Interim Pillar 3 Disclosures

30 June 2022

Leeds Building Society

2022 Interim Pillar 3 Disclosure

Contents

1 Introduction

This document presents the interim Pillar 3 disclosures of Leeds Building Society for the reporting period to 30 June 2022. Pillar 3 disclosure requirements apply to banks and building societies and require firms to publish key details regarding their capital position and management of risk.

1.1 Scope of application

The prudential consolidation group (the Society) is comprised of Leeds Building Society and all of its subsidiaries. The prudential consolidation group is set out in detail in section 2.3 of the 2021 annual Pillar 3 disclosure.

1.2 Basis and frequency of disclosure

This document has been prepared in accordance with the Disclosure (CRR) Part of the Prudential Regulation Authority Rulebook. As per the regulations the Society is required to publish Pillar 3 disclosures twice a year [30 June, 31 December] in line with the PRA Rulebook on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of the CRR.

Disclosures are presented using the prescribed disclosure templates in the PRA Rulebook. Row and column references are based on those prescribed in the PRA templates; no changes have been made to the fixed templates. Capital positions are reported on transitional basis, as opposed to full loaded, as these positions are materially the same.

The Society opted to apply the IFRS 9 transitional arrangements to capital calculations from 1 January 2018, in accordance with EBA/GL/2018/01, on a scaling bases, over the period to 31 December 2024. The implementation of IFRS 9 does not have a significant impact on the Society's capital position. The disclosures have been published in conjunction with the publication date of the Society's Interim Report and Accounts and the information presented is based on those Accounts unless otherwise stated.

1.3 Verification of disclosure

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

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

2 Summary of key metrics

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

Table 1: UK KM1 - Key metrics on a transitional basis

		Jun-22	Dec-21	Jun-21
Available own funds (£m)				
1	Common Equity Tier 1 (CET1) capital	**1,338.3**	1,228.7	1,166.0
2	Tier 1 capital	**1,338.3**	1,231.2	1,168.5
3	Total capital	**1,568.7**	1,458.7	1,397.9
Risk-weighted exposure (£m)				
4	Total risk-weighted exposure amount	**4,013.0**	3,231.2	3,098.5
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	**33.3%**	38.0%	37.6%
6	Tier 1 ratio (%)	**33.3%**	38.1%	37.7%
7	Total capital ratio (%)	**39.1%**	45.1%	45.1%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount) [1]				
UK 7a	Additional CET1 SREP requirements (%)	**1.9%**	1.3%	1.4%
UK 7b	Additional AT1 SREP requirements (%)	**0.6%**	0.4%	0.5%
UK 7c	Additional T2 SREP requirements (%)	**0.9%**	0.6%	0.6%
UK 7d	Total SREP own funds requirements (%)	**11.5%**	10.4%	10.5%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	**2.5%**	2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**0.0%**	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%) [2]	**0.0%**	0.0%	0.0%
UK 9a	Systemic risk buffer (%)	**0.0%**	0.0%	0.0%
10	Global Systemically Important Institution buffer (%)	**0.0%**	0.0%	0.0%
UK 10a	Other Systemically Important Institution buffer	**0.0%**	0.0%	0.0%
11	Combined buffer requirement (%)	**2.5%**	2.5%	2.5%
UK 11a	Overall capital requirements (%)	**14.0%**	12.9%	13.0%
12	CET1 available after meeting the total SREP own funds requirements (%) [3]	**21.9%**	27.6%	27.1%
Leverage ratio				
13	Leverage ratio total exposure measure (£m)	**21,969.0**	20,317.4	19,390.9
14	Leverage ratio (%)	**6.1%**	6.1%	5.9%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount) [4]				
UK 14a	Additional CET1 leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14b	Additional AT1 leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14c	Additional T2 leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14d	Total SREP leverage ratio requirements (%)	**N/A**	N/A	N/A
UK 14e	Applicable leverage buffer	**N/A**	N/A	N/A
UK 14f	Overall leverage ratio requirements (%)	**N/A**	N/A	N/A
Liquidity Coverage Ratio [5]				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**3,278.7**	2,913.2	2,755.8
UK 16a	Cash outflows - Total weighted value	**1,862.3**	1,674.9	1,528.8
UK 16b	Cash inflows - Total weighted value	**130.2**	112.7	92.2
16	Total net cash outflows (adjusted value)	**1,732.2**	1,562.2	1,436.6
17	Liquidity coverage ratio (%)	**190.4%**	187.2%	193.5%
Net Stable Funding Ratio				
18	Total available stable funding	**21,838.7**	20,750.3	19,458.8
19	Total required stable funding	**15,805.2**	13,776.6	13,396.9
20	NSFR ratio (%)	**138.2%**	150.6%	145.2%

