

Annual Report and Accounts 2021



2021: How we performed

Gross residential lending of

£4.4bn

(2020: £2.5bn)

We helped **43,000** more people have the home they want including **20,000** first time buyers



Total assets of

£22.5bn

(2020: £20.6bn)



Savings balances

£15.3bn

(2020: £14.2bn)

We helped **41,500** more people save for their future



Paid an average interest rate of

0.79%

to our savers

compared to the rest of the market average of **0.29%**¹

An annual benefit to all our savers of **£71.5m**



Profit before tax

£163.7m

(2020: £80.7m)



Common Equity Tier 1 Capital

38.0%

(2020: 36.3%)

Reserves available to protect us from future problems

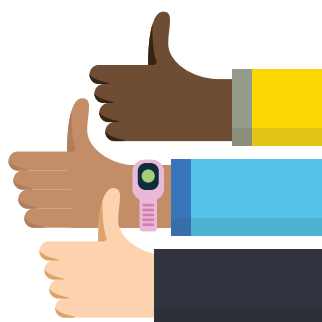


Customer satisfaction²

93%

(2020: 93%)

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



Colleague engagement³

86%

(2020: 86%)

We're committed to being a great place to work



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¹ CACI's CSDB, Stock, December 2020 to November 2021, latest data available. ² Overall customer satisfaction in a survey of 3,283 members from January to December 2021. ³ Your Voice colleague survey, 1,312 respondents in May 2021

Chair's Welcome

Year ended 31 December 2021

It has been an eventful 12 months since my last report, when I set out the principles adopted by the Board to guide the Society's decision making through the pandemic.

These were: protecting the health, safety and wellbeing of colleagues and members; preserving our financial security; and safely maintaining service to our members.

I am pleased to report that adhering to these principles, together with the outstanding efforts of colleagues, led to an excellent performance by the Society.

Performance

Over 2021 more normality began to return to daily life and the recovery of the economy was much better than might have been anticipated, with an extremely strong housing market, continued very low interest rates, and the return of intense competition. However, COVID-19 developments since are a stark reminder of the continued fragility and uncertainty the pandemic has caused.

As the economy stabilised and the housing market rebounded, we were keen to return to supporting borrowers, particularly those seeking to take their first step on to the housing ladder. Whilst maintaining prudent lending standards appropriate to the conditions, we were pleased to achieve a record year for lending.

We also remained focused on borrowers facing financial difficulties, and are pleased the vast majority of those who required mortgage payment deferrals during the height of the pandemic were able subsequently to resume normal repayments.

We've not lost sight of the impact of continued low interest rates on savers and have used our financial strength to protect them, consistently paying above average savings rates. We maintained branch opening throughout the pandemic and our colleagues conscientiously deliver a professional and personal service to our members.

The Society achieved an exceptionally strong financial performance in 2021 but, as a mutual, maximising profit is not an objective. In relation to profits, 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.

Leeds Building Society was established nearly 150 years ago, primarily to provide the means for members to buy their own homes, as well as offering a safe place for their savings. That purpose remains as relevant today as it ever was.

Throughout the last century and a half, the Society's obligation has always been to consider not just the interests of today's members but also to invest to ensure we can serve the needs of future generations.

As part of a multi-year improvement programme, we made significant investments in 2021, in technology, in our people, in our branch network, in upgrading our data centres, and in further strengthening our operational resilience. These are all aimed at ensuring the Society meets the changing needs of its members and intermediary partners, and remains competitive.

The times we are living through illustrate clearly the interconnectedness of all elements of society and remind us of the Society's obligation to play its part in addressing challenges confronting us all.

On climate change we are working to reduce our environmental impact as a business and analysing and reporting how we do this, as well as innovating to support our members to cut their own carbon footprint. We continue to make progress on equality, diversity and inclusion but recognise we have a great deal more to do. And at the heart of our community engagement is our partnership with national charity Dementia UK, enabling it to reach more people needing help, as demand for its services grows.

Board changes

In 2021 we further strengthened the Board with new appointments which broaden not only skills and experience in key areas but also the diversity of our thinking. The latter was a particular focus of our independent board effectiveness review which is covered in more detail in the Nominations Committee Report on page 119.



I am delighted that Rob Howse, our Chief Operating Officer, joined the Board as an executive director. Rob joined the Society in 2019 and his extensive experience of technology transformation and operational resilience equips him ideally to lead our ambitious IT and change agenda.

We also welcomed Anita Tadayon as an independent non-executive director. Anita is currently Global Portfolio & Digital Product Roadmap & Lifecycle Director at BT Group and brings 15 years' experience in senior transformation and operations roles with major consumer brands, including Sky and Centrica, as well as having led successful transformation and change delivery projects for local and central government and primary care trusts.

In recognition of his broadened responsibilities Andrew Greenwood, formerly Chief Risk Officer, was appointed as Deputy Chief Executive Officer.

To maintain continuity after a period of significant Board change, we asked David Fisher to serve beyond the normal nine year maximum. David continues to make an outstanding contribution to the Board and maintains his independence of thought, and I am grateful to him for agreeing to extend his service until the end of 2022. He is succeeded as Chair of the Board Risk Committee by Neil Fuller (subject to regulatory approval), who was appointed as a non-executive director in December 2020.

Sadly, the pandemic has prevented us from meeting members face to face for our past two AGMs and I look forward to a time when we can safely return to an in-person meeting. We hope we will be able to do this in 2022 but will of course be guided by the need to safeguard the welfare of colleagues and members. In any event, we welcome members' questions or comments relating to Board matters at any time – email these to agm@leedsbuildingsociety.co.uk marked 'For the attention of Iain Cornish'.

Outlook

While the impact of the pandemic will stay with us for a long time, our focus remains on our core purpose to bring home ownership within reach of more people, as well as offering long term value to our savers, operating always with an appropriate degree of prudence.

More competition has entered our markets as the economy has recovered. Consequently, we do not expect the current elevated levels of profitability to continue, but we do expect to maintain both an exceptional level of financial strength and our capacity to invest for our future when it is in the interests of current and future members.

Members can draw confidence from the fact the Society has continued to show great resilience in the most testing of times, underpinned by the mutual values of shared strength and co-operation.

Finally, I would like once again to thank all my colleagues for their outstanding efforts in serving members, intermediary partners and other stakeholders, and for supporting each other throughout the course of another highly demanding year.

Iain Cornish
Chair

24 February 2022

Chief Executive Officer's Highlights

Year ended 31 December 2021

As I look back on another challenging year for us all, I want to begin by restating my thanks to our members and colleagues for their continued support.

In 2021 we became more accustomed to the changing circumstances and behaviours dictated by the pandemic and a degree of normality returned.

However, the end of the crisis is not yet in sight and the uncertainty this causes has dragged on. Despite this, the housing market's powerful bounce back from summer 2020 onwards carried on through last year, leading to some of the busiest months in our long history.

Our remarkable people have remained focused on members' needs throughout, delivering an extraordinary performance as we continued to move forwards together guided by our three corporate priorities.

Safely keeping operating for the benefit of our members

In an exceptional year, our support for the housing market surpassed all previous Society records with our biggest year ever for mortgage applications, as we delivered on our purpose and helped to put home ownership within reach of more people than ever before.

That record-breaking performance was just one reason 2021 was a landmark year for the Society, with continued strong support for customers less well served by the wider market.

This included a record 20,000 first time buyers, who are fundamental to the housing market, and accounted for more than one in three of all our new mortgages. In backing the Government's new First Homes initiative, we were proud to be the first lender to receive and complete applications under the scheme and enable these new members to realise their homeownership dreams.

We maintained our strong performance in shared ownership lending as part of our affordable housing activity, rewarded for the sixth consecutive year with the title of Best Shared Ownership Mortgage Lender in What Mortgage's 2021 awards, among other plaudits.

As the Government's national pandemic support tapered off, we continued to work with members at risk of financial difficulty, helping borrowers who took mortgage payment deferrals to exit that scheme, and backed the industry-wide repossession moratorium at the end of 2021, as well as further extending our waiver of arrears fees into 2022.



// Our fantastic people are key to our ongoing success and every day demonstrate how mutual support and co-operation make a difference //

Another 2021 landmark was the opening of our new Leeds Central branch, showing our commitment to the Society's branch network and the personal face-to-face attention so many of our members value.

The hard work to maintain branch services for members and boost phone capacity during pandemic disruption was just one example of our colleagues' dedication to excellent service.

We know great service comes from skilled and committed colleagues and I'm delighted our colleague engagement scores remain at a record high of 86%, with record customer satisfaction scores of 93% and 4 star Trustpilot rating.

We're proud to have been named a Best Companies 3 star employer, thanks to our fantastic people, and as we exit the most critical months of the pandemic we've been supporting colleagues as they find the right work-life balance.

Having learned from the changes we made to keep the Society running smoothly through these unique times, we're developing our approach to a hybrid working model in the modern, collaborative space of our new headquarters, to deliver greater resilience and the best outcomes for our people, the business and our members.



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, such as data, IT and underwriting, creating 121 skilled jobs last year.

As well as direct support for members, we understand the importance of our intermediary partners to our success as a lender. To save them even more time and effort, throughout 2021 we made additional improvements to Mortgage Hub, our online platform, which is now integrated with all major sourcing systems and the most visible result of our significant and ongoing IT investment.

Chief Executive Officer's Highlights continued

Keeping the Society financially resilient

The extra capacity and swifter processing underpinned by Mortgage Hub was welcome as we handled record numbers of applications to deliver an exceptionally strong lending performance, which drove record profits of £163.7 million.

As a mutual, we invest our profits back into the business for the long term benefit of our membership as a whole, which includes support for member value, such as paying above average rates to our savers, as well as further strengthening our financial security. This means we're well placed to withstand economic shocks and market uncertainty.

These investments will increase our costs in the short term but are part of a clear and focused strategy to ensure we are fit for the future at a time of rapid technological change for us and the financial services industry. We retain our keen focus on efficiency and closely monitor our cost to income and cost to mean asset ratios, which remain among the best in our sector.

In the historic low interest rate environment, we've used our financial strength to protect our members. At the half year for 2021 we had the highest average savings rate of any of our building society peers, as well as the big six banks and have consistently paid above the market average to our savings members, which equates to £71.5 million extra in our savers' pockets. We responded to December's Bank Base Rate rise by holding our standard variable rate (SVR) to support borrowers and are supporting savers by increasing our minimum member rate to 0.30%, one of the highest in the market, in response to the Base Rate rise announced earlier this month.

2021 was another award-winning year, including a Fairer Finance Gold Ribbon for savings accounts for the fourth year running, in recognition of our clarity in explaining products and our savers' high levels of satisfaction. A clutch of industry awards for our Credit Risk team was recognition for our innovation and best practice in managing our lending.

Alongside our record lending activity, in 2021 we also were able to accelerate planned progress with our transformation projects, despite the pandemic's many challenges, so we can look to the future with confidence.

We successfully completed our head office move to Sovereign Street, cutting our carbon footprint and delivering efficiency savings by consolidating three central Leeds office sites into one.

Having chosen an existing building instead of constructing a new one, the award-winning refurbishment improved its EPC rating from D to A, making our headquarters among the most energy-efficient buildings in the region.

And after more than 80 years in Albion Street, our new home offers us modern and flexible space to accommodate changing ways of working for many decades to come.

Ensuring meaningful engagement with members and colleagues

The move has been warmly received by our Leeds-based office colleagues and the building provides plenty of room for when they are able to return in greater numbers.

Our fantastic people are key to our ongoing success and, even during dispersed working, every day demonstrate how mutual support and co-operation make a difference to each other and to our members.

In recognition of their contribution to the Society's success, we've invested in our colleagues above and beyond our commitment to the Real Living Wage by raising our minimum base salary to £10 per hour, building on our existing Fair Pay Charter.

Colleagues also have welcomed our commitment as a business to reducing our environmental impact and striving to find ways to help our members to do the same.

I'm pleased we were able to achieve carbon net neutral status for scope 1, 2 and 3 (business travel) emissions, more than a year ahead of plan. This is just one of the stretching targets we'd set ourselves, which have been supported by our move to our new head office.

In addition to progress in cutting the Society's carbon footprint, in 2021 we also began to demonstrate our green values by making direct links between our products and positive environmental action.

This started with the dedication of a tree for each child's savings account opened in branch, in partnership with the Yorkshire Dales Millennium Trust. We've already added 1,000 new native broadleaf trees in this important habitat, and dedicated 1,500 more with the Trust on behalf of our workforce.

We then launched our first green mortgages with preferential deals for the most energy-efficient homes, before becoming the first UK lender to offer a carbon neutral mortgage, offsetting the property's carbon footprint for the initial fixed term, giving the homeowner time to review and save for energy efficiency improvements.

Housing is responsible for 16% of the UK's total emissions, so it's important as a lender that we play our part and support our members and this new and developing market.

Of course, supporting our communities and causes our members care about are key to our identity as a mutual.

The second year of our national partnership with Dementia UK saw the launch of Closer to Home, improving access to specialist dementia care for communities across the UK. We launched a fixed rate bond to benefit the charity and the passion and generosity of colleagues and members already has taken total fundraising past £380,000.

We also maintained our successful, long-standing partnership with Leeds Rhinos and announced our sponsorship of Leeds 2023, a celebration of the culture and talent in our home city.

Outlook

Our strong performance as more competition has returned to the market means our outlook for the future remains positive. We'll continue to support all our members in the low interest rate environment and expect our net interest margin to remain robust.

Demand in the housing market remains extremely strong and we're confident the Society's segmental lending strategy, combined with our product innovation, will enable us to keep successfully delivering on our purpose to bring home ownership within reach for more people, for many more generations to come.

In common with other successful modern businesses, we work towards a genuine purpose but have the distinction that our purpose was the very reason we were founded almost 150 years ago. We've been living up to it ever since.

While that core purpose remains a constant, we'll continue to move with the times and innovate, as we've always done, to remain responsive, relevant and meet the evolving needs of our members.

As a mutual, we never take for granted that our existence, for nearly a century and a half, is due to our members. So to close as I started, I'm grateful to you, our members, for your continued trust and confidence in our Society.

Richard Fearon
Chief Executive Officer

24 February 2022



Business Model and Strategy

Year ended 31 December 2021

Progress on 2021 corporate priorities

During the year, we have continued to build the right foundations in order to deliver on our corporate priorities. The pandemic has rapidly shifted member expectations; as a result, we have been continually developing our customer experience, propositions and services. Our activity under our corporate priorities is detailed below.

Corporate priority	Progress in 2021
Safely keeping the Society operating for the benefit of our members	
<ul style="list-style-type: none"> ■ Prioritise the safety and wellbeing of colleagues and members 	<ul style="list-style-type: none"> ■ We maintained a COVID-secure environment throughout our offices and branch network. ■ We supported colleagues to work from home, whilst also facilitating regular office days to maintain connections. ■ We supported colleagues' mental and emotional wellbeing, for example, through provision of a wellbeing hub, access to mindfulness training and hosting our first Men's Mental Wellbeing group in November.
<ul style="list-style-type: none"> ■ Prepare the Society for the post-crisis world, ensuring we are future facing 	<ul style="list-style-type: none"> ■ We progressed a number of key strategic projects, integral to improving both our digital and technological capabilities and improving member and broker experience, including the launch of Lender Connect, as well as updates to Mortgage Hub (our intermediary portal). ■ We have made significant progress in understanding and reducing our carbon emissions and climate-related risks. We are now carbon neutral for scope 1, 2 and 3 (business travel) carbon emissions, a year earlier than our target, and we have been re-accredited with the Carbon Trust Standard for Carbon. We have also launched our first 'green' mortgage and savings products during the year. ■ We have continued to review our target operating model to help make sure our operations are set up to support the needs of current and future members.
<ul style="list-style-type: none"> ■ Support our members, particularly as they face financial difficulty 	<ul style="list-style-type: none"> ■ During 2021, we continued to focus on meeting customer needs, including consistently keeping branches open despite the ongoing pandemic, and branch colleagues provided additional telephony capacity through a virtual contact centre. ■ Having routinely provided access to mortgage payment deferrals, we actively supported the majority of customers in their transition back to normal monthly payments. Recognising the vulnerabilities often associated with financial hardship, we continued to suspend arrears fees, whilst tailoring our support to reflect individual circumstances.
<ul style="list-style-type: none"> ■ Keep the business running and seek to enhance operational resilience 	<ul style="list-style-type: none"> ■ We used our learnings from our response to the pandemic to protect our operations and boost resilience, as demonstrated by the successful data centre migrations. Our digital proposition has also progressed, including through our savings pilot with Hargreaves Lansdown.
<ul style="list-style-type: none"> ■ Appropriately balance savings and mortgage members' interests 	<ul style="list-style-type: none"> ■ We have remained focused on supporting those less well served by the wider market by being one of the first mortgage lenders to join the First Homes scheme and we've retained our What Mortgage Best Shared Ownership Mortgage Lender award for the sixth year running. ■ We have also consistently offered competitive savings rates to savings members (savings rates were on average 0.50%¹ above the market) and we have maintained a minimum member savings rate of 15 basis points during 2021, before the Bank Base Rate increased in December.

Corporate priority	Progress in 2021
Keeping the Society financially resilient	
<ul style="list-style-type: none"> ■ Maintain a strong capital position 	<ul style="list-style-type: none"> ■ Our strong profit performance has increased the capital we need to support lending and survive future shocks. Common Equity Tier 1 has grown to 38.0% and all of our capital ratios remain significantly in excess of minimum levels set by our regulators, both under today's rules and under upcoming known changes. ■ In March we issued a senior non-preferred debt instrument that will strengthen our capital for the medium term and increase our resilience should the economy go through stress in the future.
<ul style="list-style-type: none"> ■ Maintain an effective level of liquidity above internal and regulatory limits 	<ul style="list-style-type: none"> ■ During 2021 we've embedded additional tools to help us manage liquidity dynamically and to respond to future needs in an agile way. Using these and other tools we've maintained a liquidity position significantly above internal and regulatory limits. ■ After a contraction in savings balances in 2020 (due to COVID-19), in 2021 we attracted more members and reached record customer savings balances of £15.3 billion. Our wholesale funding complements this and we've benefitted from access to government funding under the TFSME.
<ul style="list-style-type: none"> ■ Achieve a resilient level of profitability 	<ul style="list-style-type: none"> ■ Our profits have grown as we've benefitted from an improvement in the external economic environment, which reversed some of the credit and fair value losses experienced in 2020 due to COVID-19. We've also seen our net interest margin widen due to lower funding costs and higher margins on new mortgages, especially in the first half of the year. This stands us in good stead for the future, as the average fixed rate mortgage term has increased and we expect customers will stay with us for longer. ■ Costs have increased as we've invested in our colleagues, systems and premises for the future, but we've kept this at a sustainable level. ■ We moved into our new head office building in May, which reduced our three Leeds city centre locations to a single site. This will save costs, facilitate more colleague collaboration and reduce our carbon footprint.
<ul style="list-style-type: none"> ■ Balance the risk-reward equation in lending choices 	<ul style="list-style-type: none"> ■ We have continued to support customers to have the homes they want (we have helped a record 20,000 first time buyers buy their first home), including those less well served by the wider market. For example, we maintained support for the shared ownership sector, our specialist segment, throughout the pandemic. ■ We've also re-entered market segments in 2021 that we'd paused due to COVID-19. This has allowed us to serve a wider range of borrowers, whilst staying within agreed risk thresholds and generating a fair return that has contributed to our profit performance.

¹ CACI's CSDB, Stock, December 2020 to November 2021, latest data available.

Corporate priority	Progress in 2021
Informing and engaging colleagues and customers	
<ul style="list-style-type: none"> Ensure colleagues remain informed and engaged 	<ul style="list-style-type: none"> In 2021 we maintained strong colleague engagement at 86%, with continued support for colleagues and communities during the year as well as communications that have enabled colleagues to stay informed². We were also accredited as a 3 star organisation by Best Companies. For further details see the People section on pages 15 to 18.
<ul style="list-style-type: none"> Keep our members and brokers informed and maintain trust and customer satisfaction across all channels 	<ul style="list-style-type: none"> We have continued to gain an understanding of members' and our wider stakeholders' needs during the pandemic, through a number of engagement surveys. Despite significant demand for our services and a contact centre headcount gap of around 20% for much of the year, we maintained our record level of customer satisfaction during 2021 at 93%, and we retained our 4 star Trustpilot rating. We have been re-accredited with the Fairer Finance Gold Ribbon for our savings products, which recognises the good customer service we have offered to savers, our transparency and how well we handle complaints. We have also been recognised as a top 'ethical business' by Ethical Consumer, being ranked fourth in its review of savings providers on behalf of Which?.
<ul style="list-style-type: none"> Provide a robust service to our intermediary partners 	<ul style="list-style-type: none"> 2021 saw Broker NPS increase by 10 points compared to 2020, to 56, due to the very well-received deployment of Mortgage Hub.

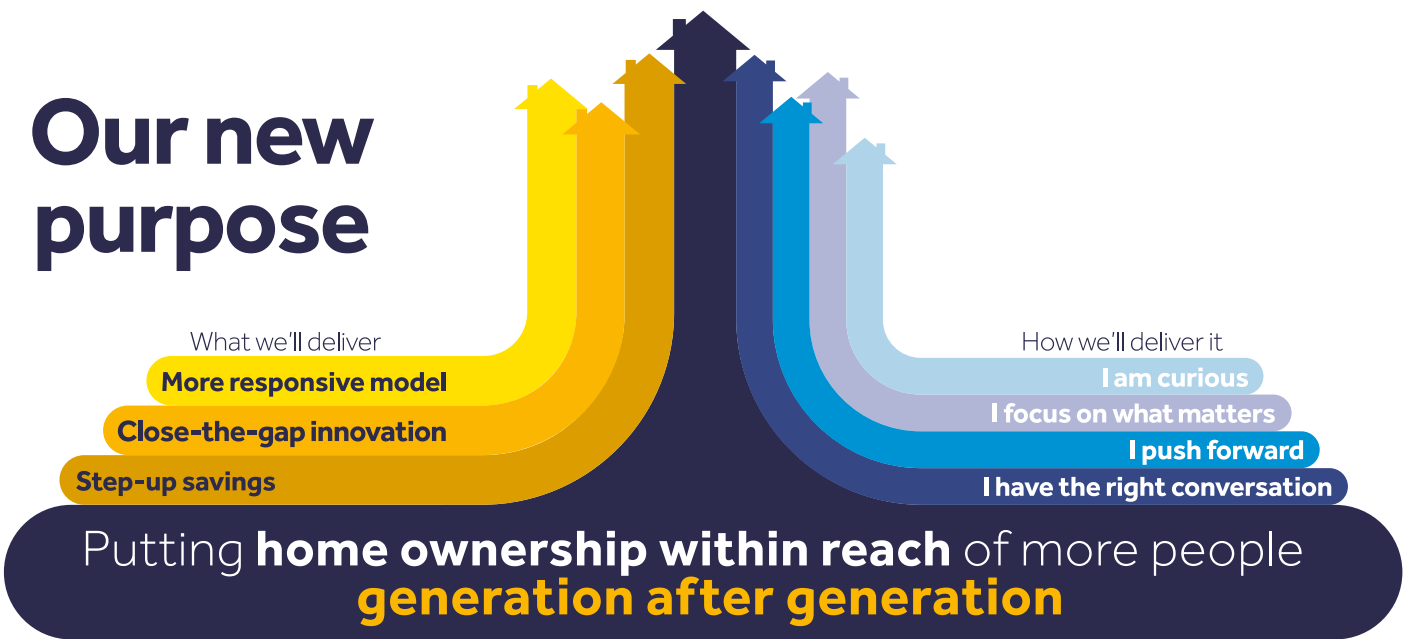
The Society's strategy and business model

Leeds Building Society is the fifth largest building society in the UK, with assets of £22.5 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.

We last reviewed our purpose in 2012. In light of the increasing social issues that our members and the communities in which we operate face, we have refreshed our purpose and our priorities to deliver against this, to ensure we remain focused on how we create social value for our stakeholders both now and in the future.

In order to shape our new purpose we have consulted a number of stakeholders, including colleagues, members and the Board, to understand what is important to them. This review concluded that the reason the Society was founded remains as relevant today as it did 147 years ago – to help people own a home of their own, which remains increasingly difficult for many given the housing needs of a growing UK population and the structural issues in the property market.

In response to that, our new purpose is: "Putting home ownership within reach of more people – generation after generation".



Home ownership has always been an important focus for our business, as we believe more people should have the security of owning their home. We currently help thousands of people onto and up the housing ladder each year – however, we can and should do more to increase our efforts to be part of the solution to today's housing crisis, by focusing on our founders' intention of helping people into homes of their own.

