulation and best practice as appropriate for our business.

A key focus for 2023 will be to work with Deloitte and EY to ensure a smooth transition of external auditor ahead of 2024. We will also continue to support Internal Audit as they evolve their audit approach in line with their 'roadmap'.

Board Risk Committee Report

Year ended 31 December 2022

Board Risk Committee highlights from 2022

- Transition to a new Committee Chair
- Close monitoring of external developments and market volatility to assess and manage the impacts on the Society's principal and emerging risk profile
- Enhancement of risk reporting to drive more insightful discussions

Committee membership during 2022

- Neil Fuller (Chair) – Chair since January 2022
- David Fisher – member since March 2014
- Gareth Hoskin – member since November 2015
- Annette Barnes – member since February 2019
- Lynn McManus – member since January 2020
- Anita Tadayon – member since October 2021

Number of meetings and attendance

- Eight meetings held during the year
- 94% attendance from Committee members

Introduction from the Chair

Dear member

I am pleased to report on how the Committee has discharged its responsibilities throughout 2022, my first year as Chair of the Committee.

This report outlines the operations of the Committee and how the Committee has fulfilled its role overseeing and advising the Board in relation to current and potential future risk exposures and overseeing the effectiveness of risk management frameworks.

During the year, the Committee has considered the current and emerging risk profile of the Society, against a backdrop of heightened geopolitical and economic uncertainty. Focus has been given to understanding the potential affordability impacts of higher interest rates and the cost of living crisis and to ensuring that the Society is appropriately prepared to support and respond to an increased number of members who may find themselves in financial difficulty. It is expected that these will remain areas of focus for the Committee in 2023.

I would like to thank my fellow Committee members for their continued commitment, support and challenge during the year. In particular, I would like to take the opportunity to thank David Fisher, the former Committee chair, for his ongoing support throughout 2022, as I took on the role of Committee chair.

Committee operations

The Committee consists of six members, all of whom are independent non executive directors. Full biographies and experience of Committee members are set out on pages 110 to 115.

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

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 Enterprise Risk Management Framework (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 ensuring that these risks are appropriately mitigated.
- Promoting a risk aware culture within the Society.
- Reviewing and recommending to the Board key prudential documents (ILAAP, ICAAP, Recovery Plan and Resolvability Assessment).
- Ensuring that our remuneration arrangements reflect appropriate risk considerations.
- Overseeing the activities of supporting executive risk committees.

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

During the year the Committee held eight meetings. Details of the number of meetings held, membership and attendance can be found on page 122. At the beginning of each meeting, the Chief Risk Officer provides an update to the Committee regarding the Society's current and emerging risk profile. Updates are also provided by the supporting executive risk committee chairs to ensure effective oversight of their activities.

The Committee is required to conduct a self-assessment of its effectiveness on an annual basis. The 2022 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 terms of reference, with a small number of minor development areas identified, which will be addressed in 2023.

Matters considered by the Committee in 2022

The Committee had a balanced agenda in 2022, combining oversight of our current risk profile with emerging risks and requirements. A summary of the key matters considered by the Committee during 2022 are set out below.

Enterprise risk (including strategic/business risk)

- **Risk appetite** – the Committee reviewed a deep dive into the appropriateness of the Society's risk appetite, to ensure it remained fit for purpose and reflective of prevailing operating conditions.
- **ERMF and risk strategy** – the Committee approved recommended changes to the ERMF and risk strategy, which outline key focus areas to enhance risk management practices within the Society over the medium term.
- **Climate risk** – the Committee received periodic updates regarding the embedding of the Society's Climate Risk Management Framework and associated risk profile.
- **Emerging external risks** – the Committee received frequent updates regarding the Society's evolving operating environment and associated management response.
- **Remuneration** – the Committee considered potential risk adjustment to senior management variable remuneration, with recommendations provided to the Remuneration Committee.

Prudential risk (credit, funding and liquidity, market, capital and model risks)

- **Financial/credit risk** – during the year the Committee closely monitored and discussed the credit and prudential risk profile of the Society, against a backdrop of the emerging cost of living crisis, higher interest rates and heightened macroeconomic uncertainty. This included deep dive assessments of the Society's affordability model and outputs, emerging credit risk profile and credit risk control environment, capital strategy and management of financial risks in a volatile market environment.
- **Prudential assessments** – the Committee conducted an annual review of the Society's ICAAP, ILAAP, Resolvability Assessment Framework and Recovery Plan prior to approval by the Board.
- **Financial risk policies** – the Committee reviewed several key internal policies that govern our management of financial risk, including lending, funding and liquidity, market risk and model risk.
- **Model risk** – the Committee received periodic updates during the year regarding progress with the development of the Society's revised IRB model suite. In addition, the Committee also reviewed the outputs of a self-assessment against the PRA's consultation on model risk management principles, published during 2022.

Operational and conduct risk

- **Operational resilience impact tolerances** – the Committee reviewed the Society's inaugural operational resilience impact tolerances for key business services.
- **Operational impacts from the war in Ukraine** – the Committee received periodic updates from management regarding the potential operational impacts from the war in Ukraine. These updates included potential cyber risks, third party supplier impact assessments, planned recovery testing in the event of power outages and the outputs of increased financial crime due diligence.
- **Cyber risk** – the Committee reviewed periodic updates on material cyber risks and approved the updated cyber strategy.
- **Financial crime** – the Committee received the Money Laundering Reporting Officer's annual report and other financial crime updates on a periodic basis.
- **Outsourcing** – the Committee has received regular updates on emerging outsourcing risks and has reviewed risk assessment outputs for several new material suppliers.
- **Change risk** – the Committee reviewed the proposed assurance approach for a future IT migration programme.
- **Consumer Duty** – the Committee reviewed, challenged and approved management's recommended response and implementation plan to the finalised set of Consumer Duty rules, which will be implemented in 2023.
- **Members in financial difficulty** – the Committee received regular updates on progress with the Society's Mortgage Support department transformation programme.

Outlook

Over the next twelve months, the Committee will continue to concentrate its attention on the potential impacts of the uncertain economic environment as they emerge across our risk universe. Key points of focus for the Committee in 2023 include:

- Close monitoring of customer outcomes for those customers in financial difficulties.
- Assessing potential business model impacts from ongoing monetary policy changes linked to difficult economic challenges.
- Overseeing the implementation of a Board-approved plan to ensure compliance with the new Consumer Duty rules within regulatory timescales.
- Overseeing the risks associated with the Society's change portfolio and, in particular, IT change risks.
- Overseeing management's response to a finalised policy statement in relation to model risk management and closure of identified gaps.
- Continuing to embed the Society's Climate Risk Management Framework across the organisation.

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

Neil Fuller
Chair of Board Risk Committee

23 February 2023

Directors' Remuneration Report

Year ended 31 December 2022

Remuneration Committee highlights from 2022

- Providing oversight of reward for the broader colleague population, in particular in relation to the cost of living crisis
- Providing additional flexibility in the Remuneration Policy to support the retention of executive directors
- The setting and review of performance against objectives, clearly linked to strategy and purpose
- Continued compliance with the Remuneration Code

Committee membership during 2022

In 2022 the Committee comprised four non executive directors:

- Lynn McManus (Chair) – member since January 2018
- David Fisher – member since May 2012
- Gareth Hoskin – member since January 2018
- Annette Barnes – member since March 2021

Number of meetings and attendance

- Seven meetings were held during the year
- 100% attendance from Committee members, with exception of Gareth Hoskin who missed one meeting
- Chair, Chief Executive Officer, Deputy Chief Executive Officer, Chief People Officer and Reward Lead are regular attendees at the meetings

Introduction from the Chair

Dear member

I was appointed Chair of the Remuneration Committee (subject to regulatory approval) in January 2023 and, as such, I am pleased to present this year's Remuneration Committee report. The report includes a summary of our Remuneration Policy, together with key decisions made in the year.

I want to thank my predecessor Chair, Lynn McManus, for her unswerving commitment to ensuring that our remuneration structures support our mutual status and culture, in the long term interests of our members.

The focus of the Committee is to set our Remuneration Policy, including base 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.

As a mutual, purpose-led business, we took steps to support our colleagues throughout the cost of living crisis in 2022. We paid a one-off, discretionary, award of £1,200 (full time equivalent) to all colleagues excluding the executive directors and Senior Leadership Team and we elected to move our 2023 pay review forward from April 2023 to January 2023, for all colleagues.

Last year members approved a change to the Remuneration Policy to allow additional flexibility to make retention awards, specifically to executive directors, in exceptional cases where we believe it is in the interests of members and the Society to retain the service of an executive.

In 2022, the Remuneration Committee approved a retention award, specifically in relation to the successful delivery of the critical, multi-year core system migration programme for the Chief Operating Officer, Rob Howse. The first instalment of the retention award will be made in 2023, subject to performance criteria being met. The 2023 Annual Report and Accounts will provide full details of the retention award.

Performance and awards 2022

Earlier sections of the Annual Report and Accounts set out how we have delivered an exceptionally strong performance across all our key metrics which determine our variable pay outturn.

After careful consideration, annual bonuses of between 17% and 18.68% (2021: 16.7% and 18.8%) have been awarded for 2022 to the executive directors, which represents between 85% and 93.42% (2021: 83.5% and 94%) of the maximum award available.

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. Following full consideration, no adjustment to variable remuneration was deemed necessary. The Remuneration Policy has operated as intended.

2022 remuneration changes

As reported last year, in April 2022, the base pay of the Chief Executive Officer increased by 8.7%, the base pay of the Chief Operating Officer increased by 7.7% and the base pay of both the Deputy Chief Executive Officer and the Chief Financial Officer increased by 5%.

Fees paid to the Chair and non executive directors increased by 3.75%, in line with base pay awards to our colleague population. The base pay increase for colleagues ranged from 3% to 19%, with an average of 5.22%.

Looking ahead

Looking ahead to 2023, the Committee will continue to ensure we have the right reward structures in place, to foster our mutual culture and to attract and retain the talent we will need to deliver on our purpose.

All colleagues, including the executive directors, received a base pay increase in January 2023. Having conducted thorough external benchmarking and having assessed the performance of the Society under the Chief Executive Officer's leadership, the Remuneration Committee agreed a 15% base pay increase for the Chief Executive Officer. This increase is in line with the range of increases received by colleagues. The base pay increases for colleagues ranged from 6% to 25% with an average of 9.34%. The base pay of all other executive directors increased by 6%. The Chair's and non executive directors' basic fees also increased by 6%, in line with the minimum increase for the colleague population.

I trust this report is helpful and informative. The Remuneration Committee recommends that members vote in favour of the 2022 Directors' Remuneration Report.

Annette Barnes
Chair of the Remuneration Committee

23 February 2023

Our Remuneration Policy and principles

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.
- Being structured to attract and retain appropriately skilled colleagues to support the Society's long term interests and to promote a healthy culture.

All our remuneration decisions are based on:

- Objectives which are linked to our purpose, business strategy, values and long term interests, environmental, social and governance (ESG) related objectives and the security of the Society and our members.
- Procedures and practices that 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, whilst not encouraging risk taking that exceeds the level tolerated by the Society.
- Basic salary and total remuneration which are set at a competitive level to attract, retain and motivate colleagues of the required calibre.

Components of remuneration structure

Executive directors

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.

	Remuneration element	Summary
Fixed remuneration	**Basic salary**	Provides ability to attract and retain executives through market competitive rates of pay. 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.
Fixed remuneration	**Pension**	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. Executive directors appointed before 1 April 2019 receive a range of relevant employer contributions, fully aligned with the colleague population who joined before 1 April 2019, with a maximum contribution of 20% of basic salary, based on age and pensionable service. Executive directors appointed on or after 1 April 2019 receive a maximum contribution, fully aligned with the colleague population who joined after 1 April 2019, of 10% of basic salary.
Fixed remuneration	**Benefits**	The principal benefits executive directors receive are: • life assurance (up to 4 x basic salary) • private medical insurance • group income protection • health screening • cash health plan. Other benefits may be provided based on individual circumstances, for example, relocation.

	Remuneration element	Summary
Variable remuneration	**Annual bonus scheme**	The 20% maximum is split between: Society performance – 10% Personal performance – 10% Society performance objectives 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 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 behaviours. Robust risk evaluation measures are independently assessed by the Board Risk Committee, with measures for the Deputy Chief Executive Officer assessed by the Chief Executive Officer. 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].
	Retention awards	Such awards will only be made in exceptional circumstances. The monetary value of the award will be defined at grant, and vesting of awards will be tied to the completion of a defined period of service and the satisfactory completion of a specific project or other multi-task deliverable. Retention awards can be made up to the maximum permitted (in conjunction with the annual bonus) without breaching the regulatory cap on variable pay of 100% of fixed pay per annum. Retention awards are part of variable pay and may be subject to malus and clawback, deferral and delivery in instruments as determined by the Remuneration Committee.

Notes:
(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 £44,000 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.

The Remuneration Committee may apply discretion to reduce bonus awards in whole or part using either malus or clawback. Malus is a reduction factor which is applied to bonus payments which have not yet vested and clawback is applied to seek recovery of bonus payments already paid.

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 2022 bonus for the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer and Chief Operating Officer will be delivered:

Performance year	April following the bonus scheme year	Paid one year later	Paid two years later	Paid three years later	Paid four years later	Paid five years later	Paid six years later	Paid seven years later	Paid eight years later
Annual bonus scheme	40% of the bonus is awarded in the April following the scheme year. 50% of any award will be delivered in a share-like instrument			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 any award will be delivered in a share-like instrument.					
	20% cash			6% cash	6% cash	6% cash	6% cash	6% cash	
		20% share-like instrument			6% share-like instrument	6% share-like instrument	6% share-like instrument	6% share-like instrument	6% share-like instrument

Non executive directors

Non executive directors receive fees which reflect the level of responsibilities and time commitment required for Board and Board committee meetings. Non executive directors receive a basic fee and an additional fee for chairing a committee.

Fees are reviewed annually with recommendations made to the Board by the Executive Committee. The Chair's fee is reviewed by the Remuneration Committee. Fee levels are benchmarked against other financial services organisations.

Non executive directors are reimbursed for travel expenses for attending meetings and, where tax liability arises for these travel expenses, this will be covered by the Society.

Report on remuneration 2022

Executive director remuneration summary for 2022

The total remuneration received by executive directors for 2022 is detailed below, compared with 2021. The total remuneration for executive directors equates to 1.0% of profit before tax (2021: 1.2%). This information has been audited and shows remuneration for the years ended 31 December 2021 and 31 December 2022, as required to be reported under the Building Societies (Accounts and Related Provisions) Regulations 1998. The awards made in respect of performance in 2022 are in line with the 2022 Remuneration Policy, with a maximum variable pay of 20% 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.

2022 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	578	110	64[1]	–	642	110	752
A P Conroy	355	64	35[1]	–	390	64	454
A J Greenwood	375	64	52[1]	–	427	64	491
R J Howse	363	66	36[1]	–	399	66	465
Total remuneration[2]	**1,671**	**304**	**187**	**–**	**1,858**	**304**	**2,162**

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.

2021 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	543	102	50[1]	–	593	102	695
A P Conroy	342	60	34[1]	–	376	60	436
A J Greenwood	361	62	51[1]	–	412	62	474
R J Howse[2]	229	63	23[1]	–	252	63	315
Total remuneration[3]	**1,475**	**287**	**158**	**–**	**1,633**	**287**	**1,920**

Notes:
(1) These directors elected to receive part or all of the Society's pension contribution as a cash allowance.
(2) R J Howse was appointed to the Board on 1 May 2021.
(3) No director received other taxable benefits of £1,000 or above.

Annual incentive

For 2022, corporate performance incentive opportunities were based on the performance measures in the following table.

The table also illustrates performance against each of the measures.

Performance measure	Weightings for maximum (as % of salary)	Pay out %
The number of members supported with their home ownership ambitions through our lending against owner-occupied properties in the UK.	2.5%	2.5%
Maintain capital strength and cost efficiency to support our differentiated product mix and thrive through the cycle.	2.5%	2.5%
Keep our members and brokers informed and maintain trust and customer satisfaction across all channels. Provide robust service to our intermediary partners.	2.5%	2.19%
Ensure we have highly engaged and empowered colleagues, a diverse workforce and talent pipeline to respond to our changing context and needs.	2.5%	2.19%

Notes:
The corporate measures only apply to the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. The Deputy Chief Executive Officer is responsible for a control function, and, therefore, is remunerated on personal objectives only with a maximum of 20%.

Personal performance achievement for executive directors was in the range of 8.35% to 17% (17% in respect of the Deputy CEO). Personal performance for executive directors not in a control function is based on a maximum of 10% and is assessed on personal objectives relating to each executive director specific role and behaviours.

Risk assessment

The risk assessment process is independently managed by the Risk division. Following completion of the risk assessment process, the Chief Risk Officer 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 division 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 Chief Risk Officer 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 dimensions including audit findings, compliance with regulatory policies, compliance with our risk appetite and general control and governance matters.

The Remuneration Committee, after consultation with the Board Risk Committee and consideration of performance against risk appetites, did not make any risk adjustment for 2022.

Unpaid deferred elements of the annual bonus scheme

Executive directors	Performance year	Due 2023	Due 2024	Due 2025	Due 2026	Due 2027	Due 2028	Due 2029	Due 2030	Due 2031	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
R G Fearon	2019	10	20	20	20	20	11	–	–		101
	2020	28	3	14	23	23	23	20	8		142
	2021	20	–	6	12	12	12	12	8		82
	2022	22	22	–	7	13	13	13	13	7	110
	Total	**80**	**45**	**40**	**62**	**68**	**59**	**45**	**29**	**7**	**435**
A P Conroy	2020	16	16	11	–	–	–	–	–		43
	2021	12	–	4	7	7	7	7	4		48
	2022	13	13	–	3	8	8	8	8	3	64
	Total	**41**	**29**	**15**	**10**	**15**	**15**	**15**	**12**	**3**	**155**
A J Greenwood	2019	16	–	–	–	–	–	–			16
	2020	17	16	13	–	–	–	–			46
	2021	13	–	4	7	7	7	7	4		49
	2022	13	13	–	5	7	7	7	7	5	64
	Total	**59**	**29**	**17**	**12**	**14**	**14**	**14**	**11**	**5**	**175**
R J Howse	2021	13	–	4	7	7	7	7	5		50
	2022	13	13	–	4	8	8	8	8	4	66
	Total	**26**	**13**	**4**	**11**	**15**	**15**	**15**	**13**	**4**	**116**
P A Hill	2018	25	25	25	25	14	–	–	–		114
	Total	**25**	**25**	**25**	**25**	**14**	**–**	**–**	**–**		**114**
R S P Litten	2018	17	17	17	17	9	–	–	–		77
	2019	2	3	3	4	4	2	–	–		18
	Total	**19**	**20**	**20**	**21**	**13**	**2**	**–**	**–**		**95**
K R Wint	2019	12	–	–	–	–	–	–	–		12
	Total	**12**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**12**
Total		**262**	**161**	**121**	**141**	**139**	**105**	**89**	**65**	**19**	**1,102**

The payment of deferred elements is subject to future performance, for example, the application of malus. Clawback will be applied as required by regulation.

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. R J Howse has opted for a 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 director 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 for loss of office

There were no payments for loss of office made in the financial year.

Remuneration for Material Risk Takers in 2022

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, 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 2022, there were 32 Material Risk Takers during the year.

Aggregate remuneration for Material Risk Takers is reported in the table below.