Notes to table UK KM1:
1. Any firm specific PRA buffer requirement is excluded from this disclosure.
2. The institution specific countercyclical capital buffer requirement is based on the weighted average of the buffer rates for the different countries in which institutions have exposures. Per the regulations, Non UK exposures are only included in the average if the total of Non UK exposures is greater than 2% of total balance sheet assets, which the Society does not meet. This buffer requirement is required to be disclosed with three decimal places. The UK requirement is expected to return to 1% in December 2022.
3. Represents the level of CET1 capital available to meet buffer requirements after subtracting the minimum amount of CET1 capital required to meet Pillar 1 and Pillar 2A capital requirements, also referred to as total SREP own funds requirements. The minimum CET1 requirement is equivalent to 4.5% (Pillar 1) plus the additional CET1 SREP requirement (56.25% of Pillar 2A).
4. The additional leverage ratio disclosure requirements only apply to financial institutions with deposits equal to or greater than £50bn or non-UK assets equal to or greater than £10bn. The rows have been left blank as the Society is not currently captured by either threshold.
5. The values have been calculated as a simple average of the 12 month end observations preceding the end of each quarter.

Available own Funds

The Society's capital position remains strong with Common Equity Tier 1 (CET1) capital of £1,338.3m (31 December 2021: £1,228.7m). The increase to CET1 capital during the period is driven by earnings after tax. The movement includes an increase to the expected credit loss charge due to changes to the internal ratings based (IRB) approach, which we have applied through a temporary post model adjustment (PMA), described below.

Risk Weighted Exposure Amounts

Risk weighted exposure amounts (RWEAs) increased by £781.8 during the period. The increase is primarily driven by the implementation of new regulatory changes applied on the 1 January 2022. The new regulations included changes to the IRB approach[1], which we have applied through a temporary PMA to reflect an estimate of the effect on our IRB modelled outputs prior to approval. Until the latest generation of IRB models are approved by the PRA, the PMA is subject to change and may lead to further movements in the regulatory capital ratios. Growth in mortgage assets was the other key driver in the RWEA increase.

Capital Ratios

As a result of the movement in regulatory capital and RWEAs explained above, the CET1 ratio and the total capital ratio have both decreased to 33.3% (31 December 2021: 38.0%) and 39.1% (31 December 2021: 45.1%) respectively. Until the IRB models are approved by the PRA, the PMA remains subject to change and may cause further movements in regulatory capital ratios.

Additional Own Fund Requirements based on SREP

As at 30 June 2022, the Pillar 2A requirement, set by the PRA, was £138.4m (31 December 2021: £82.1m), equivalent to 3.45% of RWEAs, of which 1.9% must be met by CET1 capital.

Leverage Ratio

The leverage ratio has been calculated in accordance with changes to the UK's leverage ratio framework which came into effect from 1 January 2022. The leverage ratio has held flat at 6.1% as at 30 June 2022 (31 December 2021: 6.1%).