We have simplified our strategic drivers to make it clear how we will deliver on our purpose – through a 'More responsive model' that adapts to the changing environment, 'Close-the-gap innovation' which will deliver more opportunities to help people onto and up the housing ladder and 'Step-up savings' to make the Society not just a place for great savings rates but much more beyond that. The aim of our new strategic drivers is to drive our purpose – and to truly live up to our responsible business ambitions and deliver real value for our members.

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** – making decisions and creating solutions to barriers.
- I have the right conversation** – facing into difficult conversations, and celebrating great work.

² Colleague Your Voice survey, May 2021 – 90% of respondents agreed to the question: "I feel I get the information I need about changes in priorities and broader goals in order to do my job well".

Business Model and Strategy continued

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.

The Society funds the majority of mortgage lending with members' savings, through a range of channels. We have continued to support savers with our rates averaging 0.79%³ during the year. The remainder is funded from wholesale money markets on competitive terms, as well as reserves of previous profits and government-supported funding schemes aimed at increasing the level of lending across the market.

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.

³ CACI's CSDB, Stock, December 2020 to November 2021, latest data available

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



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.

The Responsible Business section of this report on pages 21 to 34 demonstrates the value that we have brought to our stakeholders over recent years. It also sets out our new responsible business strategy and our aim to drive positive social and environmental impact through what we do, now and into the future.



Business Model and Strategy continued

We deliver social value through the provision of...

Members and brokers



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



Competitive savings rates on a range of simple products designed to meet the different savings needs of our members and enable them to save for what is important to them.



A secure home for members' savings over the longer term – our financial strength means we are able to generate robust profits that allow us to invest in the business 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 and have a supportive and inclusive culture which creates career development opportunities for all. Our engagement scores consistently exceed our peer benchmark.

Communities



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

Environment



Products and services that reduce climate risk – the increased focus on climate risk presents further opportunity for the traditional mutual model to evolve and deliver innovative solutions that contribute to a sustainable future.

Third parties



Products and services through **partnerships with trusted third parties** who uphold the Society's values and align their goals and objectives with our responsible business aims.

Regulators



A strong focus on risk management and customer-centred decision making, with our '**How We Do Business' standards**⁴ setting 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.



People

Our overarching aim is to deliver our purpose through our highly engaged colleagues.

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

Colleague engagement

In 2021, we were accredited as a 3 star organisation by Best Companies, having achieved a 2 star rating the last time we entered, in 2018. This is the highest rating an organisation can achieve and means that we have 'extraordinary' levels of colleague engagement. This is endorsed by the results of our annual colleague engagement survey, in which 93% of colleagues took part and our results remained consistent with 2020. We maintained our record engagement score of **86%** (2020: 86%), which is above the sector benchmark, and achieved a leadership score of **84%** (2020: 85%), both positions which we are proud to maintain, particularly at a time of disruption brought on by the pandemic.

Wellbeing

We established our formal approach to mental health and wellbeing in 2018. Since then, over 550 colleagues, including over 160 people leaders, have been trained on mental health awareness. We have over 45 active Mental Health First Aiders in place to provide support to others and who receive continuous professional development. Since 2018, and through our partnership with the Building Societies Association (BSA), the Society has trained over 100 people in other financial services organisations and businesses in our supply chain, as Mental Health First Aiders.

We continued to support colleagues throughout 2021, particularly in light of the ongoing pandemic and the challenges this created. During 2021, there has been consistently high usage of the wellbeing hub on our colleague intranet. We have delivered a Mindfulness for Leaders programme with 10 of our senior leaders

⁴ These can be found on our website at leedsbuildingsociety.co.uk/your-society/how-we-do-business/.

Business Model and Strategy continued

and 26 colleagues having participated in a four week 'Developing your Mindfulness' programme. We have also recognised both the World Mental Health and World Menopause days in October and our first Men's Mental Wellbeing group took place in November.

Many of our head 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 effectively balance their home and work life.



From May 2021, colleagues started to occupy our new head office which provides a light, modern, connected and sustainable working environment for colleagues to thrive in. The many different types of work spaces, carefully chosen through a detailed fit out of the building, drives collaboration between colleagues, which helps promote diverse thinking and increased levels of innovation. The building also has a number of enhanced environmental and wellbeing benefits for colleagues, such as electric vehicle car charging points and a fully kitted out bike store and repair area. Working with a local manufacturer, we recycled the old windows to make counter tops for use around the building and 70% of the carpet tiles were made from recycled material.

Diversity and inclusion

When our colleagues were surveyed in 2021, 93% responded positively to the statement 'I work in an environment where everyone can feel included, respected and accepted for who they are'.

We have two targets in relation to gender diversity – to reach 33% women on the Board and in our Leadership Team by the end of 2021. On the Board, we have increased our gender diversity to 27% (2020: 20%) and have further improved diversity of thought with a

non-executive director from an ethnic background. We are currently recruiting another non-executive director and anticipate achieving our target in 2022. We are marginally under target at the year end for gender representation in our Leadership Team, at 32%.

In 2021, we reviewed our diversity and inclusion strategy aimed at continued improvement in diversity and inclusion across the Society and to build on the strong, inclusive culture we already have in place. To support the delivery of our purpose, we have re-defined our diversity and inclusion ambitions: **'Leeds Building Society is an organisation that anticipates and delivers great services to our current and future members, and where all colleagues feel valued and included for who they are and the unique perspectives they bring'**. This is underpinned by three core motivations and areas of focus – 'People', 'Inclusive Culture' and 'Doing the Right Thing'.

We have engaged with our Board and our Senior Leadership Team to review and consider targets for the representation of women on the Board and in our Leadership Team, as well as ethnic representation on the Board, Leadership Team and broader colleague population. We believe by setting targets, we are able to drive and track progress against our ambitions. Additionally, we have engaged with broad ranging and diverse groups in the Society to embed positive practices into our processes internally.

When our colleagues were surveyed in 2021, 93% responded positively to the statement 'I work in an environment where everyone can feel included, respected and accepted for who they are'.

Our colleague-led forums, for gender, race equality and mental health, which are each sponsored by a senior leader, have continued to make progress during the year. Additionally, a networking group has been established, to improve understanding and awareness of the LGBTQ+ community within the Society. Our Accountable Executive for Diversity is Andrew Greenwood, Deputy Chief Executive Officer and Executive Director.



Highlights this year include:

- We have renewed our investment in Mission INCLUDE, with a further 10 colleagues participating in this mentoring programme, focused on broader diversity, including ethnicity, religion, disability, sexual orientation, behavioural and background diversity.
- We have also increased our commitment to mentoring female talent specifically within our Operations function, with 26 colleagues in active mentoring partnerships following a successful programme that supported nine colleagues in the Customer function.
- We have piloted a reverse mentoring programme, pairing six senior leaders with six colleagues of different and diverse ethnic backgrounds, who are sharing their lived experiences working at the Society.
- We introduced a virtual work experience programme supporting ten year 9 students, at risk of falling out of education, in collaboration with Ahead Partnership.

The gender composition of our workforce is detailed below:

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

*Number includes executive and non-executive directors

Business Model and Strategy continued

Reward

We are proud to have been recognised as a Living Wage employer since 2019, reflecting our ongoing commitment to paying the Real Living Wage. Our fair reward principles ensure we offer fair pay, which is benchmarked externally and is designed to attract candidates with the skills and experience needed. All colleagues participate in a bonus scheme, which is linked to the Society's objectives, their own individual objectives and demonstration of behaviours. We have a Fair Pay Charter, which is available to view on our website and since September 2021 have paid a minimum of £10 per hour.

Colleagues, excluding the Senior Leadership Team, received salary increases in both April and September during 2021, as the Society better understood the economic climate and its performance as the year progressed.

Developing our talent

In 2021, we continued to support our colleagues' development, by enhancing our suite of digital learning, with a particular focus on our management population. As the Society shifted towards a hybrid way of working, we produced manager toolkits to support optimising this way of working and 'how to' guides, to help colleagues host interactive, engaging virtual meetings. We have significantly increased our apprenticeship levy spend through extending our customer contact centre programme and introducing new apprenticeship programmes, including a leadership and management qualification.

We are proud to have been recognised as a Living Wage employer since 2019, reflecting our ongoing commitment to paying the Real Living Wage.

The Board

The Board recognises the crucial role that colleagues play in our success and the service we offer to members, and all Board members play an active role in supporting this. Since 2019, Lynn McManus, Non-Executive Director and Chair of the Remuneration Committee, has had responsibility for representing colleagues' views at the Board. Lynn has met with our Colleague Association regularly throughout 2021 and has a keen interest in colleague matters, views and opinions.



Communication continues to be an important part of keeping colleagues in touch with our progress, successes and to remain connected, ever more so in an environment of hybrid working arrangements. We have continued to work hard to engage and inform colleagues through a range of virtual communication briefings, videos, cascades and our colleague intranet. Our colleague mobile app, Totem, allows all our people to stay in touch informally around matters that interest them.

Our colleague turnover is 17.5%, which is within our target range (2020: 12.7%).

Key performance indicators

The Society measures its performance against its 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 244.

Key performance indicator	What is measured	Performance	2021 update	
More responsive model				
Profit before tax	Profit before tax, as reported in the Income Statement, creating capital to support future business growth.	2021	£163.7m	Profit increased significantly due to strong underlying net interest income and reversals of 2020 charges for credit losses and fair values, which reflect the improved economic environment.
		2020	£80.7m	
		2019	£88.0m	
		2018	£116.9m	
		2017	£120.9m	
Net interest margin ⁵	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.	2021	1.31%	Net interest margin benefitted from lower funding costs due to competitive wholesale pricing and government support as well as strong mortgage margins. Market savings rates remained low but we continued to pay above average rates.
		2020	0.99%	
		2019	1.00%	
		2018	1.15%	
		2017	1.24%	
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.	2021	38.0%	Our strong profitability has increased CET1 and capital remains well above internal and regulatory limits, placing us in a good position to withstand future shocks. The increase in 2018 was due to the Society being granted Internal Ratings Based (IRB) permission.
		2020	36.3%	
		2019	33.6%	
		2018	31.3%	
		2017	14.5%	
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.	2021	6.1%	The increase in profits in the year was more than enough to support the balance sheet growth and increase the leverage ratio. In 2021, the regulator confirmed that this measure is not binding for the Society; however, we still consider it to be a relevant indicator.
		2020	5.8%	
		2019	5.3%	
		2018	5.5%	
		2017	5.5%	
Cost to income ratio ⁵	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.	2021	43.9%	Cost control remains an important area of focus for us and the relative increase in income in 2021 is much larger than the increase in costs, resulting in an enhanced ratio.
		2020	51.0%	
		2019	53.5%	
		2018	44.8%	
		2017	43.2%	

⁵ Alternative Performance Measure, defined on page 244.

Business Model and Strategy continued

Key performance indicator	What is measured	Performance	2021 update
More responsive model (continued)			
Cost to mean asset ratio⁶	An additional cost efficiency ratio which measures costs in relation to the Society's total assets. It is calculated as administrative expenses plus depreciation and amortisation, divided by the average total assets.	2021	0.58%
		2020	0.48%
		2019	0.50%
		2018	0.52%
		2017	0.56%
Colleague engagement score	Colleague engagement is measured annually across all colleagues. Society goals are delivered by highly engaged colleagues.	2021	86%
		2020	86%
		2019	82%
		2018	81%
		2017	80%
Close-the-gap innovation			
New (gross) residential lending⁶	The value of residential lending advanced by the Society during the year, including loans for house purchases, remortgages and further advances.	2021	£4.4bn
		2020	£2.5bn
		2019	£3.5bn
		2018	£3.8bn
		2017	£4.1bn
Net residential lending⁶	Gross residential lending, less repayments of principal and redemptions.	2021	£1.5bn
		2020	£0.0bn
		2019	£1.0bn
		2018	£1.0bn
		2017	£1.8bn
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.	2021	18
		2020	24
		2019	15
		2018	16
		2017	16

⁶ Alternative Performance Measure, defined on page 244.

Key performance indicator	What is measured	Performance	2021 update
Close-the-gap innovation (continued)			
Broker Net Promoter Score (NPS)	Demonstrates how likely brokers are to recommend the Society to their peers. Calculated using the percentage of people who are extremely likely to recommend and subtracting those who are unlikely to recommend.	2021	56
		2020	46
		2019	54
		2018	49
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.	2021	£15.3bn
		2020	£14.2bn
		2019	£14.5bn
		2018	£13.9bn
		2017	£13.1bn
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.	2021	£71.5m
		2020	£82.8m
		2019	£88.5m
		2018	£81.5m
		2017	£75.0m
Customer satisfaction	The percentage of customers surveyed who described themselves as quite, very or extremely satisfied with the service received from the Society.	2021	93%
		2020	93%
		2019	91%
		2018	91%
		2017	91%

Responsible business

As we conclude the first year of our responsible business strategy (2021 to 2025), we can evidence how our focused efforts have had many tangible and positive impacts on the stakeholders and communities we serve. It has highlighted the importance of incorporating our core purpose into all that we do, while raising our ambition to prioritise social and environmental issues, alongside our underlying business performance targets. It demonstrates what social purpose can achieve and reinforces our commitment to providing social value, building on our success as we move towards our 150th year, in 2025.

During 2021, the Society has maintained its focus on reducing our impact on the environment and has already achieved a net zero position on scope 1, 2 and 3 (business travel) as well as launching innovative new propositions for customers to support the transition towards net zero with the launch of our first 'green' mortgage. The Partnership for Carbon Accounting Financials (PCAF) is helping us to develop the parameters to further understand our scope 3 financed emissions. Alongside the wider industry, we have more work to do to evolve and refine this analysis and model the factors within and outside of our control so that we can align our plans to the requirements of the 2015 Paris Agreement and the latest climate science.

⁷ CACI's CSDB, Stock, December 2020 to November 2021, latest data available.

Our responsible business targets support us in establishing the right priorities and culture across the Society, helping ensure we use our commercial success to drive positive social and environmental impact through what we do, while ensuring we have the relevant governance in place to reduce and mitigate risk. The Society is well placed to make progress and drive further change over the coming years. You can read more about our progress and highlights in 2021 and our priorities out to 2025 below and on the following pages.

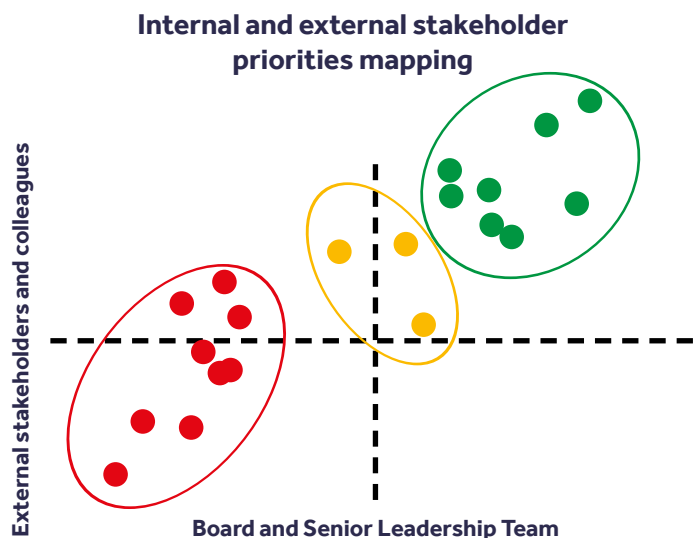
Highlights

- In 2021, we:
- Reduced our carbon footprint and reached carbon neutral status, as well as being reaccredited with the Carbon Trust Standard for Carbon;
 - Launched our first ever green mortgage and launched 'Dedicate a Tree' children's savings account, as well as dedicating and planting a tree for each of our colleagues;
 - Won the What Mortgage 'Best Shared Ownership Mortgage Lender' award for the sixth year in a row, demonstrating our commitment to affordable housing;
 - Launched a two year partnership with the Canal & River Trust and adopted a mile of waterway outside our head office in Leeds;
 - Reached 8,000 people via our social mobility outreach and financial education volunteering programme;
 - Reached a total of over £380,000 for Dementia UK through colleague fundraising and matched funding activities which has helped launch their 'Closer to Home' campaign. We also launched a three year Dementia UK Bond; and
 - Donated over £144,000 to 158 UK charities in 2021 through the Leeds Building Society Foundation.

We continue to work closely with a range of expert partners to support our responsible business strategy, including Fair Tax, The Carbon Trust, Living Wage Foundation, Leaders in Diversity, ClimateCare, Sustainalytics and Eiris Vigeo.

Our responsible business strategy

In 2021, we focused on the development of the next phase of our responsible business strategy which was closely linked to the refresh of our purpose and strategic drivers. The focus areas upon which the responsible business strategy is founded have been driven directly by the feedback we received in our materiality assessment from stakeholders, including over 3,800 members, colleagues, communities, third parties, intermediaries, the Board and partners.



There is a positive correlation between the priorities of the business and those of our key stakeholders. Of the 21 questions we surveyed responses to, green shows the areas which both our internal and external stakeholders agreed were high priority and the amber and red areas were lower priority. We have used these green priority areas to shape our focus to ensure we are embedding responsible business across all parts of the Society and developing the relevant workstreams which will deliver sustainable impact.

Our five focus workstreams are **Affordable Home Ownership, Climate Change, Diversity and Inclusion, Sustainable Communities and Trust and Transparency**. These areas ensure that we are doing the right thing for our members, colleagues and our planet, and keep us aligned to our purpose.

Our responsible business goals (2021 to 2025)

A new governance model has been put in place to oversee the delivery of the next phase of our responsible business strategy and we have developed the following measures to set out our ambition and track progress out to 2025.

More responsive model

<p>Target 1</p> <p>Work towards alignment to an overall net zero pathway by 2050 or sooner</p> <p>PROGRESS: ON TRACK</p> <p>In 2022 we will be assessing and working towards delivery of science-based targets</p>	<p>Target 2</p> <p>Maintain our net carbon neutral position on scope 1 and 2 plus scope 3 business travel</p> <p>PROGRESS: ACHIEVED</p> <p>Next steps are further considering scope 3 which includes suppliers, our mortgage book and colleague commuting</p>	<p>Target 3</p> <p>Reach over 50% of the Society's mortgage properties with an EPC rating of C+</p> <p>PROGRESS: ACHIEVED</p> <p>Currently 52% of our mortgage book has an EPC of C or above (Jun 21). We aim to maintain and improve on this (based on properties where we hold an EPC rating)</p>	<p>Target 4</p> <p>Maintain strong colleague engagement score of over 80%</p> <p>PROGRESS: ACHIEVED</p> <p>We maintained our record colleague engagement score of 86% in 2021</p>
<p>Target 5a</p> <p>Achieve 7% ethnic representation among leaders</p> <p>PROGRESS: BEHIND</p> <p>Ethnic representation among leadership ended the year at just under 4%, which is marginally behind our aim for 2021</p>	<p>Target 5b</p> <p>Achieve 12% overall ethnic representation</p> <p>PROGRESS: AHEAD</p> <p>Overall ethnic representation was 9.3%, slightly ahead of our 2021 target</p>	<p>Target 6</p> <p>Improve gender diversity with 35% female senior leaders and 33% at Board level by 2025⁸</p> <p>PROGRESS: BEHIND</p> <p>On the Board, we have increased our female representation to 27% (20%: 2020) and achieved 32% of leaders</p>	<p>Target 7</p> <p>Provide £1.5m to charities and communities through grants, donations and sponsorship</p> <p>PROGRESS: AHEAD</p> <p>We are 29% towards our 2025 target having donated over £428,000 to charities and good causes in 2021</p>

Close-the-gap innovation

<p>Target 8</p> <p>Help 65,000 first time buyers into a home of their own by 2025</p> <p>PROGRESS: AHEAD</p> <p>We supported over 20,000 first time buyers to get onto the housing ladder in 2021, which was a record year</p>	<p>Target 9</p> <p>Improve mortgage broker satisfaction scores by 20% by 2025</p> <p>PROGRESS: AHEAD</p> <p>Our Broker Net Promoter Score has historically averaged 50. In 2021, this increased to 56, which was ahead of our 2021 target</p>
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Step-up savings

<p>Target 10</p> <p>Maintain high member satisfaction scores of over 90%</p> <p>PROGRESS: ACHIEVED</p> <p>Our member satisfaction score (measured as an annual average) was 93% in 2021</p>	<p>Target 11</p> <p>Maintain our share of UK high street branches at higher than 0.50%</p> <p>PROGRESS: ACHIEVED</p> <p>We have a 0.57% share of the UK branch network⁹</p>
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Key

- Ahead – where the cumulative performance to date is within >5% than the pro-rata target (where appropriate)
- On Track – where the cumulative performance to date is between 100%-105% versus the pro-rata performance
- Behind – where the cumulative or in-year performance is behind the associated target
- Achieved – where the reported performance for the year is in line with or above the in-year target

Target 12

Maintain an average savings rate premium of at least 0.25% compared to market average

PROGRESS: ACHIEVED

Our average savings rate premium in 2021 was 0.50% higher than the rest of the savings market¹⁰

⁸ The 33% target for Board gender diversity is by 2022, a further review will take place to determine targets out to 2025.
⁹ ONS bank and building society data, 2021.
¹⁰ CACI's CSDB, Stock, December 2020 to November 2021, latest data available.

SUSTAINABLE DEVELOPMENT GOALS

The UN Sustainable Development Goals (SDGs) call on governments, businesses and others around the world to meet three key objectives by 2030: to end extreme poverty, fight inequality and injustice, and limit climate change. They translate into 17 goals and 169 targets and are essential for the good of society, the environment and sustainable economic growth. These form a social value charter for individuals, communities and society in general. Through our purpose, business priorities and wider responsible business strategy, we are supporting this agenda by aligning our focus to the following SDGs:



Affordable Home Ownership

The Society's segmental lending strategy ensures that we can meet the needs of those that are not well served by the wider mortgage market. That's why we have made home ownership the central focus of our new purpose, to ensure we do more to support people onto and up the property ladder.

We are one of the original peer-to-peer lenders and have been helping people buy houses for nearly 150 years – we truly understand how important it is for everyone to have a home. We are proud of our market leading position in shared ownership; being the first lender to accept an application under the government's First Homes scheme and being the first to launch a dedicated range to support it. We also won the What Mortgage? Best Shared Ownership Mortgage Lender award in 2021 for a historic sixth consecutive time.

First time buyers are the lifeblood of the housing market, yet for some, the dream of getting onto the property ladder seems out of reach. That's why we support a range of different affordable housing schemes to ensure that we can help people that need it most – from those using Help to Buy to purchase a new build property with the support of the government's equity loan, to those using First Homes to purchase a property discounted by up to 50%.

First Homes is a great example of how we support putting home ownership within reach of more people, generation after generation. We are hugely proud that our first two sets of keys were handed over to key workers within our communities, a police officer and an NHS worker, both being welcomed as members of our growing member family.

The Society's prudent approach and financial strength has enabled us to withstand external economic upheaval and market uncertainty. Our focus on supporting people into home ownership saw us re-enter the 95% loan to value market in April. 2021 was a record-breaking year for the Society as we helped over 20,000 members to purchase their first home. In light of our new purpose, we still have further work to do to outline what our ambitions are for delivering it, by understanding what the key barriers are to home ownership in the UK and how we can help overcome them.

Climate Change

The Society is committed to the global call to action on climate change. Our responsible business strategy is focused on aligning our climate targets to continue supporting the UN 2030 agenda¹¹ and Paris Agreement Treaty¹². We are committed to operating as a more inclusive, net-zero carbon, water positive and climate resilient mutual. In 2021, we are reporting against the Task Force on Climate-related Financial Disclosures (TCFD) on pages 39 to 63. Over the coming years, we, alongside the industry, will work on our Science Based Targets and our pathway to Net Zero.



As part of our commitment to our climate agenda over the years, we have achieved the Carbon Trust Standard for Carbon. 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 the future. For data on emissions see page 61.



In 2021, the Society was awarded carbon neutral status by ClimateCare for our direct (scope 1 and 2) and indirect (scope 3 from business travel) greenhouse gas emissions. We are extremely proud of this as we achieved this key milestone one year ahead of our commitment. Using a market-based approach to measure our emissions, which excludes the purchase of renewable electricity, our scope 1 and 2 emissions have decreased by almost 1,200 tonnes CO₂e since 2016. We have introduced the first mortgages in the UK to be carbon-offset, moved to 100% green tariff energy, reduced our emissions and are committed to improving our performance each year.

We have switched to sustainable energy provision and more recently it has remained a firm guiding principle in the fit out of our EPC A-rated head office, with its efficient use of resources, local suppliers, active recycling and facilities to support electric cars, amongst many other initiatives.



¹¹ The UN established 17 Sustainable Development Goals, to be achieved by 2030, to address global issues and create a more sustainable planet for all.
¹² The Paris Agreement is a legally binding international treaty on climate change to limit global warming to below 1.5 degrees celsius.