	Number of beneficiaries		Fixed pay[1]		Current year variable pay[2]		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
			£'000	£'000	£'000	£'000	£'000	£'000
Senior management	32	27	6,500	5,428	1,299	497	7,799	5,925
Other Material Risk Takers	–	–	–	–	–	–	–	–
Total	**32[3]**	**27[3]**	**6,500**	**5,428**	**1,299[4]**	**497**	**7,799**	**5,925**

Notes:
(1) Fixed pay includes basic salary, benefits, pension, loss of office payments and fees for non executive directors.
(2) £843,000 of variable pay is deferred for three, five or seven years (2021: £933,000).
(3) Material Risk Takers who left the Society during the calendar year are included in the table above.
(4) 2022 variable pay includes elements of the award from 2020 that were deferred for an additional year, to allow the Remuneration Committee to fully take account of the longer term impact of Covid-19.

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		Benefits[1]		Committee chair fees		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
I C A Cornish (Chair)	158	154	6	1	–	–	164	155
G J Hoskin (Vice Chair)	52	51	3	0	24	24	79	75
A M Barnes	52	51	3	1	–	–	55	52
D Fisher	52	51	0	0	–	17	52	68
N A Fuller	52	51	4	1	18	–	74	52
J A Hunt[2]	–	15	–	0	–	–	–	15
L R McManus	52	51	5	1	12	11	69	63
A Tadayon[3]	52	13	5	2	–	–	57	15
Total	**470**	**437**	**26**	**6**	**54**	**52**	**550**	**495**

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 retired on 15 April 2021.
(3) This director was appointed on 22 October 2021.

Non executive directors (including the Chair) received an annual basic fee increase of 3.75% in April 2022. The Remuneration Committee Chair fee also increased by 3.75%.

In line with the approach taken across the Society the annual pay review was brought forward from 1 April 2023 to 1 January 2023 for all colleagues including the non executive directors. Following a market review and external benchmarking, the Remuneration Committee Chair fee increased by 24.4% along with the introduction of an additional fee for the non executive director with responsibility for the Colleague Voice and Consumer Duty of £3,000. Fees from 1 January 2023 will be as follows:

Non executive directors	Basic fees	Committee chair fees	Total
	2023	2023	2023
	£	£	£
I C A Cornish (Chair)	169,350	–	169,350
G J Hoskin (Vice Chair)	56,100	24,355	80,455
A M Barnes	56,100	17,675	73,775
D Fisher	56,100	–	56,100
N A Fuller	56,100	17,675	73,775
A Tadayon	56,100	–	56,100
Total	**449,850**	**59,705**	**509,555**

Payments to former directors

A payment of £25,307 has been made in 2022 to P A Hill, the former Chief Executive Officer, who retired on 30 June 2019. A payment of £18,862 has been made in 2022 to R S P Litten, the former Chief Financial Officer, who left the Society on 18 April 2019. A payment of £11,984 has been made in 2022 to K R Wint, the former Chief of Staff, who left the Society on 31 January 2020. The bonus payments consisted of deferred incentive awards, which are assessed in full when they are awarded. All these payments were subject to risk assessment and the Committee determined no risk adjustment was required.

Directors' Remuneration Report continued

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.

Remuneration arrangements meet regulatory requirements, including the FCA Dual–Regulated Firms Remuneration Code, PRA Rulebook and good corporate governance practice.

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 2022 AGM.

Annual General Meeting 2022 results – Directors' Remuneration Report

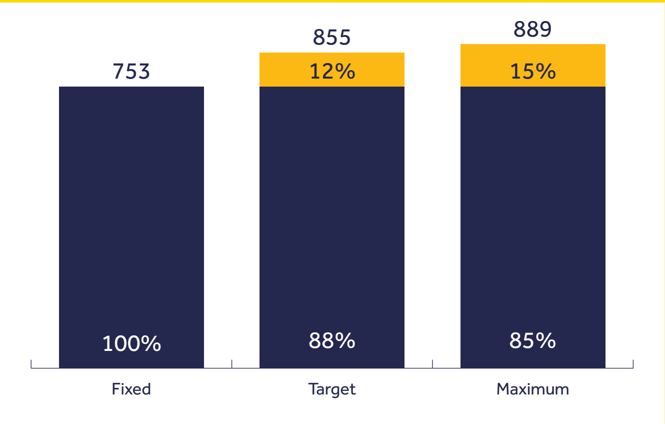
Resolution	% votes for	% votes against
Directors' Remuneration Report	92.16%	7.84%

Resolution	% votes for	% votes against
Directors' Remuneration Policy	92.24%	7.76%

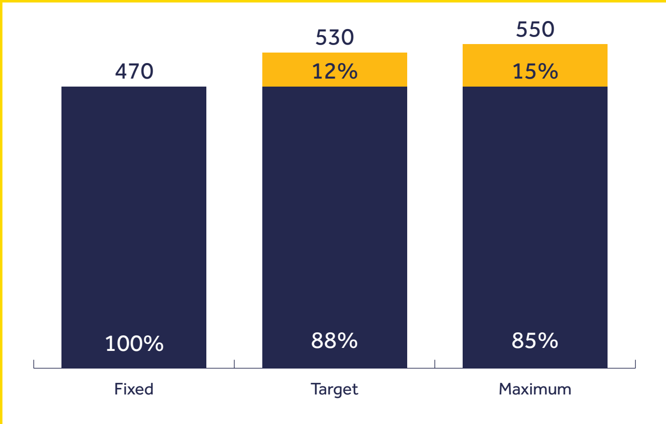
Awards under different scenarios

The charts below show the awards split between fixed pay and variable pay, under the variable pay arrangements, for each current executive director under different scenarios:

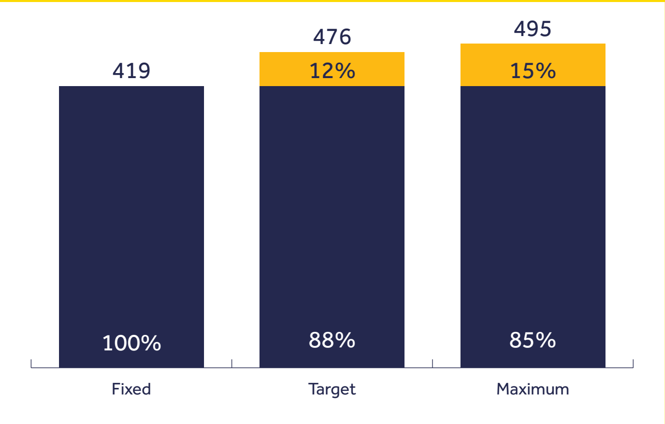
Chief Executive Officer



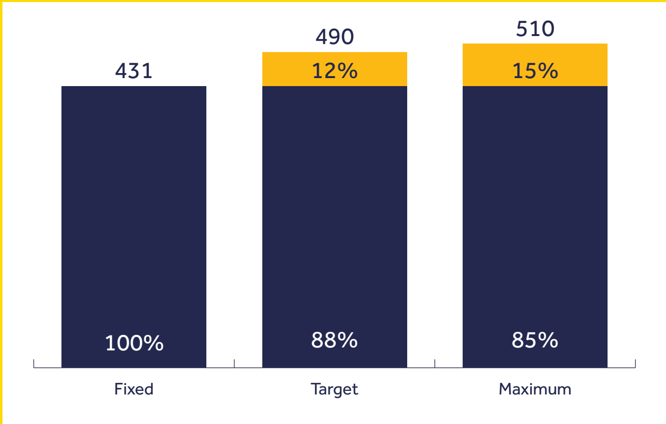
Deputy Chief Executive Officer



Chief Financial Officer



Chief Operating Officer



Fixed	Consists of basic salary and pension Basic salary is as at 1 January 2023			
	Executive director	**Basic salary**	**Pension**	**Total fixed**
	Chief Executive Officer	678,500	74,635	753,135
	Deputy Chief Executive Officer	401,775	68,301	470,076
	Chief Financial Officer	380,670	38,067	418,737
	Chief Operating Officer	392,200	39,022	431,222
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.			
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

	Remuneration element	Summary
Fixed remuneration	**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.
	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.
Variable remuneration	**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.
	Replacement award	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 forgone.
	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.
	Retention awards	Such awards will only be made in exceptional circumstances. The monetary value of the award will be defined at grant and vesting of awards will be tied to the completion of a defined period of service and the satisfactory completion of a specific project or other multi-task deliverable. Retention awards can be made up to the maximum permitted (in conjunction with the annual bonus) without breaching the regulatory cap on variable pay, of 100% of fixed pay per annum. Retention awards are part of variable pay and may be subject to malus and clawback, deferral and delivery in instruments as determined by the Remuneration Committee.

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 holds any paid external directorships.

The non executive directors do not have service contracts with the Society.

Policy on payment for loss of office
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.

	Remuneration element	Summary
Fixed remuneration	**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.
Variable remuneration	**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, they 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.

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.

All colleagues received a pay review in April 2022.

The table below illustrates the comparison of average basic salary increase made in April 2022 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.

The executive directors' salaries from 1 January 2023 are as follows, compared with 1 April 2022:

	1 January 2023	1 April 2022
R G Fearon	£678,500	£590,000
A J Greenwood	£401,775	£379,030
A P Conroy	£380,670	£359,120
R J Howse	£392,200	£370,000

The base pay review date for all the executive directors, Senior Leadership Team and colleagues has been brought forward from 1 April 2023 to 1 January 2023. We believe this will have a positive impact on colleagues and the Society. Following external benchmarking, the performance of the Society under the Chief Executive Officer's leadership, in line with the range received by colleagues, and to ensure that remuneration keeps pace with the local market, the Remuneration Committee agreed a base pay increase of 15% for the Chief Executive Officer. The base pay of all the other executive directors increased by 6%, in line with the colleague population. The base pay from 1 January 2023 for the executive directors will be as follows:

	1 January 2023	Increase
R G Fearon	£678,500	15%
A J Greenwood	£401,775	6%
A P Conroy	£380,670	6%
R J Howse	£392,200	6%

Chief Executive Officer (CEO) pay ratio
The Companies (Miscellaneous Reporting) Regulations 2018 came into force for accounting periods starting from 1 January 2019 and require 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
2022	Option A	30:1	20:1	13:1
2021	Option A	30:1	20:1	13:1
2020	Option A	32:1	21:1	14:1
2019	Option A	32:1	22:1	15:1

The remuneration below is calculated in respect of the year ended 31 December 2022:

Remuneration element	25th percentile (£)	Median (£)	75th percentile (£)
Total pay and benefits	24,711	37,170	56,011
Salary	19,742	31,797	49,299

Directors' Remuneration Report continued

Directors' loans, transactions and related business activity
The aggregate amount outstanding at 31 December 2022 in respect of loans from the Society or a subsidiary undertaking to directors of the Society or persons associated with directors was nil (2021: nil), being nil mortgages (2021: nil) to directors and persons connected to directors. 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 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
2022	752	93.4
2021	695	94.0
2020	684	82.9
2019	659	75.0
2018	785	89.7

Percentage change in salary for Chief Executive Officer
The basic salary of the Chief Executive Officer increased by 8.72% during 2022. An average annual increase of 5.22% 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	8.72%
Deputy Chief Executive Officer	5.0%
Chief Financial Officer	5.0%
Chief Operating Officer	7.68%
Colleague average	5.22%

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 2022, compared to the previous year.

	2022	2021	Percentage change
Profit after tax	£161.9 million	£120.2 million	34.7%
Colleague remuneration costs	£64.8 million	£56.0 million	15.7%
Headcount	1,538	1,474	4.3%

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

Directors' Report

Year ended 31 December 2022

The directors are pleased to present their Annual Report and Accounts and Annual Business Statement, for the year ended 31 December 2022.

Our business model and purpose-led strategy are described in the Business Model and Strategy section of the Strategic Report on pages 10 to 32, where key performance indicators are also presented.

Profits and capital
Profit before tax for the year was £220.5 million (2021: £163.7 million). The profit after tax transferred to the general reserve was £161.9 million (2021: £120.2 million). Total equity attributable to members at 31 December 2022 was £1,506.8 million (2021: £1,274.6 million).

Gross capital at 31 December 2022 was £2,013.5 million (2021: £1,840.5 million) including £309.1 million (2021: £339.4 million) of subordinated liabilities and £197.6 million (2021: £227.3 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings was 8.86% at 31 December 2022 (2021: 9.04%) and the free capital ratio was 8.47% (2021: 8.51%). Further explanation of these ratios is provided in the Annual Business Statement on page 242.

Mortgage arrears
At 31 December 2022, there were 349 (2021: 360) mortgage accounts 12 months or more in arrears. The total mortgage arrears, for these cases, was £4.0 million (2021: £3.9 million) and the total principal balance outstanding was £34.2 million (2021: £36.2 million).

Charitable and political donations
In 2022, the Group made donations of £190,200 (2021: £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 £545,700 (2021: £141,250).

The Caring Saver Account and the Your Interest In Theirs scheme provided further donations of £13,200 (2021: £12,750) and £79,600 (2021: £79,600) respectively to specified charities. Additionally, the Society has a number of savings products which support Dementia UK resulting in a donation of £29,100 (2021: £24,000).

Other charitable contributions from colleagues and members totalled £116,200 (2021: £80,700) taking total donations to charity and good causes to £974,000 (2021: £428,300).

No political donations were made during the year (2021: none).

Principal risks and uncertainties
Our approach to managing risks and the principal risks and uncertainties we face are set out in the Risk Management Report on pages 82 to 108, which also contains information on our financial risks and the approach to management of those risks.

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 17 to 19 and the Corporate Governance Report on pages 135 to 136.

We are committed to ensuring every colleague feels valued and included for who they are and the unique perspectives they bring. 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 with our partners, notably our mortgage brokers, suppliers and investors. Further details of how the Board has regard to the interests of these and other stakeholders can be found on pages 26 to 32.

Creditor payment policy
We aim 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 27 days at 31 December 2022 (2021: 10 days).

Environmental policy
The Board recognises that climate change is a significant global issue which impacts on and requires action from multiple bodies, including governments, businesses and individuals. We are committed to playing our part as a responsible business.

During the year, we have continued to enhance our understanding of the risks and opportunities for the business from climate change and agree targets to reduce our environmental impact. In this Annual Report we have included disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures and these can be found on pages 48 to 79 of the Strategic Report.

Pillar 3 disclosures
The disclosures required under Pillar 3 of CRD V are published on our website at leedsbuildingsociety.co.uk/press/financial-results/.

Corporate governance
We have provided statements on corporate governance and directors' roles and responsibilities in the Corporate Governance Report on pages 118 to 136.

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 182.

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.
- 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.
- 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 the Society's 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 the Society's 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 review the results of regular forecasts and stress tests to understand the potential financial and operational performance of the business under a range of economic and market conditions. This informs their assessment of whether the Society and the Group are going concerns. These assessments reflect the potential impacts of the principal and emerging risks set out on pages 42 to 45.

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 46 to 47 of the Strategic Report.

Based on the assessments performed, 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 2022, their roles and membership of Board committees are detailed on pages 110 to 115.

In line with best practice, all executive and non executive directors offer themselves for re-election by the members at the AGM. Lynn McManus will not be standing for re-election at the 2023 AGM, having stepped down from her role on the Board in January 2023.

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. Details of the tender process undertaken during 2022 for the Society's next auditor, to be proposed for appointment in 2024, are given in the Audit Committee Report on page 150.

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 and Compliance and Secretary

23 February 2023

Financial Statements

Independent Auditor's Report to the Members of Leeds Building Society

Year ended 31 December 2022

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 2022 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; 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 34.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom international accounting standards.

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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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 derivative instruments. Within this report, key audit matters are identified as follows: Similar level of risk as the prior year.
Materiality	The materiality that we used for the Group financial statements was £8.7 million which was determined on the basis of 0.5% 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.

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 the Group's and Society's compliance with regulations, 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 such as cashflows, capital and liquidity, used in the forecasts;
- assessing historical accuracy of forecasts prepared by management; and
- assessing the appropriateness of the going concern disclosures.

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, and we do not provide a separate opinion on these matters.

Year ended 31 December 2022

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 the use of complex models and application of judgement and estimation relating to assumptions about 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 applies four macroeconomic scenarios when determining the ECL calculation: a central outlook, a downside, 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. The Group held £41.8 million (2021: £30.4 million) of UK residential impairment provisions at year-end, in accordance with IFRS 9, against total UK retail mortgages of £20,316.6 million (2021: £18,281.5 million). In the current year the directors recognised post model adjustments of £25.1 million (2021: £9.4 million) due to the potential increased risk of default arising from the challenges facing borrowers in the current economic environment. 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 ECL model and 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 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 current ECL models. The Group has recognised post model adjustments that increase the provision in order to capture emerging risks not fully embedded within the ECL models. The Group's loan loss provision balances are detailed within note 8. The Group's associated accounting policies are detailed on pages 193 to 194 with detail about judgements in applying accounting policies and key sources of estimation uncertainty on pages 197 to 203. The directors' consideration of the effect of the future economic environment is disclosed on pages 198 to 202. The Audit Committee's consideration of the matter is described on page 145.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the loan loss 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, including updates to the models that were made during the year. With the involvement of our credit risk specialists we assessed whether the documented modelled approach was compliant with IFRS 9 and implemented in practice. We challenged the directors' consideration of the future economic environment by engaging our economic specialists to review the directors' approach as well as comparing modelled assumptions to publicly available data from peer organisations, regulators and economic commentators. We evaluated the completeness and accuracy of post model adjustments in light of relevant macroeconomic factors, to assess whether all relevant risks were represented by these adjustments. We did this through involvement of economic and modelling specialists, and benchmarking against peer entities. 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. We also tested the accuracy and completeness of forecast data collated from third party sources. We validated that the underlying data feeding into management's calculations for post model adjustments was complete and accurate and challenged the key judgements and assumptions within the calculations using our credit modelling specialists where appropriate.
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 the second half of the year, the Group implemented a cashflow hedge for the new mortgage pipeline. The Group has taken the IFRS 9 accounting policy choice to continue to apply IAS 39 accounting with respect to all designated hedge relationships. Management's chosen accounting policies are detailed on page 193. The Audit Committee's consideration of this risk is included on page 147. 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 appropriateness of fair value adjustments for items designated and de-designated in the hedging relationship, including the subsequent amortisation of the adjustments. We have also identified a new key audit matter in the period relating to the accounting for the mortgage pipeline cashflow hedge.