Liquidity Coverage Ratio

As at 30 June 2022, the LCR was 190.4% (31 December 2021: 187.2%) and was above both the regulatory and internal limits set by the Board throughout the period.

Net Stable Funding Ratio

As at 30 June 2022, the NSFR was 138.2% (31 December 2021: 150.6%) and was above both the regulatory and internal limits set by the Board throughout the period. The ratio reduced during the period as the calculation was brought in line with the new methodology.

[1] *The Society uses the Internal Ratings Based (IRB) approach for over 82% of its retail credit risk exposures and a Standardised approach for other exposures and risks in order to calculate capital requirements. The IRB Approach allows the Society to calculate capital requirements using internally developed models rather than the standardised percentages set out in the CRR. The IRB models are subject to a robust monitoring process on an ongoing basis to ensure that they reflect regulatory and economic developments and are in line with industry best practice.*

3 Minimum Required Eligible Liabilities (MREL)

As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and eligible liabilities (MREL).

As at 30 June 2022, total MREL resources were equal to 47.8% (31 December 2021: 56.0%) in excess of the current interim requirement including regulatory buffers of 20.5%.

The reduction in ratios is driven by the same factors described under impact to RWEAs in section 2.

TABLE 1a: Minimum Required Eligible Liabilities

	Interim MREL Requirements		
Prudential Consolidation Group (Resolution Group Level)	**Jun-21**	Dec-21	Jun-21
Total MREL Eligible Resources (£m)	**1,918.7**	1,808.7	1,747.9
Total MREL Requirement (£m)	**822.7**	662.4	635.2
Headroom over MREL (£m)	**1,096.0**	1,146.3	1,112.7
MREL Ratios (as a % of RWAs):			
MREL	**47.8%**	56.0%	56.3%
Interim MREL Requirement plus Buffers	**20.5%**	20.5%	20.5%
End State MREL Requirement plus Buffers	**27.4%**	25.3%	25.5%

Notes to table 1a:
1. Any firm specific PRA buffer requirement is excluded from the end state requirement.

4 Contact Information

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5 Glossary and Abbreviations

Basel III Framework	Basel III is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for banks and building societies. The framework has been embedded into UK law through the European Capital Requirements Directive V (CRD V).
Capital Requirements Directive (CRD)	Directives enacted by PS29/20 introduced by the PRA on the 28th December 2020 regarding access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.
Capital Requirements Regulation (CRR)	Regulation (EU) No 575/2013 of the European Parliament on-shored in the UK post-Brexit by the 2018 Withdrawal act regarding prudential requirements for credit institutions and investment firms.
Common Equity Tier 1 (CET1) capital	CET1 capital is the highest quality form of capital and comprises general reserves from retained profits, less the book values of any pension surplus, goodwill and intangible assets and other regulatory adjustments as defined under CRD V.
Common Equity Tier 1 (CET1) capital ratio	This is a regulatory ratio, calculated as the total of CET1 capital divided by Risk Weighted Assets (RWAs).
Credit risk	The potential to incur losses from the failure of a borrower or counterparty to meet its obligation to pay interest or repay capital on an outstanding loan.
Internal Ratings Based (IRB) Approach	An approach for measuring exposure to credit risk which is more sophisticated than the Standardised Approach, where an entity can calculate its own risk weights for certain assets. The IRB approach may be Foundation or Advanced. IRB approaches can only be used with the permission of the Prudential Regulation Authority.
Liquidity Coverage Ratio	The LCR measure is designed to ensure that financial institutions have sufficient high quality assets available to meet their liquidity needs for a 30 day liquidity stress scenario.
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 Stable Funding Ratio	The NSFR is a long term stable funding metric, which measures the stability of our funding sources relative to the assets (mortgage balances) we are required to fund.
Risk Weighted Exposure Amount (RWEA)	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.
Tier 1 capital	A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital is defined above.
Tier 2 capital	A further component of regulatory and financial capital as defined by CRD V.

6 Appendices

A1 Tables