Business Model and Strategy continued

Environmental campaigns and partnerships

The Society is always looking for opportunities to better serve our communities and have a practical and positive impact. This year we have launched three new environmental partnerships, which have allowed us to be actively involved in making a difference. All these activities allow us to not only reduce our carbon footprint, but educate our members and colleagues, while making a significant and measurable difference.



This year we partnered with Do Nation to run our first ever major colleague environmental campaign 'Pledge Today, Change Tomorrow'. The online platform allowed colleagues to make small, meaningful changes called 'pledges' to reduce our overall environmental footprint. This has been tracked over a period of time and collectively we have made 1,080 pledges which totalled 27.4 tonnes CO₂e, which is equivalent to 498 London to Paris flights' worth of carbon.

Yorkshire Dales Millennium Trust



We have formed a partnership with Yorkshire Dales Millennium Trust this year and are delighted to have developed various ways to support this partnership such as introducing a new children's savings product, dedicating trees for each Society colleague, and providing volunteering opportunities to get involved.

The Society dedicated 1,500 trees on behalf of our colleagues across the UK and colleagues spent two days in December planting trees, supporting the creation of two new woodlands in the Yorkshire Dales. Together, we will have offset an estimated 250 tonnes of CO₂ over the next 50 years through this initiative.

We also launched a new 'Dedicate a Tree' children's savings account initiative, which saw us partner with Yorkshire Dales Millennium Trust to sponsor the planting of trees in two hectares of woodlands across the Dales. This means that our members can open a savings account to help children to build up their future, while also helping the planet. The initiative has been successful and therefore we aim to continue it for the foreseeable future.



The Canal & River Trust

Driven by our commitment to the environment and with a focus on the places where we operate, the Society has launched a partnership with Canal & River Trust for the next two years. As part of this, we have adopted a mile long stretch of the waterway which runs adjacent to our new head office on Sovereign Street in Leeds. The funding provided to the Canal & River Trust as part of the adoption programme will allow us to focus on three areas: heritage, environment and wildlife.



As part of the adoption we will maintain the historic Grade II Listed river lock gates, remove plastics and litter to help keep the waterways and towpaths clean, plant wildflowers and install bird boxes. It is a great way to make a difference while enjoying the health and wellbeing benefits brought about by spending time by water.

Green mortgages

As an organisation, we're very mindful of our carbon footprint. Our journey started several years ago, when we refurbished our branch network and we made an active choice to reduce electricity usage. We have been building on these strong foundations – this year, we were one of the first lenders to join the Green Finance Institute's (GFI) Coalition for the Energy Efficiency of Buildings, and we have launched pilots for a range of new green mortgages which adhere to the GFI's Green Home Finance Principles.

We launched our first ever green mortgage in August 2021, a Fixed Rate Green Mortgage product offering £500 cashback for residential properties with an EPC rating of A to C, which is an official indication of the energy rating of the home. In September, we extended our green mortgage range to include a number of Buy to Let options. These products help to support those members who are looking to reduce their environmental impact through purchasing an energy-efficient home.

We have demonstrated our commitment to helping the planet by launching the UK's first carbon offset benefit for all 95% loan to value, mainstream, fixed rate mortgages for home purchase, available for all properties regardless of their energy efficiency rating. For each of these mortgages lent by the Society, we are offsetting carbon emissions during the fixed rate period, based on the emissions generated by an average Leeds Building Society property. This was available on a pilot basis for a limited time and its performance will help us to gauge customer appetite and to explore how to better support our members as they look to reduce their impact on the environment.

Diversity and Inclusion

The Society's re-defined ambition for diversity and inclusion is that 'Leeds Building Society is an organisation that anticipates and delivers great services to our current and future members, and where all colleagues feel valued and included for who they are and the unique perspectives they bring.' Further information on our diversity and inclusion strategy can be found on page 16.

Social Mobility Pledge

We continue to align ourselves to the Social Mobility Pledge, which is a cross party campaign to improve social mobility in the UK. Through our work experience, mentoring, education and employment focused volunteering programmes, we have prioritised supporting those from disadvantaged backgrounds. The Society is committed to the

expansion of our outreach programmes tackling financial education and employment issues for vulnerable groups.

Our commitment to the pledge held steadfast this year. We recruited four apprentices into our customer services programmes and have initiated 12 students in our work experience programme. In 2020, we introduced our financial literacy programme to help develop young people's understanding and skills, targeting students from vulnerable and diverse backgrounds. All our social mobility programmes are spearheaded by our registered volunteers. 41% of the school pupils we have piloted our financial education and careers programmes with are eligible for free school meals and a quarter of the school population speak English as an additional language.



Sustainable Communities

Our responsible business strategy places significant focus on contributing to the communities where we operate. Our mutual status means we will always endeavour to do what is in the best interest of our members and the communities where they live and work.

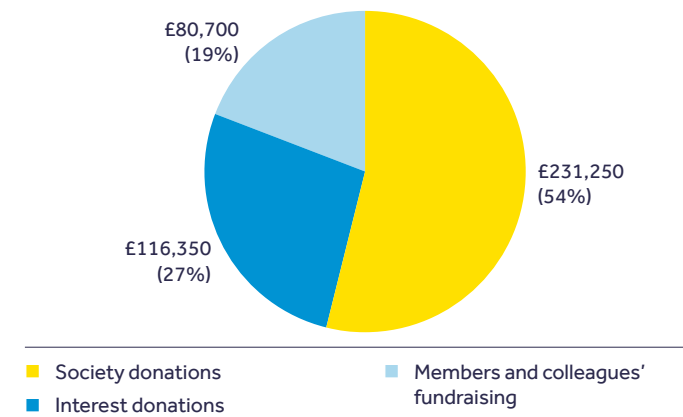
Listening to what matters to members and seeking their feedback helps us focus on meeting their evolving needs. Our community investment is designed around social value and delivered through the sharing of skills, resources and donations across the UK.

Our charity partnership with Dementia UK

The Society launched a four year partnership with Dementia UK in April 2020. There are currently around 900,000 people with dementia in the UK and this is projected to rise to nearly 1.6 million by 2040¹³. Dementia UK is the only UK charity caring for people with dementia and, like us, they aim to help people stay in their own home. The support given by their specialist Admiral Nurses helps families stay together as long as possible.

In 21 months of fundraising, we have raised over £380,000 which is 76% of our overall four-year partnership target of £500,000. This has helped Dementia UK respond directly to an increase in demand for their Admiral Nurse helpline and launch 'Closer to Home', which helps support more dementia sufferers nationwide, bringing Admiral Nurse specialist care to more communities.

Where our giving comes from (2021)



¹³ Calculated from the London School of Economics – Care Policy and Evaluation Centre Report: alzheimers.org.uk/sites/default/files/2019-11/cpec_report_november_2019.pdf



Our colleague Paul's story



Hundreds of families, including Paul's, have benefitted from this service. Paul has worked at Leeds Building Society for 37 years and was thrilled that Dementia UK became the Society's chosen charity partner.

"I have been actively involved in fundraising throughout the partnership. I went sober for October in 2020 and raised £1,200. I also climbed Ben Nevis in July 2021 with friends and colleagues and raised over £4,000 in memory of my Dad. He was at the forefront of our minds throughout and there was no way we were giving up. I felt a massive sense of achievement when we got to the top – it was a great feeling.

I think the partnership is going to help to educate people and let them know that there is support out there. I have learned a lot from the partnership so far and I now know more about Admiral Nurses and the wonderful work they do. The Closer to Home clinics, funded by Leeds Building Society, are going to help so many people affected by dementia access life-changing support in their local communities.

I don't know what I would have done without the support from Dementia UK, the NHS and Dad's care home. Those initial calls to the Admiral Nurse Dementia Helpline enabled us to get everything lined up for Dad and prepared us for what was to come, even though in the beginning it was hard to believe. I know the partnership will help other families like mine get the support they need."



Paul's dad, Jeffrey Horsbrough

Charitable bond

In September 2021, the Society launched a new savings bond in support of Dementia UK, which has proved popular with our members. The three-year fixed rate bond pays savers a competitive rate of interest and based on balances invested, the Society will make a total donation to Dementia UK of £72,000 over the three-year period, exceeding our target of £50,000. Through products like this we are able to give savers the chance to earn a competitive rate while also knowing they are helping others and making a difference.

Building up society through skills sharing

The Society understands the value and impact it can have by providing all colleagues the opportunity to directly give back within their communities and that is why our volunteering scheme offers 14 hours to all colleagues to spend on community projects that are important to them. Pre-pandemic, we saw consistently high participation rates and, in line with government guidelines, we were able to relaunch volunteering activity in the third quarter of 2021. Our colleagues have since been busy volunteering in social and environmental projects across the country.

As a financial services provider, our colleagues are experts in money matters and are equipped with the knowledge to support young people understand finance. In 2021, we have experienced tremendous growth in reaching approximately 8,000 people through our financial education and Skills4U programme, which supports career development. Like many others, we had to adapt our mechanism of delivery and in collaboration with various schools and teachers, we have successfully provided both virtual and recorded sessions throughout the year, delivered by our trained colleagues.

82.6% of students asked said the panel increased their understanding of **how to get into different careers or jobs in the region.**

78.3% of students asked said the panel helped them **think about their goals after school.**

78.3% of students said the panel had **motivated them to work harder at school.**

Leeds Building Society Foundation



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

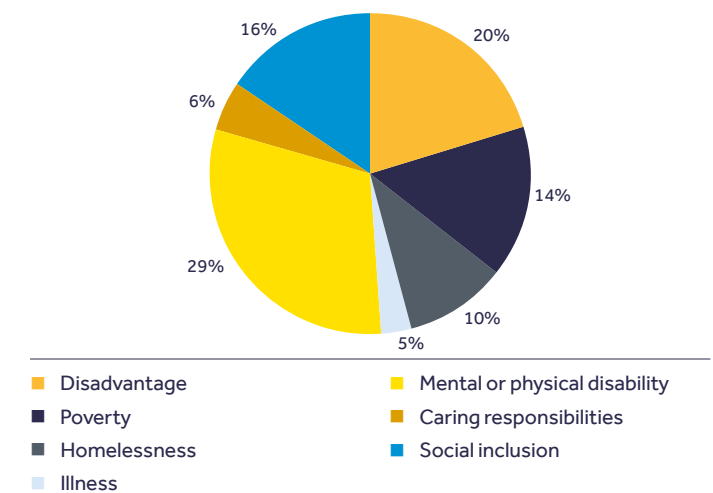
These charities are critically important to local communities and ensure the Foundation's funding reaches those who are in greatest need.

In 2021, the Leeds Building Society Foundation distributed over £144,000 in grants to 158 charities.

The LBS Foundation Board agreed it would undertake a strategic review of the Foundation in early 2022. The Trustees will revisit its purpose statement, how it aligns to the Society's business, its funding approach and how impact will be measured. This work will help determine the future focus of the Foundation over the next decade and how it will contribute to the Society's 150th anniversary, in 2025.

"The funding went directly to supporting our ongoing work with the homeless community in and around the West Lothian area experiencing food insecurity. Through our Catalyst Kitchen program, we are constantly trying to improve and advance how we work with vulnerable individuals, and this money was invaluable in allowing us to further support the people who need our help the most." Emma Husband, Fundraising and Communications Manager, The Larder.

Foundation funding by theme (2021)



Trust and Transparency

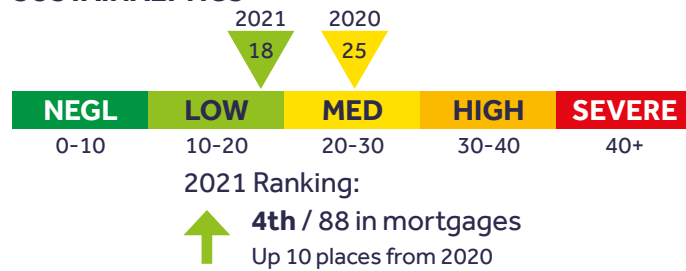
Responsible business means operating in a transparent way and we understand 'trusting a brand'¹⁴ can be the deciding factor when purchasing any product. In 2021, the Society remained a 4 star¹⁵ rated company on Trustpilot, evidencing our commitment to providing the best customer experience possible for our members.

The Society was ranked as the fourth most ethical savings provider by Which?, which was scored by Ethical Consumer in its review of banks and building societies, looking at various factors including environmental reporting, carbon management, transparency, ethical lending and company ethos.

ESG audits

Sustainalytics and Vigeo Eiris are global leaders in ESG and corporate governance research and ratings firms who assess the Society's ESG performance. As a result of our continued progress and proactive engagement from colleagues, we have materially improved our results since the last review. Sustainalytics has adjusted our overall risk rating from Medium in 2020 (score 25/30) to Low in 2021 (score 18/20), which places us in the top 10% among our lending peers. Vigeo Eiris has increased our assurance from Limited to Robust which places us in the top 15% among our industry peers.

SUSTAINALYTICS



VIGEO EIRIS



¹⁴ Edelman, 2020 edelman.com/research/evolution-trust.
¹⁵ Rating correct in December 2021.
¹⁶ leedsbuildingsociety.co.uk/your-society/tax-strategy/.

Fair Tax Mark

Our approach means paying the right of amount of corporation tax and reporting our tax affairs transparently to stakeholders, as outlined in our Tax Strategy¹⁶. The Society was re-accredited with the Fair Tax Mark in 2021 and continues to be one of the only high street financial services providers to attain this accolade. Paying our fair share of tax ensures we are contributing to the vital public services needed to benefit our members, colleagues and communities.

Policies

Policies and standards underpin our responsible business strategy, setting out how colleagues are expected to behave and the parameters for decision making. 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 this criteria then the limit may be rescinded.

The Society has a set of relevant policies that include the Tax Strategy, Board Diversity Policy and ESG Policy. Additionally, our Modern Slavery statement can be found on our website leedsbuildingsociety.co.uk.

Governance

The Responsible Business Forum has provided strategic direction for corporate responsibility at the Society, supporting the integration of responsible business practice into the way we operate and measure progress against our targets.

Alongside the Forum, the Society has a number of other working groups which focus on specific corporate responsibility priorities and part of the Society's commitment to diversity and inclusion. These include green champions, mental health, gender diversity and race equality forums, as well as a new LGBTQ+ network.

Our Fair Pay Charter

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

- Paying at least the Real Living Wage, as set by the Living Wage Foundation, to colleagues and contractors.
- Aligning executive directors' and colleagues' pension contributions.
- Fair salaries based on role, skills, performance and external benchmarks.
- Objective pay decisions made regardless of gender, age, ethnicity, disability, sexual orientation or any other protected characteristics.
- Competitive total reward packages for all colleagues. This includes a range of health and wellbeing options.
- Listening to our colleagues, through our Colleague Association, about salary and reward decisions.
- Helping colleagues understand how they are rewarded. This includes clear performance standards and feedback.
- Equal opportunities for all, so everyone can progress their career.
- Supporting colleagues to work flexibly, to balance both personal and business needs.
- Providing time for colleagues to focus on career development.
- Pay which is accurate and on time.

Paying the Real Living Wage



We are proud to have paid at least the Real Living Wage to all our colleagues since 2014. Set by the Living Wage Foundation, this is higher than the government's minimum, or National Living Wage and is an independently calculated hourly rate of pay based on the actual cost of living. Since 2019, we have extended the Real Living Wage to include our third party contracted colleagues. In September 2021, we went further and increased the minimum pay rate for our colleagues to £10 an hour, a 5.3% increase and above the 2021 Real Living Wage rate of £9.50 an hour.



Business Model and Strategy continued

Looking forward

One constant that has remained throughout our 147 year history is doing the right thing for members, colleagues and communities. It is core to our existence and as we head into the next decade of responsible business, we will continue to adapt and innovate to remain responsive and relevant, while meeting our members' evolving needs.

There is further work to do in order to assess our longer term responses following the refresh of our purpose, including our climate response, but we will keep these under review and provide an update as work progresses. While the outlook is undoubtedly challenging, the strength of our culture, our social purpose and our finances mean we can continue to work for the mutual good of our members, colleagues and communities.

Directors' regard to stakeholder interests

Our approach to corporate governance is based on the Principles and Provisions of the 2018 version of the UK Corporate Governance Code (available at frc.org.uk). In order to meet the requirement for a Section 172 Statement (in so far as it is relevant to a building society), we include a summary of how the Board has carried out its duties in promoting the success of the organisation. This includes how the Board engages with stakeholders and remains cognisant of their needs when running the business. 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 Responsible Business section of this report on pages 21 to 34 and in the Corporate Governance Report on pages 95 to 118.

The Board's approach

The Society considers 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 the Society's strategy, specifically members' product and servicing needs, the expectations of regulators, the needs of mortgage brokers, views of investors and credit rating agencies, as well as any potential impact on colleagues. 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 taken into account, are shown on page 38 – specifically the decision to approve an additional pay award for colleagues and re-entry into the 95% loan to value market segments.

Governance of the Board has adapted since the onset of the pandemic, through increasing the frequency of meetings and adjusting the content to deal with the fast changing environment. The needs of our stakeholders have been at the forefront of the discussions at these meetings and have been key in determining our response, for example we consistently kept branches open for members during the pandemic.

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 page 98 of the Corporate Governance Report.

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 is provided in the Corporate Governance Report on pages 111 to 117. Key performance indicators relevant to members and brokers, such as Net Promoter Score, can be found in the Key Performance Indicators section within this report on pages 19 to 21.

Stakeholder group	Why they are important to us	How we engage with them	Reporting to the Board
Members and brokers	<p>Members own the Society, and the Society acts to benefit members' interests over the longer term.</p> <p>The majority of our lending is done via brokers, who are key to our business model of helping members into homes of their own.</p>	<ul style="list-style-type: none"> Gain feedback through our online panel TalkingPoint Social media Trustpilot Independent external customer and broker research Annual General Meeting (AGM) 	<ul style="list-style-type: none"> Annual analysis of five-year forecast of member joiners and leavers and monthly reporting Six-monthly update on customer experience and service levels Annual complaints report
Colleagues	<p>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.</p>	<ul style="list-style-type: none"> Yearly colleague survey Colleague Association Board appointed colleague representative Lynn McManus (Non-Executive Director) meets regularly with the Colleague Association Colleague development and wellbeing sessions Communication on matters relevant to colleagues and the Society 	<ul style="list-style-type: none"> Colleague survey results Colleague Association topics Colleague update from colleague representative Pension scheme information¹⁷ Update on diversity and progress against our targets Annual culture review Annual Speak Up Standard review and approval
Third Parties	<p>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.</p>	<ul style="list-style-type: none"> 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 process for new and renewed requirements 	<ul style="list-style-type: none"> The Board is involved in decisions on suppliers for key strategic projects Management information on suppliers Annual approval of Modern Slavery Act Transparency Statement
Communities	<p>As a mutual, we strive to make a positive difference to the communities in which we operate.</p>	<ul style="list-style-type: none"> Gain feedback through our online panel TalkingPoint Independent external customer research Annual General Meeting (AGM) 	<ul style="list-style-type: none"> Approval of our new purpose and strategic framework Approval of our updated responsible business strategy and regular updates on our progress against our targets
Environment	<p>We are 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.</p>	<ul style="list-style-type: none"> Discussions held with a wide range of stakeholders, including government bodies, building society peers and third party experts such as Carbon Trust 	<ul style="list-style-type: none"> Progress reports on our climate data and insights
Regulators	<p>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.</p>	<ul style="list-style-type: none"> Regular dialogue/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 	<ul style="list-style-type: none"> The Board receives updates on regulatory matters and a summary of key regulatory actions being undertaken by the Society Material dialogue/interactions with our regulators are shared with the Board as appropriate The Board has sight of the progress/delivery of regulatory actions

¹⁷ Information on colleague pension schemes can be found in note 25 of the accounts.

Business Model and Strategy continued

Stakeholder group	Why they are important to us	How we engage with them	Reporting to the Board
Investors	Investors provide an important part of our funding, which supports our aim to help members into homes of their own.	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 and brokers can be found within the Corporate Governance Report on pages 112 and 117.



Colleagues

Consideration of diversity in the workplace is a key focus for the Society, which is supported through our mental health, gender diversity and race equality colleague forums as well as our new LGBTQ+ colleague network. Further information on diversity can be found in the People section on page 16 and the Corporate Governance Report on page 100.



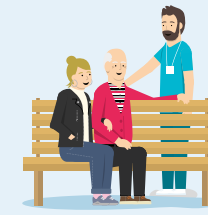
Third parties

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 2021 we grew 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 and associated standards were fully revised, including a clearer risk-based classification of suppliers which enables us to take a more consistent and risk-appropriate approach to our management of each engagement.

Further details on engagement with suppliers can be seen in the Corporate Governance Report on page 115.



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. An example of this is our commitment to pay our fair share of tax as evidenced by our Fair Tax accreditation. Our communities are defined as the places where our members and colleagues live and work, however we consider social issues as well as geography in defining where we focus our efforts.

More detail, as well as further information on responsible business at Leeds Building Society, can be found within the Responsible Business section on pages 21 to 34.



Environment

We continue to take the impacts of climate change seriously. This year we have reported on our carbon emissions within the Annual Report and Accounts, aligned to the Taskforce For Climate Disclosures (TCFD) requirements. These aim to help stakeholders understand our carbon footprint and to highlight the steps we are taking to reduce this. More information on this can be found in the Responsible Business section on pages 25 to 27 and the Climate Change section on pages 39 to 63.



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.

We have an active investor relations strategy, and further information on engagement with investors and credit ratings agencies can be seen in the Corporate Governance Report on page 114.

Key decisions made in the year

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

A case study is given below and a summary of Board activities during the year can be found in the Corporate Governance Report on pages 109 to 111.

Business Model and Strategy continued

Approval of additional pay award for colleagues (May 2021)

Our successful strategy, and decisions taken over recent years, have put the Society in a strong position to be able to respond robustly to changes in our external environment and to meet the evolving needs of our members and other stakeholders.

As a member-owned, responsible business, we need to ensure we appropriately balance how the value our business model generates is distributed across our different stakeholders in a sustainable way that also ensures we protect the long term interests of the Society and its members.

In May 2021, the Board discussed the value benefit received by our members and wider stakeholders, including colleagues, communities and the environment. It was agreed that an additional investment in colleague fair reward would be provided, to recognise colleagues' dedication and outstanding contribution to the Society during the pandemic.

This included a minimum pay increase for all eligible colleagues, excluding the Senior Leadership Team, of 2%, as well as a rise in the minimum full time equivalent salary of 5.3% to £10 per hour, over and above the 2021 Real Living Wage of £9.50 per hour. Under our fair reward commitment, an additional increase was applied to keep pace with external benchmarking across the financial services sector. A career pathway was also introduced in the branch network to recognise and reward colleagues who've reached a level of experience and competence that enables them to offer a higher level of service to our members.

The pay review undertaken in September means that we will be better able to attract and retain talent, providing long term value for the Society and its members, as well as contributing more value to the communities in which we operate.

Re-entry into 95% loan to value market segments (March 2021)

Throughout the pandemic we've continued to support the housing market and our members, particularly affordable housing, including shared ownership. However, as a result of the significant and uncertain economic impacts of the pandemic, we temporarily removed our highest loan to value products from the market during 2020.

Subsequently, with economic and mortgage market prospects improving, and following the reopening of the housing industry, in March 2021 the Board made the decision to re-enter the 95% loan to value market. It's important to us to be able to assist borrowers who are not well served by the wider market, including buyers with smaller deposits, to enable more people to buy a home and we felt it was the right time to extend our proposition to further support this.

A variety of factors were considered when making this decision, including the economic and market outlook and its potential impact on homebuyers and home movers (such as unemployment levels, affordability and house price expectations), the impact on the Society's performance and financial stability, and insight from our intermediary partners. We reviewed our capacity to ensure we could provide an excellent service to our members and we ensured a consistent experience by launching simultaneously across intermediated and direct channels.

We keep our products, rates and lending criteria under constant review to ensure we can continue to offer mortgages to meet the needs of customers who are looking to take their first step onto the property ladder. To enable more first time buyers to buy their own home, we were also one of the first lenders to become part of the First Homes scheme, offering a minimum 30% discount from market value to local buyers, and in particular key workers, which is passed on when the home is sold.

Climate Change

Year ended 31 December 2021



// **Climate change is arguably one of the biggest challenges currently facing us all. That's why we're dedicated to reducing our carbon footprint and helping our colleagues, members, and the communities we operate in, to do the same.** //

Andrew Greenwood
Deputy Chief Executive Officer

This is our inaugural full set of disclosures under the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The TCFD framework is structured around four key pillars and aims to provide consistent climate-related financial risk disclosures and information on the Society's exposure to, and management of, climate risks and opportunities.