Year ended 31 December 2022

How the scope of our audit responded to the key audit matter	We have obtained an understanding of and 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 the methodology for assessing items that have de-designated from the hedge relationship. We then tested the accuracy of the amortisation adjustments through a full recalculation of the expected remaining amortisation as of 31 December 2022. 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. We assessed the accounting treatment for the mortgage pipeline cashflow hedge and its subsequent implementation and valuation as at 31 December.
Key observations	Based on the work performed, we concluded that the overall hedge accounting treatment, and valuations, 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 236 for a definition of level 3 measurements). The collateral loan had a carrying value at 31 December 2022 of £161.9 million (2021: £215.5 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 relates to the risk of management bias in determining the effective discount rate used within the fair value model. This rate is derived from both top-down and bottom-up discount rates and has significant impact on the modelling of the value of the "no negative equity guarantee" provided by the Society to the originator. This includes consideration of repayment profiles and the credit risk associated with the assets. The Group's disclosure of the collateral loan is detailed within note 13 and note 33. Management's associated accounting policies are detailed on page 192 with detail about judgements in applying accounting policies and critical accounting estimates on pages 203 to 204. The Audit Committee's consideration of the matter is described on page 146.
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 the collateral loan. We challenged the directors' valuation methodology over the fair valuation of the collateral loan, with assistance from our valuation specialists. We reviewed the model mechanics to check whether they were working appropriately and in line with contracts with the originator. This was performed with the help of our internal financial instrument modelling specialists. We performed an independent assessment of the effective discount rate used to discount the future cash flows to present value, including independently applying alternative approaches to its calculation. We utilised both internal and external data and taking account of the repayment profiles and credit risks associated with the assets, assessed the impact on the valuation from a reasonable range of outcomes. We performed testing over the appropriateness of the other elements inherent in the valuation of the underlying loan assets, such as the "no negative equity guarantee" and evaluated the appropriateness of the assumptions in light of the current economic environment.
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 derivative 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 £26.9 million (2021: £77.6 million) and comprise the following: • the Retail Prices Index (RPI) linked derivative hedging the equity release portfolio; and • the intragroup derivative hedging the Residential Mortgage-Backed Securities (RMBS) securitisation vehicle. The following are the unobservable inputs: • the mortality and prepayment rate assumptions applied to the RPI linked derivative; and • the prepayment rate of mortgages within the RMBS securitisation vehicle. Our key audit matter relates to the risk of bias in determining the assumptions applied to the Society's in-house valuation for the RPI derivative. The directors' chosen accounting policies are detailed on page 193 with details about valuation techniques and key inputs on page 204. The Audit Committee's consideration of this risk is included on page 146.
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 derivative instruments. We performed testing over complex derivatives outlined above, and with the involvement of our pricing specialists we valued these instruments using our own independently developed models. We independently sourced data for the assumptions and other inputs used in our valuation model for the RPI linked derivative.
Key observations	Based on the work performed, we have concluded that the Group's valuation of complex derivative instruments was within a reasonable range.

Year ended 31 December 2022

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	£8.7 million (2021: £7.5 million)	£8.2 million (2021: £7.2 million)
Basis for determining materiality	0.5% of net assets excluding subscribed capital (2021: 0.5% of net assets excluding subscribed capital)	0.5% of net assets excluding subscribed capital capped at 95% of Group materiality (2021: 0.5% of net assets excluding subscribed capital capped at 95% of Group materiality)
Rationale for the benchmark applied	The overall capital base is a key focus area for the Society's members and regulators. Net assets are also a more stable metric in comparison to profit before tax. Therefore, net assets have 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.

	Group financial statements	Society financial statements
Performance materiality	70% (2021: 62%) of Group materiality	70% (2021: 62%) of Society materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: 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. the reduced volume of corrected and uncorrected errors identified in the prior year audit.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.43 million (2021: £0.38 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 its 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 £1.7 million to £8.2 million (2021: £3.6 million to £7.2 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 IT systems

We relied on controls over the following IT systems as being key to the financial reporting processes in the Group:

- Core mortgage system
- Core savings system
- Treasury system
- Underlying servers and databases for the above systems where applicable

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 its effectiveness against supporting evidence. Additionally, for systems managed or hosted by third party service organisations, we reviewed assurance reports over controls at those organisations.

Our approach in relation to the Group's business cycles

We tested and relied on controls over the following business cycles for the Group:

- Residential mortgage lending
- Customer deposits
- Valuation of vanilla derivatives

We obtained an understanding of these business cycles within the Group. We tested the relevant controls, including automated ones, by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on pages 48 to 79. As a part of our audit, we have obtained management's climate-related risk assessment and held discussions with the Group Chief Risk Officer to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement. We have considered whether information included in climate related disclosures in the Annual Report were consistent with our understanding of the business and financial statements.

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.

Year ended 31 December 2022

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, 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 the 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 frameworks that the Society 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 Society Act 1986 for the Society and the UK Companies Act for the subsidiaries.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society'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, fair value of collateral loan and fair value of complex derivative instruments 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.

Year ended 31 December 2022

13. Opinion on other matter prescribed by the Capital Requirements (Country by Country Reporting) Regulations 2013

In our opinion the information given on page 244 of the financial statements for the financial year ended 31 December 2022 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 on pages 170 to171;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate on pages 46 to 47;
- the directors' statement on fair, balanced and understandable set out on page 170;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 42 to 45;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 147 to 148; and
- the section describing the work of the Audit Committee set out on pages 143 to 151.

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; or
- 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's members 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 18 years, covering the years ended 31 December 2005 to 31 December 2022.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Matthew Bainbridge (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

23 February 2023

Income Statements

For the year ended 31 December 2022

	Notes	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Interest receivable and similar income	3	**675.9**	424.7	**676.1**	423.2
Interest payable and similar charges	4	**(316.3)**	(142.5)	**(316.7)**	(141.4)
Net interest receivable		**359.6**	282.2	**359.4**	281.8
Fees and commissions receivable		**6.1**	6.8	**6.1**	6.8
Fees and commissions payable		**(0.7)**	(0.4)	**(0.5)**	(0.1)
Fair value gains / (losses) from financial instruments	5	**14.7**	(0.5)	**8.1**	(4.6)
Other operating (expense) / income		**(3.0)**	(1.1)	**(4.0)**	0.1
Total income		**376.7**	287.0	**369.1**	284.0
Administrative expenses	6	**(130.1)**	(116.9)	**(130.1)**	(116.9)
Depreciation and amortisation	16, 17	**(10.9)**	(9.1)	**(10.9)**	(9.1)
Impairment (charge) / credit on loans and advances to customers	8	**(11.9)**	4.1	**(11.9)**	4.1
Impairment of property, plant and equipment	17	**(3.8)**	–	**(3.8)**	–
Provisions release / (charge)	22	**0.5**	(1.4)	**0.5**	(1.4)
Operating profit and profit before tax		**220.5**	163.7	**212.9**	160.7
Tax expense	9	**(58.6)**	(43.5)	**(57.3)**	(43.5)
Profit for the financial year		**161.9**	120.2	**155.6**	117.2

All amounts relate to continuing operations.

The notes on pages 191 to 240 form part of these accounts.

Statements of Comprehensive Income

For the year ended 31 December 2022

	Notes	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Profit for the financial year		**161.9**	120.2	**155.6**	117.2
Items that may subsequently be reclassified to profit and loss:					
Fair value gains recorded in cash flow hedge reserve		**118.1**	–	**118.1**	–
Gains previously recorded in cash flow hedge reserve amortised through profit or loss		**(5.2)**	–	**(5.2)**	–
Fair value losses on investment securities measured at fair value through other comprehensive income		**(10.8)**	(4.6)	**(10.8)**	(4.6)
Losses / (gains) on investment securities measured through other comprehensive income reclassified to profit or loss on diposal		**1.7**	(1.9)	**1.7**	(1.9)
Tax relating to items that may subsequently be reclassified		**(19.7)**	1.3	**(19.7)**	1.3
Effect of change in corporation tax rate		**(9.4)**	0.5	**(9.4)**	0.5
Items that may not subsequently be reclassified to profit and loss:					
Actuarial (loss) / gain on retirement benefit surplus	25	**(4.9)**	7.1	**(4.9)**	7.1
Revaluation loss on properties	17	**(1.9)**	(1.0)	**(1.9)**	(1.0)
Tax relating to items that may not be reclassified		**1.9**	(1.0)	**1.9**	(1.0)
Effect of change in corporation tax rate		**0.5**	(0.7)	**0.5**	(0.7)
Total comprehensive income for the year		**232.2**	119.9	**225.9**	116.9

Statements of Financial Position

As at 31 December 2022

	Notes	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	11, 29	**2,958.1**	2,538.7	**2,958.1**	2,538.7
Loans and advances to credit institutions	29	**235.9**	159.0	**83.3**	96.5
Investment securities	12	**1,386.7**	949.1	**1,452.8**	1,040.4
Derivative financial instruments	32	**679.9**	219.3	**679.5**	210.4
Loans and advances to customers	13				
Loans fully secured on residential property		**20,324.3**	18,303.0	**20,324.3**	18,303.0
Other loans		**168.9**	224.2	**168.9**	224.2
Fair value adjustment for hedged risk on loans and advances to customers		**(585.9)**	(169.1)	**(585.9)**	(169.1)
Other assets, prepayments and accrued income	14	**248.3**	166.5	**447.8**	205.2
Current tax assets		**4.6**	2.8	**4.6**	2.8
Deferred tax assets	26	**0.3**	4.5	**0.3**	4.5
Investments in subsidiary undertakings	15	**–**	–	**–**	1.9
Intangible assets	16	**22.5**	25.0	**22.5**	25.0
Property, plant and equipment	17	**66.7**	82.4	**66.7**	82.4
Retirement benefit surplus	25	**3.6**	8.3	**3.6**	8.3
Total assets		**25,513.9**	22,513.7	**25,626.5**	22,574.2
Liabilities					
Shares	18	**17,520.4**	15,258.0	**17,520.4**	15,258.0
Fair value adjustment for hedged risk on shares		**(100.7)**	(72.9)	**(100.7)**	(72.9)
Derivative financial instruments	32	**251.9**	166.8	**237.2**	141.2
Amounts owed to credit institutions		**2,268.4**	2,258.9	**2,268.4**	2,258.9
Amounts owed to other customers	19	**229.7**	297.5	**404.7**	540.9
Debt securities in issue	20	**2,711.0**	2,554.6	**2,620.2**	2,395.2
Other liabilities and accruals	21	**586.1**	201.4	**631.0**	197.7
Deferred tax liabilities	26	**33.0**	6.2	**32.1**	6.6
Provisions for liabilities and charges	22	**0.6**	1.9	**0.6**	1.9
Subordinated liabilities	23	**309.1**	339.4	**309.1**	339.4
Subscribed capital	24	**197.6**	227.3	**197.6**	227.3
Total liabilities		**24,007.1**	21,239.1	**24,120.6**	21,294.2
General reserve		**1,415.3**	1,251.3	**1,414.4**	1,256.7
Cash flow hedge reserve		**81.3**	–	**81.3**	–
Fair value reserve		**(5.9)**	0.7	**(5.9)**	0.7
Revaluation reserve		**1.8**	8.3	**1.8**	8.3
Other reserve		**14.3**	14.3	**14.3**	14.3
Total liabilities and equity		**25,513.9**	22,513.7	**25,626.5**	22,574.2

The accounts on pages 186 to 240 were approved by the board of directors on 23 February 2023.

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 2022

Group 2022	**General reserve £M**	**Cash flow hedge reserve £M**	**Fair value reserve £M**	**Revaluation reserve £M**	**Other reserve £M**	**Total equity attributable to members £M**
At 1 January 2022	**1,251.3**	**–**	**0.7**	**8.3**	**14.3**	**1,274.6**
Comprehensive income for the year	**156.1**	**81.3**	**(6.6)**	**1.4**	**–**	**232.2**
Revaluation gains transferred on disposal of assets	**7.9**	**–**	**–**	**(7.9)**	**–**	**–**
At 31 December 2022	**1,415.3**	**81.3**	**(5.9)**	**1.8**	**14.3**	**1,506.8**

Group 2021	General reserve £M	Cash flow hedge reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2021	1,125.1	–	5.4	9.9	14.3	1,154.7
Comprehensive income for the year	126.0	–	(4.7)	(1.4)	–	119.9
Revaluation gains transferred on disposal of assets	0.2	–	–	(0.2)	–	–
At 31 December 2021	1,251.3	–	0.7	8.3	14.3	1,274.6

Society 2022	**General reserve £M**	**Cash flow hedge reserve £M**	**Fair value reserve £M**	**Revaluation reserve £M**	**Other reserve £M**	**Total equity attributable to members £M**
At 1 January 2022	**1,256.7**	**–**	**0.7**	**8.3**	**14.3**	**1,280.0**
Comprehensive income for the year	**149.8**	**81.3**	**(6.6)**	**1.4**	**–**	**225.9**
Revaluation gains transferred on disposal of assets	**7.9**	**–**	**–**	**(7.9)**	**–**	**–**
At 31 December 2022	**1,414.4**	**81.3**	**(5.9)**	**1.8**	**14.3**	**1,505.9**

Society 2021	General reserve £M	Cash flow hedge reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2021	1,133.5	–	5.4	9.9	14.3	1,163.1
Comprehensive income for the year	123.0	–	(4.7)	(1.4)	–	116.9
Revaluation gains transferred on disposal of assets	0.2	–	–	(0.2)	–	–
At 31 December 2021	1,256.7	–	0.7	8.3	14.3	1,280.0

Statements of Cash Flows

For the year ended 31 December 2022

	Notes	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Profit before tax		**220.5**	163.7	**212.9**	160.7
Adjusted for:					
Impairment charge / (credit)		**11.9**	(3.8)	**11.9**	(3.8)
Provisions (release) / charge		**(0.5)**	1.4	**(0.5)**	1.4
Depreciation and amortisation		**10.9**	9.1	**10.9**	9.1
Impairment of property, plant and equipment		**3.8**	–	**3.8**	–
Fair value of collateral loan which represents a pool of equity release mortgages		**53.9**	(0.6)	**53.9**	(0.6)
Non cash and other items		**25.9**	(30.3)	**27.0**	(30.1)
Cash generated from operations		**326.4**	139.5	**319.9**	136.7
Changes in operating assets and liabilities					
Derivative financial instruments		**(7.4)**	68.5	**(21.8)**	46.4
Loans and advances to customers		**(2,031.8)**	(1,533.9)	**(2,031.8)**	(1,533.9)
Other operating assets		**(76.9)**	102.8	**(235.8)**	154.7
Shares		**2,262.4**	1,095.3	**2,262.4**	1,095.3
Amounts owed to credit institutions and other customers		**(58.3)**	802.4	**(126.7)**	722.0
Other operating liabilities		**380.7**	9.2	**428.0**	35.8
Taxation paid		**(56.0)**	(45.9)	**(56.0)**	(45.9)
Net cash flows from operating activities		**739.1**	637.9	**581.8**	611.1
Cash flows from investing activities					
Purchase of investment securities		**(1,292.5)**	(511.8)	**(1,292.5)**	(511.8)
Proceeds from sale and redemption of investment securities		**847.9**	504.7	**873.0**	534.7
Purchase of intangible assets		**(3.9)**	(1.7)	**(3.9)**	(1.7)
Purchase of property, plant and equipment		**(3.7)**	(5.5)	**(3.7)**	(5.5)
Proceeds from sale of property, plant and equipment		**8.9**	0.2	**8.9**	0.2
Net cash flows from investing activities		**(443.3)**	(14.1)	**(418.2)**	15.9
Cash flows from financing activities	28				
Net proceeds from issue of debt securities		**665.1**	508.7	**665.1**	508.7
Repayments of debt securities in issue		**(463.0)**	(804.8)	**(420.9)**	(754.8)
Net proceeds from issue of subordinated liabilities		**–**	346.9	**–**	346.9
Principal lease payments		**(1.6)**	(2.0)	**(1.6)**	(2.0)
Net cash flows from financing activities		**200.5**	48.8	**242.6**	98.8
Net increase in cash and cash equivalents		**496.3**	672.6	**406.2**	725.8
Cash and cash equivalents at the beginning of the year		**2,697.7**	2,025.1	**2,635.2**	1,909.4
Cash and cash equivalents at the end of the year	29	**3,194.0**	2,697.7	**3,041.4**	2,635.2

Notes to the Accounts

Year ended 31 December 2022

1. Accounting policies

(a) Basis of preparation

The Group and Society financial statements are prepared in accordance with International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) that are applicable. The Group and Society financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom.

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. As stated in the Directors' Report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

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.

These financial statements are presented in sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds.

Disclosures required under IFRS in relation to financial risks (credit, funding and liquidity and market risks) have been provided in the Risk Management Report on pages 86 to 100.

(b) Future accounting developments

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:

- 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 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.

(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. Intragroup 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.

Year ended 31 December 2022

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 adjusted for any attributable costs. Subsequent changes in fair value are recognised in other comprehensive income, except for impairment losses which are recognised in profit or loss. 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 may also be 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. At 31 December 2022 the Group did not have any investment securities which met this classification (2021: none).

  In addition, IFRS 9 mandates that derivative financial instruments are classified as 'at FVTPL'.

  Instruments classified as 'at FVTPL' are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement. The exception to this is for those derivative financial instruments designated in cash flow hedge accounting relationships, where the effective portion of any changes in fair value is recognised in other comprehensive income (see note 1(d)(iv)).

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 apart from for those instruments designated in cash flow hedge accounting relationships, as above.

(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) Recognition and derecognition of financial assets and liabilities
Purchases and sales of financial assets are recognised at settlement date.

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.

1. Accounting policies (continued)

(d) Financial instruments (continued)

(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.

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 hedges to reduce volatility in the Income Statement. If derivatives are not designated in 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.

For the purposes of the fair value liability hedge, the Group includes fixed rate Individual Savings Accounts in the population of products eligible for inclusion in the hedge as permitted under the 'carve out' applied when IAS 39 was adopted for use in the European Union and subsequently transposed into IFRS as adopted by the United Kingdom.

The Group introduced macro cash flow hedge accounting during 2022 and applied it to a portion of its floating rate financial liabilities which are designated in the hedge alongside interest rate swaps that have been transacted to economically hedge mortgage applications, prior to completion of the mortgage. Where a derivative financial instrument is designated in a macro cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and recycled to the Income Statement over the life of the forecast transaction. The effective portion recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis. Any ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss immediately.

To the extent that the hedge is effective, unrealised fair value gains and losses on cash flow hedging derivatives are recognised in the cash flow hedging reserve.

If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is then recognised immediately in the Income Statement.

(v) Offsetting
Financial assets and financial liabilities are offset and the net amount presented within the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group has entered into International Swaps and Derivatives Association (ISDA) master netting agreements for its derivatives. The ISDA master netting agreements grant a legal right of offset for transactions with the same counterparty but this does not necessarily result in an offset of financial assets and liabilities within the Statement of Financial Position, as transactions can be settled on a gross basis.

(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 or in the cure period following default (see below for full definition of default). Impairment losses are recognised to cover lifetime ECL.

Year ended 31 December 2022

1. Accounting policies (continued)

(e) Impairment of financial assets (continued)
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, meets 'unlikely to pay' criteria or if the customer has been identified as bankrupt and is in arrears by more than a nominal amount. A cure period is in place such that the loan would move back to Stage 2 if the loan exits default and remains not in default for more than 12 months or, for loans subject to forbearance, if 12 consecutive full payments are made after the forbearance activity has completed. The Group's definition of default aligns to the regulatory definition under the Internal Ratings Based (IRB) approach for capital requirements.

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.

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.

(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 are recognised in interest receivable or payable in the Income Statement. Interest income and expense are 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 calculation, 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.

1. Accounting policies (continued)

(f) Interest receivable and payable and similar income and charges (continued)
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.

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment. 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. Useful lives of intangible assets are assessed on an individual asset basis and are reviewed at each Statement of Financial Position date. Upon initial recognition, the Group generally applies the following useful lives:

New core systems – 10 years
System enhancements or non-core additions – 5 years

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 an 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 the Income Statement. Any reduction in value is recognised through other comprehensive income as the reversal of previous revaluation gains or as an impairment through the Income Statement 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 their carrying 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.

Year ended 31 December 2022

1. Accounting policies (continued)

(j) Leases (continued)

(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 unpaid 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 to 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 wholesale 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 re-measured 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 re-measured 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, within 'Other operating income'.

(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 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
Tax on the profits for the period comprises current tax and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income. 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 is recognised where there is a temporary difference between the carrying amount of assets and liabilities in the Statement of Financial Position and the amounts used for the calculation of corporation tax payments. Deferred tax liabilities are generally recognised for all taxable temporary differences apart from those arising on investments in subsidiaries 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. 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 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 substantively enacted by the Statement of Financial Position date.