Climate Change continued

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

Climate-related disclosures overview

Climate framework

Vision	Climate change strategic aim Support the orderly transition to a greener, net zero economy by 2050 or sooner						
Pillars	Our carbon footprint Reduce the Society's own carbon emissions	Support transition to net zero Help key stakeholders reduce their carbon footprint			Manage climate-related risks Embed capabilities to monitor and manage the risks and opportunities		
Targets	Carbon neutral by end-2022 Direct (market-based) and indirect (business travel ¹) emissions	EPC rating of C or better For 50% or more of our UK mortgaged properties ² by 2025			Alignment to net zero Work towards alignment with a 2050 net zero pathway		
Enablers	Green products	Data and analytics	Monitoring and disclosure	Communication and engagement	Governance and oversight	Operating model	Risk management

Summary of progress against TCFD recommendations

The Society signed up as a TCFD supporting signatory during 2021 and we are committed to implementing the recommendations in full in line with the principles of our purpose-led responsible business strategy and requirements under the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) – Enhancing banks' and insurers' approaches to managing the financial risks from climate change.

Good progress has been made during the year against the 11 TCFD recommendations, with several important activities completed 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 the journey and further work is planned in 2022, and beyond, to support the orderly transition to a greener, net zero economy.

¹ Includes emissions from rail, road (excluding taxis) and air as a result of the Society's business travel.

² Where a valid Energy Performance Certificate (EPC) is available for the property.

TCFD recommendation	Key progress areas in 2021	Future priorities 2022+	Further details
1. Strategy			
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	<ul style="list-style-type: none"> Initial enterprise-wide view of climate risks and opportunities, and their potential impacts, discussed at Board and Board Risk Committee. Defined our initial climate strategic aims and targets as part of our purpose-led responsible business strategy. Stress testing of our potential climate risk exposures completed, based on the Bank of England's 2021 Climate Biennial Exploratory Scenarios (CBES). 	<ul style="list-style-type: none"> Invest in capabilities to enable development of decarbonisation plans and targets aligned with the Paris Agreement net zero pathway. Development and roll-out of our Green Finance propositions. Refinement of our assessment of climate risks and opportunities, including further development of our scenario testing capabilities. Wider stakeholder engagement across our value-chain. 	Section 1.4
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.			Section 1.5
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.			Section 1.6
2. Governance			
a) Describe the Board's oversight of climate-related risks and opportunities.	<ul style="list-style-type: none"> Responsibilities defined and embedded into our established governance structure. Revised Target Operating Model for the management of climate risks and opportunities agreed. Climate risk training delivered to the Senior Leadership Team and Board. 	<ul style="list-style-type: none"> Review and approval of net zero plans and targets. Embedding of the new climate operating model and alignment of climate objectives with defined accountabilities. Expansion of climate risk training to the wider colleague population. 	Section 2.1
b) Describe management's role in assessing and managing climate-related risks and opportunities.			Section 2.2
3. Risk management			
a) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	<ul style="list-style-type: none"> Processes for identifying, assessing, and managing climate risks defined and embedded into our Enterprise Risk Management Framework. Initial risk appetite for the management of climate risks defined and agreed by Board Risk Committee. Climate data for our mortgage book sourced and analysed to quantify potential physical and transition climate risks. Data infrastructure has been developed to incorporate climate data into credit decisioning systems. 	<ul style="list-style-type: none"> Update and refinement of our climate risk appetite in line with development of net zero plans and targets and additional insights on climate risks and opportunities. Development of credit decisioning processes and policies. Further analysis of climate transition risks following government policy announcements at COP26. Incorporation of climate risk factors into due diligence processes for third party suppliers. 	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

Climate Change continued

TCFD recommendation	Key progress areas in 2021	Future priorities 2022+	Further details
4. Metrics and targets			
a) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	<ul style="list-style-type: none"> Initial climate-related Key Risk Indicators (KRIs) and Management Information (MI) defined and implemented in internal reporting. 	<ul style="list-style-type: none"> Development and refinement of climate-related internal MI and KRIs, and external disclosures. 	Section 4.1
b) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	<ul style="list-style-type: none"> Verified as carbon neutral (scope 1 and 2 plus scope 3 business travel³). 95% reduction in our carbon footprint⁴ since 2016. 	<ul style="list-style-type: none"> Development and agreement of decarbonisation targets aligned with the Paris Agreement net-zero pathway. Completion of environmental surveys for our branch network and implementation of recommendations to improve energy efficiency. 	Section 4.2
c) Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks.	<ul style="list-style-type: none"> Joined the Partnership for Carbon Accounting Financials (PCAF) to develop our assessment and reporting of scope 3 financed emissions. 		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 and overall approach to carbon management are also subject to biennial accreditation by an independent third party.

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 strategy

Strategic aims

As part of our purpose-led responsible business strategy (see pages 21 to 34), the Society is committed to the global call to action on climate change, recognising the critical role that the financial services industry has in supporting the response.

During 2021, the Board approved a new Climate Risk Strategic Framework centred around the aim to support the orderly transition to a greener, net zero economy by 2050 or sooner. This aim will be supported by three pillars and underlying targets:

Pillar 1 – Our carbon footprint

The Society is committed to reducing the climate change impacts from its own operations and working towards alignment to a 2050 net zero emissions pathway.

In this context, the Society established an interim target to achieve carbon neutrality by the end of 2022 (scope 1 and 2 emissions on a market-based approach, plus scope 3 emissions from business travel³), which has been successfully achieved in 2021, one year ahead of plan. We recognise that further targets will be required to minimise and reduce our emissions over the medium to longer term, which we intend to progress in 2022. Refer to section 4 for further details.

Pillar 2 – Supporting the transition to net zero

Currently 16% of the UK's total carbon emissions emanate from the energy consumed within UK homes⁵. As the UK transitions to a low carbon economy, it is likely that homeowners will be required to enhance the energy efficiency of their properties to meet new standards. While these standards are yet to be fully defined by the UK Government, the Society considers that it has a responsibility to support our members in making this transition, through our product proposition and communications.

During 2021, we have successfully launched our inaugural green finance products to encourage the purchase of more energy-efficient homes and enable members to offset emissions from their homes during the fixed term of their mortgage. We intend to develop our proposition further in 2022 in response to growing customer demand for green products.

An initial target has been set to ensure that at least 50% of the Society's UK based mortgaged properties have an Energy Performance Certificate (EPC) rating of C or better by 2025. The target has been set as the minimum baseline that we will aim to maintain to ensure there is an appropriate balance between encouraging improvements in the energy efficiency of homes below EPC rating C by helping support members to make those improvements and taking on new lending to properties with an EPC rating of A, B or C already.

Whilst the average EPC position is currently favourable versus our 2025 target (52% as at 30 June 2021), only 62% of our UK mortgage portfolio currently has a valid EPC available and the average may therefore change in the future as data gaps are closed. The performance of the portfolio is also likely to fluctuate between now and 2025 as we develop our responsible business strategy and future green product proposition to focus on helping to finance the green transition.

We recognise that targets based on average EPCs alone will not be sufficient to help solve the problem. More needs to be done jointly between the Government and the finance industry to increase product innovation, customer awareness, and financial support to collectively deliver a fair and orderly transition. This will be a key area of focus for the Society in 2022, as we further develop our understanding and capabilities to support the green transition. We will continue to monitor and adjust our targets where required to ensure they remain appropriate, as customer and regulatory expectations for the pace of transition become clearer.

Pillar 3 – Managing the risks from climate change

Whilst the transition to a low carbon economy creates opportunities, this is also 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.

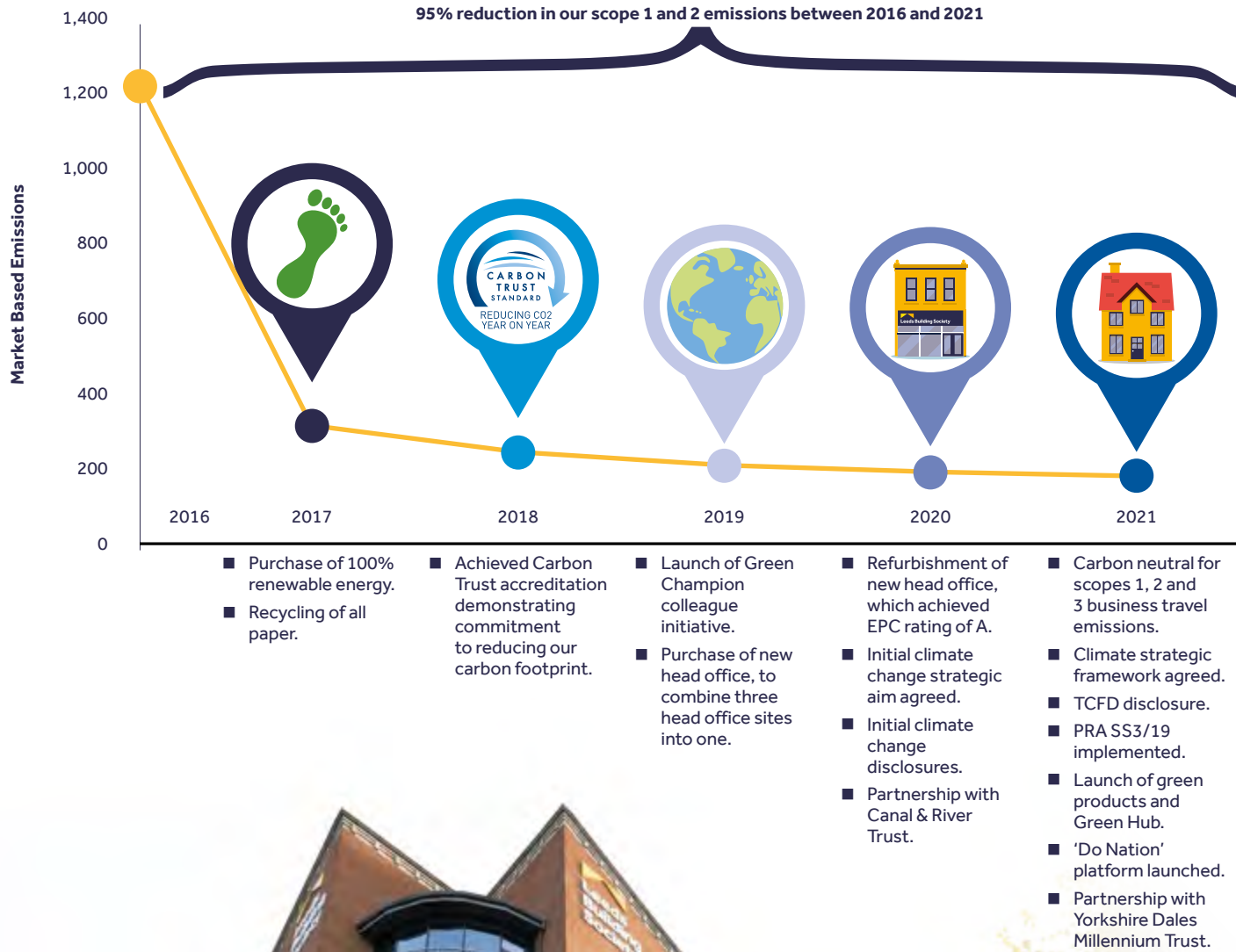


³ Includes emissions from rail, road (excluding taxis) and air as a result of the Society's business travel.

⁴ Based on reductions in our scope 1 and scope 2 (market-based) emissions.

⁵ Source: 2020 UK Greenhouse Gas Emissions, final figures (publishing.service.gov.uk).

Section 1.1 – Progress and key achievements



Section 1.2 – Stakeholder considerations

Our climate strategy has been designed to consider the requirements of our key stakeholders:



Section 1.3 – 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:



We have partnered with Hometrack and their data partners Ambiantal and TerraFirma to obtain industry-leading climate risk data and insights for our mortgage portfolio. Data will also be delivered at the point of origination for new mortgage lending, enabling the Society to incorporate climate change metrics into our future mortgage origination strategy.



During 2021, we became 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 retrofit of domestic buildings that achieve verifiable environmental benefits.



We have joined the Partnership for Carbon Accounting Financials (PCAF) to better understand the challenges of measuring and reporting emissions associated with our residential property portfolio.



We have achieved the Carbon Trust Standard for Carbon. This is a voluntary certification and mark of excellence, only awarded to organisations that can demonstrate they have reduced their carbon footprint and have the right processes in place to continue to reduce in the future.



Climate Change continued

Section 1.4 – 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
Medium term	3 to 5 years
Long term	5 to 30 years

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 ⁶	Horizon
Physical risk	Arises 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 risk	Arises 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 1.5 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.	<ul style="list-style-type: none"> Members Communities Investors 	Short/Medium term
Communication	Engagement with colleagues, members, and suppliers to increase understanding of climate-related risks and support the transition to net-zero.	<ul style="list-style-type: none"> Members Colleagues Third party suppliers 	Short term
Partnerships	Collaborate with key organisations to increase knowledge, develop good practice and lobby for change.	<ul style="list-style-type: none"> Third party suppliers Industry bodies Government and regulatory authorities 	Medium term

Section 1.5 – 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
<p>Physical risk</p> <ul style="list-style-type: none"> 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 impacts to 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 or 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. 	<ul style="list-style-type: none"> Partnered with Hometrack to assess property-level physical risk profile. Risks assessed as part of credit policy and underwriting. Climate data to be built into our future mortgage origination strategy. Scenario analysis completed as part of our 2021 Internal Capital Adequacy Assessment Process (ICAAP) to better understand the potential financial impacts from physical risks. Refer to section 1.6 for further details. Resilience measures in place for our key operational sites (e.g. flood defences and insurance).

⁶ Relevance is based on the likelihood/impact of the risk drivers crystallising, based on the types and geographic locations of the Society's current assets and investments.

Climate Change continued

Key potential impacts	Our response and future plans
Transition risk	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Scenario analysis completed in the 2021 ICAAP to assess financial impacts from the transition to minimum energy ratings. Launched our first green mortgage and savings products in 2021 to encourage the purchase of more energy-efficient homes. Alignment with TCFD for climate-related disclosures during 2021. Strategy and initial targets established in 2021 to manage our carbon footprint. Further targets to be developed to minimise and reduce our emissions over the medium to longer term.

Section 1.6 – Scenario analysis

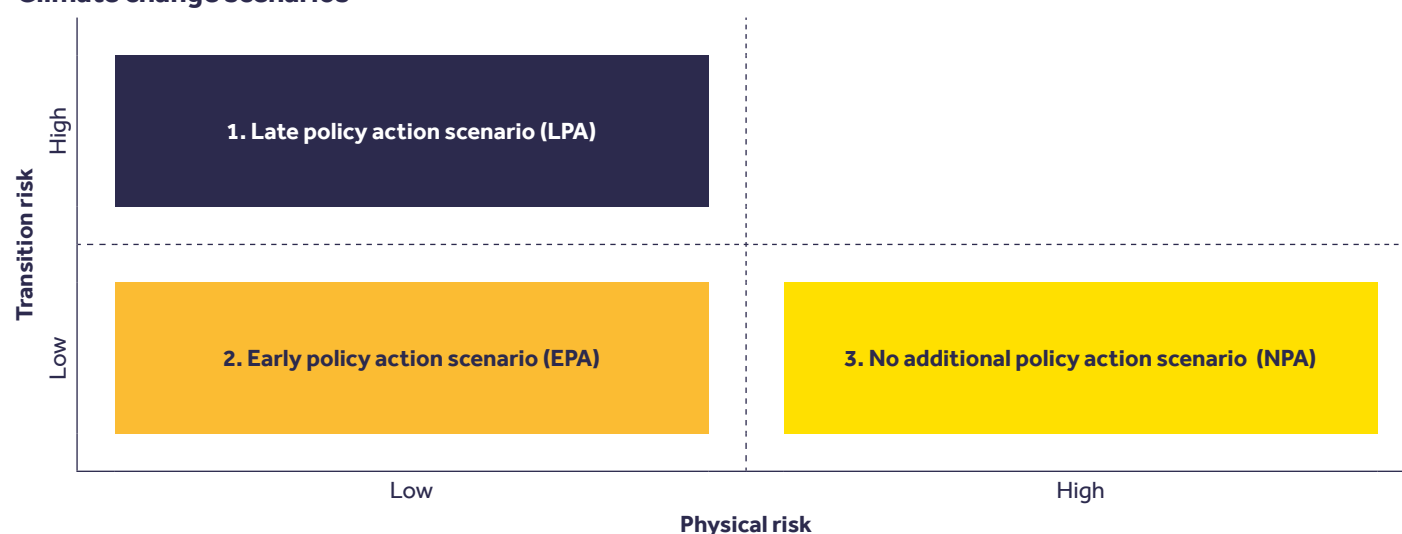
The Society has developed a proportionate approach to climate risk scenario analysis as part of our Internal Capital Adequacy Assessment Process (ICAAP), to understand the potential future impacts of climate change on our overall risk profile and to inform strategic planning.

Scenario testing approach

Aligned with the Bank of England's 2021 Climate Biennial Exploratory Scenario (CBES) exercise, the Society has modelled three climate-related scenarios as part of our 2021 ICAAP.

The scenarios assessed the potential financial impacts from different combinations of physical, transition and economic risks over a 30-year time horizon (2021 to 2050s). Impacts were modelled based on a static balance sheet⁷ (i.e. no run off of assets and liabilities and no management actions).

Climate change scenarios



⁷ Excluding residual Commercial loans, Gibraltar and Spanish mortgages. Outstanding balances are de minimis and were therefore excluded from the analysis.

Climate change scenario descriptions and key assumptions

	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	2021	N/A
Nature of transition	Late and disorderly. New climate policy from 2030	Early and orderly. New climate policy from 2021	Only climate policies in place pre-2021
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 ⁸	1.8°C increase	1.8°C increase	3.3°C increase
Emissions RCP ⁹	2.6	2.6	8.5
Economic impact (UK)	● Sudden recession	● Temporary downturn	● Permanent downturn

Scenario conclusions

The exploratory climate risk analysis completed during 2021 has provided the following insights:

- The Society has limited potential exposure to physical risk, under a range of future climate pathways over the next 30 years (see figures 1, 2 and 3), due to the geographically diversified and low LTV profile of the current mortgage portfolio.
- More material potential impacts have been observed through transition risks from the movement towards a low-carbon economy. For example, 48% of the mortgaged properties in our portfolio with a valid EPC were rated D or lower¹⁰ (see figure 4) and are therefore more exposed to potential future changes in minimum energy ratings.
- Modelling of these 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.
- We intend to refine and enhance our scenario testing capabilities in future years as additional data become available and further industry good practice emerges.

⁸ Increase in average global temperatures compared to pre-industrial levels.

⁹ 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.

¹⁰ Based on the mortgage portfolio as at 30 June 2021.

Climate Change continued

Figure 1 – 2050s flood risk profile¹¹

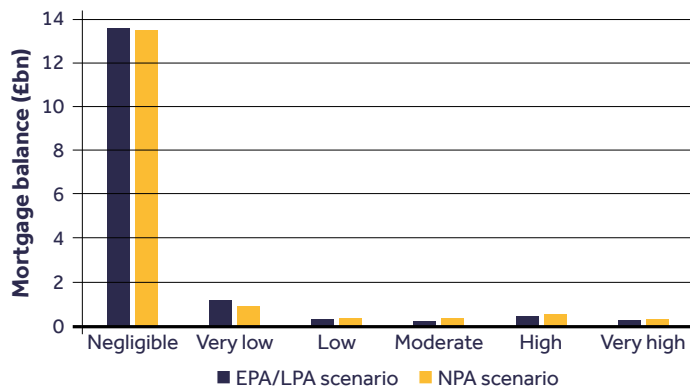


Figure 2 – 2050s coastal erosion risk profile⁸

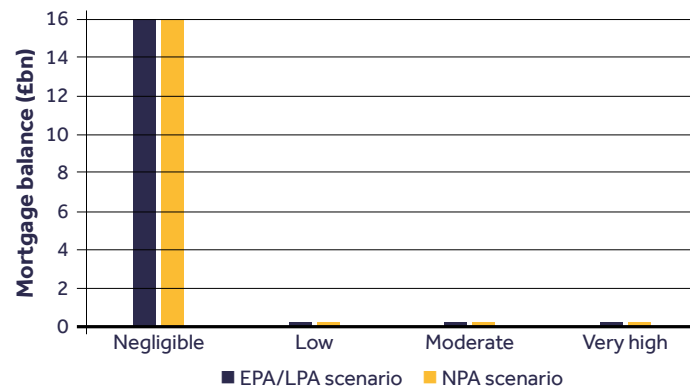


Figure 3 – 2050s subsidence risk profile⁸

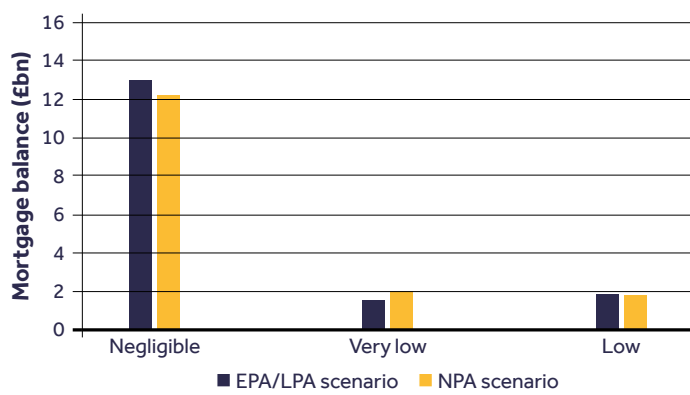
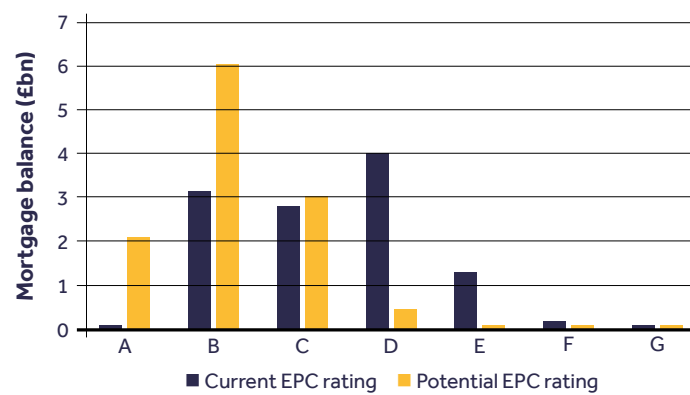
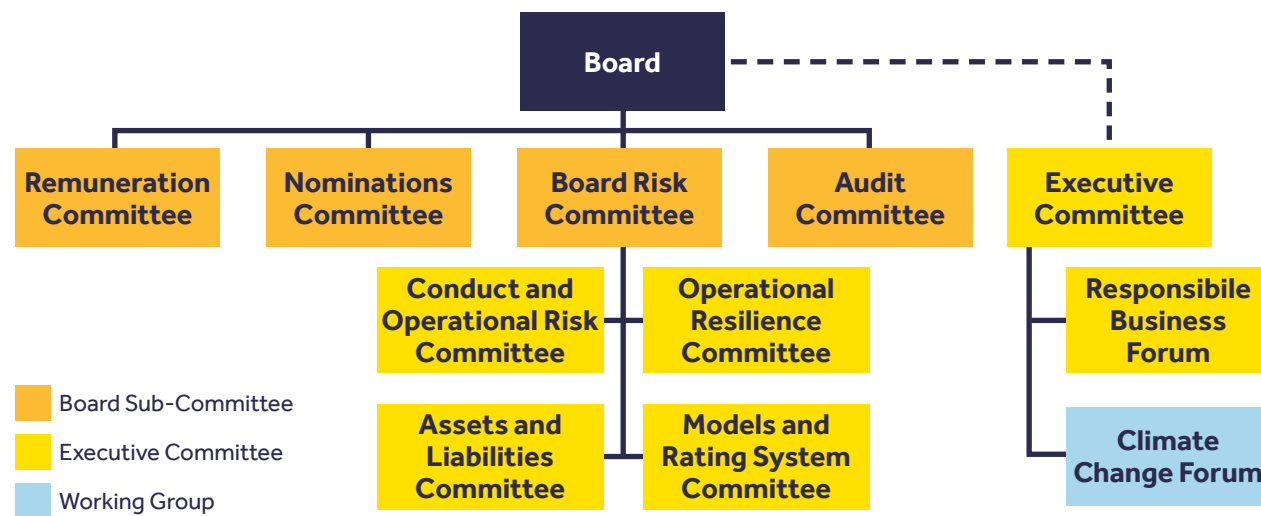


Figure 4 – Current and potential EPC ratings⁸



Section 2 – Climate risk governance

During 2021, the Society has established and 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.