(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.

1. Accounting policies (continued)

(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 – Operating Segments 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 144 to 147, 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. 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'.

(ii) Impairment of loans and advances to customers

Significant increase in credit risk
As described in note 1(e)(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 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.

Judgement is also applied in determining the qualitative criteria used to move loans to Stage 2. In particular, at 31 December 2022 (but not at 31 December 2021), loans which could be at risk of having a monthly shortfall, identified through the calculation of the affordability post model adjustment, have been deemed to have had a significant increase in credit risk and thus have moved to Stage 2 or 3 (see page 193).

If all loans were assessed as having experienced a significant increase in credit risk and therefore 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 2022 would increase modelled ECL by £8.6m (2021: £4.8m).

Definition of default
The definition of default is given in note 1(e)(i). Management has judged that the definition of default for impairment loss calculations should be aligned to the IRB regulatory definition of default. 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. They are used where there is a material risk that is not adequately captured within modelled ECL as a result of a lack of historical data with which to model or due to ongoing uncertainty. Judgement is required in determining whether a PMA should be used and the appropriate quantum of the adjustment. All PMAs are subject to approval by Credit Committee and must be reviewed and reapproved at least annually.

At 31 December 2022, the total of the material PMAs used by the Group was £25.1m (2021: £9.4m). Further details are provided in note 2(b)(i).

Year ended 31 December 2022

2. Critical accounting estimates and judgements (continued)

(a) Critical judgements (continued)

(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).

(iv) Property, plant and equipment
Freehold and long leasehold premises are revalued every three years by an independent firm of valuers, with the most recent valuation taking place at 31 December 2022.

It is management's judgement that the 'highest and best use' valuation of its head office 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. The Group's branches continue to be valued on an open market basis.

It is management's judgement that the valuations obtained at 31 December 2022 appropriately reflect the fair value of these properties as at the date of the Statement of Financial Position.

(v) Leases
The application of the requirements of IFRS 16 – Leases for leased assets requires the application of judgement as to whether a contract contains a lease. 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 (2021: four), which are considered to represent a reasonable range of possible outcomes, in determining impairment loss provisions. The scenarios have been revised during the period to reflect the current and emerging economic pressures including the impact of high inflation and rising interest rates.

A summary of each of the four macroeconomic scenarios is as follows:

- Central scenario reflecting that the external environment remains extremely volatile. The scenario anticipates that a combination of higher inflation (8% in 2023) and higher interest rates will be sufficient to push the UK economy into a recession. The scenario shows a rise in unemployment as employers aim to reduce costs in a sustained inflationary environment during 2023 and 2024.
- Downside scenario as modelled in the Group's risk management process reflecting a '1 in 20' stress scenario, with higher unemployment than the central scenario and larger reductions in house prices as demand falls due to weaker affordability.
- Alternative downside scenario representing a more severe downturn than in the downside scenario with peak unemployment of 8.4% and a fall in demand across the housing market, causing greater reductions in house prices in the earlier years of the forecast.
- Growth scenario representing a more optimistic view of the current economic outlook than assumed in the central scenario, including gross domestic product growth.

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)
Scenarios are developed by the Group based on analysis of third party published economic data and forecasts. The relative weighting of the macroeconomic scenarios is derived by determining the point in the economic cycle at which the UK economy sits at the date of the Statement of Financial Position. This indicates a possible range of outcomes for each scenario based on defined boundaries. Management judgement is then applied to determine the appropriate point within the ranges, informed by current relevant market, macroeconomic and political factors and the degree of uncertainty inherent in the UK economy.

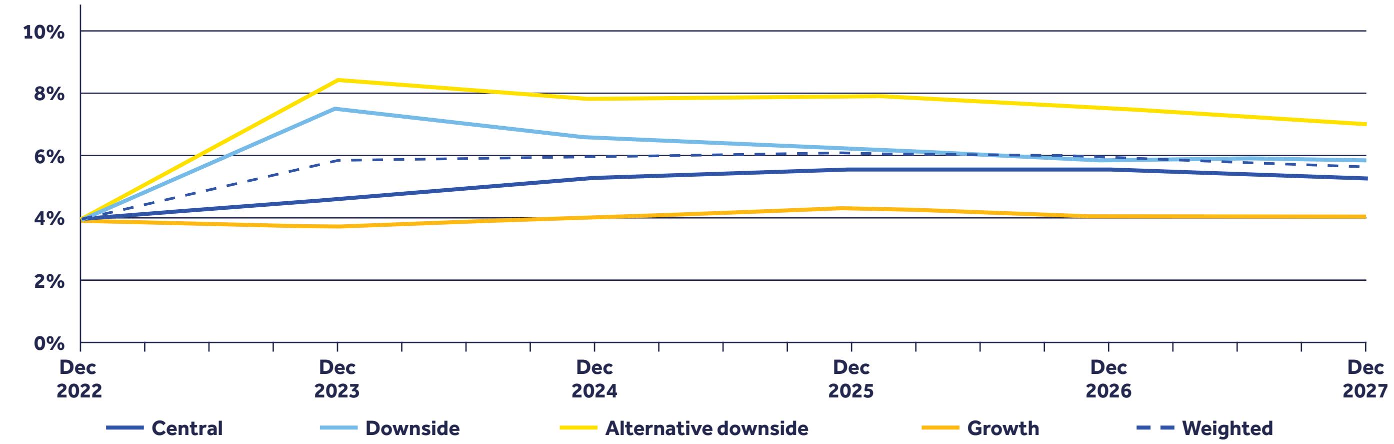
At 31 December 2022, the ongoing economic uncertainty has meant that management set the probability of the growth scenario towards the lower end of the established range and the downside and alternative downside towards the higher end of the range. The final weightings used are shown in the table below.

	2022	2021
Central	**55%**	45%
Downside	**20%**	30%
Alternative downside	**20%**	10%
Growth	**5%**	15%

The tables on pages 200 to 201 show 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 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 charts below illustrate the unemployment assumptions and the cumulative impact of the annual house price inflation assumptions across all four scenarios.

Unemployment rate (%)



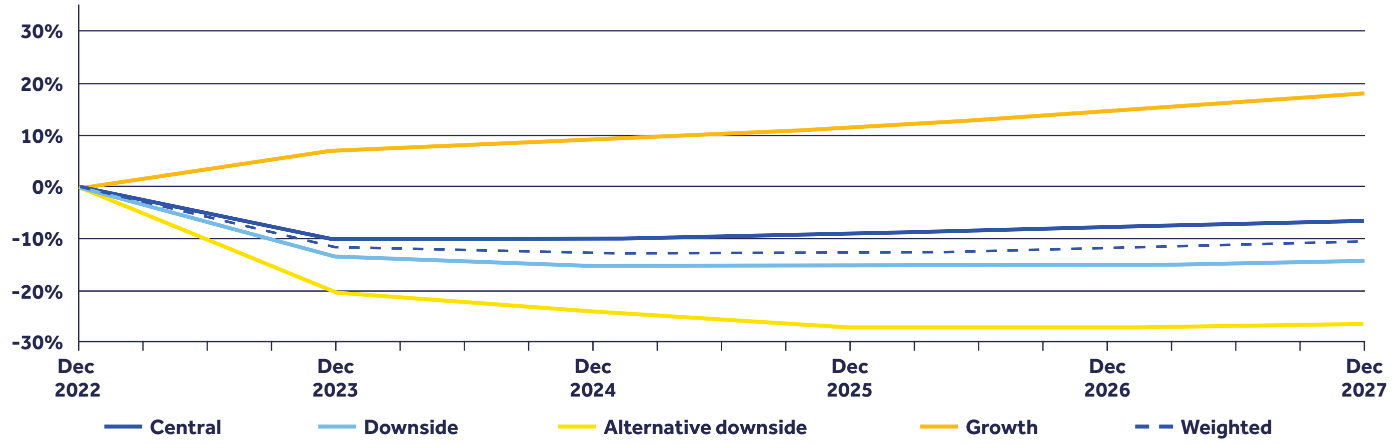
Year ended 31 December 2022

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 prices (December 2022 = 0)



Central scenario

	31 December 2022 2023	2024	2025	2026	2027
House price inflation	**(10.0%)**	**0.0%**	**1.0%**	**1.5%**	**1.5%**
Unemployment rate (31 December)	**4.5%**	**5.2%**	**5.5%**	**5.5%**	**5.2%**
Gross domestic product growth	**(1.5%)**	**0.0%**	**0.5%**	**1.0%**	**1.0%**
Base rate (31 December)	**4.0%**	**3.0%**	**2.25%**	**2.25%**	**2.25%**

	31 December 2021 2022	2023	2024	2025	2026
House price inflation	2.0%	2.0%	1.0%	1.0%	1.0%
Unemployment rate (31 December)	4.9%	4.8%	4.6%	4.3%	4.3%
Gross domestic product growth	5.0%	2.0%	1.5%	1.5%	1.0%
Base rate (31 December)	0.5%	0.75%	0.75%	0.75%	0.75%

Downside scenario

	31 December 2022 2023	2024	2025	2026	2027
House price inflation	**(13.7%)**	**(2.0%)**	**0.0%**	**0.0%**	**1.0%**
Unemployment rate (31 December)	**7.3%**	**6.5%**	**6.2%**	**5.8%**	**5.8%**
Gross domestic product growth	**(2.0%)**	**0.0%**	**1.0%**	**1.0%**	**1.0%**
Base rate (31 December)	**3.25%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**

	31 December 2021 2022	2023	2024	2025	2026
House price inflation	(13.7%)	(2.0%)	0.0%	0.0%	1.0%
Unemployment rate (31 December)	7.3%	6.5%	6.2%	5.8%	5.8%
Gross domestic product growth	3.0%	1.7%	1.3%	1.3%	1.0%
Base rate (31 December)	0.1%	0.1%	0.1%	0.1%	0.1%

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

Alternative downside scenario

	31 December 2022 2023	2024	2025	2026	2027
House price inflation	**(20.0%)**	**(5.0%)**	**(4.0%)**	**0.0%**	**1.0%**
Unemployment rate (31 December)	**8.4%**	**7.8%**	**7.9%**	**7.5%**	**7.0%**
Gross domestic product growth	**(0.2%)**	**(4.2%)**	**2.1%**	**1.5%**	**1.5%**
Base rate (31 December)	**3.0%**	**0.0%**	**0.0%**	**0.1%**	**0.1%**

	31 December 2021 2022	2023	2024	2025	2026
House price inflation	(19.5%)	(9.5%)	3.5%	2.0%	1.5%
Unemployment rate (31 December)	10.3%	9.0%	8.6%	7.4%	6.8%
Gross domestic product growth	2.1%	2.2%	1.4%	1.1%	0.9%
Base rate (31 December)	(0.1%)	(0.1%)	0.1%	0.1%	0.1%

Growth scenario

	31 December 2022 2023	2024	2025	2026	2027
House price inflation	**7.0%**	**2.0%**	**2.0%**	**3.0%**	**3.0%**
Unemployment rate (31 December)	**3.7%**	**4.0%**	**4.3%**	**4.0%**	**4.0%**
Gross domestic product growth	**5.0%**	**2.0%**	**2.0%**	**2.5%**	**2.0%**
Base rate (31 December)	**4.5%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

	31 December 2021 2022	2023	2024	2025	2026
House price inflation	6.0%	4.0%	3.5%	3.0%	3.0%
Unemployment rate (31 December)	4.7%	4.5%	4.3%	4.0%	3.8%
Gross domestic product growth	7.5%	4.0%	2.0%	2.5%	2.0%
Base rate (31 December)	0.75%	1.0%	1.0%	1.25%	1.25%

Weighted*

	31 December 2022 2023	2024	2025	2026	2027
House price inflation	**(11.9)%**	**(1.3)%**	**(0.2)%**	**1.0%**	**1.4%**
Unemployment rate (31 December)	**5.8%**	**5.9%**	**6.1%**	**5.9%**	**5.6%**
Gross domestic product growth	**(1.0)%**	**(0.7)%**	**1.0%**	**1.2%**	**1.2%**
Base rate (31 December)	**3.7%**	**1.8%**	**1.4%**	**1.4%**	**1.4%**

	31 December 2021 2022	2023	2024	2025	2026
House price inflation	(4.3)%	(0.1)%	1.3%	1.1%	1.4%
Unemployment rate (31 December)	6.1%	5.7%	5.4%	5.0%	4.9%
Gross domestic product growth	4.5%	2.2%	1.5%	1.6%	1.1%
Base rate (31 December)	0.4%	0.5%	0.5%	0.6%	0.6%

*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 2022

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

Modelled residential impairment loss provisions totalled £22.9m (2021: £27.9m) at 31 December 2022, with PMAs of £25.1m (2021: £9.4m) contributing to total provisions of £48.0m (2021: £37.3m). The sensitivity of modelled impairment loss provisions at 31 December 2022 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:

	+ 10.0 percentage points	+ 5.0 percentage points	- 5.0 percentage points	- 10.0 percentage points
(Decrease) / increase in impairment loss provisions (£M)	(1.4)	(0.8)	1.2	3.1

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 points	- 1.0 percentage points	- 2.0 percentage points
Increase / (decrease) in impairment loss provisions (£M)	3.3	0.9	(0.2)	(0.3)

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%:

	2022 £M	2021 £M
(Decrease)/ increase in impairment loss provisions if scenarios are weighted 100%:		
Central	**(8.9)**	(12.6)
Downside	**(0.8)**	(0.1)
Alternative downside	**37.3**	98.0
Growth	**(11.6)**	(13.5)

The total residential impairment loss provisions (including PMAs) if the central scenario was weighted 100% would be £39.1m (2021: £24.6m) compared to £48.0m (2021: £37.3m) when the scenarios are weighted. The reduced sensitivity to 100% weighting of the alternative downside scenario in 2022 is due to changes in the assumptions for individual variables in that scenario (primarily the reduction in the unemployment rate) and the increased weighting applied to the alternative scenario in the ECL calculation.

Changes to macroeconomic assumptions, as expectations change over time, are likely to lead to volatility in impairment loss provisions, and may lead to pro-cyclicality in the recognition of impairment losses.

Post model adjustments (judgemental adjustments)

At 31 December 2022, the total of post model adjustments applied by the Group was £25.1m (2021: £9.4m). These adjustments were applied to cover the following:

- The potential impacts of inflationary pressures, the cost of living crisis and residential mortgage rate increases on customer affordability, although it is noted that the stressed affordability assessments performed when mortgages are originated provide assurance that the majority of customers can absorb some level of affordability stress.
- There continues to be uncertainty in relation to high rise flats where possible problems with cladding could result in lower valuations and significant costs 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 risk of inherent bias in reported house prices towards properties which have recently sold, which may not be reflective of the composition of the Group's mortgage book.
- The additional risk associated with the underestimation of the probability of default associated with euro accounts.

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

Post model adjustments totalling £1.9m at 31 December 2021 have been removed as they are no longer required. These related to the effect of government interventions as a result of the Covid-19 pandemic (mortgage payment deferrals and the possessions moratorium) which are no longer relevant more than 12 months after closure (£1.1m) and the differential performance of a segment of the book which has now been incorporated into the ECL model (£0.8m).

Affordability post model adjustment – £20.0m (2021: £2.3m)

The potential impact of current high levels of inflation on mortgage affordability has been estimated by uplifting customers' recorded expenditure (having adjusted for wage inflation) to identify those accounts that could be at risk of having a shortfall against their monthly mortgage payments, depending on individual financial resilience levels. A forward-looking assessment has also identified those accounts at risk of a shortfall due to potential rate increases for those borrowers who are currently paying interest at the standard variable rate and those who have an upcoming fixed term maturity.

The PMA has been estimated as the additional impairment loss provisions required as loans migrate through impairment stages, based on weighted coverage rates by stage. For loans where the identified shortfall is sufficient to equate to three months' arrears over a period of 12 months, migration to Stage 3 is assumed. For the remainder, migration from Stage 1 to Stage 2 or from Stage 2 to Stage 3, depending on their staging at 31 December 2022, is assumed. The resultant PMA is £20.0m.

The significant judgements underpinning the PMA calculation and the sensitivity of the PMA to these judgements are:

Assumption	Sensitivity modelled for current assumption	(Decrease) / increase in post model adjustment (£M)
Inflation peaks at 11%, with accompanying wage inflation of 6%	Decrease / increase inflation peak by 1 percentage point	(1.0) / 1.1
Additional 3% income stress applied to lowest income borrowers, indicative of the greater impact of inflationary pressures on these borrowers	Remove additional stress / increase population to which stress is applied	(0.4) / 1.2
Customers maintain minimum payments on unsecured debt with other lenders	10% reduction in payments made on unsecured debt	(2.1)
£100 threshold above which shortfall against mortgage payment is 'unaffordable' and PMA is applied	Increase threshold to £200 / reduce threshold to 1p	(4.1)/6.9
Product interest rates available for switching product on maturity or for standard variable rate	Reduce / increase rates by 1 percentage point	(1.3)/1.7

Inadequate cladding post model adjustment – £2.9m (2021: £4.4m)

Consistent with the prior year, this PMA has been estimated by identifying properties at the highest risk of cladding issues by matching the Group's portfolio to third party postcode data where nil valuations have been returned and applying a range of haircuts to property valuations and making an allowance for remediation costs. The PMA has been updated during the year using the latest market information and this resulted in a PMA of £2.9m as at 31 December 2022 (31 December 2021: £4.4m). The PMA has reduced reflecting updated third party data and also an increase in the volume of valuations that have been performed.

Transaction bias post model adjustment – £1.1m (2021: £0.8m)

Consistent with previous reporting periods, possible house price inflation bias has been estimated by comparing the increases in indexed valuations on the Group's portfolio with alternative third party data and applying a haircut to collateral valuations, giving a PMA of £1.1m (31 December 2021: £0.8m).

Probability of default post model adjustment – £1.1m (2021: nil)

Following an annual review of the ECL calculation it was identified that a temporary PMA was required to reflect an increase in the probability of default for euro mortgages. Recent data reflects a higher risk of arrears and this will be built into the model during 2023. This results in a temporary PMA of £1.1m.

(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.

Year ended 31 December 2022

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(ii) Fair value of the collateral loan (continued)
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 mortgages 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 external research
Sales price haircut	Average actual discounts observed on the portfolio during the 2021 and 2022 financial years

At 31 December 2022 the carrying value of the collateral loan was £161.9m (2021: £215.5m), with the reduction primarily driven by movements in market interest rates. The sensitivity of this value to the estimates shown above is as follows:

Assumption	Sensitivity modelled for current assumption	(Decrease) / increase in fair value of collateral loan (£M)
Discount rate	+ / - 1 percentage point (floored at the risk-free rate)	(13.4) / 14.7
Property price volatility	+ / - 3 percentage points	(4.6) / 4.2
Sales price haircut	+ / - 5 percentage points	(3.1) / 2.6

The sensitivities shown reflect a range of alternative assumptions based on observed historic data.

An overlay was applied to the valuation at 31 December 2022 to reflect the potential for a future reduction in house prices as a result of affordability pressures following a rise in inflation, the cost of living crisis and increased residential mortgage rates. The overlay has been estimated by applying a 11.9% decrease in indexed property values which was set by reference to the near term weighted average house price inflation assumption in the macroeconomic scenarios that have been used in the IFRS9 ECL models at 31 December 2022. The overlay reduces the value of the collateral loan by £6.4m (31 December 2021: nil).

In the prior year, an overlay of £4.5m was applied to reduce the modelled valuation to reflect management's judgement that market conditions, used to derive the discount rate, included transitory factors which should not have been reflected in the valuation of this long term asset. We have re-assessed the overlay at the current year end and have determined that the discount rate appropriately reflects an increase in risk for equity release mortgages due to affordability concerns and economic volatility and on this basis we have removed the overlay.

(iii) Fair value of the RPI-linked equity release swap
One of the Group's equity release swaps is linked to the retail price index (RPI) and is valued using a discounted cash flow model which uses observable market data for RPI and the discount rate used to discount future cash flows and unobservable input assumptions for prepayment rates. Wherever possible these input assumptions are calculated with reference to actual historic experience and are aligned to those assumptions used in the valuation of the collateral loan. The variable which is considered to have the largest impact on the value of the swap is the prepayment rate.

A 1 percentage point increase in the assumed prepayment rate would increase the value of the swap by £2.0m resulting in a corresponding fair value gain in the Income Statement. A 1 percentage point reduction in the assumed prepayment rate would reduce the value of the swap by £2.3m, resulting in a corresponding fair value loss in the Income Statement.

3. Interest receivable and similar income

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Interest receivable calculated using the effective interest rate method:				
On instruments held at amortised cost:				
On loans fully secured on residential property	**512.7**	456.5	**512.7**	456.5
On other loans and advances to customers	**0.8**	0.6	**0.8**	0.6
On liquid assets	**42.0**	2.1	**42.0**	2.1
Total interest receivable on instruments held at amortised cost	**555.5**	459.2	**555.5**	459.2
On instruments held at fair value through other comprehensive income:				
On investment securities	**19.1**	4.8	**21.1**	5.5
Total interest receivable calculated using the effective interest rate method	**574.6**	464.0	**576.6**	464.7
Similar income / (expense) on instruments held at fair value through profit or loss:				
On other loans and advances to customers	**11.4**	13.2	**11.4**	13.2
Net income / (expense) on derivatives that hedge financial assets and are designated in accounting hedge relationships	**96.9**	(42.2)	**96.9**	(42.2)
Net expense on derivatives that hedge financial assets and are not designated in accounting hedge relationships	**(7.0)**	(10.3)	**(8.8)**	(12.5)
Total similar income on instruments held at fair value through profit or loss	**101.3**	(39.3)	**99.5**	(41.5)
Total interest receivable and similar income	**675.9**	424.7	**676.1**	423.2
Included in the above is:				
Interest receivable on impaired financial assets	**8.3**	8.2	**8.3**	8.2

4. Interest payable and similar charges

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Interest payable on instruments held at amortised cost:				
On shares held by individuals	**175.3**	110.2	**175.3**	110.2
On deposits and other borrowings:				
Wholesale and other funding	**90.4**	26.2	**90.6**	25.0
Lease liabilities	**0.3**	0.3	**0.3**	0.3
On subordinated liabilities	**5.8**	4.6	**5.8**	4.6
On subscribed capital	**10.8**	10.9	**10.8**	10.9
Total interest payable on instruments held at amortised cost	**282.6**	152.2	**282.8**	151.0
Similar charges / (income) on instruments held at fair value through profit or loss:				
Net charges / (income) on derivatives which hedge financial liabilities and are designated in accounting hedge relationships	**24.3**	(18.1)	**26.4**	(16.0)
Net charges on derivatives which hedge financial liabilities and are not designated in accounting hedge relationships	**9.4**	8.4	**7.5**	6.4
Total similar charges on instruments held at fair value through profit or loss	**33.7**	(9.7)	**33.9**	(9.6)
Total interest payable and similar charges	**316.3**	142.5	**316.7**	141.4

Year ended 31 December 2022

5. Fair value gains / (losses) from financial instruments

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Fair value hedge relationships				
Derivatives designated in fair value hedge relationships	**254.5**	168.8	**281.5**	174.2
Fair value adjustment for hedged risk of hedged items	**(254.8)**	(166.2)	**(281.9)**	(171.6)
Cash flow hedge relationships				
Derivatives designated in cash flow hedge relationship	**5.4**	–	**5.4**	–
Derivatives not designated in accounting hedge relationships				
Equity release swaps	**61.4**	(7.2)	**61.4**	(7.2)
Cross currency swaps net of retranslation on matched Euro liabilities	**2.1**	3.5	**–**	1.6
Other derivatives	**–**	–	**(4.4)**	(2.2)
Other financial instruments measured at fair value through profit or loss				
Collateral loan which represents a pool of equity release mortgages	**(53.9)**	0.6	**(53.9)**	0.6
Total fair value gains / (losses) from financial instruments	**14.7**	(0.5)	**8.1**	(4.6)

Fair value gains and losses arise 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 32 and 33.

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 2022 £M	Group & Society 2021 £M
Staff costs		
Wages and salaries	**64.8**	56.0
Social security costs	**6.9**	5.5
Pension costs	**8.2**	7.1
Temporary staff	**5.1**	3.7
Other staff costs	**1.4**	1.4
Less capitalised staff costs	**(2.6)**	(0.7)
Remuneration of auditor (see below)	**1.0**	0.8
Other administrative expenses		
Technology	**15.1**	12.0
Development activity	**5.9**	8.3
Property	**6.5**	6.8
Legal and professional fees	**3.8**	4.0
Marketing	**3.6**	3.1
Regulatory fees	**2.4**	2.5
Other	**8.0**	6.4
Total administrative expenses	**130.1**	116.9

There are 32 directors, senior management and colleagues whose actions have a material impact on the risk profile of the Group, with fixed remuneration of £6.5m and variable remuneration of £1.3m (2021: 27 individuals, £5.4m and £0.5m). Further details of directors' remuneration can be found on pages 159 to 163 of the Directors' Remuneration Report.

Capitalised staff costs represent the costs of colleagues directly involved in the development of intangible assets or items of property, plant and equipment. These costs are included in the capital cost of such assets and are included within additions during the year.

6. Administrative expenses (continued)

The analysis of auditor's remuneration is as follows:

	Group & Society 2022 £'000	Group & Society 2021 £'000
Fee payable to the Society's auditor for the audit of the Society's annual accounts	**798.8**	617.0
Fees payable to the Society's auditor for the audit of the Society's subsidiaries	**41.6**	43.0
Total audit fees	**840.4**	660.0
Assurance services	**151.7**	170.2
Total non-audit fees	**151.7**	170.2
Total auditor's remuneration	**992.1**	830.2
Fees payable to the Society's auditor and its associates in respect of associated pension schemes	**11.6**	11.6

The above figures relating to auditor's remuneration exclude value added tax.

7. Staff numbers

The average number of people employed during the year was as follows:

	Group & Society 2022 Number	Group & Society 2021 Number
Central administration	**1,255**	1,181
Branches	**283**	293
Total monthly average number of people employed	**1,538**	1,474
Total monthly average number of full time equivalent employees	**1,466**	1,361

At 31 December 2022 the total number of people employed by the Group and the Society was 1,668 (2021: 1,485).

8. Impairment on loans and advances to customers

Group & Society 2022	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
Impairment loss provision				
At 1 January 2022	**37.3**	**1.7**	**2.5**	**41.5**
Charge / (credit) for the year	**12.1**	**(0.1)**	**–**	**12.0**
Amount written off during the year	**(1.7)**	**–**	**–**	**(1.7)**
Movement in foreign exchange rate	**0.3**	**–**	**–**	**0.3**
At 31 December 2022	**48.0**	**1.6**	**2.5**	**52.1**
Income Statement				
Charge / (credit) for the year	**12.1**	**(0.1)**	**–**	**12.0**
Recoveries of amounts previously written off	**(0.1)**	**–**	**–**	**(0.1)**
Total income statement charge / (credit)	**12.0**	**(0.1)**	**–**	**11.9**

Year ended 31 December 2022

8. Impairment on loans and advances to customers (continued)

Group & Society 2021	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
Impairment loss provision				
At 1 January 2021	42.8	1.9	2.5	47.2
Credit for the year	(3.6)	(0.2)	–	(3.8)
Amount written off during the year	(1.6)	–	–	(1.6)
Movement in foreign exchange rate	(0.3)	–	–	(0.3)
At 31 December 2021	37.3	1.7	2.5	41.5
Income Statement				
Credit for the year	(3.6)	(0.2)	–	(3.8)
Recoveries of amounts previously written off	(0.3)	–	–	(0.3)
Total income statement credit	(3.9)	(0.2)	–	(4.1)

The Group's policy for calculating impairment of loans and advances to customers (including retail mortgages and loan commitments) is detailed in note 1(e). 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 1(e).

	Group & Society 2022			Group & Society 2021		
	Gross exposure £M	**Impairment loss provision £M**	**Provision coverage %**	Gross exposure £M	Impairment loss provision £M	Provision coverage %
Retail mortgages						
Stage 1	**16,965.3**	**5.1**	**0.03**	16,208.6	9.3	0.06
Stage 2 and <30 days past due	**3,088.3**	**30.0**	**0.97**	1,824.2	9.8	0.54
Stage 2 and 30+ days past due	**97.2**	**1.6**	**1.65**	79.1	1.8	2.28
Stage 3 and <90 days past due	**108.5**	**1.9**	**1.75**	113.1	6.6	5.84
Stage 3 and 90+ days past due	**113.0**	**9.2**	**8.14**	115.3	9.5	8.24
Total retail mortgages	**20,372.3**	**47.8**	**0.23**	18,340.3	37.0	0.20
Loan commitments						
Stage 1	**1,051.7**	**0.2**	**0.02**	1,328.4	0.3	0.02
Total impairment loss provision	**21,424.0**	**48.0**	**0.22**	19,668.7	37.3	0.19

The increase in mortgage balances and impairment loss provisions in Stage 2 during 2022 was primarily driven by the allocation of loans which could be at risk of a shortfall under an affordability stress, as identified through the calculation of the affordability PMA, to a higher stage (see note 2).

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:

	Stage 1		**Stage 2**		**Stage 3**		**Total**	
Group & Society 2022	**Gross exposure £M**	**Provision 12m ECL £M**	**Gross exposure £M**	**Provision Lifetime ECL £M**	**Gross exposure £M**	**Provision Lifetime ECL £M**	**Gross exposure £M**	**Provision £M**
At 1 January 2022	**16,208.6**	**9.3**	**1,903.3**	**11.6**	**228.4**	**16.1**	**18,340.3**	**37.0**
Transfers resulting in increased impairment loss provision:								
From Stage 1 to Stage 2	**(1,847.5)**	**(0.7)**	**1,847.5**	**16.5**	**–**	**–**	**–**	**15.8**
From Stage 1 to Stage 3	**(32.5)**	**–**	**–**	**–**	**32.5**	**0.7**	**–**	**0.7**
From Stage 2 to Stage 3	**–**	**–**	**(42.3)**	**(1.1)**	**42.3**	**1.7**	**–**	**0.6**
Transfers resulting in reduced impairment loss provision:								
From Stage 2 to Stage 1	**492.9**	**0.1**	**(492.9)**	**(0.9)**	**–**	**–**	**–**	**(0.8)**
From Stage 3 to Stage 1	**10.4**	**–**	**–**	**–**	**(10.4)**	**(0.1)**	**–**	**(0.1)**
From Stage 3 to Stage 2	**–**	**–**	**32.5**	**0.2**	**(32.5)**	**(0.7)**	**–**	**(0.5)**
Change in impairment loss provision resulting from loan modifications	**–**	**0.1**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.1)**
Other remeasurement of impairment loss provision (no movement in stage)	**–**	**(5.3)**	**–**	**6.2**	**–**	**(3.5)**	**–**	**(2.6)**
New advances	**6,145.4**	**2.6**	**–**	**–**	**–**	**–**	**6,145.4**	**2.6**
Redemptions and repayments	**(4,012.0)**	**(1.0)**	**(62.6)**	**(0.9)**	**(38.8)**	**(1.2)**	**(4,113.4)**	**(3.1)**
Write offs	**–**	**–**	**–**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
At 31 December 2022	**16,965.3**	**5.1**	**3,185.5**	**31.6**	**221.5**	**11.1**	**20,372.3**	**47.8**

	Stage 1		Stage 2		Stage 3		Total	
Group & Society 2021	Gross exposure £M	Provision 12m ECL £M	Gross exposure £M	Provision Lifetime ECL £M	Gross exposure £M	Provision Lifetime ECL £M	Gross exposure £M	Provision £M
At 1 January 2021	14,287.6	7.7	2,327.0	16.9	180.7	18.2	16,795.3	42.8
Transfers resulting in increased impairment loss provision:								
From Stage 1 to Stage 2	(850.7)	(0.5)	850.7	1.8	–	–	–	1.3
From Stage 1 to Stage 3	(33.4)	(0.2)	–	–	33.4	0.7	–	0.5
From Stage 2 to Stage 3	–	–	(74.6)	(1.6)	74.6	3.5	–	1.9
Transfers resulting in reduced impairment loss provision:								
From Stage 2 to Stage 1	985.8	0.4	(985.8)	(2.6)	–	–	–	(2.2)
From Stage 3 to Stage 1	4.5	–	–	–	(4.5)	(0.1)	–	(0.1)
From Stage 3 to Stage 2	–	–	31.3	0.3	(31.3)	(0.6)	–	(0.3)
Change in impairment loss provision resulting from loan modifications	–	0.1	–	0.2	–	(0.2)	–	0.1
Other remeasurement of impairment loss provision (no movement in stage)	–	–	–	(2.2)	–	(2.6)	–	(4.8)
New advances	4,632.8	2.3	–	–	–	–	4,632.8	2.3
Redemptions and repayments	(2,818.0)	(0.5)	(245.3)	(1.2)	(24.5)	(1.2)	(3,087.8)	(2.9)
Write offs	–	–	–	–	–	(1.6)	–	(1.6)
At 31 December 2021	16,208.6	9.3	1,903.3	11.6	228.4	16.1	18,340.3	37.0

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 2022

9. Tax expense

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits for the year	56.6	42.7	56.6	42.7
Adjustments in respect of prior year	(1.8)	(1.3)	(1.8)	(1.3)
Total current tax	54.8	41.4	54.8	41.4
Deferred tax				
Origination and reversal of timing differences	1.9	0.2	0.6	(0.5)
Adjustments in respect of prior year	2.3	1.7	2.3	2.4
Adjustments for changes in tax rates	(0.4)	0.2	(0.4)	0.2
Total deferred tax	3.8	2.1	2.5	2.1
Tax on profit on ordinary activities	58.6	43.5	57.3	43.5
Factors affecting total tax charge for the year:				
Profit on ordinary activities before tax	220.5	163.7	212.9	160.7
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	41.9	31.1	40.4	30.5
Effects of:				
Banking surcharge	15.2	11.1	15.2	11.1
Adjustments in respect of prior year (current tax)	(1.8)	(1.3)	(1.8)	(1.3)
Tax on profits of Leeds Building Society Covered Bonds LLP	–	–	0.6	0.2
Expenses not deductible for tax purposes	1.0	0.3	1.0	0.3
Other differences	(1.5)	0.2	(0.6)	0.6
Total current tax	54.8	41.4	54.8	41.4
Origination and reversal of timing differences	1.9	0.2	0.6	(0.5)
Adjustments in respect of prior year (deferred tax)	2.3	1.7	2.3	2.4
Adjustments for changes in tax rates (deferred tax)	(0.4)	0.2	(0.4)	0.2
Tax on profit on ordinary activities	58.6	43.5	57.3	43.5

Adjustments in respect of prior year primarily relate to differences between the balances in prior year's 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 2022 was 19% (year ended 31 December 2021: 19%). An increase in the UK corporation tax rate to 25% with effect from 1 April 2023 was substantively enacted on 24 May 2021. 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. A reduction in this surcharge to 3% of profits above a £100m threshold, to be effective from 1 April 2023, was substantively enacted on 2 February 2022.

Deferred tax balances have been calculated at a rate of 28% (2021: 33%), reflecting the increased corporation tax rate and the 3% banking surcharge effective from 1 April 2023.

10. Classification of financial assets and liabilities

The following tables summarise the classification and carrying value of the Group's financial assets and liabilities:

Group 2022	Amortised cost £M	FVOCI £M	FVTPL £M	Total £M
Financial assets:				
Cash in hand and balances with the Bank of England	2,958.1	–	–	2,958.1
Loans and advances to credit institutions	235.9	–	–	235.9
Investment securities	–	1,386.7	–	1,386.7
Derivative financial instruments	–	–	679.9	679.9
Loans and advances to customers:				
Loans fully secured on residential property	20,324.3	–	–	20,324.3
Other loans	7.0	–	161.9	168.9
Fair value adjustment for hedged risk on loans and advances to customers	–	–	(585.9)	(585.9)
Total financial assets	23,525.3	1,386.7	255.9	25,167.9
Financial liabilities:				
Shares	17,520.4	–	–	17,520.4
Fair value adjustment for hedged risk on shares	–	–	(100.7)	(100.7)
Derivative financial instruments	–	–	251.9	251.9
Amounts owed to credit institutions	2,268.4	–	–	2,268.4
Amounts owed to other customers	229.7	–	–	229.7
Debt securities in issue	2,711.0	–	–	2,711.0
Subordinated liabilities	309.1	–	–	309.1
Subscribed capital	197.6	–	–	197.6
Total financial liabilities	23,236.2	–	151.2	23,387.4

Group 2021	Amortised cost £M	FVOCI £M	FVTPL £M	Total £M
Financial assets:				
Cash in hand and balances with the Bank of England	2,538.7	–	–	2,538.7
Loans and advances to credit institutions	159.0	–	–	159.0
Investment securities	–	949.1	–	949.1
Derivative financial instruments	–	–	219.3	219.3
Loans and advances to customers:				
Loans fully secured on residential property	18,303.0	–	–	18,303.0
Other loans	8.7	–	215.5	224.2
Fair value adjustment for hedged risk on loans and advances to customers	–	–	(169.1)	(169.1)
Total financial assets	21,009.4	949.1	265.7	22,224.2
Financial liabilities:				
Shares	15,258.0	–	–	15,258.0
Fair value adjustment for hedged risk on shares	–	–	(72.9)	(72.9)
Derivative financial instruments	–	–	166.8	166.8
Amounts owed to credit institutions	2,258.9	–	–	2,258.9
Amounts owed to other customers	297.5	–	–	297.5
Debt securities in issue	2,554.6	–	–	2,554.6
Subordinated liabilities	339.4	–	–	339.4
Subscribed capital	227.3	–	–	227.3
Total financial liabilities	20,935.7	–	93.9	21,029.6

Year ended 31 December 2022

10. Classification of financial assets and liabilities (continued)

The following tables summarise the classification and carrying value of the Society's financial assets and liabilities:

Society 2022	**Amortised cost £M**	**FVOCI £M**	**FVTPL £M**	**Total £M**
Financial assets:				
Cash in hand and balances with the Bank of England	**2,958.1**	**–**	**–**	**2,958.1**
Loans and advances to credit institutions	**83.3**	**–**	**–**	**83.3**
Investment securities	**–**	**1,452.8**	**–**	**1,452.8**
Derivative financial instruments	**–**	**–**	**679.5**	**679.5**
Loans and advances to customers:				
Loans fully secured on residential property	**20,324.3**	**–**	**–**	**20,324.3**
Other loans	**7.0**	**–**	**161.9**	**168.9**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**(585.9)**	**(585.9)**
Total financial assets	**23,372.7**	**1,452.8**	**255.5**	**25,081.0**
Financial liabilities:				
Shares	**17,520.4**	**–**	**–**	**17,520.4**
Fair value adjustment for hedged risk on shares	**–**	**–**	**(100.7)**	**(100.7)**
Derivative financial instruments	**–**	**–**	**237.2**	**237.2**
Amounts owed to credit institutions	**2,268.4**	**–**	**–**	**2,268.4**
Amounts owed to other customers	**404.7**	**–**	**–**	**404.7**
Debt securities in issue	**2,620.2**	**–**	**–**	**2,620.2**
Subordinated liabilities	**309.1**	**–**	**–**	**309.1**
Subscribed capital	**197.6**	**–**	**–**	**197.6**
Total financial liabilities	**23,320.4**	**–**	**136.5**	**23,456.9**

Society 2021	Amortised cost £M	FVOCI £M	FVTPL £M	Total £M
Financial assets:				
Cash in hand and balances with the Bank of England	2,538.7	–	–	2,538.7
Loans and advances to credit institutions	96.5	–	–	96.5
Investment securities	–	1,040.4	–	1,040.4
Derivative financial instruments	–	–	210.4	210.4
Loans and advances to customers:				
Loans fully secured on residential property	18,303.0	–	–	18,303.0
Other loans	8.7	–	215.5	224.2
Fair value adjustment for hedged risk on loans and advances to customers	–	–	(169.1)	(169.1)
Total financial assets	20,946.9	1,040.4	256.8	22,244.1
Financial liabilities:				
Shares	15,258.0	–	–	15,258.0
Fair value adjustment for hedged risk on shares	–	–	(72.9)	(72.9)
Derivative financial instruments	–	–	141.2	141.2
Amounts owed to credit institutions	2,258.9	–	–	2,258.9
Amounts owed to other customers	540.9	–	–	540.9
Debt securities in issue	2,395.2	–	–	2,395.2
Subordinated liabilities	339.4	–	–	339.4
Subscribed capital	227.3	–	–	227.3
Total financial liabilities	21,019.7	–	68.3	21,088.0

11. Cash in hand and balances with the Bank of England

	Group & Society 2022 £M	Group & Society 2021 £M
Cash in hand	**1.9**	2.0
Balances with the Bank of England	**2,956.2**	2,536.7
Included in cash and cash equivalents (see note 29)	**2,958.1**	2,538.7

Balances with the Bank of England do not include mandatory reserve deposits of £70.1m (2021: £62.1m) 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 Statements of Financial Position.