Section 2.1 – Board-level oversight of climate-related risks

Committee	Role	Activities and areas of focus in 2021
Board	<p>The Board has ultimate accountability for overseeing the implementation of our purpose led strategy, including the management of climate-related risks.</p> <p>Whilst the Board fulfils some of these duties directly, other responsibilities are cascaded through the Society's committee structure. See pages 102 to 111 for further details of the Society's governance arrangements.</p>	<ul style="list-style-type: none"> ■ Oversight development of the Society's revised purpose and associated responsible business strategy, as described on pages 8 to 38. ■ Received climate-related training, which provided an overview of climate science, market and regulatory developments, progress towards compliance with PRA SS3/19, the Society's carbon footprint and the Society's role in supporting a green transition. ■ Set initial climate strategic aim and targets.
Board Risk Committee	<p>The Board has delegated responsibility for overseeing the identification and management of current and future risks associated with climate change in line with its stated appetite to the Board Risk Committee.</p>	<ul style="list-style-type: none"> ■ Oversight integration of climate risks into the Society's Enterprise Risk Management Framework and approval of a new climate risk appetite. ■ Approval of a new target operating model for the management of climate risks. ■ Approval of a revised ESG Policy, including updated minimum control statements for climate risks. ■ Approval of outputs and conclusions from inaugural climate stress testing activity, as part of the ICAAP. ■ Approving a suite of climate risk indicators. ■ Monitoring delivery of activities to comply with PRA SS3/19 by 31 December 2021.
Audit Committee	<p>The Audit Committee assists the Board in ensuring that the internal systems of control and external disclosures relating to climate change are appropriate.</p>	<ul style="list-style-type: none"> ■ During the year, the Committee received a deep dive on trends in ESG reporting, including TCFD, which has informed non-financial reporting in 2021.
Remuneration Committee	<p>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.</p>	<ul style="list-style-type: none"> ■ Oversaw the inclusion of broader ESG related deliverables into corporate and personal objectives and extended controls within the Remuneration Policy to appropriately capture ESG risks.
Nominations Committee	<p>The Nominations Committee supports the Board in ensuring that it appoints directors and senior management with the right skills and experience to advance the Society's climate objectives.</p>	<ul style="list-style-type: none"> ■ To ensure that the Board maintains an appropriate level of knowledge and expertise, a Climate Risk Competency Framework has been developed. The key elements of this framework will be embedded into the Board's skills matrix in 2022, reflective of its increasing importance, and to supplement broader ESG related expertise.

¹¹ Based on the mortgage portfolio as at 30 June 2021.

Section 2.2 – 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	2021 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/appetite.	<ul style="list-style-type: none"> ■ Credit policy ■ Climate risk MI ■ Updated ToR
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/appetite.	<ul style="list-style-type: none"> ■ ESG training ■ ICAAP scenario analysis ■ Climate risk MI ■ Updated ToR
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/appetite.	<ul style="list-style-type: none"> ■ ICAAP scenario analysis ■ Climate risk MI ■ Updated ToR
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/appetite.	<ul style="list-style-type: none"> ■ Climate risk MI ■ Updated ToR
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/appetite.	<ul style="list-style-type: none"> ■ Climate model materiality assessment ■ Updated ToR

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 management of climate related risks under the oversight of the Executive Committee:

Forum	Chair	Responsibilities	2021 discussion topics
Responsible Business Forum	Chief Strategy and Insights Officer	Ensures appropriate alignment of climate change initiatives to the Society's responsible business strategy.	<ul style="list-style-type: none"> ■ Development of responsible business strategy ■ Oversight of the ESG budget
Climate Risk Forum	Risk Director	Delivery of BRC approved plan to meet requirements of PRA SS3/19 and operational implementation of green strategy.	<ul style="list-style-type: none"> ■ Compliance with SS3/19 ■ Green strategy and targets ■ Disclosure reporting ■ Green product proposition

Senior Management Function

Responsibility for managing climate-related risk has been assigned to the Deputy Chief Executive Officer, as the appropriate Senior Management Function (SMF) 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 Management Team undertook climate-related training to enhanced knowledge of this rapidly. Wider colleague engagement has been facilitated through a climate risk webinar and internal communications throughout the year.

Section 3 – Climate risk management

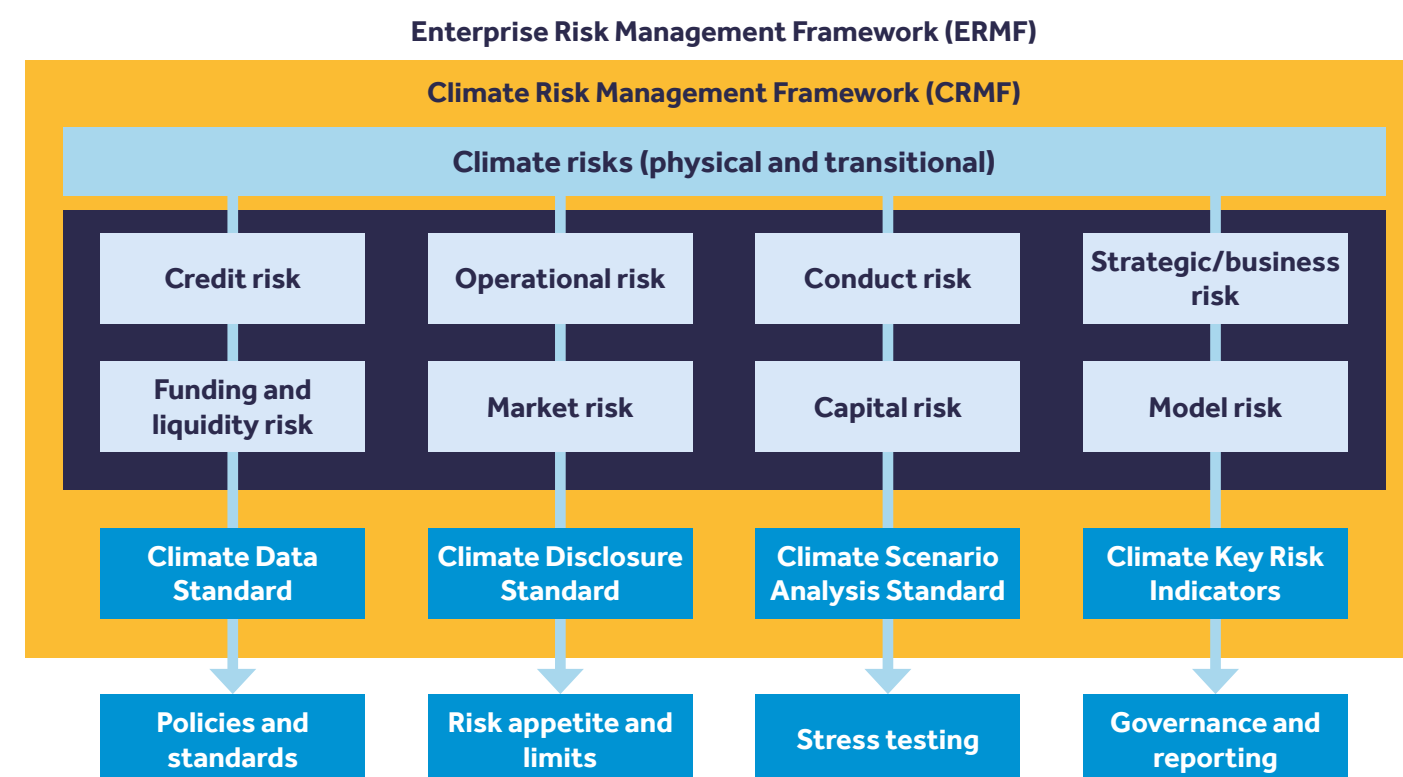
Section 3.1 – Integration of climate change in risk management

Climate Risk Management Framework

The Society has developed a Climate Risk Management Framework 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.

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



Climate Change continued

Risk appetite

Our initial 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 with appetite over a time period reflective of the risks from climate change.

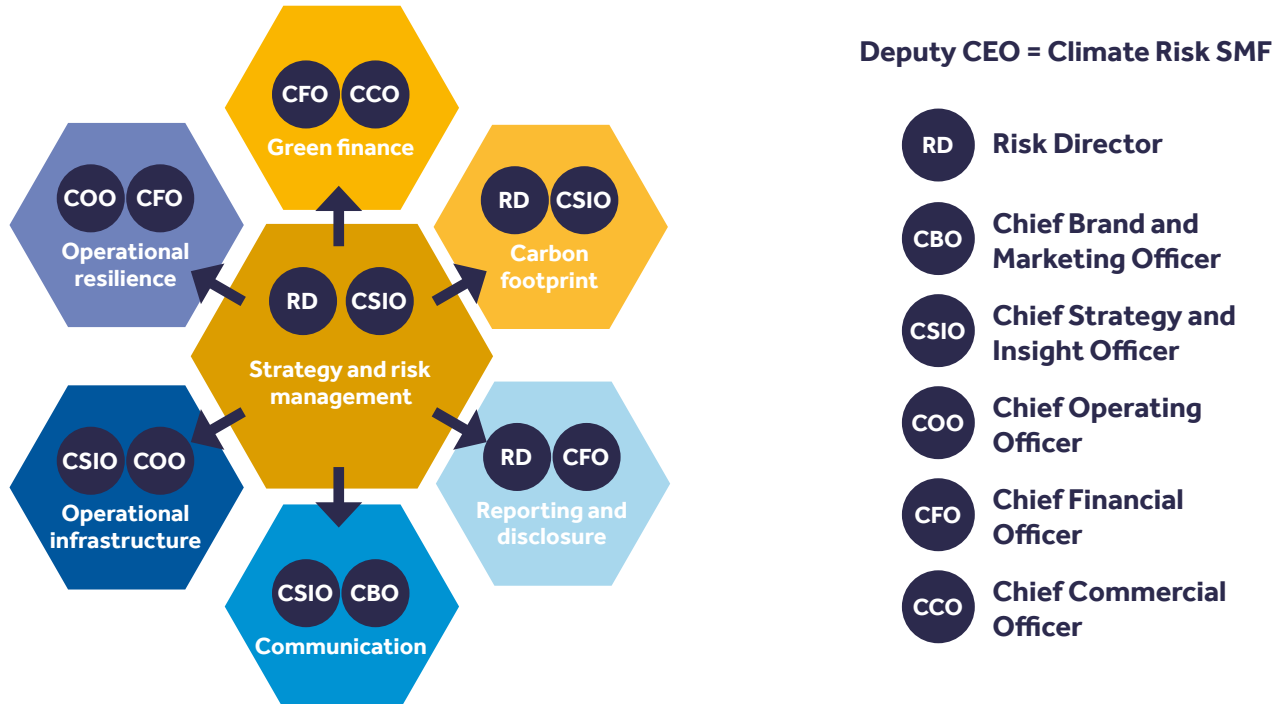
Vision	Climate Change Strategic Aim Support the orderly transition to a greener, net zero economy by 2050 or sooner
Appetite	"The Society has a low tolerance for ESG risks in order to create long term value for its key stakeholders and protect its brand and reputation."
Supporting Measures	<ul style="list-style-type: none"> ■ To be carbon neutral by the end of 2022 for scope 1 and 2 (on a market-based approach) and scope 3 (business travel emissions¹²), utilising carbon offsets to remove residual emissions. ■ To maintain an EPC rating of C or better for at least 50% of the Society's UK residential mortgage lending portfolio by 2025. ■ To work towards alignment with a 2050 net zero emissions pathway. ■ To maintain negligible/low exposure to physical climate risks (flooding, subsidence, and coastal erosion), both currently and under a high-emissions 30-year representative scenario (as defined under the ICAAP).

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/policy and provides direction to relevant functional areas that have accountability for the management of each aspect of climate risk.



¹² Includes emissions from rail, road (excluding taxis) and air as a result of the Society's business travel.

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)	<ul style="list-style-type: none"> ■ Development of the Society's climate risk strategy and wider responsible business strategy. ■ Identification, assessment, and management of climate change risks across the risk universe. ■ Colleague engagement campaigns.
Second line (Risk function)	<ul style="list-style-type: none"> ■ Maintenance of the Climate Risk Management Framework. ■ Climate risk monitoring and reporting. ■ Development of climate scenario analysis and stress testing.
Third line (Internal Audit)	<ul style="list-style-type: none"> ■ 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 ERMF, as described on pages 136 to 141, to assess how climate change risks could impact each of the Society's principal risks.

Our current assessment of potential impacts¹³ against each of our eight principal risks is presented below along with key mitigants 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	Key mitigants
1. Credit risk			
Physical risk ●	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Flood risk assessment required as part of underwriting/conveyancing. ■ Appropriate insurance policies are 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/stresses. ■ Development of automated decisioning processes to incorporate climate data. ■ ESG assessments for wholesale counterparties.

¹³ Potential impact reflects our assessment of the inherent impact/likelihood of the risks occurring.

Climate Change continued

Risk factor	Risk description	Horizon	Key mitigants
1. Credit risk (continued)			
Transition risk ●	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Semi-annual back book assessments of EPC ratings to assess concentration risks. Transitional risk stress testing conducted as part of ICAAP assessment. EPC ratings being collected as part of underwriting for certain products. Stressed affordability assessments. Horizon scanning for technological changes or changes in consumer sentiment. Development of automated decisioning processes to incorporate climate data.
2. Business and strategic risk			
Physical and transition risk ●	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Responsible business strategy, including the setting of appropriate appetite and targets for climate risk. Green product proposition and governance. ICAAP stress testing/sensitivity analysis. Disclosures articulating the Society's approach to climate risk management. Horizon scanning and assessment (e.g. regulatory change). Member engagement and education.
3. Operational risk			
Physical risk ●	<ul style="list-style-type: none"> 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/censure. 	Medium/Long term	<ul style="list-style-type: none"> 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/recovery testing. Regulatory horizon scanning and compliance assessments.
Transition risk ●	<ul style="list-style-type: none"> Increased supply chain costs due to climate-related inflationary pressures. Reputational damage from third party relationships due to their climate change credentials. 	Medium term	<ul style="list-style-type: none"> Supplier due diligence and exit planning. Supplier relationship meetings.

Risk factor	Risk description	Horizon	Key mitigants
4. Model risk			
Physical and transition risk ●	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 SMEs. Third party management arrangements and oversight.
5. Funding and liquidity risk			
Physical and transition risk ●	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Annual ILAAP and Recovery Planning processes. Daily monitoring of the Society's liquidity position and early warning indicators. Weekly cashflow 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.
6. Market risk			
Physical and transition risk ●	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> ICAAP stress testing/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.

Climate Change continued

Risk factor	Risk description	Horizon	Key mitigants
7. Conduct risk			
Physical and transition risk ●	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.
8. Capital risk			
Physical and transition risk ●	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.

Section 4 – Climate risk metrics and targets

Section 4.1 – Key climate risk targets and performance

As part of our responsible business strategy, the following initial targets relating to climate change have been agreed by the Board:

Targets	Carbon neutral by end-2022 Direct (market-based) and indirect (business travel) emissions	EPC rating of C or better For 50% or more of our UK mortgaged properties ¹⁴ by 2025	Alignment to net zero Work towards alignment with a 2050 net zero pathway
2021 performance	<ul style="list-style-type: none"> Verified as carbon neutral (scope 1 and 2 plus scope 3 business travel¹⁵) in 2021, one year ahead of plan. 95% reduction in our carbon footprint since 2016.¹⁶ 	<ul style="list-style-type: none"> 52% of our UK mortgaged properties had an EPC of C or better as at 30 June 2021. Launched our first green finance products (mortgages and savings). 	<ul style="list-style-type: none"> Climate risk embedded into our Enterprise Risk Management Framework during 2021. Stress testing of our potential future exposure to climate-related risks completed.

We recognise that further targets will be required to help finance the transition to net zero and minimise and reduce our own emissions over the medium to longer term.

An initial target has been set to ensure that at least 50% of the Society's UK based mortgaged properties have an EPC rating of C or better by 2025. The target has been set as the minimum baseline that we will aim to maintain to ensure there is an appropriate balance between encouraging improvements in the energy efficiency of homes below EPC rating C by helping our members to make those improvements and taking on new lending to properties with an EPC rating of A, B or C already. Whilst the average EPC position is currently favourable versus our 2025 target (52% as at 30 June 2021), only 62% of our UK mortgage portfolio currently has a valid EPC available and the average may therefore change in future as data gaps are closed. The performance of the portfolio is also likely to fluctuate between now and 2025 as we develop our responsible business strategy and future green product proposition to focus on helping to finance the green transition.

We are also committed to resolving the current challenges to enable alignment with a net zero pathway, including further measurement and assessment of our scope 3 emissions. To assist with this, we will be engaging with third party specialists during 2022 to progress our understanding.

Section 4.2 – Climate risk metrics

Physical risk metrics

As at 30 June 2021, the Society's UK mortgage portfolio¹⁷ demonstrated a low current and future risk posture for flooding, subsidence, and coastal erosion:

	Present day			Low emissions scenario ¹⁸ (2050s)			High emissions scenario ¹³ (2080s)		
	Properties	Exposure (£m)	% of Book	Properties	Exposure (£m)	% of Book	Properties	Exposure (£m)	% of Book
Flood risk									
Negligible	128,627	13,599	79.6%	128,940	13,633	79.8%	128,359	13,566	79.4%
Very low	12,634	1,350	7.8%	12,412	1,328	7.7%	5,895	600	3.6%
Low	3,142	347	1.9%	3,062	341	1.9%	4,188	457	2.6%
Moderate	2,779	302	1.7%	2,857	306	1.8%	4,649	524	2.9%
High	4,682	508	2.9%	4,494	492	2.8%	7,194	793	4.5%
Very high	2,596	249	1.6%	2,695	255	1.7%	4,175	415	2.6%
Unmatched ¹⁹	7,175	890	4.4%	7,175	890	4.4%	7,175	890	4.4%
Coastal erosion									
Negligible	148,852	15,957	92.1%	148,833	15,954	92.1%	148,768	15,948	92.0%
Low	6	1.0	0.0%	4	0.7	0.0%	3	0.4	0.0%
Moderate	7	0.8	0.0%	21	2.9	0.0%	28	2.9	0.0%
Very high	4	0.9	0.0%	11	1.7	0.0%	70	8.1	0.0%
Unmatched ¹⁴	12,766	1,286	7.9%	12,766	1,286	7.9%	12,766	1,286	7.9%
Subsidence risk									
Negligible	132,937	13,688	82.2%	127,157	13,007	78.7%	103,725	9,982	64.2%
Very low	7,051	892	4.4%	10,865	1,318	6.7%	31,121	3,960	19.3%
Low	8,881	1,380	5.5%	10,847	1,634	6.7%	14,023	2,017	8.7%
Moderate	–	–	–	–	–	–	–	–	–
High	–	–	–	–	–	–	–	–	–
Very high	–	–	–	–	–	–	–	–	–
Unmatched ¹⁴	12,766	1,286	7.9%	12,766	1,286	7.9%	12,766	1,286	7.9%

¹⁴ Where a valid Energy Performance Certificate (EPC) is available for the property.

¹⁵ Includes emissions from rail, road (excluding taxis) and air as a result of the Society's business travel.

¹⁶ Based on reductions in our scope 1 and scope 2 (market-based) emissions.

¹⁷ 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.

¹⁸ 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.

¹⁹ Unmatched refers to properties where we have been unable to source physical risk data.

Climate Change continued

Transition risk metrics

The Society currently uses EPC data as the primary way of assessing the potential impact of transition risk. An EPC shows how energy-efficient a property is based on a traffic light rating from A to G (with A being the most efficient and G the least). 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.

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. The table below presents the current and potential EPC profile of our UK residential mortgage portfolio as at 30 June 2021.

EPC rating	Current EPC rating			Potential 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%	17.9%	25.3%	3.9%
B	27.7%	39.0%	6.4%	53.2%	51.4%	56.7%
C	24.2%	20.0%	32.0%	24.9%	20.2%	34.0%
D	34.0%	28.2%	45.0%	3.4%	2.7%	4.8%
E	11.5%	9.8%	14.6%	0.5%	0.4%	0.6%
F	1.9%	2.0%	1.5%	0.1%	0.1%	0.1%
G	0.4%	0.4%	0.4%	0.0%	0.0%	0.0%
Average²⁰	C	C	D	B	B	B

Overall, 62% of the total UK mortgage portfolio was matched with a valid EPC²¹. Of those properties, 52% had a current EPC rating of C or better. The average rating for the total portfolio with a valid and matched EPC was C (compared to a UK average of D²²). Based on potential EPC ratings, 96% could reach C or better and the average for the total portfolio would increase to B. During 2022, we will continue to focus on ways to increase EPC data coverage and help support the transition from current to potential ratings.

Other climate-related metrics

During the year, the Society developed a suite of internal key risk indicators (KRIs) to help support the monitoring of climate risks through relevant internal governance forums. These KRIs will continue to be refined and built out over time, as more data becomes available and new risks emerge.

Section 4.3 – 2021 greenhouse gas (GHG) reporting

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 from operations under our control. Reported emissions encompass the seven GHGs defined under the Kyoto Protocol and are broken down into three main categories:

Category	Description
Scope 1	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 GHG 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. <ul style="list-style-type: none"> Market based approach – reflects emissions from electricity that the Society has purposefully chosen, e.g. renewable energy. Location based approach – reflects the average emissions intensity on the grids upon which energy consumption occurs, such as using UK Government grid-average emissions factors.
Scope 3	All other indirect emissions that occur across the Society's value chain. At present scope 3 emissions reporting is voluntary and is an emerging area of focus to achieve net zero emissions. For 2021, the Society's scope 3 emissions include business travel only. We intend to include additional scope 3 emission categories in future reporting once processes have been established to capture the required data.

Table 1 below outlines the Society's Streamlined Energy and Carbon Reporting emissions for 2021 with comparisons to 2020 and 2016 (our baseline year for reporting purposes). Numbers for 2016 and 2020 have been restated from prior periods following enhancements in our data collection and validation processes during 2021. Prior year disclosures are provided in table 2 for comparative purposes.

Table 1 – SECR restated for 2016 and 2020

Emissions (t/CO ₂ e) ^{23, 24}	Market-based approach			Location-based approach		
	2021	2020	2016 (Baseline)	2021	2020	2016 (Baseline)
Scope 1						
Diesel	–	–	6	–	–	6
Gas	41	39	102	41	39	102
Fugitive emissions	0.01	0.04	No data	0.01	0.04	No data
Scope 2						
Electricity	18	19	1,150	906	1,032	1,552
Total scope 1 and 2	59	58	1,258	947	1,071	1,660
Scope 3						
Business travel ²⁵	32	98	No data	32	98	No data
Total scope 1, 2 and 3	91	156	1,258	979	1,169	1,660
Purchased offsets ²⁶	(91)	(156)	–	(91)	(156)	–
Net carbon outturn	–	–	1,258	888	1,013	1,660
Other metrics						
Emissions per FTE (Scope 1 and 2)	0.04	0.04	1.03	0.70	0.82	1.36
Energy consumption (Mwh)	4,491	4,640	4,320	4,491	4,640	4,320
Energy consumption (per FTE)	3.30	3.53	3.54	3.30	3.53	3.54

²³ t/CO₂e stands for tonnes of carbon dioxide equivalent (the recognised measure for GHG emissions).

²⁴ In accordance with GHG reporting standards, estimates of gas and electricity have been used to calculate our scope 1 and 2 emissions where automated meter readings and invoices were not available.

²⁵ Includes emissions from rail, road (excluding taxis) and air as a result of the Society's business travel.

²⁶ Offsets for our total scope 1, 2 and 3 business travel 2021 emissions will be purchased during 2022 once final energy consumption data is available and has been independently verified.

²⁰ Average EPC rating based on number of properties.

²¹ Only properties that are newly built, leased or rented out are required to have an EPC under current UK regulations.

²² Source: data provided by Hometrack.

Climate Change continued

Table 2 – SECR prior year disclosures

Emissions (t/CO ₂ e)	Market-based approach		Location-based approach	
	2020	2016 (Baseline)	2020	2016 (Baseline)
Scope 1				
Diesel	–	6	–	6
Gas	37	102	37	102
Fugitive emissions	0.04	No data	0.04	No data
Scope 2				
Electricity	–	1,131	1,000	1,533
Total scope 1 and 2 emissions	37	1,233	1,037	1,641
Scope 3				
Business travel	154	No data	154	No data
Total scope 1, 2 and 3 emissions	191	1,233	1,191	1,641

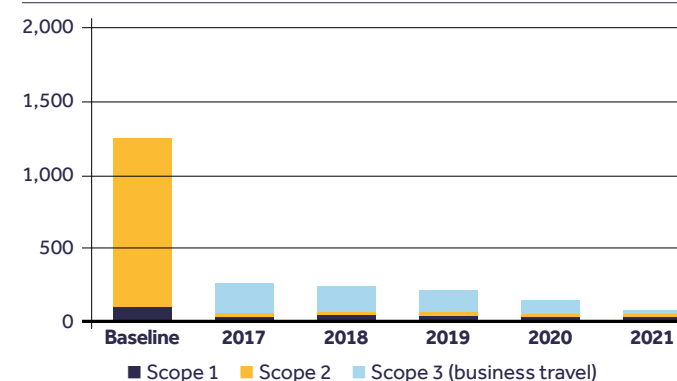
During 2021, we were awarded carbon neutral status by ClimateCare, one year ahead of plan, following the purchase of certified carbon credits to offset our residual market-based emissions. Refer to page 25 for further details.