12. Investment securities

All the investment securities held by the Group and the Society are listed. In addition to those securities held by the Group, the Society has purchased investment securities issued by other Group entities. 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 2022 are of investment grade. No impairment loss provision is held against these assets since calculated ECL is immaterial (2021: no provision).

	Group 2022 £M	Group 2021 £M	**Society 2022 £M**	Society 2021 £M
At 1 January	**949.1**	949.7	**1,040.4**	1,071.0
Additions	**1,292.5**	511.8	**1,292.5**	511.8
Disposals (sale and redemption)	**(847.9)**	(504.7)	**(873.0)**	(534.7)
Movement in fair value	**(7.0)**	(7.7)	**(7.1)**	(7.7)
At 31 December	**1,386.7**	949.1	**1,452.8**	1,040.4

At 31 December 2022, no investment securities were pledged as collateral under sale and repurchase agreements (2021: none).

13. Loans and advances to customers

Group & Society 2022	**Gross exposure £M**	**Impairment loss provision £M**	**Total £M**
Loans fully secured on residential property	**20,372.3**	**(48.0)**	**20,324.3**
Loans fully secured on land	**8.6**	**(1.6)**	**7.0**
Other loans	**164.4**	**(2.5)**	**161.9**
Total loans and advances to customers	**20,545.3**	**(52.1)**	**20,493.2**

Group & Society 2021	Gross exposure £M	Impairment loss provision £M	Total £M
Loans fully secured on residential property	18,340.3	(37.3)	18,303.0
Loans fully secured on land	10.4	(1.7)	8.7
Other loans	218.0	(2.5)	215.5
Total loans and advances to customers	18,568.7	(41.5)	18,527.2

Year ended 31 December 2022

13. Loans and advances to customers (continued)

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 loss of £53.9m (2021: £0.6m gain) for both the Group and Society. The equity release mortgages are economically hedged using interest rate swaps and as a result the loss was offset by a net fair value gain on the swaps of £61.4m (2021: £7.2m loss).

Loans and advances to customers, for both the Group and Society, include £3,796.6m (2021: £2,575.5m) of loans which have been ringfenced from the Society for its associated secured funding vehicles.

2022	**LBS Covered Bonds LLP £M**	**Albion No. 4 plc £M**	**Total £M**
Loans and advances transferred from the Society to securitisation vehicles	**3,588.8**	**207.8**	**3,796.6**
Loan notes issued by securitisation vehicles	**2,308.6**	**219.8**	**2,528.4**

2021	LBS Covered Bonds LLP £M	Albion No. 4 plc £M	Total £M
Loans and advances transferred from the Society to securitisation vehicles	2,304.7	270.8	2,575.5
Loan notes issued by securitisation vehicles	1,640.5	287.1	1,927.6

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.

Further analysis of loans and advances to customers is provided in the credit risk section of the Risk Management Report on pages 86 to 90.

14. Other assets, prepayments and accrued income

	Group 2022 £M	Group 2021 £M	**Society 2022 £M**	Society 2021 £M
Collateral	**239.9**	159.1	**239.9**	159.1
Prepayments	**5.7**	5.0	**5.7**	5.0
Other assets	**2.7**	2.4	**202.2**	41.1
Total other assets, prepayments and accrued income	**248.3**	166.5	**447.8**	205.2

In the above table, collateral represents amounts owed by credit institutions on cash collateralisation of derivatives. The Society balance for other assets includes amounts owed by subsidiary undertakings, including collateral in relation to intragroup derivatives.

15. Investments in subsidiary undertakings

At 31 December 2022, the value of shares in subsidiaries was £1,040 (2021: £2,040).

(a) Loans to subsidiary undertakings

	Society 2022 £M	Society 2021 £M
At 1 January	**1.9**	1.9
Net movement during the year	**(1.9)**	–
At 31 December	**–**	1.9
Total investments in subsidiary undertakings	**–**	1.9

(b) Interest in subsidiary undertakings

The Society holds the following interests in subsidiary undertakings at 31 December 2022, 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 Mortgage Funding Limited	Non-trading	Ordinary £1 shares	100%	26 Sovereign Street, Leeds, LS1 4BJ
Leeds Building Society Covered Bonds LLP	Provision of mortgage assets and guarantor of covered bonds	*	*	26 Sovereign Street, Leeds, LS1 4BJ
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. 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

* The Society's interest is equivalent to being a 100% owned subsidiary as these entities pass the test of control under IFRS 10 – Consolidated Financial Statements. Consequently they have been consolidated in the Group accounts. 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.

Leeds Financial Services Limited was dissolved on 11 October 2022 following voluntary strike off of the company.

Albion No. 3 Holdings Limited was dissolved on 4 January 2022 and Guildford No. 1 plc and Guildford No. 1 Holdings Limited were dissolved on 3 February 2022 following closure of the secured funding programmes operated through these companies during 2019 and 2020 respectively.

Year ended 31 December 2022

16. Intangible assets

Group & Society 2022	New core systems £M	System enhancements £M	Total £M
Cost			
At 1 January 2022	16.1	21.5	37.6
Additions	–	3.9	3.9
Disposals	–	(7.2)	(7.2)
At 31 December 2022	16.1	18.2	34.3
Amortisation and impairment			
At 1 January 2022	2.1	10.5	12.6
Amortisation charged in the year	1.6	4.8	6.4
Disposals	–	(7.2)	(7.2)
At 31 December 2022	3.7	8.1	11.8
Net book value			
At 31 December 2022	12.4	10.1	22.5

Group & Society 2021	New core systems £M	System enhancements £M	Total £M
Cost			
At 1 January 2021	16.9	19.8	36.7
Additions	–	1.7	1.7
Adjustments	(0.8)	–	(0.8)
At 31 December 2021	16.1	21.5	37.6
Amortisation and impairment			
At 1 January 2021	0.5	7.4	7.9
Amortisation charged in the year	1.6	3.1	4.7
At 31 December 2021	2.1	10.5	12.6
Net book value			
At 31 December 2021	14.0	11.0	25.0

During 2022 the Group continued its programme of works that met the definition of an intangible asset. This included software licences, IT development service 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 1(h), with useful lives reviewed on an asset-by-asset basis each year. In 2022 this resulted in an additional £1.2m amortisation being charged due to the shortening of the useful lives of two assets.

The only individually material intangible asset is the Mortgage Hub mortgage application system, with a net book value of £12.5m (2021: £14.0m).

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 2022 no impairment (2021: none) was recognised in profit or loss.

17. Property, plant and equipment

Group & Society 2022	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 2022	61.4	0.2	0.9	44.1	13.6	120.2
Additions	1.2	–	–	2.5	1.0	4.7
Disposals	(8.9)	–	–	(1.6)	(2.2)	(12.7)
Decrease in value reported in other comprehensive income	(1.9)	–	–	–	–	(1.9)
At 31 December 2022	51.8	0.2	0.9	45.0	12.4	110.3
Depreciation and impairment						
At 1 January 2022	1.0	–	0.9	31.8	4.1	37.8
Disposals	–	–	–	(1.3)	(1.2)	(2.5)
Depreciation charged in the year	–	–	–	3.1	1.4	4.5
Impairment charged in the year	3.8	–	–	–	–	3.8
At 31 December 2022	4.8	–	0.9	33.6	4.3	43.6
Net book value						
At 31 December 2022	47.0	0.2	–	11.4	8.1	66.7

Group & Society 2021	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 2021	61.6	0.2	1.0	39.9	13.3	116.0
Additions	1.0	–	–	4.5	1.3	6.8
Disposals	(0.2)	–	(0.1)	(0.3)	(1.0)	(1.6)
Decrease in value reported in other comprehensive income	(1.0)	–	–	–	–	(1.0)
At 31 December 2021	61.4	0.2	0.9	44.1	13.6	120.2
Depreciation and impairment						
At 1 January 2021	1.0	–	1.0	29.5	3.2	34.7
Disposals	–	–	(0.1)	(0.3)	(0.9)	(1.3)
Depreciation charged in the year	–	–	–	2.6	1.8	4.4
At 31 December 2021	1.0	–	0.9	31.8	4.1	37.8
Net book value						
At 31 December 2021	60.4	0.2	–	12.3	9.5	82.4

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 2022. 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.

Year ended 31 December 2022

17. Property, plant and equipment (continued)

The amount of freehold and long leasehold premises (included above at valuation) determined according to the historical cost convention is as follows:

	Group & Society 2022 £M	Group & Society 2021 £M
Freehold premises	**44.6**	47.9
Long leasehold premises	**0.2**	0.2
Net book value	**44.8**	48.1

The amount of land and buildings occupied by the Group and Society for its own activities is:

	Group & Society 2022 £M	Group & Society 2021 £M
Net book value	**45.5**	50.7

The average remaining lease term of right-of-use assets is 9.9 years (2021: 5.9 years).

Disposals of right-of-use assets during the year relate to a property for which the freehold was purchased and further properties where the lease was renewed early. In these cases, the existing lease liability was extinguished on disposal and there was minimal loss recorded.

18. Shares

	Group & Society 2022 £M	Group & Society 2021 £M
Held by individuals	**17,515.2**	15,251.6
Other shares	**5.2**	6.4
Total shares	**17,520.4**	15,258.0

19. Amounts owed to other customers

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Amounts owed to subsidiary undertakings	**–**	–	**175.0**	243.4
Other deposits	**229.7**	297.5	**229.7**	297.5
Total amounts owed to other customers	**229.7**	297.5	**404.7**	540.9

20. Debt securities in issue

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Certificates of deposit	**5.0**	6.0	**5.0**	6.0
Senior unsecured debt	**299.1**	768.8	**299.1**	768.8
Covered bonds	**2,296.5**	1,627.6	**2,316.1**	1,620.4
Residential mortgage backed securities	**110.4**	152.2	**–**	–
Total debt securities in issue	**2,711.0**	2,554.6	**2,620.2**	2,395.2

The underlying security for the covered bonds and residential mortgage backed securities (RMBS) is certain loans and advances to customers (see note 13 for further detail).

21. Other liabilities and accruals

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Accruals	**20.6**	22.7	**20.6**	22.0
Lease liabilities				
Current	**1.6**	1.3	**1.6**	1.3
Non current	**7.1**	8.6	**7.1**	8.6
Other payables	**556.8**	168.8	**601.7**	165.8
Total other liabilities and accruals	**586.1**	201.4	**631.0**	197.7

Other payables within Group and Society includes £493.6m (2021: £165.6m) owed to credit institutions on cash collateralisation of derivatives.

The maturity of lease liabilities is shown below.

Maturity analysis – contractual undiscounted cash flows	Group & Society 2022 £M	Group & Society 2021 £M
Less than one year	**1.3**	1.6
One to five years	**4.7**	5.3
More than five years	**3.0**	4.3
Total undiscounted cash flows at 31 December	**9.0**	11.2

At 31 December 2022, the Group and Society had less than £0.1m of commitments under short term leases (2021: none). Total lease commitments for low value assets were £0.1m (2021: less than £0.1m).

Amounts recognised in Income Statement in respect of leases

	Group & Society 2022 £M	Group & Society 2021 £M
Interest payable on lease liabilities	**0.3**	0.3
Depreciation of right-of-use assets	**1.4**	1.8
Expenses relating to short term leases	**0.1**	0.1
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 in the year	**1.9**	2.3

Year ended 31 December 2022

21. Other liabilities and accruals (continued)

Amounts recognised in the Statement of Cash Flows in respect of leases

	Group & Society 2022 £M	Group & Society 2021 £M
Total cash outflow for leases	2.3	2.4

22. Provisions for liabilities and charges

Group & Society 2022	FSCS Levy £M	Customer redress and related provisions £M	Commission clawback £M	Property related £M	Other provisions £M	Total £M
At 1 January 2022	0.2	0.7	0.1	0.3	0.6	1.9
Amounts paid during the year	(0.1)	(0.4)	–	(0.2)	(0.1)	(0.8)
Provision (release) / charge in the year	(0.1)	0.3	(0.1)	(0.1)	(0.5)	(0.5)
At 31 December 2022	–	0.6	–	–	–	0.6

Group & Society 2021	FSCS Levy £M	Customer redress and related provisions £M	Commission clawback £M	Property related £M	Other provisions £M	Total £M
At 1 January 2021	–	0.8	0.1	0.3	0.6	1.8
Amounts paid during the year	(0.2)	(0.1)	–	(0.9)	(0.1)	(1.3)
Provision charge in the year	0.4	–	–	0.9	0.1	1.4
At 31 December 2021	0.2	0.7	0.1	0.3	0.6	1.9

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, there remains the potential for claims to be received via legal cases through the courts and therefore this provision remains appropriate.

All remaining provisions have either been utilised during the year or released, since an outflow of funds is no longer considered to be probable.

23. Subordinated liabilities

Subordinated liabilities comprise £309.1m (2021: £339.4m) of senior non-preferred fixed rate reset notes which were issued during 2021 under the Group's £2bn Euro Medium Term Note Programme. The notes are denominated in sterling and have a fixed interest rate of 1.5% payable semi-annually to 16 March 2026, followed by a further year at the benchmark gilt rate plus 1.3% until maturity on 16 March 2027.

The total amount reported in the Statements of Financial Position represents the nominal value of £350.0m (2021: £350.0m) plus accrued interest and a fair value adjustment for hedged risk.

The notes rank behind the claims of all other creditors and members of the Society, other than holders of permanent interest bearing shares (PIBS) and tier 2 capital.

24. Subscribed capital

	Group & Society 2022 £M	Group & Society 2021 £M
13 3/8% permanent interest bearing shares	25.0	25.0
3 3/4% tier 2 capital	172.6	202.3
Total	197.6	227.3

The 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 3/8% payable semi-annually for an indeterminate period.

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.

25. 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 (2021: one individual) in the UK, an employer funded retirement benefits scheme. The schemes have been accounted for under IAS 19 – 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 2022 there were 287 deferred defined benefit members (2021: 287). The Society's unfunded liability is £0.6m (2021: £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. Due to the increased market volatility over 2022, the Society and the trustees have continued to review their investment strategy which 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 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.

The average duration of the benefit obligation is estimated to be 15 years (2021: 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. The last actuarial valuation of the scheme was undertaken at 31 December 2020. 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 defined benefit obligation at 31 December 2022 can be approximately attributed to the scheme members as follows:

– Deferred members: 46% (2021: 54%)

– Pensioner members: 54% (2021: 46%)

Year ended 31 December 2022

25. 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 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	The value of the scheme's assets is impacted by the market prices of those assets

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):

	2022	2021
Discount rate	**4.85%**	1.85%
Price inflation		
RPI	**3.40%**	3.50%
CPI	**2.80%**	2.90%
Future salary increases	**N/A**	N/A
Future pension increases		
RPI max 5%	**3.00%**	3.40%
RPI min 3% max 5%	**3.85%**	3.75%
Cash commutation	**100% of members assumed to take 80% of maximum tax free cash**	100% of members assumed to take 80% of maximum tax free cash
Mortality		
Actuarial base table	**S2PMA/S2PFA tables**	S2PMA/S2PFA tables
Future improvements	**CMI_2021 with 1.25% p.a. long term trend, smoothing factor of 7, initial addition of 0, w2020 and w2021 parameters of 10%**	CMI_2020 with 1.25% p.a. long term trend, smoothing factor of 7, initial addition of 0 and w2020 parameter of 10%
Life expectancy		
Male at age 63	**23.0 years**	23.2 years
Female at age 63	**25.2 years**	25.3 years
Male at age 63 (currently aged 43)	**24.4 years**	24.6 years
Female at age 63 (currently aged 43)	**26.8 years**	26.9 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 2022 £M	Group & Society 2021 £M
Present value of funded obligations	**(69.6)**	(112.1)
Present value of unfunded obligations	**(0.6)**	(0.8)
Assets at fair value	**73.8**	121.2
Surplus	**3.6**	8.3

25. 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 2022 £M	Group & Society 2021 £M
At 1 January	**112.9**	125.0
Interest cost	**2.0**	1.6
Actuarial gains arising from changes in demographic assumptions	**(0.6)**	(2.2)
Actuarial gains arising from changes in financial assumptions	**(44.6)**	(3.7)
Actuarial losses / (gains) on experience adjustment	**5.6**	(2.8)
Benefits paid	**(5.1)**	(5.0)
At 31 December	**70.2**	112.9

Changes in the present value of the scheme's assets are as follows:

	Group & Society 2022 £M	Group & Society 2021 £M
At 1 January	**121.2**	126.0
Interest income	**2.2**	1.7
Return on scheme assets excluding interest income	**(44.5)**	(1.6)
Contribution by employer	**0.4**	0.4
Contribution by scheme members	**–**	–
Administrative expenses	**(0.4)**	(0.3)
Benefits paid	**(5.1)**	(5.0)
At 31 December	**73.8**	121.2

(e) Scheme assets
The major categories of scheme assets are as follows:

	Group & Society 2022 £M	Group & Society 2021 £M
Corporate bonds	**37.8**	51.9
Index-linked government bonds	**8.4**	25.6
Absolute return bonds	**4.6**	19.7
Liability driven investments	**14.0**	21.2
Fixed-interest government bonds	**0.3**	1.9
Cash and cash equivalents	**8.7**	0.9
Total assets	**73.8**	121.2

All assets have quoted market prices in active markets. The pension scheme assets include no assets from the Society's own financial issuances (unchanged from 2021). The pension scheme assets include no property occupied by, or other assets used by the Society (unchanged from 2021).

Year ended 31 December 2022

25. Retirement benefit surplus (continued)

(f) Amounts recognised in profit or loss

	Group & Society 2022 £M	Group & Society 2021 £M
Administration expenses	**0.4**	0.3
Net interest on the defined benefit asset	**(0.2)**	(0.1)
Total cost – defined benefit scheme	**0.2**	0.2

(g) Amounts recognised in other comprehensive income

	Group & Society 2022 £M	Group & Society 2021 £M
Actuarial (losses) / gains on experience adjustment	**(5.6)**	2.8
Actuarial gains arising from changes in demographic assumptions	**0.6**	2.2
Actuarial gains arising from changes in financial assumptions	**44.6**	3.7
Percentage of scheme liabilities (%)	**56.4%**	7.7%
Return on scheme assets excluding interest income	**(44.5)**	(1.6)
Percentage of scheme assets (%)	**(60.3)%**	(1.3)%
Total gain / (loss) recognised in SOCI during the year	**(4.9)**	7.1

The cumulative amount of actuarial gains and losses recognised in other comprehensive income since the date of transition to IFRS is a net loss of £21.7m (2021: £16.8m loss).

(h) Sensitivity to changes in key assumptions

The table below gives a broad indication of the impact on the pension surplus of 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 2022 £M
Increase discount rate by 1.0%	**8.4**
Increase inflation assumption by 0.5%	**(3.1)**
Change long term trend of increases in mortality improvement from 1.25% to 1.50%	**(0.4)**

(i) Estimated contributions for 2023 financial year

	Group & Society 2022 £M
Estimated employer normal contributions in financial year 2023	**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 2023.

26. Deferred tax

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Deferred tax				
At 1 January	**(1.7)**	0.9	**(2.1)**	0.5
Adjustment in respect of prior years	**(2.3)**	(1.7)	**(2.3)**	(2.4)
Amount recognised directly in equity	**(27.2)**	(0.5)	**(27.2)**	(0.5)
Income and expenditure movement during the year	**(1.5)**	(0.4)	**(0.2)**	0.3
At 31 December	**(32.7)**	(1.7)	**(31.8)**	(2.1)

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Deferred tax assets				
IFRS9 transitional adjustment	**3.7**	5.3	**3.7**	5.3
Differences relating to fixed assets	**(3.4)**	(0.8)	**(3.4)**	(0.8)
Total deferred tax assets	**0.3**	4.5	**0.3**	4.5

	Group 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Deferred tax liabilities				
Cash flow hedge reserve	**31.6**	–	**31.6**	–
Revaluation reserve	**0.7**	4.1	**0.7**	4.1
Pensions	**2.5**	2.7	**2.5**	2.7
Temporary differences relating to trading items	**(0.3)**	(0.4)	**(0.3)**	(0.4)
Far value reserve	**(2.4)**	(0.3)	**(2.4)**	0.2
Other temporary differences	**0.9**	0.1	**–**	–
Total deferred tax liabilities	**33.0**	6.2	**32.1**	6.6

27. Tax effects relating to each component of other comprehensive income

	Group 2022			Society 2022		
	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
Cash flow hedge reserve	112.9	(31.6)	81.3	112.9	(31.6)	81.3
Investment securities at FVOCI	(9.1)	2.5	(6.6)	(9.1)	2.5	(6.6)
Revaluation loss on properties	(1.9)	3.3	1.4	(1.9)	3.3	1.4
Actuarial losses on retirement benefit obligations	(4.9)	0.1	(4.8)	(4.9)	0.1	(4.8)
IFRS9 transitional adjustment	–	(1.0)	(1.0)	–	(1.0)	(1.0)
Other comprehensive income	**97.0**	**(26.7)**	**70.3**	**97.0**	**(26.7)**	**70.3**

Year ended 31 December 2022

27. Tax effects relating to each component of other comprehensive income (continued)

	Group 2021			Society 2021		
	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	(6.5)	1.8	(4.7)	(6.5)	1.8	(4.7)
Revaluation loss on properties	(1.0)	(0.4)	(1.4)	(1.0)	(0.4)	(1.4)
Actuarial gains on retirement benefit obligations	7.1	(2.0)	5.1	7.1	(2.0)	5.1
IFRS9 transitional adjustment	–	0.7	0.7	–	0.7	0.7
Other comprehensive income	(0.4)	0.1	(0.3)	(0.4)	0.1	(0.3)

28. Cash flows from financing activities

For the purposes of the Statements of Cash Flows, debt securities in issue, subordinated liabilities 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 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
At 1 January	**3,121.3**	3,142.2	**2,961.9**	2,927.3
Cash flows:				
Net proceeds from issue of debt securities	**665.1**	508.7	**665.1**	508.7
Repayments of debt securities in issue	**(463.0)**	(804.8)	**(420.9)**	(754.8)
Net proceeds from issue of subordinated liabilities	**–**	346.9	**–**	346.9
Non-cash flows:				
Amortisation of discount on issue	**0.2**	0.2	**0.2**	0.2
Accrued interest movements	**4.8**	(6.1)	**4.5**	(6.1)
Foreign exchange movements	**23.2**	(26.1)	**23.2**	(26.1)
Movement in fair value	**(133.9)**	(39.7)	**(107.1)**	(34.2)
At 31 December	**3,217.7**	3,121.3	**3,126.9**	2,961.9

29. 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 2022 £M	Group 2021 £M	Society 2022 £M	Society 2021 £M
Cash in hand and balances with the Bank of England (note 11)	**2,958.1**	2,538.7	**2,958.1**	2,538.7
Loans and advances to credit institutions	**235.9**	159.0	**83.3**	96.5
Total cash and cash equivalents	**3,194.0**	2,697.7	**3,041.4**	2,635.2

The Group's loans and advances to credit institutions includes £152.6m (2021: £62.5m) of balances belonging to the Society's securitisation programmes which are not available for general use by the Society.

30. 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 £4.8m (2021: £0.3m) relating to technology investment programmes (intangible assets and 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 2022 is £42.3m (2021: £17.2m). This service contract does not meet the definition of a lease under IFRS 16 since it does not give the Group the right to control the assets used to provide the service.

31. 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 value 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	
	2022 £M	2021 £M	2022 £M	2021 £M
Loans payable to the Society				
Loans outstanding at 1 January	**1.9**	1.9	**–**	0.8
Net movement during the year	**(1.9)**	–	**–**	(0.8)
Loans outstanding at 31 December	**–**	1.9	**–**	–
Deposits payable by the Society				
Deposits outstanding at 1 January	**243.4**	323.8	**0.2**	0.2
Net movement during the year	**(68.3)**	(80.4)	**–**	–
Deposits outstanding at 31 December	**175.1**	243.4	**0.2**	0.2

Directors' emoluments	Group & Society 2022 £M	Group & Society 2021 £M
Total remuneration	**2.7**	2.4

Year ended 31 December 2022

31. 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 155 to 168. No directors are active members of the defined benefit section of the Leeds Building Society Pension Scheme (2021: none). Two directors were active members of the defined contribution section of the Leeds Building Society Pension Scheme during 2022 (2021: two).

32. 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 or liabilities offering the same risk and return, as cash flows 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. Further information on the Group's approach to managing market risks can be found on pages 97 to 100 of the Risk Management Report.

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 Cash flow 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	Pay fixed 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	–

The Group manages risk within its risk tolerance, regardless of the accounting treatment. 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.

32. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

The table below shows the value of derivatives by type:

	Group 2022			Group 2021		
	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 accounting hedges	18,379.4	679.5	(218.7)	19,498.9	157.2	(48.5)
Derivatives not designated in accounting hedges:						
Equity release swaps	65.5	–	(30.6)	69.9	–	(92.4)
Interest rate swaps	–	–	–	–	–	–
Cross currency swaps	502.5	0.4	(2.6)	874.4	62.1	(25.9)
Total derivatives held for hedging purposes	18,947.4	679.9	(251.9)	20,443.2	219.3	(166.8)

	Society 2022			Society 2021		
	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 accounting hedges	17,936.4	679.5	(198.7)	19,078.7	148.3	(48.5)
Derivatives not designated in accounting hedges:						
Equity release swaps	65.5	–	(30.6)	69.9	–	(92.4)
Interest rate swaps	202.1	–	(5.3)	267.8	–	(0.3)
Cross currency swaps	62.0	–	(2.6)	433.9	62.1	–
Total derivatives held for hedging purposes	18,266.0	679.5	(237.2)	19,850.3	210.4	(141.2)

The following tables analyse derivatives by contractual maturity:

	Group 2022		Group 2021	
	Notional principal amount £M	Replacement cost £M	Notional principal amount £M	Replacement cost £M
Less than 1 year	6,612.1	51.1	6,320.5	75.5
Between 1 and 5 years inclusive	11,309.2	592.6	12,369.2	125.2
More than 5 years	1,026.1	36.2	1,753.5	18.6
Total derivatives	18,947.4	679.9	20,443.2	219.3

Year ended 31 December 2022

32. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	Society 2022		Society 2021	
	Notional principal amount £M	Replacement cost £M	Notional principal amount £M	Replacement cost £M
Less than 1 year	6,612.1	51.1	6,320.5	75.5
Between 1 and 5 years inclusive	10,425.7	592.2	11,508.5	116.6
More than 5 years	1,228.2	36.2	2,021.3	18.3
Total derivatives	**18,266.0**	**679.5**	19,850.3	210.4

(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 Risk Management Report, pages 98 to 100). As shown in the table on page 228 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 interest rate swaps. 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 hedge accounting strategy (also known as macro hedging) to manage the exposure created by entering into swap contracts this way.

The notional value of interest rate swaps designated into accounting hedge relationships is as follows, analysed by maturity date:

Group 2022	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	More than 5 years £M
Macro fair value hedges or loans and advances to customers				
Swap notional	928.7	2,051.9	7,000.7	327.3
Average fixed rate	0.4%	0.6%	1.3%	2.0%
Macro fair value hedges of shares				
Swap notional	–	3,074.5	2,415.0	–
Average fixed rate	–	1.9%	3.5%	–
Micro fair value hedges of wholesale funding denominated in Sterling				
Swap notional	–	–	700.0	200.0
Average fixed rate	–	–	1.4%	3.8%
Micro fair value hedges of wholesale funding denominated in Euros				
Swap notional	–	–	443.0	–
Average fixed rate	–	–	0.5%	–
Macro cash flow hedges				
Swap notional	–	–	–	400.0
Average fixed rate	–	–	–	4.2%

32. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Group 2021	Less than 3 months £M	3 to 12 months £M	1 to 5 years £M	More than 5 years £M
Macro fair value hedges or loans and advances to customers				
Swap notional	5.0	2,730.8	8,162.7	464.6
Average fixed rate	0.7%	0.2%	0.5%	0.8%
Macro fair value hedges of shares				
Swap notional	504.0	1,771.5	1,161.0	–
Average fixed rate	0.1%	0.1%	0.4%	–
Micro fair value hedges of wholesale funding denominated in Sterling				
Swap notional	–	–	350.0	550.0
Average fixed rate	–	–	1.5%	2.2%
Micro fair value hedges of wholesale funding denominated in Euros				
Swap notional	–	420.1	420.1	–
Average fixed rate	–	1.4%	0.5%	–

(i) Fair value hedge accounting

The Group uses macro fair value hedges to recognise the changes in fair value of the hedged items (mortgage and savings products) due to the changes in interest rates and therefore can mitigate the impact on profit and loss that would arise if only the changes in fair value from the interest rate swaps were recognised.

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 wholesale 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 tables below provide analysis of the impacts of fair value hedge accounting on the Statement of Financial Position and the Income Statement:

	Interest rate swaps			Hedged items				
		Carrying amount (Note 1)		Carrying amount		Accumulated fair value adjustments		
Group 2022	Notional amount £M	Assets £M	Liabilities £M	Assets £M	Liabilities £M	Assets £M	Liabilities £M	SOFP line item
Hedge of loans and advances to customers	10,308.6	670.0	–	10,521.4	–	–	(667.1)	Note 2
Hedge of shares	5,489.5	3.9	(74.8)	–	5,477.0	62.5	(3.5)	Note 3
Hedge of wholesale funding denominated in Sterling	900.0	–	(116.7)	–	900.0	116.6	–	Note 4
Hedge of wholesale funding denominated in Euros	443.0	–	(20.0)	–	443.0	19.6	–	Note 4

Year ended 31 December 2022

32. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

(i) Fair value hedge accounting (continued)

Group 2021	Interest rate swaps			Hedged items				
	Notional amount £M	Carrying amount (Note 1) Assets £M	Carrying amount (Note 1) Liabilities £M	Carrying amount Assets £M	Carrying amount Liabilities £M	Accumulated fair value adjustments Assets £M	Accumulated fair value adjustments Liabilities £M	SOFP line item
Hedge of loans and advances to customers	11,363.1	125.7	(9.9)	11,480.1	–	6.1	(123.0)	Note 2
Hedge of shares	3,436.5	0.3	(16.9)	–	3,136.3	0.2	(17.2)	Note 3
Hedge of wholesale funding denominated in Sterling	900.0	4.1	(12.9)	–	900.0	14.8	(3.7)	Note 4
Hedge of wholesale funding denominated in Euros	840.2	13.8	–	–	840.2	–	(8.8)	Note 4

Notes:

1. The Statement of Financial Position line that includes these items is "Derivative financial instruments".
2. The Statement of Financial Position line that includes these fair value adjustments on hedged items is "Fair value adjustment for hedged risk on loans and advances to customers".
3. The Statement of Financial Position line that includes these fair value adjustments on hedged items is "Fair value adjustment for hedged risk on shares".
4. The Statement of Financial Position lines that include these fair value adjustments on hedged items are "Debt securities in issue", "Subordinated liabilities" and "Subscribed capital".

Group 2022	Change in fair value of hedging instrument (Note 1) £M	Change in fair value of hedged item (Note 1) £M	Total hedge ineffectiveness (Note 2) £M	Accumulated amount of fair value adjustments remaining in the SOFP £M
Loans and advances to customers	533.1	(548.7)	(15.6)	81.1
Shares	(47.5)	41.2	(6.3)	43.5
Wholesale funding denominated in Sterling	(104.1)	105.5	1.4	(0.8)
Wholesale funding denominated in Euros	(28.4)	28.4	–	(1.1)

Group 2021	Change in fair value of hedging instrument (Note 1) £M	Change in fair value of hedged item (Note 1) £M	Total hedge ineffectiveness (Note 2) £M	Accumulated amount of fair value adjustments remaining in the SOFP £M
Loans and advances to customers	227.5	(281.9)	(54.4)	14.9
Shares	(47.7)	30.2	(17.5)	(8.2)
Wholesale funding denominated in Sterling	(22.7)	22.6	(0.1)	(0.9)
Wholesale funding denominated in Euros	(9.3)	9.3	–	(1.5)

Notes

1. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and was recognised in the "Fair value gains / (losses) from financial instruments" line in the Income Statement.
2. The amount of hedge ineffectiveness during the period was recognised in the "Fair value gains / (losses) from financial instruments" line in the Income Statement.

32. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

(ii) Cash flow hedge accounting

The Group applies macro cash flow hedge accounting to a portion of its floating rate financial liabilities which are matched (for the purposes of hedge accounting only) with pay fixed, receive floating rate interest rate swaps which have been transacted to economically hedge mortgage applications, prior to completion of the mortgage. Any movements in fair value of the swaps arising due to movements in interest rates are recognised in other comprehensive income to the extent that the hedge relationship is effective. The Group aims to maintain a position where the principal amount of the hedged items (floating rate financial liabilities) is greater than or equal to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reassessed on a monthly basis with the composition of hedging instruments and hedged items changing frequently in line with the underlying risk exposures.

The table below provides further detail on the Group's cash flow hedge accounting relationships. The macro cash flow hedge was incepted on 1 August 2022 and as such there is no comparative information for 2021.

Group 2022	Interest rate swaps			Hedged items		
	Notional amount £M	Carrying amount (Note 1) Assets £M	Carrying amount (Note 1) Liabilities £M	Carrying amount Assets £M	Carrying amount Liabilities £M	SOFP line item
Floating rate liabilities	400.0	2.5	(3.9)	–	(400.0)	Note 2

Notes

1. The Statement of Financial Position line that includes these items is "Derivative financial instruments".
2. The Statement of Financial Position line that includes these hedged items at amortised cost is "Debt securities in issue".

Group 2022	Change in fair value of hedging instrument (Note 1) £M	Total hedge ineffectiveness (Note 2) £M	Accumulated amount of fair value adjustments remaining in OCI (Note 3) £M	Gains reclassified from OCI to Income Statement (Note 4) £M
Floating rate liabilities	118.3	0.2	112.9	5.2

Notes

1. The change in fair value during the period that was used as the basis for calculating hedge ineffectiveness and was recognised in the "Cash flow hedge reserve" line in the Statement of Financial Position.
2. The amount of hedge ineffectiveness during the period was recognised in the "Fair value gains / (losses) from financial instruments" line in the Income Statement.
3. The accumulated amount of fair value adjustments remaining in OCI are reported in the "Cash flow hedge reserve" line in the Statement of Financial Position.
4. The gains that were reclassified from OCI to the Income Statement during the period were recognised in the "Fair value gains / (losses) from financial instruments" line in the Income Statement.

Macro cash flow hedge effectiveness is assessed by comparing the changes in the fair value of the hedging instruments with changes in the fair value of the hedged items attributable to the hedged risk, using the hypothetical derivative method.

Possible sources of ineffectiveness are as follows:

- Differences in timing of cash flows between the derivative and the hedged item.
- Differences between the expected and actual volume of prepayments where a portfolio is being hedged, as the hedging ratio is calculated with regard to expected repayment dates, taking account of expected prepayments based on past experience.
- Hedging derivatives with a non zero fair value at the date of initial designation as a hedging instrument.