The Society has also implemented various initiatives in 2021 to reduce our carbon footprint over time:

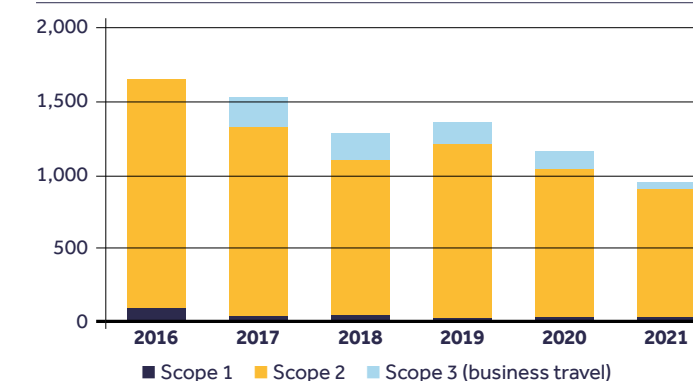
- Moved into a new EPC A-rated head office site in Leeds.
- Installed automatic meter readers across the property estate to enable real time monitoring of energy consumption.
- EPC and environmental surveys have been undertaken across the branch network to inform the development of a property estate strategy in 2022.

Summary of our carbon footprint 2016 to 2021

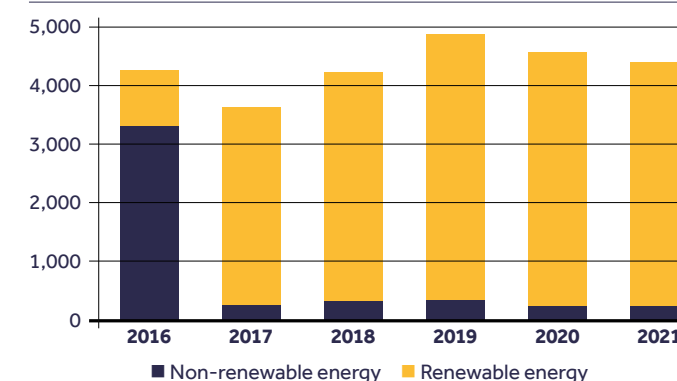
Market-based emissions (tCO₂e)



Location-based emissions (tCO₂e)



Energy consumption (Mwh)



Section 4.4 – Waste and water consumption

The Society continues to divert 100% of our generated waste²⁷ from landfill, with 85% recycled in 2021 and the remainder sent to a waste-to-energy facility to generate Refuse Derived Fuel (RDF).

Waste material	2021			2020		
	Weight (Kg)	Recycled	RDF	Weight (Kg)	Recycled	RDF
Dry mixed recyclables	18,550	100%	–	9,109	100%	–
Glass ²⁸	1,039	100%	–	–	–	–
Mixed municipal waste	64,777	77%	23%	47,852	76%	24%
Paper and cardboard	16,534	100%	–	22,016	100%	–
Total	100,900	85%	15%	78,977	86%	14%

The Society does not currently have data available to report on our water consumption across our head office and branch sites, however this is something that we plan to review in 2022 and will provide an update in future disclosures at the appropriate time.

²⁷ Includes waste arising from core business activities conducted through our head office and branch sites, which excludes items such as redundant IT equipment. The numbers disclosed exclude waste from three of our branches that are part of a shared building.

²⁸ Data for glass is only available for 2021.

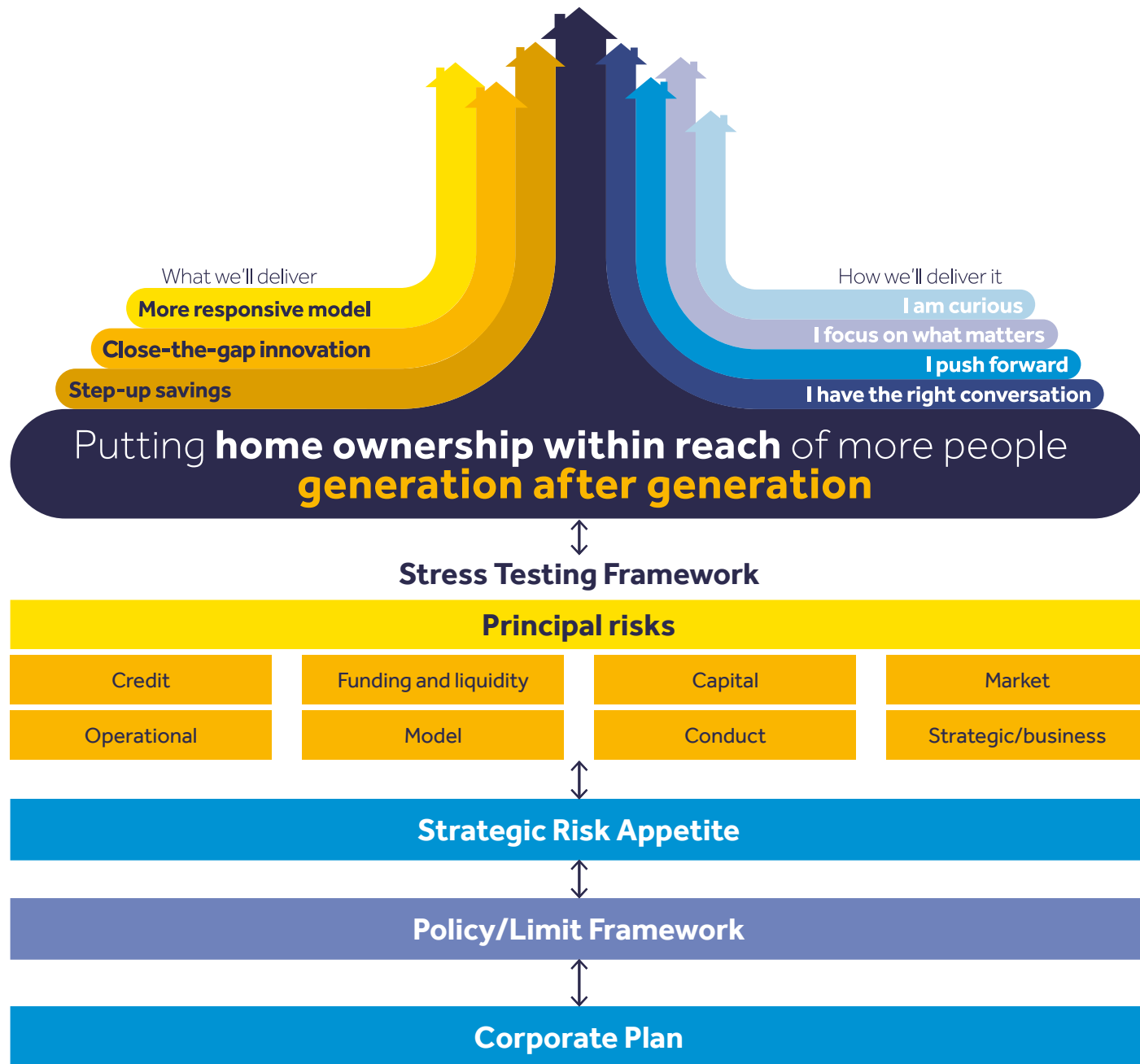


Principal Risks

Year ended 31 December 2021

The Society's purpose of: "Putting home ownership within reach of more people – generation after generation" can only be achieved if risks are identified, understood and managed effectively. By understanding the nature of our risks, we can make informed decisions, which support our longer-term viability and protect members' interests.

We deliver our purpose through a corporate strategy, which is built upon three strategic drivers (as described on page 11). Inherent within this strategy are eight principal risk categories. These comprise: credit; funding and liquidity; capital; market; operational; conduct; model¹ and strategic/business risks. For each of these principal risk categories, we operate appropriate systems of control 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. No changes were made to the Society's suite of principal risk categories during 2021.



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 on existing risks across the Society's principal risk universe. Refer to pages 39 to 63 for details of our assessment of the potential impacts of climate-related risks.

The eight principal risk categories are influenced by underlying subsets of risk types, which comprise our risk universe. Over time, the nature and profile of these underlying risks evolve, reflecting changes in our current risk profile and the economic/business cycle. Accepting that risk is an inherent part of doing business, and that it is not possible to identify, anticipate or mitigate every risk that may materialise, our risk management processes (described on pages 136 to 141) aim to provide reasonable assurance that the Board and Executive understand, proactively manage and monitor the main uncertainties faced in achieving agreed objectives.

During 2021, the risk profile of the Society has continued to be influenced by the effects of COVID-19 across all principal risk categories. During this time, the Society has retained appropriate governance arrangements to assist in managing the response to the pandemic, which has been based upon the following corporate priorities:

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

In the context of the priorities above, the Society's principal risks are summarised below. The risk categories are not presented in order of materiality, as they all have the potential to affect future performance, depending on the prevailing circumstances. The Society's current top five emerging risks, which could affect the delivery of our strategy (and cut across various principal risk categories), are set out in the Emerging Risks section on page 73.

Strategic/business risk	Commentary
<p>Mitigation</p> <ul style="list-style-type: none"> ■ The direction of business and investment activity are set by the 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 is Board approved. ■ Competitor/market performance is assessed by thematic reviews. ■ Stress testing is used to understand performance under a variety of severe, but plausible, scenarios. ■ Independent risk reporting, including horizon scanning, assesses the general operating environment of the Society. 	<p>2021 performance</p> <ul style="list-style-type: none"> ■ During 2021, the Society's operating environment continued to be influenced by the impacts of COVID-19. Following the lifting of social restrictions, the UK has experienced a strong economic recovery and a buoyant housing market. However, several downside risks emerged towards the end of the year, including the emergence of a new COVID-19 variant, which may negatively impact activity in 2022. ■ In response to the pandemic, the Society retained agile governance arrangements established in 2020, to ensure that evolving risks were appropriately managed and monitored. This was complemented by frequent stress testing to understand the potential financial and operational impacts under severe but plausible scenarios. ■ As a UK centric business, the direct impact of the UK's exit from the EU at the end of 2020 has been relatively contained to date or masked by COVID-19 impacts. Developments have been monitored closely throughout 2021 and appropriate response plans deployed to meet revised requirements. We remain vigilant to a potential scarcity of skilled resource, which may inflate costs or slow down delivery. ■ Competition pressures in the UK mortgage market heightened in the second half of 2021, as lenders reversed earlier criteria tightening. From a savings perspective, price competition has also started to increase following closure of the Bank of England's Term Funding Scheme (TFSME) and changes in interest rate views in Q4 2021. We have continued to carefully monitor the market positioning of our products and have responded accordingly.

¹ As defined on page 71.

Principal Risks continued

Strategic/business risk (continued)

- Our cost to income ratio decreased during the year to 43.9% versus 51.0% in 2020, supported by higher income. The Society maintains an efficient business model relative to peers, which supports further investment in operations. Here we have continued to progress an ambitious change agenda to support member experience and further strengthen our resilience (moving to a new head office and substantially transitioning our data centres to more secure and resilient locations).

Outlook

- There remains a heightened level of uncertainty regarding the outlook for the Society's operating environment in 2022, due to the threat of new COVID-19 variants, macroeconomic pressures (e.g. inflation and rising interest rates) and pre COVID-19 levels of mortgage competition. Margin compression is forecast for 2022 and beyond due to the competitive environment for UK savings and mortgages.
- The Society remains vigilant to changes within its operating environment. Business environment risks are assessed on a regular basis, under both central and stressed conditions, to understand and manage the impact on the Society.

Credit risk – retail

- The risk that residential or commercial borrowers are unable to make their loan payments.
- This risk arises from the Society's residential lending activities and legacy credit portfolios.

Mitigation

- A Board defined appetite, supported by the Lending 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.
- Underwriting processes are designed to be robust and include the use of credit scoring models, affordability stress testing, automated decisioning and suitably qualified underwriters.
- Independent appraisal of collateral, such as valuations.
- 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.

Commentary

2021 performance

- Whilst underpinned by government support, economic conditions were favourable during the year, with material increases in house prices and decreases in unemployment versus projections. These two factors are key to supporting strong credit risk dynamics.
- A considered approach was taken with respect to the unwinding of temporary COVID-19 controls to ensure that re-entry into segments of the market was safe and controlled. As a consequence, various credit quality metrics of new lending in 2021 were stronger than in previous years.
- The loan to value (LTV) of the portfolio reduced from 50.9% to 50.5% over 2021, supported by positive house price growth and lower LTV new lending in the first half of 2021 (prior to re-entry into higher LTV residential segments).
- Mortgage payment deferral (MPD) take-up because of COVID-19 was broadly consistent with the UK average for owner-occupied lending, with buy to let lending exhibiting a materially lower take-up; an indication of the underlying credit quality of the buy to let book.
- Arrears rates for our UK mortgage portfolio (arrears of more than 2.5% of balance) have remained broadly stable over 2021. Owner-occupied arrears are in line with UK averages² (0.86% compared to 0.89%) whilst our buy to let portfolio remains materially lower (0.14% compared to 0.30%).
- Increases in Stage 3 balances from 1.1% to 1.2% are principally driven by changes to the IFRS 9 definition of default rather than any underlying change in credit quality. Excluding any changes to the definition of default, stage 3 balances would have remained broadly stable at 1.1%.

Credit risk – retail (continued)

- Overall provision coverage has reduced from 0.25% to 0.20% during 2021. This is primarily a reflection of the improved economic central outlook, alongside modest improvements in underlying credit quality.
- Further information regarding the Society's credit risk profile can be found within note 32 of the accounts.

Outlook

- Although the UK has made a strong recovery to date, heightened uncertainty remains which may impact the Society's credit risk posture. For instance, the threat of new variants may result in the reinstatement of social restrictions or a sustained period of inflation could place pressure on borrower affordability.
- The UK mortgage market remains extremely competitive with margin compression forecast throughout the planning period likely to result in ongoing adjustments to the credit mix and criteria aligned to dynamic market conditions.
- The Society remains vigilant to changes in the operating environment and will update lending appetite and controls accordingly.

Credit risk – wholesale

- The risk that wholesale counterparties default on their obligations.
- This risk predominately emanates from the Society's liquidity holdings and derivative portfolio, which is used for hedging market risk.

Mitigation

- 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 function.
- Daily exchange of collateral and other netting arrangements for derivative exposures.

Commentary

2021 performance

- The Society has maintained prudent investment criteria throughout the pandemic to ensure exposures remain within Board appetite.
- As at the end of 2021, 97.3% of the portfolio was invested with counterparties with an external credit rating of Aa3 or better (2020: 96.4%). Further information regarding the Society's wholesale credit risk profile can be found within note 33 of the accounts.
- During 2021, the Society incorporated minimum ESG criteria into its suite of wholesale credit models to ensure counterparties are aligned to its ESG principles.
- The majority of our derivative portfolio is centrally cleared, which mitigates bilateral counterparty risk. Where this is not possible, derivative exposures are restricted to high quality counterparties and are managed with collateral and netting arrangements.

Outlook

- The Society will continue to monitor the performance of the portfolio closely and maintain an appropriate investment strategy.

² Source: UK Finance Q4 2021 arrears and possessions data.

Principal Risks continued

Funding and liquidity risk	<ul style="list-style-type: none"> ■ The risk that the Society is unable to meet our financial obligations as they fall due. ■ Funding risk is the inability to generate sufficient funding, or only do so at excessive cost.
Mitigation	<p>Commentary</p> <p>2021 performance</p> <ul style="list-style-type: none"> ■ The Society maintained a strong liquidity position throughout 2021. As at 31 December 2021, the Society's Liquidity Coverage Ratio stood at 195%, which was considerably above minimum regulatory requirements (100%). ■ Retail savings remain the Society's predominant method of funding (75% of share and deposit liabilities), through a strong retail franchise. ■ We also maintain access to capital markets through a well-established wholesale franchise and diversified investor base, which is underpinned by our credit ratings (Fitch: A- and Moody's: A3). Using this strong investor base, the Society successfully issued a £350 million senior unsecured transaction and £350 million of subordinated liabilities during the year. ■ The Society has also raised wholesale funding through the Bank of England's TFSME in 2021, which closed in October. As at 31 December 2021, the Society had accessed £2.24 billion of funding through this scheme (2020: £810 million). ■ In 2021 we adopted a more responsive and dynamic approach to liquidity management focusing more on risk-based liquidity measures and stress testing. This ensures that we hold the right amount of liquidity for the circumstances and future expectations whilst at all times ensuring that our minimum risk appetite and regulatory requirements are fully observed. ■ Further information regarding the Society's liquidity risk profile can be found within note 34 of the accounts. <p>Outlook</p> <ul style="list-style-type: none"> ■ The Society carries strong levels of on balance sheet liquidity into 2022 and remains well positioned to address any liquidity/funding uncertainty that may arise through a combination of its retail and wholesale franchises.

Market risk	<ul style="list-style-type: none"> ■ The risk that market movements adversely impact the Society. ■ The Society's market risk exposures mainly relate to interest rate risk (including basis and optionality risks) and foreign currency risk.
Mitigation	<p>Commentary</p> <p>2021 performance</p> <ul style="list-style-type: none"> ■ During the year, the likelihood of negative interest rates abated, as the UK economy recovered strongly from the pandemic. Following a material rise in inflation during the second half of the year, the Bank of England raised Bank Base Rate to 0.25% in December. ■ 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 to understand margin impacts under various interest rate paths (including the potential for negative rates) and different balance sheet shapes. ■ Successful transition of reference interest rate from LIBOR to SONIA, ahead of the regulatory deadline of 31 December 2021.

Market risk (continued)	<ul style="list-style-type: none"> ■ In recent years we have developed the capability to measure the interest rate risk of our assets and liabilities on a behavioural basis as well as the more common contractual basis. Subsequently, in 2021 we commenced the building of a structural hedge to manage the behavioural attributes of our stable and rate insensitive deposits. ■ The Society retains a small foreign exchange exposure relating to wholesale funding activity and a legacy mortgage portfolio in Spain. These exposures remain comfortably within Board approved limits. ■ Further information regarding the Society's market risk profile can be found within note 35 of the accounts. <p>Outlook</p> <ul style="list-style-type: none"> ■ Towards the end of 2021, financial markets indicated that further interest rate rises were likely in 2022 in order to combat higher inflation. The expectation of higher interest rates represents a change in sentiment compared to previous years when the outlook has been more benign. The expectation of higher rates for the first time in many years is likely to lead to a more volatile rate environment requiring a constant and more pro-active approach to interest rate risk management to ensure the Society's future earnings and value are protected.
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Capital risk	<ul style="list-style-type: none"> ■ The risk that the Society has insufficient quality or quantity of capital resources to meet current or future business requirements.
Mitigation	<p>Commentary</p> <p>2021 performance</p> <ul style="list-style-type: none"> ■ During 2021, our capital ratios have strengthened further, with capital resources significantly above minimum regulatory requirements. As at 31 December 2021, our Total Capital Ratio stood at 45.1% (2020: 43.9%), while the leverage ratio was 6.1% (2020: 5.8%). ■ The Society is captured by the Minimum Requirements for Own Funds and Eligible Liabilities (MREL) regulation, which is designed to ensure that taxpayers do not absorb the cost if a bank or building society fails. Following changes to the wider UK capital regime during 2021, the Society is required to apply MREL requirements on a risk weighted asset basis. As at 31 December 2021, the Society retained excess levels of capital above current transitional and end state requirements, which are applicable from 21 July 2023. ■ Throughout the year the Society has periodically assessed the impact of COVID-19 on its capital position under various magnitudes of stress. These exercises have concluded that the Society retains significant headroom over its risk appetite for the stresses modelled. ■ Further information regarding the Society's 2021 capital position is detailed within our 2021 Pillar 3 disclosure, located on our website. <p>Outlook</p> <ul style="list-style-type: none"> ■ Changes to prudential regulation in the UK, taking effect from January 2022, have necessitated redevelopment of Internal Ratings Based (IRB) model suites across the industry. In common with all UK IRB firms, we are redeveloping our residential mortgage model suite in discussion with the UK regulators and expect to implement a revised set of models in the second half of 2022. 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. Until the revised models are approved, a post model adjustment (PMA) will be applied to the currently approved Rating System: Pillar One risk weighted assets and expected losses. For further details, refer to the Society's 2021 Pillar 3 disclosure, located on our website. Notwithstanding this change, the Society expects to retain significant capital headroom versus risk appetite.

Principal Risks continued

Capital risk (continued)	
	<ul style="list-style-type: none"> ■ The UK capital regulatory landscape continues to evolve with the forthcoming Basel III finalisation reforms due to be published during the second half of 2022. ■ We continue to monitor developments in capital regulation and plans accordingly.
Operational risk	<ul style="list-style-type: none"> ■ The risk of financial or reputational loss, as a result of inadequate or failed processes, people, systems or external events. ■ The drivers of operational risk are: legal and regulatory; people; information security (including cyber); IT; business continuity; data; financial crime; and financial reporting risks.
Mitigation	Commentary
<ul style="list-style-type: none"> ■ 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. ■ The control environment is validated by the first line through Risk and Control Self Assessments (RCSA), control testing and oversight procedures. ■ Key divisional risks are also reviewed on a quarterly basis with senior management, with outputs submitted to BRC. ■ Oversight is provided by specialist teams within the Risk function. ■ Maintenance of an Operational Resilience Framework and associated testing programme to ensure the provision of resilient services to members. ■ Stress testing is used as part of the ICAAP to ensure the Society retains sufficient capital for extreme, but plausible, operational risk events. 	<p>2021 performance</p> <ul style="list-style-type: none"> ■ Throughout the pandemic the health and safety of colleagues and members have continued to be the Society's top priority. During this time, we have ensured that office locations and branches have remained COVID-secure. ■ During 2021, we continued to build our operational resilience framework/capability. This has included scenario testing and defining initial impact tolerances for critical business services. In addition, the Society has successfully transferred the majority of its 'in-house' production systems to new and more resilient data centres, with minimal impact on live services. Residual elements will be migrated in early 2022. ■ The cyber and financial crime threat landscape remains heightened, as criminals seek to take advantage of the prevailing climate. Ransomware has evolved into a key threat to all companies. In response, the Society's cyber strategy has evolved to consider the increasing sophistication of ransomware attacks and enhanced mitigations have been implemented. The Society's cyber/IT defences are independently tested by external specialists on a semi-annual basis. ■ The Society continues to rely on key third parties to deliver certain aspects of our services to members. The Society's Third Party Management Framework has continued to evolve in line with the regulatory policy statements released in March 2021, to further understand and mitigate the risks to the Society. ■ 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 Change Committee which ensures that resources and our change capacity are appropriately utilised and prioritised. ■ As a consequence of wider market challenges, recruitment for various skills is a key area of focus and is being tracked by the appropriate teams. Our approach to assessing and managing key person risk has been enhanced, including specific lenses on operational resilience and resolution, as well as talent and knowledge. Mitigation plans have been agreed, where required. <p>Outlook</p> <ul style="list-style-type: none"> ■ The health and wellbeing of colleagues and customers remains a key priority including determining an optimal approach to hybrid working as government guidance changes, in response to the outbreak of new variants of COVID-19. ■ During Q1 2022 a key focus area for the Society will be to finalise its response to the regulatory requirements for both operational resilience and outsourcing and third party management, ahead of their scheduled implementation date (31 March 2022).

Model risk	<ul style="list-style-type: none"> ■ The risk of incorrect decision making principally based upon the inputs/outputs of models, due to errors in the development, implementation or use of such models.
Mitigation	Commentary
<ul style="list-style-type: none"> ■ A Board defined appetite, supported by an appropriate Model Risk Policy and standards, which govern the Society's approach to model documentation, development, implementation, validation and change. ■ 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. ■ Models are validated independently from model owners. ■ A dedicated Models and Rating System Committee (MRSC) is responsible for ensuring that all Society models are developed and maintained in line with internal standards. 	<p>2021 performance</p> <ul style="list-style-type: none"> ■ During 2021, model risk has been a key focus area for the BRC with various activities undertaken to further enhance model risk governance. These activities include: approval of a qualitative risk appetite statement and supporting metrics, enhancements to BRC model risk management information, development of a model risk competency framework and targeted training sessions covering the Society's IRB models. ■ The Government's response to COVID-19 has distorted the traditional relationships of several economic variables used to calibrate key Society models. Relevant models remain subject to heightened levels of monitoring and analysis to inform adjustments/overlays and ensure that modelled outputs remain within appropriate ranges. In this context, the application of any PMAs to key models continues to be a particular focus of the Board and relevant sub-committees. ■ The Society has continued to progress the development of a new suite of IRB models to meet forthcoming regulation, as set out in the capital principal risk section on page 69. <p>Outlook</p> <ul style="list-style-type: none"> ■ We will continue to maintain close oversight of model inputs/outputs under the prevailing environment to ensure they remain appropriate. ■ The Society will look to enhance its model risk maturity further in 2022, with a particular focus on finalisation of revised IRB models and development of climate risk modelling.