Year ended 31 December 2022

33. 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 2022		Society 2022	
		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	2,958.1	2,958.1	2,958.1	2,958.1
Loans and advances to credit institutions	i)	Level 2	235.9	235.9	83.3	83.3
Loans and advances to customers						
Loans fully secured on residential property	ii)	Level 3	20,324.3	19,734.9	20,324.3	19,734.9
Other loans	ii)	Level 2	7.0	7.0	7.0	7.0
Financial liabilities:						
Shares	ii)	Level 2	17,520.4	17,635.6	17,520.4	17,635.6
Amounts owed to credit institutions	iii)	Level 2	2,268.4	2,268.4	2,268.4	2,268.4
Amounts owed to other customers	ii)	Level 2	229.7	229.7	404.7	404.7
Debt securities in issue	iv)	Level 1	2,601.0	2,664.8	2,620.2	2,644.1
Debt securities in issue	iv)	Level 2	110.0	110.2	–	–
Subordinated liabilities	v)	Level 1	309.1	305.3	309.1	305.3
Subscribed capital	v)	Level 1	197.6	245.6	197.6	245.6

			Group 2021		Society 2021	
		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	2,538.7	2,538.7	2,538.7	2,538.7
Loans and advances to credit institutions	i)	Level 2	159.0	159.0	96.5	96.5
Loans and advances to customers						
Loans fully secured on residential property	ii)	Level 3	18,303.0	18,510.4	18,303.0	18,510.4
Other loans	ii)	Level 2	8.7	8.7	8.7	8.7
Financial liabilities:						
Shares	ii)	Level 2	15,258.0	15,292.1	15,258.0	15,292.1
Amounts owed to credit institutions	iii)	Level 2	2,258.9	2,258.9	2,258.9	2,258.9
Amounts owed to other customers	ii)	Level 2	297.5	297.5	540.9	540.9
Debt securities in issue	iv)	Level 1	2,402.5	2,415.5	2,395.2	2,422.7
Debt securities in issue	iv)	Level 2	152.1	187.7	–	–
Subordinated liabilities	v)	Level 1	339.4	346.1	339.4	346.1
Subscribed capital	v)	Level 1	227.3	294.5	227.3	294.5

33. 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 less than 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 subordinated liabilities and 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 2022	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	396.7	990.0	–	1,386.7
Derivative financial instruments	–	679.9	–	679.9
Loans and advances to customers	–	–	161.9	161.9
Fair value adjustment for hedged risk on loans and advances to customers	–	–	(585.9)	(585.9)
Total assets	396.7	1,669.9	(424.0)	1,642.6
Liabilities:				
Fair value adjustment for hedged risk on shares	–	(100.7)	–	(100.7)
Derivative financial instruments	–	225.0	26.9	251.9
Total liabilities	–	124.3	26.9	151.2

Group 2021	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	215.1	734.0	–	949.1
Derivative financial instruments	–	219.3	–	219.3
Loans and advances to customers	–	–	215.5	215.5
Fair value adjustment for hedged risk on loans and advances to customers	–	–	(169.1)	(169.1)
Total assets	215.1	953.3	46.4	1,214.8
Liabilities:				
Fair value adjustment for hedged risk on shares	–	(72.9)	–	(72.9)
Derivative financial instruments	–	89.2	77.6	166.8
Total liabilities	–	16.3	77.6	93.9

Year ended 31 December 2022

33. Fair values (continued)

(b) Fair value measurement basis for financial instruments carried at fair value (continued)

Society 2022	**Level 1 £M**	**Level 2 £M**	**Level 3 £M**	**Total £M**
Assets:				
Investment securities	**396.7**	**1,056.1**	**–**	**1,452.8**
Derivative financial instruments	**–**	**679.5**	**–**	**679.5**
Loans and advances to customers	**–**	**–**	**161.9**	**161.9**
Fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**(585.9)**	**(585.9)**
Total assets	**396.7**	**1,735.6**	**(424.0)**	**1,708.3**
Liabilities:				
Fair value adjustment for hedged risk on shares	**–**	**(100.7)**	**–**	**(100.7)**
Derivative financial instruments	**–**	**205.0**	**32.2**	**237.2**
Total liabilities	**–**	**104.3**	**32.2**	**136.5**

Society 2021	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	215.1	825.3	–	1,040.4
Derivative financial instruments	–	210.4	–	210.4
Loans and advances to customers	–	–	215.5	215.5
Fair value adjustment for hedged risk on loans and advances to customers	–	–	(169.1)	(169.1)
Total assets	215.1	1,035.7	46.4	1,297.2
Liabilities:				
Fair value adjustment for hedged risk on shares	–	(72.9)	–	(72.9)
Derivative financial instruments	–	63.3	77.9	141.2
Total liabilities	–	(9.6)	77.9	68.3

Level 1: Relates to financial instruments where fair values are taken from quoted prices in active markets for identical assets or liabilities, without adjustment.

Level 2: Valuations of financial instruments for which significant inputs are taken from observable market data for the asset and liability. These include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets which are not active. These also include where valuation models are used to calculate the present values of expected future cash flows, using solely inputs (such as interest rate curves) from published market observable sources.

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.

33. Fair values (continued)

(c) Reconciliation of level 3 fair value measurements of financial instruments

Group 2022	**Derivative financial instruments £M**	**Loans and advances to customers £M**	**Fair value adjustment for hedged risk £M**	**Total £M**
At 1 January 2022	**(77.6)**	**215.5**	**(169.1)**	**(31.2)**
Total gains / (losses) in the Income Statement	**50.7**	**(53.9)**	**–**	**(3.2)**
Movement in fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**(416.8)**	**(416.8)**
Net repayment in the year	**–**	**0.3**	**–**	**0.3**
At 31 December 2022	**(26.9)**	**161.9**	**(585.9)**	**(450.9)**

Group 2021	Derivative financial instruments £M	Loans and advances to customers £M	Fair value adjustment for hedged risk £M	Total £M
At 1 January 2021	(64.2)	222.0	109.6	267.4
Total (losses) / gains in the Income Statement	(13.4)	0.6	–	(12.8)
Movement in fair value adjustment for hedged risk on loans and advances to customers	–	–	(265.2)	(265.2)
Reclassification of fair value adjustment for hedged risk on shares to Level 2	–	–	(13.5)	(13.5)
Net repayment in the year	–	(7.1)	–	(7.1)
At 31 December 2021	(77.6)	215.5	(169.1)	(31.2)

Society 2022	**Derivative financial instruments £M**	**Loans and advances to customers £M**	**Fair value adjustment for hedged risk £M**	**Total £M**
At 1 January 2022	**(77.9)**	**215.5**	**(169.1)**	**(31.5)**
Total gains / (losses) in the Income Statement	**45.7**	**(53.9)**	**–**	**(8.2)**
Movement in fair value adjustment for hedged risk on loans and advances to customers	**–**	**–**	**(416.8)**	**(416.8)**
Net repayment in the year	**–**	**0.3**	**–**	**0.3**
At 31 December 2022	**(32.2)**	**161.9**	**(585.9)**	**(456.2)**

Society 2021	Derivative financial instruments £M	Loans and advances to customers £M	Fair value adjustment for hedged risk £M	Total £M
At 1 January 2021	(64.2)	222.0	109.6	267.4
Total (losses) / gains in the Income Statement	(13.7)	0.6	–	(13.1)
Movement in fair value adjustment for hedged risk on loans and advances to customers	–	–	(265.2)	(265.2)
Reclassification of fair value adjustment for hedged risk on shares to Level 2	–	–	(13.5)	(13.5)
Net repayment in the year	–	(7.1)	–	(7.1)
At 31 December 2021	(77.9)	215.5	(169.1)	(31.5)

Total gains / (losses) for the year are included in 'Fair value gains / (losses) from financial instruments' in the Income Statement.

Year ended 31 December 2022

33. Fair values (continued)

(d) Recurring fair value measurement

Financial assets / financial liabilities	Fair value at 31 December 2022	Fair value at 31 December 2021	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)	**Group** Assets – £396.7m **Society** Assets – £396.7m	**Group** Assets – £215.1m **Society** Assets – £215.1m	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)	**Group** Assets – £990.0m **Society** Assets – £1,056.1m	**Group** Assets – £734.0m **Society** Assets – £825.3m	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)	**Group** Assets – £679.5m and Liabilities – £218.7m **Society** Assets – £679.5m and Liabilities – £198.7m	**Group** Assets – £157.2m and Liabilities – £48.5m **Society** Assets – £148.3m and Liabilities – £48.5m	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)	**Group** Assets – £0.4m and Liabilities – £2.6m **Society** Liabilities – £2.6m	**Group** Assets – £62.1m and Liabilities – £25.9m **Society** Assets – £62.1m	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) (Level 2)	**Group** Liabilities – £3.7m **Society** Liabilities – £3.7m	**Group** Liabilities – £14.8m **Society** Liabilities – £14.8m	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 counterparty. The profile of future notional amounts is specified in the contract.	N/A	N/A
Fair value adjustment for hedged risk on shares	**Group** Liabilities – £(100.7m) **Society** Liabilities – £(100.7m)	**Group** Liabilities – £(72.9m) **Society** Liabilities – £(72.9m)	Level 2	Discounted cash flow. Future cash flows are estimated based on contractual interest rates and balances of fixed rate shares, discounted at the risk free rate.	N/A	N/A

33. Fair values (continued)

(d) Recurring fair value measurement (continued)

Financial assets / financial liabilities	Fair value at 31 December 2022	Fair value at 31 December 2021	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Derivative financial instruments (equity release swaps) (Level 3)	**Group** Liabilities – £26.9m **Society** Liabilities – £26.9m	**Group** Liabilities – £77.6m **Society** Liabilities – £77.6m	Level 3	Discounted cash flow. Future cash flows are estimated based on a projection of interest rates and RPI, a discount rate to reflect the counterparty risk and assumptions for future mortality and prepayment which determine the profile of future notional amounts.	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)	**Society** Liabilities – £5.3m	**Society** Liabilities – £0.3m	Level 3	Discounted cash flow. 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. The notional profile of the swaps tracks the balance of a loan portfolio which is subject to assumptions about the rate of 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)	**Group** Assets – £161.9m **Society** Assets – £161.9m	**Group** Assets – £215.5m **Society** Assets – £215.5m	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 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.
Fair value adjustment for hedged risk on loans and advances to customers	**Group** Assets – £(585.9m) **Society** Assets – £(585.9m)	**Group** Assets – £(169.1m) **Society** Assets – £(169.1m)	Level 3	Discounted cash flow. Future cash flows are estimated based on contractual interest rates and projected fixed rate mortgage balances, discounted at the risk free rate.	Assumptions on future mortgage balances related to mortgage prepayment rates.	An increase in prepayment rates will reduce the value of the fair value adjustment.

(e) Level 3 unobservable inputs

(i) Derivative financial instruments (securitisation swaps and Level 3 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 2022, a 20% proportionate increase in prepayments would lead to a decrease in the swap liability of £0.2m. A 20% proportionate reduction in prepayments would increase the swap liability by £0.2m. These sensitivities reflect the variability in prepayment rates observed historically.

The deal 3 equity release swap is linked to RPI and is valued using a discounted cash flow model which uses observable market data for RPI and the discount rate used to discount future cash flows and unobservable input assumptions for prepayment rates. Wherever possible these input assumptions are calculated with reference to actual historic experience. The variable which is considered to have the largest impact on the value of the swap is the prepayment rate. At 31 December 2022, a 100 basis points increase in assumed prepayment rate would increase the value of the swap by £2.0m and a 100 basis points decrease in assumed prepayment rates would reduce the value of the swap by £2.3m.

Year ended 31 December 2022

33. Fair values (continued)

(e) Level 3 unobservable inputs (continued)

(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 discount rate, property price volatility and the sales price haircut. The sensitivities below reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

At 31 December 2022, a 1 percentage point increase in the discount rate would reduce the value of the collateral loan by £13.4m and a 1 percentage point decrease in the discount rate would increase the value of the collateral loan by £14.7m. A 3 percentage point increase in assumed property price volatility would reduce the value of the collateral loan by £4.6m and a 3 percentage point decrease in assumed property price volatility would increase the value of the collateral loan by £4.2m. A 5 percentage point increase in the sales price haircut would reduce the value of the collateral loan by £3.1m and a 5 percentage point decrease in the sales price haircut would increase the value of the collateral loan by £2.6m.

(iii) Fair value adjustment for hedged risk on loans and advances to customers
The Group designates a portfolio of fixed rate mortgages into hedge relationships to mitigate interest rate risk. 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 2022, a 20% proportionate increase in mortgage repayments would lead to a reduction in the fair value of the mortgages in the hedge relationship of £16.6 million. A 20% proportionate decrease in mortgage repayments would lead to an increase in the fair value of the mortgages of £16.8 million.

34. Events after the date of the Statement of Financial Position

There have been no subsequent events between 31 December 2022 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 or the Society.

Other Information

Annual Business Statement

Year ended 31 December 2022

1. Statutory percentages

	31 December 2022	Statutory Limit
Lending limit	**2.5%**	25%
Funding limit	**22.9%**	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, intangible assets and property, plant and equipment.

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 2022	31 December 2021
As a percentage of shares and borrowings:		
Gross capital	**8.86%**	9.04%
Free capital	**8.47%**	8.51%
Liquid assets	**20.15%**	17.90%
Profit for the financial year as a percentage of mean total assets	**0.67%**	0.56%
Management expenses as a percentage of mean total assets	**0.59%**	0.58%

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, cash flow hedge reserve, fair value reserve, other reserve, revaluation reserve, subordinated liabilities and subscribed capital;
- 'free capital' represents the aggregate of gross capital less intangible assets and property, plant and equipment;
- '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.

3. Information relating to the directors and other officers at 31 December 2022

Name	Occupation	Date of Birth	Date first appointed	Other directorships
Chair				
I.C.A. Cornish Chair from 3 April 2020	Chair	11.11.60	01.01.19	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	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	None
Directors				
A.M. Barnes	Non Executive Director	10.11.68	01.02.19	Globaldata plc Quilter Life & Pensions Limited Quilter Investment Platform Limited
*A.P. Conroy	Chief Financial Officer	11.12.75	06.01.20	Saltmine Trust (Trustee) **Leeds Mortgage Funding Ltd Arkose 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	None
*A.J. Greenwood	Deputy Chief Executive Officer	11.12.69	08.01.15	None
*R.J. Howse	Chief Operating Officer	03.12.70	01.05.21	None
L.R. McManus Resigned on 13 January 2023	Non Executive Director	17.06.68	01.09.17	Beatson Cancer Charity Kane LMMG Ltd
A. Tadayon	Non Executive Director	10.06.66	22.10.21	Tadayon Consulting 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 MB), 1 City Square, Leeds, LS1 2AL.

Country by Country Reporting

Year ended 31 December 2022

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 (2021: 50), total assets of £25.5bn (2021: £22.5bn) and 839,000 members (2021: 788,000). 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 215. 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 has no permanent establishment in Gibraltar, with all mortgages administered from the UK. The results of the Society's activity in Gibraltar are included in the results of Leeds Building Society and subject to taxation in the UK.

Results by country

The information for the year ended 31 December 2022 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. Total income, profit before tax and corporation tax charge are as disclosed in the Group's Income Statement on page 186.

Average monthly number of employees is shown on a full time equivalent basis. Colleague costs comprise wages and salaries, social security costs and pension costs as disclosed in note 6 on page 206.

Corporation tax paid represents the total payments as reported in the Statement of Cash Flows on page 190.

2022	UK *	Spain	Total	** UK includes Gibraltar*
Total income (£m)	376.5	0.2	376.7	0.6
Profit before tax (£m)	220.5	–	220.5	0.7
Total assets (£m)	25,458.2	55.7	25,513.9	8.2
Total assets less liabilities (£m)	1,451.1	55.7	1,506.8	8.2
Average number of FTEs	1,466	–	1,466	–
Colleague costs (£m)	79.9	–	79.9	–
Corporation tax charge (£m)	58.6	–	58.6	–
Corporation tax paid (£m)	56.0	–	56.0	–

Return on assets

The return on assets, calculated as profit before tax divided by mean total assets, was 0.92% (2021: 0.76%) for the year ended 31 December 2022.

Public subsidies received

The Group received no public subsidies in the year ended 31 December 2022.

Glossary of Terms

Year ended 31 December 2022

Alternative Performance Measures

The table below sets out the Alternative Performance Measures (APM) used within the Annual Report and Accounts. These are financial measures of the Group's performance or position which are not defined or specified under IFRS but which are useful in understanding how the Group has performed. The measures used are common practice across the financial services industry and facilitate comparisons with other institutions.

The table explains how the APM is calculated and provides a reconciliation to the closest equivalent statutory measure, as defined or specified under IFRS.

Measure	Definition and purpose	How the measure is calculated	Reconciliation to statutory measure under IFRS
Cost of risk	A measure of the level of impairment charges relative to the size of the asset.	Impairment losses on loans and advances to customers divided by mean gross balance of loans and advances to customers.	No equivalent statutory measure but is calculated using amounts disclosed in the Notes to the Accounts.
Cost to income ratio	A measure of the efficiency of the Group in generating its income by showing the level of costs incurred relative to the level of income generated. This measure is used by the Group to monitor and manage its cost base.	Management expenses (administrative expenses plus depreciation and amortisation) divided by total income, as recorded in the Income Statement.	No equivalent statutory measure but all elements of the calculation are separately disclosed in the Income Statement.
Cost to mean asset ratio	A measure of the efficiency of the Group in maintaining its asset base, showing the level of costs incurred relative to the size of the Group's balance sheet. This measure is used by the Group to monitor and manage its cost base.	Management expenses (administrative expenses plus depreciation and amortisation) for the period divided by the mean of the opening and closing total assets for the period, as recorded in the Statement of Financial Position.	No equivalent statutory measure, but all elements of the calculation are separately disclosed in the Income Statement or Statement of Financial Position.
Net interest margin	Net interest income (the difference between interest receivable and interest payable) is the primary source of income for the Group. This is a key measure for monitoring and managing the level of income generated by the Group's balance sheet.	Net interest receivable, as recorded in the Income Statement, divided by the mean of the opening and closing total assets for the period, as recorded in the Statement of Financial Position.	No equivalent statutory measure, but all elements of the calculation are separately disclosed in the Income Statement or Statement of Financial Position.
Net residential lending	The increase in the size of the Group's residential mortgage book during the year. Used by the Group to monitor and manage the growth of the business.	Gross residential lending less redemptions, contractual repayments and other capital repayments.	This is approximately equal to the difference between the opening and closing balance of loans and advances fully secured on residential property in the Statement of Financial Position, adjusted for movements in impairment loss provisions and other accounting adjustments.
New (gross) residential lending	The total amount of new loans and advances to customers secured on residential property advanced by the Group during the year.	No calculation required.	No equivalent statutory measure.

Year ended 31 December 2022

Glossary

Set out below are the definitions of terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions.

Arrears
A mortgage customer is in arrears when they are behind in fulfilling their payment 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.

Basel 3
Basel 3 is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for banks and building societies. The framework has been embedded into UK law through the European Capital Requirements Directive V (CRD V).

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 loans
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 V.

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.

Covered bonds
Debt securities which are 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.

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
Default occurs when a borrower is deemed unlikely to repay their loan or other amount due to the Group.

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
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.

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 intangible assets and property, plant and equipment.

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, cash flow hedge reserve, fair value reserve, other reserve, revaluation reserve, subordinated liabilities and subscribed capital.

Impaired loans
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 CRD V requirements, of the levels of capital that it needs to hold in respect of regulatory capital requirements for risks it faces under a business-as-usual scenario and a 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.

Investment securities/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.

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. The UK regime does not apply to the Society due to its size (less than £50 billion of retail deposits).

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 3 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).

Loans past due/past due loans
Loans are past due when a counterparty has failed to make a payment when contractually due.

Loss given default (LGD)
A parameter used in relation to credit risk exposures modelled under 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.

Net interest income
The difference between interest receivable and similar income and interest payable and similar charges. This is the same as net interest receivable in the Income Statement.

Net Promoter Score®
The Net Promoter Score® (NPS) is a measure of satisfaction and loyalty to the Group based on survey responses. It measures the proportion of promoters (positive responses) less the proportion of detractors (negative responses). We use the NPS methodology to measure satisfaction among our broker partners.

Glossary of Terms continued

Year ended 31 December 2022

Net Stable Funding Ratio (NSFR)
A regulatory standard ratio implemented by the Basel 3 reforms which is the total amount of stable funding divided by the total amount of required stable funding, expressed as a percentage.

Notional principal amount
The notional principal amount indicates the amount on which cash flows on derivative financial instruments are calculated 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 Society'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.

Securitisation
The process by which a group of assets (usually loans) is aggregated into a pool which is used to back the issuance of new securities. A company transfers assets to a special purpose entity which issues securities backed by those assets. The Society has established securitisation structures (using residential mortgages) as part of its funding activities.

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
The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

SONIA
The Sterling Over Night Index Average rate. The risk free rate calculated as the weighted average overnight sterling deposit rate for each business day.

Subordinated liabilities
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 ranked behind the claims of all other creditors and members of the Society, other than subscribed capital.

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 V.

Wholesale funding
The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

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