Principal Risks continued

Conduct risk	<ul style="list-style-type: none"> The risk that actual or potential customer detriment arises, or may arise, from the way the Society conducts its business.
Mitigation	<p>Commentary</p> <p>2021 performance We continued to respond to the various conduct risks that could arise because of the pandemic:</p> <ul style="list-style-type: none"> Access to products and services was maintained as the branch network and Contact Centre remained open. Support functions, by working in a largely dispersed way, were also able to continue operating. Support for members in financial difficulty, with mortgage payment deferrals available until 31 July 2021. In addition, the Society has had a temporary hold on charging any arrears fees, since March 2020. The Society followed the requirements of the repossession moratorium, which took effect from March 2020 and was lifted on 31 October 2021. The Society has made further investment in people and systems in its Mortgage Support team (arrears handling). Particular focus has been given to the ongoing coaching and development for colleagues, to support them in dealing with customers likely to exhibit some form of vulnerability. Increased levels of quality assurance oversight have been retained throughout the period to identify areas of focus for remediation. Mortgage lending criteria remained appropriate to ensure the Society continued to lend responsibly and underwriting head count was increased to deal with higher than expected volumes. An integrated assurance model was maintained across the three lines of defence, to prevent duplication and maximise assurance coverage. Complaint volumes remain low and in the H1 2021 Financial Conduct Authority (FCA) data, the Society ranked favourably against peers (second best in banking and seventh for home finance). 91% of reportable complaints were resolved within ten working days. The Conduct and Operational Risk Committee monitored the delivery of good customer outcomes through management information, oversight updates and outputs from the product governance work. We have continued to proactively participate in various industry working parties and regulatory engagements/initiatives. <p>Outlook</p> <ul style="list-style-type: none"> The Society will continue to monitor any further customer impacts of the pandemic and respond accordingly. Key developments in FCA regulation, such as the Consumer Duty, due to be implemented in 2022, will further strengthen the industry's focus on delivery of good customer outcomes. During 2022, the Society will implement a revised operating model for its Mortgage Support team, which will provide more consistent outcomes and experience for customers entering into arrears.

Emerging risks

We continue to identify, assess and monitor emerging risks, within the context of our principal risk categories, through our Enterprise Risk Management Framework, described on pages 136 to 141. These are new or evolving risks where the impact is more uncertain. When assessing emerging risks, we consider the likelihood of the relevant risk materialising and the potential impact on our business strategy and stakeholders. These risks are considered by the Board and the Board Risk Committee, as part of our strategic and business planning processes and throughout the year. As at the end of 2021, the following are considered as the top emerging risks:

Emerging risk	Description	Strategic response
COVID-19 and macroeconomic risk	<ul style="list-style-type: none"> Although the UK has vaccinated a significant proportion of its population against COVID-19, the emergence of new variants remains a concern and may require reintroduction of more stringent social restrictions, which could constrain the economic recovery. As a UK centric business, the Society is naturally exposed to a downturn in the UK economy and housing market. While the economy has recovered strongly during 2021, the outlook remains uncertain, driven by the impact of the UK-EU trading agreement, supply chain disruption and potential global and domestic inflationary pressures. In addition, there are also a number of emerging geopolitical risks, which could also affect the macro-economy and/or financial markets in 2022 e.g. tensions in Eastern Europe. 	<ul style="list-style-type: none"> We can respond quickly in relation to COVID-19 developments through our established governance arrangements. Macroeconomic risks are assessed on a regular basis, under both central and stressed conditions to understand and manage the impact on the business model e.g. tightening/loosening of lending appetite (volume, risk premia, mix). Strong levels of capital and liquidity continue to be retained over regulatory minima.
Competition risk	<ul style="list-style-type: none"> Lending market competition is significant, driven by an unwinding of criteria tightening from the pandemic, growth in customer deposits and increasing customer confidence. It is anticipated that this will continue to compress mortgage margins, impacting profitability. Increasing activity from new entrants to core markets has been observed, primarily through digital channels, due to continued innovation and changing customer behaviours. 	<ul style="list-style-type: none"> The competitive landscape is regularly reviewed and our product proposition updated accordingly. Management carefully considers these risks as part of our strategic/business planning activities, which have set the future path for strategic investment and development to ensure that the Society is able to adapt accordingly.
People risk	<ul style="list-style-type: none"> An unexpected impact of COVID-19 within the UK has been the 'great resignation' with employees across the economy choosing to either retire early from work or embrace alternative flexible working practices available across various industries (ultimately creating a labour deficit in certain areas of the economy). The impact is increasing wage inflation and excess demand vs supply across various niche skill sets such as IT, Digital and other operational related roles. This is an emerging risk which has heightened quickly and is receiving close management attention to mitigate direct impacts on the Society. 	<ul style="list-style-type: none"> Management continues to invest in the people strategy across various dimensions including: <ul style="list-style-type: none"> Salary and colleague total package benchmarking. Flexible/hybrid working arrangement reviews. Department/team specific solutions. Career development pathways. Responding to market dynamics on a real time basis to improve colleague retention whilst looking to fill vacant positions.

Emerging risk	Description	Strategic response
Climate change	<ul style="list-style-type: none"> Climate risk continues to be identified 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 present material risks to the Society in the future depending on the precise path and timescales of government intervention and actions. Stakeholder and regulatory expectations continue to rise with regard to the Society's management and response to climate risk, which could result in heightened reputational risks. Refer to pages 46 to 50 for further details of our assessment of the potential future risks from climate change. 	<ul style="list-style-type: none"> The Society has continued to mature its approach to managing the risks arising from climate change, with the development and implementation of a Climate Risk Management Framework during 2021. Scenario analysis was included as part of the 2021 ICAAP to explore the potential impacts of physical and transitional risks on our mortgage portfolio. The Society has established strategic relationships to further support its understanding of climate risks and development of capabilities. To enhance stakeholder transparency, the Society has made its inaugural climate related disclosures (pages 39 to 63), aligned to the recommendations from TCFD.
Affordability risk	<ul style="list-style-type: none"> During the second half of 2021, wholesale market energy price rises and broader inflation impacts (the cost of living squeeze) out of the COVID-19 pandemic have emerged as potential challenges on mortgage affordability. These affordability pressures are expected to heighten further into 2022, which will also be compounded by the forthcoming increases to national insurance contributions in April and potential rises in Bank Base Rate during the year. 	<ul style="list-style-type: none"> For our residential mortgage assessment process we apply an income and expenditure based assessment of borrowers' abilities to afford their mortgage payments under stressed interest rate conditions. The affordability model is updated on at least an annual basis and is maintained in line with the requirements of the Model Risk Policy. In addition to this assessment, wider controls around levels of indebtedness and periodic underwriting reviews assess the affordability of our existing residential mortgage portfolio. From a buy to let perspective, an affordability assessment based on rental income, expected running costs and stressed interest rates, is undertaken. This assesses a landlord's ability to manage financial fluctuations, such as reduced rental income flows.

Viability Statement

Year ended 31 December 2021

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 64 to 74.

Assessment of longer term prospects

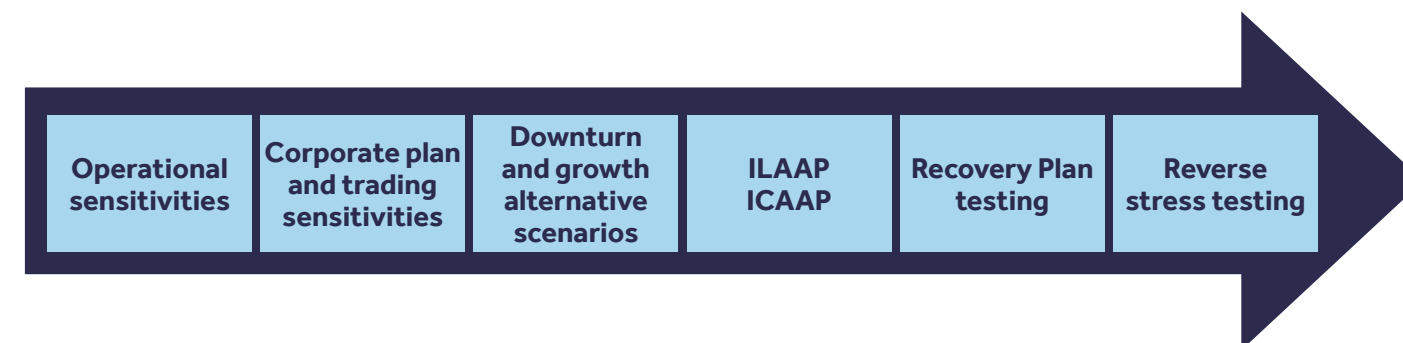
Our business model, purpose statement and updated strategic drivers are set out on pages 10 to 14. The Board receives strategic updates throughout the year, which assess the business model across multiple dimensions, including threats from principal and emerging risks, additional scenarios that may occur and stress testing. The 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 has remained strong throughout the pandemic and is well placed to build on its position. Our updated purpose statement and strategic drivers reflect the environment the Society now operates in and aim to maintain the relevance of our business model, including managing and mitigating potential threats.

The directors have also considered the 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. Further details are provided on pages 39 to 63 of the Strategic Report.

Financial and operational stress testing

The Society maintains 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 longer term effects of the pandemic and macroeconomic uncertainties on society and the behaviours and needs of current and potential future members.

The directors assess 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 64 to 72. 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.

Viability Statement continued

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 136 to 141, 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 directors consider the viability of the Society over a three year period to 31 December 2024. 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; and
- it is within the period covered by our projections of cash flows, capital and profitability. However, there is nothing in our planning beyond the three years that would cause a change in the directors' consideration of viability.

Assessment of viability

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

- Our business model remains appropriate and will continue to be relevant as the operating environment evolves beyond the pandemic.
- We have and will continue to maintain an appropriate level of liquidity, which meets the expected demands of the business and the requirements that arise in modelled stressed scenarios.
- We hold sufficient capital resources, including 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 have continued to operate effectively under the stress of the global pandemic.

The directors have a reasonable expectation that the Society will be able to continue in operation and meet our liabilities as they fall due, over the three year period to 31 December 2024.

Financial Review

Year ended 31 December 2021

We delivered a strong performance in 2021, navigating the uncertainty brought about by the pandemic well. Our robust underlying financial position and measured approach to decision making have allowed us to provide support to our members through significantly increased levels of lending along with continuing to pay above average rates to our savers.

Despite the ongoing challenges posed by the pandemic, a buoyant housing market, coupled with our continued focus on those segments of the mortgage market where we have particular expertise, such as shared ownership, have helped us to grow our balance sheet by 9% and deliver increased levels of profitability. In turn, this has allowed us to invest in the long term future of the business, to the benefit of our members, colleagues and other stakeholders.

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 position¹. Further information on the calculation of APMs and reconciliation to an equivalent statutory measure can be found on page 244.

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.

We focus our mortgage lending on supporting borrowers who are less well served by the wider market, such as shared ownership customers, as well as first time buyers and later life homeowners, helping more people into home ownership.

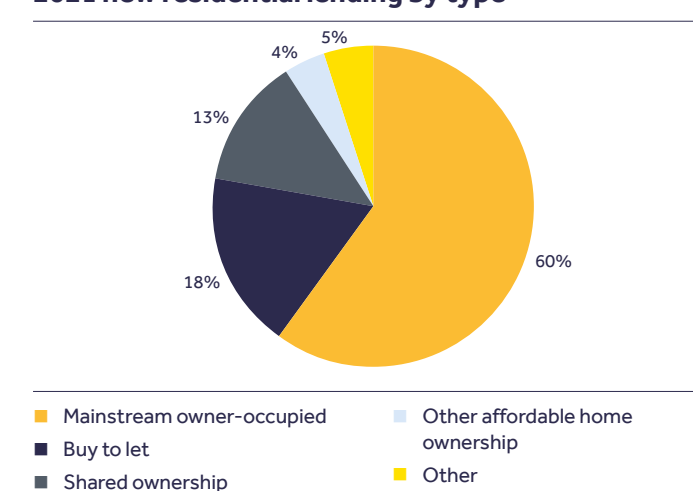
Gross new lending during the year was £4.4 billion (2020: £2.5 billion). The increased level of lending was driven by strong demand across the market, due to people wanting to move as a result of the pandemic and supported by government initiatives such as the stamp duty holiday. We were the first lender to participate in the Government's flagship First Homes

scheme and have launched our first green mortgages during the year. We also trialled a unique proposition whereby we were the first lender to offset the carbon emitted from homes of any EPC rating for low deposit residential mortgages.

Our share of new mortgage lending was 1.4% (2020: 1.0%) compared to our natural market share of 1.2% (2020: 1.1%)².

The chart below shows the mix of new lending by product type in 2021.

2021 new residential lending by type



We have a conservative lending policy, which is reflected in the distribution of loan to value (LTV) ratios across the book. The average loan to value of new lending in 2021 has increased to 67.4% (2020: 59.0%), reflecting a change in mix of products available and the segments of the market on which we focus. Credit criteria for new lending remain tight and positive house price inflation in the year has resulted in overall book LTV reducing to 50.5% (2020: 50.9%).

¹ Financial information refers to the performance of the Group, as reported on pages 172 to 240.

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 2021 as a proportion of total UK mortgage market balances.

Financial Review continued

Profitability

The Income Statement for the year is summarised below:

	2021 £m	2020 £m
Net interest income	282.2	205.4
Fees, commissions and other income	5.3	8.2
Fair value losses	(0.5)	(16.8)
Total income	287.0	196.8
Management expenses	(126.0)	(100.4)
Impairment credit / (charge) on loans and advances to customers	4.1	(14.6)
Other impairments and provisions	(1.4)	(1.1)
Profit before tax	163.7	80.7
Tax expense	(43.5)	(18.7)
Profit after tax	120.2	62.0

Following a year of reduced profits due to the pandemic, profit before tax increased to £163.7 million (2020: £80.7 million). This performance has primarily been driven by growth in net interest income, due to higher lending volumes and increased net interest margin. The stabilisation and reversal of some impairment charges and reduced fair value losses associated with economic uncertainty caused by Brexit and COVID-19, have also contributed to higher profits. Management expenses have grown this year, as we continue to invest in the long term sustainability of the business, but we maintain a strong focus on efficiency with close control over our costs and an improved cost to income ratio.

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.

Net interest income

	2021 £m	2020 £m
Net interest income	282.2	205.4
Mean total assets	21,576.7	20,723.8
	%	%
Net interest margin	1.31	0.99

Net interest income is our principal form of income and was £76.8 million higher than in 2020. The high levels of demand seen in the mortgage market in the latter stages of 2020 and through 2021 have been coupled with a restricted supply of mortgages at the start of the year, resulting in higher margins on new lending. We offer competitive rates to our borrowers, including in those underserved segments of the market where we have particular experience and expertise, such as shared ownership and interest only.

Strong lending margins and new lending growth have been supported by sustained low interest rates and significantly lower wholesale funding costs, as a result of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME), which has replaced higher cost borrowing.

Across the retail savings market, interest rates have remained low through much of the year as demand exceeded supply and the pandemic limited consumer spending. We continue to work hard to support our savings members by paying above market rates but have been mindful of the pressure that the demand/supply imbalance has created. During the year we paid an average rate of 0.79% to our savers, compared to the rest of the market average rate of 0.29%³. We also launched our first fixed rate bond supporting Dementia UK, which attracted £24 million of savings, and a new regular saver product based on member feedback.

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 the Income Statement. Changes in fair value are primarily due to timing differences, which will trend to zero as the asset or liability reaches maturity.

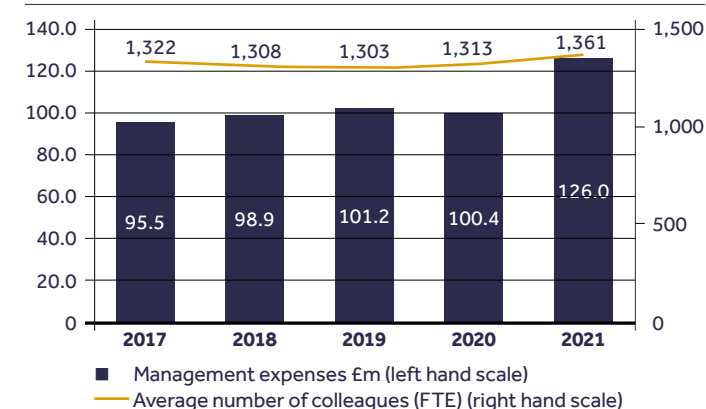
Fair value movements in 2021 resulted in a charge of £0.5 million (2020: £16.8 million). We made a voluntary change in the assumptions used to value one of the Society's equity release swaps which resulted in a one-off charge of £21.1 million. Without this charge, the underlying fair value movements showed a gain of £20.6 million, largely reflecting the reversal of some of the impacts seen in 2020, as benchmark interest rates have increased in the year, following the significant reductions seen in the previous year.

Management expenses

Management expenses for the year are summarised below:

	2021 £m	2020 £m
Colleague costs	73.0	61.1
Other administrative expenses	43.9	31.8
Depreciation and amortisation	9.1	7.5
Total management expenses	126.0	100.4
	%	%
Cost to income ratio	43.9	51.0
Cost to mean asset ratio	0.58	0.48

Management expenses £m and colleague numbers



We continue to focus on operating the Society efficiently with close control over our costs and our cost ratios remain among the best in our sector. However, costs have increased this year as we focus on investing in the long term success of the Society through our multi-year programme of technological change. We have continued to invest in Mortgage Hub, enhancing the experience for mortgage brokers submitting applications to us and we are improving the functionality of our website to improve the experience for savings members. Certain expenditure was also suppressed in 2020 or deferred from 2020 into 2021 due to the pandemic, which has inflated the year on year growth.

Our colleagues are fundamental to our ability to deliver the service that our members value and we have strengthened key areas of the business to support this investment so that we are well positioned to deliver our future strategy. This has resulted in an increase in headcount with the average number of colleagues (full time equivalent) employed by the Society in 2021 increasing to 1,361 (year to December 2020: 1,313). The increase in colleague costs reflects the growth in headcount and the investment in skills and capabilities to deliver our change programme.

Impairments and provisions

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

	2021 £m	2020 £m
Residential loans	(3.9)	14.7
Commercial loans	(0.2)	(0.1)
Impairment (credit) / charge on loans and advances to customers	(4.1)	14.6
Other provisions	1.4	1.1
Total impairments and provisions	(2.7)	15.7

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.

The provision for residential impairment increased significantly during the previous financial year due to COVID-19 and the heightened economic uncertainty.

³ CACI's CSDB, Stock, December 2020 to November 2021, latest data available.

Financial Review continued

Over the course of 2021 house prices have increased and the economic outlook has improved, reducing the expected level of credit losses and resulting in a release of some of the additional provisions made in 2020.

The central economic assumptions used for calculating impairment have been updated as at 31 December 2021, to reflect the latest view of the economic outlook. Economic uncertainty remains, given that the Government has ceased the majority of support schemes and there is inflationary pressure which may result in further changes in the Bank Base Rate, as well as the threat of new COVID-19 variants. This uncertainty is reflected in the alternative modelled scenarios and post model adjustments. The key judgements and estimates involved in the calculation of impairment loss provisions are set out in note 2 of the accounts on pages 183 to 189.

The impact on the Income Statement for the financial year is a £3.9 million release (2020: £14.7 million charge) which equates to a cost of risk of (0.02%) (2020: 0.09%).

Residential impairment loss provision coverage has reduced during the twelve month period from 0.25% to 0.20%⁴ as the macroeconomic environment has improved, the mortgage book has grown and arrears performance has been better than expected, partly due to government support schemes such as furlough and self-employed grants. The number of borrowers in arrears has increased slightly since the start of the year, with the proportion in arrears by 1.5% of balance or more rising from 0.62% to 0.66%.

Total balance sheet impairment loss provisions against residential mortgages at 31 December 2021 were £37.3 million (2020: £42.8 million), as summarised below:

	2021 £m	2020 £m
UK	30.4	35.4
UK coverage	0.17%	0.21%
Overseas	6.9	7.4
Total residential impairment provisions	37.3	42.8

⁴ Excluding loan commitments.

Commercial impairment

We continue to successfully manage down our legacy commercial lending portfolio with our net exposure to commercial loans falling to £10.4 million at 31 December 2021 (2020: £16.3 million). All loans are up to date and no losses have been realised in the current or prior year. At the end of 2021, balance sheet impairment provisions against commercial mortgages were £1.7 million (2020: £1.9 million), the reduction in provisions being due to the reduced book size.

Other provisions

The charge for other provisions primarily reflects additional provisions made at the half year for the increased costs of the Financial Services Compensation Scheme levy on deposit takers expected for 2021/22 and for costs in relation to leased office properties, which have been vacated following the move to the Society's new head office. The majority of these amounts were settled by year end.

Taxation

The income tax expense of £43.5 million (2020: £18.7 million) represents 26.6% (2020: 23.2%) of profit before tax. We pay UK corporation tax at the prevailing rate of 19% for 2021 (2020: 19%) and also pay the 8% surcharge on banking profits over a £25 million threshold introduced in 2016.

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 total assets increased by £1.9 billion, to £22.5 billion in the year. This increase is primarily due to positive net lending in the year of £1.5 billion (2020: £6 million). Having carefully managed our growth during the early stages of the pandemic, we have been able to take advantage of the opportunities provided by the favourable market conditions in 2021.

	2021 £m	2020 £m
Residential loans	18,340.3	16,795.3
Commercial loans	10.4	16.3
Other loans	218.0	224.5
Impairment provision	(41.5)	(47.2)
Loans and advances to customers	18,527.2	16,988.9
Liquid assets	3,646.8	2,974.8
Derivative financial instruments	219.3	192.8
Fixed and other assets	120.4	483.2
Total assets	22,513.7	20,639.7

Residential mortgage asset quality	2021 %	2020 %
Proportion of mortgages in arrears ⁵	0.66	0.62
Balance-weighted average indexed LTV of mortgage book	50.5	50.9
Balance-weighted average LTV of new lending	67.4	59.0

Loans and advances to customers

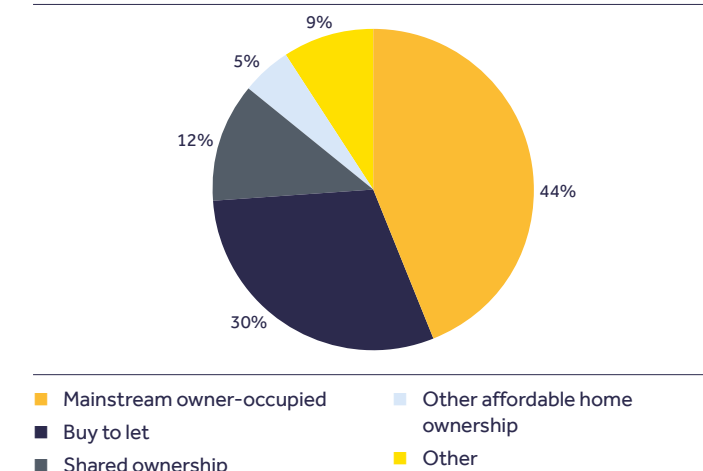
Our loans and advances to customers comprise mainly UK residential mortgages, which include residential owner-occupied, buy to let and shared ownership. Our legacy commercial loan portfolio continues to reduce and we have not made any new commercial loans. Other loans include a collateral loan that represents 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.

⁵ Arrears of more than 1.5% of the balance or in possession.

UK residential mortgage balances

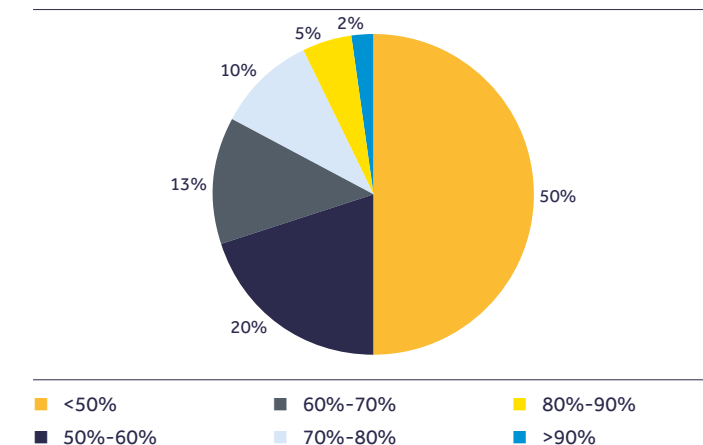
The Society's segmental lending strategy in recent years is reflected in the mix of the mortgage book as a whole, with buy to let and shared ownership making up significant proportions of the book.

2021 UK residential mortgage balances by type



The distribution of the loan to value profile of the portfolio is shown below.

2021 UK residential mortgage balances by indexed LTV



Financial Review continued

Liquid assets

Liquidity ratios	2021 %	2020 %
Liquidity Coverage Ratio	195	195
Liquid assets as a percentage of shares and borrowings	17.90	15.81

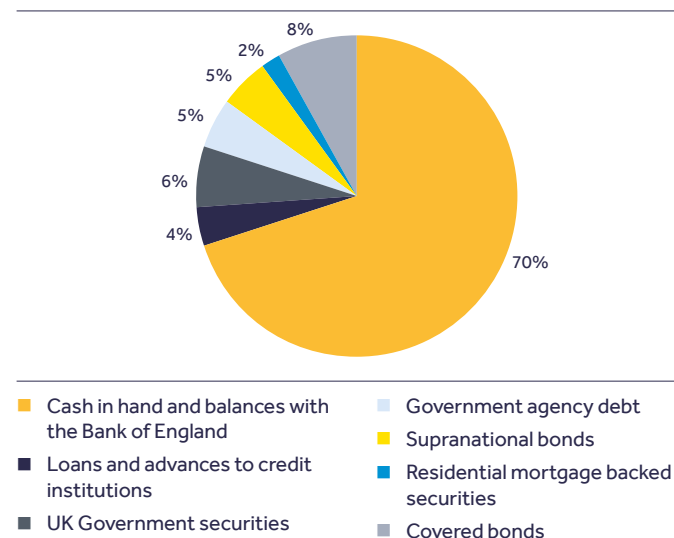
The level of liquid assets (including reserves with the Bank of England and other High Quality Liquid Assets) varies throughout the year depending on the level of funding inflows compared to mortgage completions and other refinancing obligations. The Society maintained elevated levels of liquidity through 2021 due to the uncertain economic environment and the increased liquidity at 31 December is held in preparation for funding maturities in the first half of 2022.

At 31 December 2021 liquidity included £3.4 billion of High Quality Liquid Assets (31 December 2020: £2.7 billion), which are either in cash or are readily realisable as cash when required. 100% of assets are rated A or above (31 December 2020: 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 2021 is shown below.

2021 liquidity portfolio



The PRA monitors liquidity under the Capital Requirements Regulation (CRR) framework. Our Liquidity Coverage Ratio (LCR) is 195% (2020: 195%), significantly in excess of the regulatory minimum of 100%. The Net Stable Funding Ratio (NSFR) is currently calculated based on our interpretation of expected requirements as 151% (2020: 141%).

Liabilities

A summary of our liabilities is shown below:

	2021 £m	2020 £m
Shares	15,258.0	14,162.7
Wholesale funding	5,111.0	4,654.7
Derivative financial instruments	166.8	237.9
Other liabilities	136.6	188.2
Subordinated liabilities	339.4	–
Subscribed capital	227.3	241.5
Total liabilities	21,239.1	19,485.0
Equity attributable to members	1,274.6	1,154.7
Total liabilities and equity	22,513.7	20,639.7
Key ratios	%	%
Wholesale funding as proportion of total borrowing	25.1	24.6

As a building society, one of our core principles is to provide a safe place for our members' money, with savings balances providing the main source of funding for our mortgage lending. Achieving an appropriate level, mix and duration of funding is essential to ensure we have the necessary resources to meet lending growth aspirations, with approximately three quarters of our total funding from members' savings.

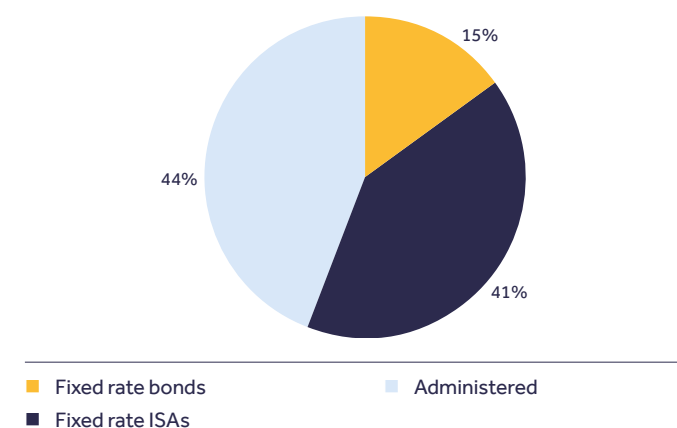
During 2021, there has been a slight change in mix towards wholesale funding due to the extension of the Government's term funding scheme (TFSME) of which we have drawn down £1.4 billion during the year. At 31 December 2021, outstanding borrowing under the TFSME scheme was £2.2 billion.

Shares (retail savings)

Retail savings balances increased by £1.1 billion during the year to £15.3 billion at 31 December 2021 (31 December 2020: £14.2 billion). As a mutual building society we remain committed to providing savers with a safe home for their money as well as competitive interest rates. We continue to pay above average market rates to our members, with our average rate for the year of 0.79% (2020: 1.19%) being 0.50% (2020: 0.59%) above the rest of the market average of 0.29% (2020: 0.60%)⁶.

We support our members with 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.

2021 retail savings balances by type



Wholesale funding

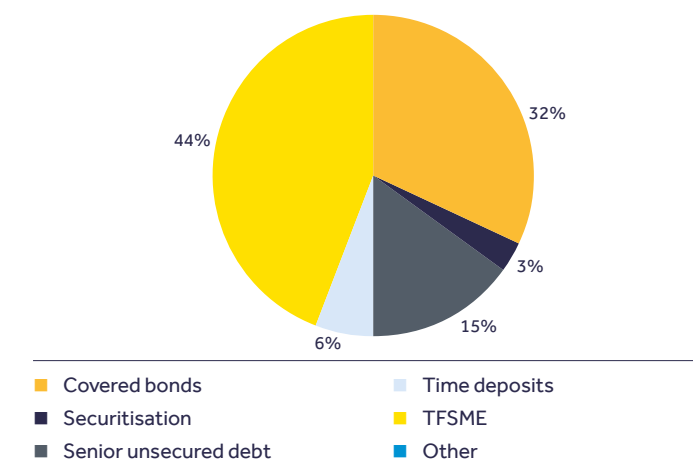
Total wholesale funding at 31 December 2021 was £5.1 billion (31 December 2020: £4.7 billion), representing 25.1% of total funding.

In addition to the TFSME drawings noted above, during the year, we issued £350 million of senior preferred fixed rate notes, repayable in October 2027, helping to provide term funding at an attractive cost for the Society.

We have now fully repaid the remaining £675 million of original TFS drawings and also repaid €500m of senior unsecured notes which matured in early April.

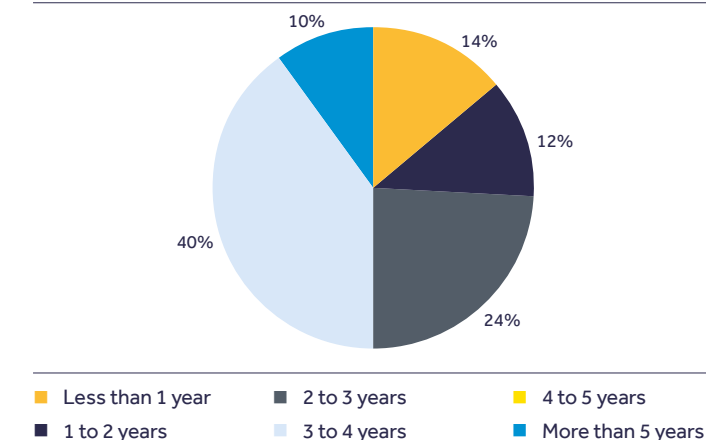
The mix of our wholesale funding portfolio at 31 December 2021 is shown below:

2021 wholesale funding portfolio



The maturity profile of our wholesale funding is shown below:

2021 wholesale maturity



We maintain robust credit ratings from two key agencies reflecting our strong capital base, good profitability and strong funding position. During the year our outlook was updated from negative to stable as the macroeconomic environment strengthened.

	Long Term	Short Term	Outlook
Moody's	A3	P-2	Stable
Fitch	A-	F1	Stable

⁶ CACI's CSDB, Stock, December 2020 to November 2021, latest data available.

Financial Review continued

Subordinated liabilities

In March 2021, we issued £350 million of senior non-preferred fixed rate notes, repayable in March 2027. The transaction was hugely successful and at the time of the deal, had the lowest coupon of any similar issuance from a UK bank or building society. This issuance provides flexibility in regard to the regulatory Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and rating agency methodology during a positive issuance environment.

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. During the year, we successfully transitioned all of our derivatives which referenced LIBOR as the risk free rate to now reference SONIA, ahead of the discontinuation of the publication of LIBOR at the end of 2021.

Capital

Our regulatory capital principally comprises accumulated retained profits in the general reserve and subscribed capital provided through debt issuance 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. Capital disclosures included in this report are in line with the UK Capital Requirements Directive V (UK CRD V).

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 £110.7 million during 2021 to £1,458.7 million (2020: £1,348.0 million). This is mainly due to retained profits accumulated during the year, which are added to the general reserve. Risk-weighted assets (RWAs) have increased by £161.2 million during 2021 to £3,231.2 million (31 December 2020: £3,070.0 million) driven by an increase in mortgage lending. As a result of these movements, the CET 1 ratio, calculated on a transitional basis, has increased to 38.0% from 36.3% at 31 December 2020.

⁷ 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).

⁸ The UK leverage ratio reflects 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 (>£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% requirement.

The following table shows the composition of our regulatory capital as at 31 December 2021. More detailed disclosures can be found in the Pillar 3 document available on our website.

	2021 £m	2020 £m
Capital resources		
Total equity attributable to members	1,274.6	1,154.7
Less pension surplus, intangible assets and other regulatory adjustments	(45.9)	(39.0)
Common Equity Tier 1 (CET1) capital	1,228.7	1,115.7
Additional Tier 1 capital	2.5	5.0
Total Tier 1 capital	1,231.2	1,120.7
Tier 2 capital	227.5	227.3
Total regulatory capital resources	1,458.7	1,348.0
Risk-weighted assets (RWAs)		
	3,231.2	3,070.0
CRD IV capital ratios⁷		
	%	%
CET1 ratio	38.0	36.3
Total capital ratio	45.1	43.9
UK leverage ratio ⁸	6.1	5.8

Capital management

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

Pillar 1

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

Pillar 2A

The PRA requires us to hold additional Pillar 2A capital for the risks not covered under Pillar 1. At 31 December 2021, the regulatory requirement was 2.38% of RWAs, a point in time estimate set by the PRA during 2020.

Capital buffers

CRD IV requires entities to hold capital buffers that can be used to absorb the impact of a stress scenario. For the Society, the buffer framework comprises a sector wide Capital Conservation Buffer, set at 2.5% of RWAs since 2020, as well as a macro-prudential Countercyclical Capital Buffer. This is currently set at 0% of RWAs for exposures to the UK but will increase to 1% from 13 December 2022. In addition, the Internal Capital Adequacy Assessment Process (ICAAP) considers whether any additional capital is required over and above the regulatory buffers to satisfy our risk appetite over the planning horizon and absorb the impact of a severe, but plausible, stress scenario. The ICAAP is reviewed by the PRA when setting our Total Capital Requirement (Pillar 1 and Pillar 2A). We have performed regular stress tests on our capital base and these tests have consistently demonstrated a capital surplus above requirements after applying management actions.

We have utilised available transitional arrangements in relation to the impact of adopting IFRS 9 on regulatory capital and the figures above reflect those arrangements. Had the transitional arrangements not been adopted, at 31 December 2021 the CET 1 ratio would have been four 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. All banks and building societies are assigned a preferred resolution strategy by the Bank of England dependent on their balance sheet size and quantum of transactional accounts. Due to the Society having a balance sheet in excess of £15 billion, the Bank of England has stated a preferred resolution strategy for the Society of bail-in, requiring us to hold both recovery and resolution capital requirements.

We are phasing in MREL over a transitional period to 31 December 2022. The transitional MREL requirement set for us, by the Bank of England, is equal to 18% of risk weighted assets until 20 July 2023. End state MREL requirements are two times minimum regulatory requirements plus any regulatory buffers, active from 21 July 2023. The Society has capital resources considerably in excess of both end-state and transitional requirements and continues to forecast significant headroom moving forward.

New and emerging regulation

Changes to IRB models, under revised capital requirements regulation to apply from January 2022, are expected to increase RWAs. The Society is expected to retain significant headroom over risk appetite following this change and further IRB floors currently under consultation by the PRA.

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

Financial outlook

We have delivered strong levels of growth and profitability in the year, supported by the buoyant mortgage market. However, the outlook for the UK economy remains unclear going into 2022 with the emergence of a new variant of COVID-19, the continued impact of supply chain issues in some sectors and high global energy prices. These factors are likely to result in higher inflation over the year and potentially lead to increases in interest rates. While this is positive for savers, it may also increase the cost of borrowing for mortgage customers.

The uplift in mortgage margins seen during the pandemic has started to reduce and we expect them to trend back towards pre-pandemic levels over time. Against expected high levels of market competition, our strong franchise in mortgage lending and retail savings and expertise in key segments will help us achieve our new purpose of putting home ownership within reach of more people. We will continue to manage growth and invest in the business, supported by strong efficiency ratios and a keen awareness of risk.

Financial Review continued

During the pandemic we have demonstrated the strength of our balance sheet and our business model to generate sustainable levels of profitability across the economic cycle and, as we progress through the challenges arising from the pandemic, we are well placed to thrive and continue to deliver long term value to our members.

Non-financial information statement

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

- Our business model is described on pages 10 to 14 and key indicators of performance are on pages 19 to 21.
- Our approach to managing our impact on the environment and to managing the risks arising from climate change is explained on pages 39 to 64.
- 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 15 to 18.

Approval of the Strategic Report

This Strategic Report (on pages 2 to 87) has been approved by the Board of Directors and is signed on behalf of the Board.

Andrew Conroy
Chief Financial Officer

24 February 2022

- We have a zero tolerance approach to bribery and corruption, upholding ethical behaviours in our business activities at all times. The Prevention of Financial Crime Policy sets out the requirements of colleagues in this respect and all colleagues undertake regular mandatory training.
- Additionally, our Third Party Management Policy ensures that we only enter into third party arrangements with suppliers that have the policies and procedures in place to comply with all applicable anti-bribery and corruption laws, including the Bribery Act 2010 and the Modern Slavery Act.

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



The Board of Directors

Year ended 31 December 2021

The biographies of each member of the Board are shown below and serve to 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. The Board's primary focus throughout the pandemic has been to adapt to the changing environment so that we can continue to provide a high level of service and support to our members, keep colleagues informed and safe and maintain financial resilience. Over the next year my priority will be to ensure that the Society invests wisely and further improves its operations to continue to meet the needs of current and future members in a rapidly changing world."



Richard Fearon

Chief Executive Officer

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

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

Other roles: Richard is the 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 corporate priorities have supported us in navigating the disruption caused by the COVID-19 pandemic and we've been able to 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.

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 is 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 the Chair of the Assets and Liabilities Committee and Balance Sheet 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.

"COVID-19 has significantly impacted the global economy and this, as you would expect, has impacted many firms in the financial services sector, as well as many of our members.

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 function into 2022."



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 has developed a wealth of knowledge in retail financial services and has a strong understanding of risk management, pensions and human resources. Prior to joining the Society, David was CEO of Sainsbury's Bank. David was Chair of the 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 (subject to regulatory approval) 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 will bring value and further strengthen the Board. Neil was appointed as Chair of Board Risk Committee from January 2022, subject to regulatory approval.

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

"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 legal, compliance and risk focused roles. Having developed extensive experience of working in a highly regulated environment, Andrew leads the Risk function, which is made up of a number of specialist teams.

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

Andrew is also responsible for our Human Resources, Learning and Development and Property and Business Services functions.

"Having worked for the Society for more than 20 years, primarily in the Risk function, I have extensive experience of risk management and a strong knowledge of the organisation, 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."

The Board of Directors continued



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 the Audit Committee of Saga plc and a non-executive director and Chair of Acromas Insurance Company Ltd. He is also advisor to the Board of Green Park Partners Ltd. *"As Chair of the Audit Committee, it'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 10 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 is the Chair of the Executive Transformation Committee and the Operational Resilience Committee.

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

"Since joining the Society, I've used my extensive experience of technology, transformation and operational resilience to strengthen the execution of the Board's strategic agenda and help 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 has worked within finance, risk, HR and communications and her most recent role was at Clydesdale Bank, where she was a member of the executive team. Lynn is a chartered management accountant. Lynn is the Board-appointed colleague representative. 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 Doggy Day Care Academy Ltd.

"Along with my Board accountabilities I have two further key responsibilities. The first is to represent colleagues as the board-appointed colleague representative; I am delighted to be a spokesperson for all colleagues and represent their views at Board level. The focus on our colleagues is always a high priority and is central to many of the important decisions we make. The second is in my role as Chair of the Remuneration Committee. It's my responsibility to make sure the Society has the appropriate policies in place to set Board and senior management remuneration, which are clearly aligned to our strategy and culture and promote the right behaviours and outcomes."



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 am delighted to have joined the Society as a non-executive director and feel strongly about the values associated with mutuality. I believe that my knowledge and experience will provide different insights to the Board, thereby adding value to the decision making process."

The Executive Committee

Year ended 31 December 2021

The Executive Committee (ExCo) (with support from the Management Committee) operates under the leadership of Richard Fearon, the Chief Executive Officer. It is responsible for the delivery of our strategy, corporate objectives and corporate plan. As executive directors of the Board, Richard Fearon, Andrew Greenwood, Andrew Conroy and Rob Howse, whose biographies can be found on pages 89 to 92, are also members of the ExCo. Details of the other members of the ExCo are set out below:

Jaedon Green – Chief Customer Officer

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

Nikki Marsh – Chief Brand and Marketing Officer

Nikki has principal responsibility for the development, positioning and reputation management of the Society's brand, customer relationship management strategies and acquisition strategies, alongside contributing to the overall running of the Society as a member of the Executive Committee. Nikki has 30 years of customer focused expertise, specialising predominantly in heavily regulated environments across both the public and private sector.

Andy Mellor – Risk Director

Andy has worked in financial services for over 25 years, with experience of performing a variety of senior roles in building societies, banking and also 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 function, as part of the risk strategy refresh and he joined the ExCo in March 2021, following his appointment as Risk Director.

Andy Moody – Chief Commercial Officer

Andy has extensive experience in financial services, having operated in various senior risk, commercial and consulting roles across PricewaterhouseCoopers, Skipton Building Society, Northern Rock, National Australia Bank and Bradford & Bingley. Andy joined the Society in 2012 and has held the roles of Director of Credit Risk, Deputy Chief Risk Officer and more recently, Chief Commercial Officer, in which he has overall responsibility for the development and management of our products, their distribution and our digital channels.

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 function, with functional responsibility for strategy, responsible business, customer insight, data and internal communications. Nick is chair of the Responsible Business Forum and also ExCo sponsor for Race Equality.

Corporate Governance Report

Year ended 31 December 2021

Dear member,

I report to you for the second time in my capacity as Chair. 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 decisions and activities, with particular emphasis on how we engage with our stakeholders.

What is good corporate governance and why is it important to us?

Corporate governance is a framework which enables management and the Board to operate more effectively, ensuring appropriate decision making processes and controls are in place, so that the interests of all stakeholders are presented in a balanced way and taken into consideration. As we continue to face the challenges arising from the pandemic, strong governance is more important than ever to ensure the right decisions are made at the right time, so the Society can continue to operate safely and successfully in this fast changing environment.

Our approach to corporate governance is based on the principles and provisions of the current 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 2021 and how it has applied the provisions of the Code.

Board strategy

The Board's key strategic areas of focus and discussion during 2021 have included:

Purpose: Having been in existence for almost 150 years the Board re-visited the reasons for the Society's existence. It discussed how, as a modern mutual, we could continue to meet members' needs both now and in the future. For more information on this see the Strategic Report on pages 10 to 14.

Diversity and inclusion: In 2021 we continued to focus on ways to enhance diversity and inclusion across the Society, recognising the value this brings to our culture. We understand that progress in this area shouldn't just be limited to having targets in place and achieving a truly diverse and inclusive workplace goes beyond that. As part of this work, we continue to keep our Board recruitment plans under review and we have further developed our people strategy, which is also closely linked to the new purpose and the responsible business strategy. More information is available within this report and in the Nominations Committee Report on page 124.

Operational resilience: Enhancing the operational resilience of the financial sector remains a strategic priority of our regulators and COVID-19 has reinforced its importance. Whilst we ended the year having kept the Society operationally resilient throughout 2021, the Board supported a rolling programme, with prioritised ring-fenced funding, to further reduce our technology risk exposure and to enhance operational resilience.

External environment: Despite the continued uncertainty during 2021, the Board has overseen service improvements for our intermediary partners and our members, with a particular focus on supporting members who were facing financial difficulties, for example, by not charging arrears fees. The Society was in a strong position to respond positively to increased demand for mortgages during 2021, driven in part by the temporary reduction in stamp duty.

Ways of working and responding to change: The Board approved the move to our new head office, which has been specifically designed to support cross-functional collaboration and enhanced tools and technology to support sustained remote working, which in turn is aligned to our priority of keeping colleagues safe. In order to ensure the Society is able to respond quickly to the increased pace of change, organisational adjustments were made so we can better focus on more agile deliverables, where appropriate.

Technology improvements to be made over a multi-year horizon. The Board remains committed to delivering improvements in technology, which are designed to improve member experience across all channels, whether that be digitally or in person through our branches. **Technological improvements** are informed by both qualitative and quantitative member/intermediary research. To support these improvements, the Society will adopt and implement a focused data strategy over a multi-year horizon.

Environmental, Social and Governance (ESG): During 2021 the Board was not only in receipt of frequent **ESG updates**, but it was also provided with tailored training on this topic, which included an **overview of climate risk** and how it may impact the Society (financial and non-financial risks) and its key stakeholders. The Board also reviewed the completed actions and those underway in response to **climate change**. Responsible Business targets have also been agreed to demonstrate our commitment to Environmental, Social and Governance matters. Please see page 23 for further information.

Other strategic themes: As well as those matters referenced above, the Board has also considered a number of other important strategic themes including: our savings and lending strategies, the role of our branches, the migration of our data centre and our investment priorities. More information on these topics is included within the Business Model and Strategy section of the Strategic Report.

Ongoing impact and response to the pandemic

This year, the Board has continued to adapt its governance processes to meet the challenges arising from the pandemic. One of the ways we have done this is by holding meetings more frequently, with additional interim Board meetings being scheduled on a regular basis. Additional meetings have also been held by management, with the ExCo meeting more often to provide a platform where issues arising can be discussed and dealt with promptly and in an efficient manner.

In the interests of health and safety and in line with government restrictions in place from time to time, the Board continued to meet virtually for most of 2021, with hybrid meetings taking place towards the end of year. Technological investment in our new head office has further supported the move to hybrid meetings, allowing greater flexibility.

Board evaluation

In 2021, in line with requirements of the Code, the Board appointed Russell Reynolds Associates to conduct an external evaluation of its effectiveness. More information on the outcome of the evaluation and the process followed is included in the Nominations Committee Report on page 123.

Changes to the Board in 2021

In May, Andrew Greenwood was appointed as Deputy Chief Executive Officer. Throughout 2021, Andrew retained his Chief Risk Officer responsibilities and continued to lead the Risk function.

In May, Rob Howse, Chief Operating Officer, joined the Board as an executive director. Rob joined the Society in 2019 with extensive financial services and technology experience and has been pivotal in progressing the Society's technology and change agenda. Rob's role is to lead the transformation, technology, digital delivery and resilience teams which were merged into a new division in March 2021, to create dedicated cross-functional delivery teams across three streams of activities related to (1) mortgages, (2) savings and digital, and (3) corporate activities. These streams are also aligned to the strategic priorities.

In October, we were delighted to announce that Anita Tadayon joined the Board as a non-executive director and a member of Board Risk Committee. Anita has spent a significant part of her career in a regulated environment, most recently at BT and prior to this, at Centrica and Sky. She has a strong track record in transformation, combining technology and change with deep expertise in the development and design of customer journeys and agile ways of working. Anita's background and experience will bring further diversity and strength to the Board.

David Fisher reached the end of his nine-year term; however, to assist with succession planning and continuity, David agreed to extend his tenure to the end of 2022. Neil Fuller will replace David as Chair of Board Risk Committee (subject to regulatory approval). For more information please see the Nominations Report on page 121.

After six years, John Hunt retired as a non-executive director in April 2021. I would like to thank John for his valued service during his time on the Board.

The year ahead

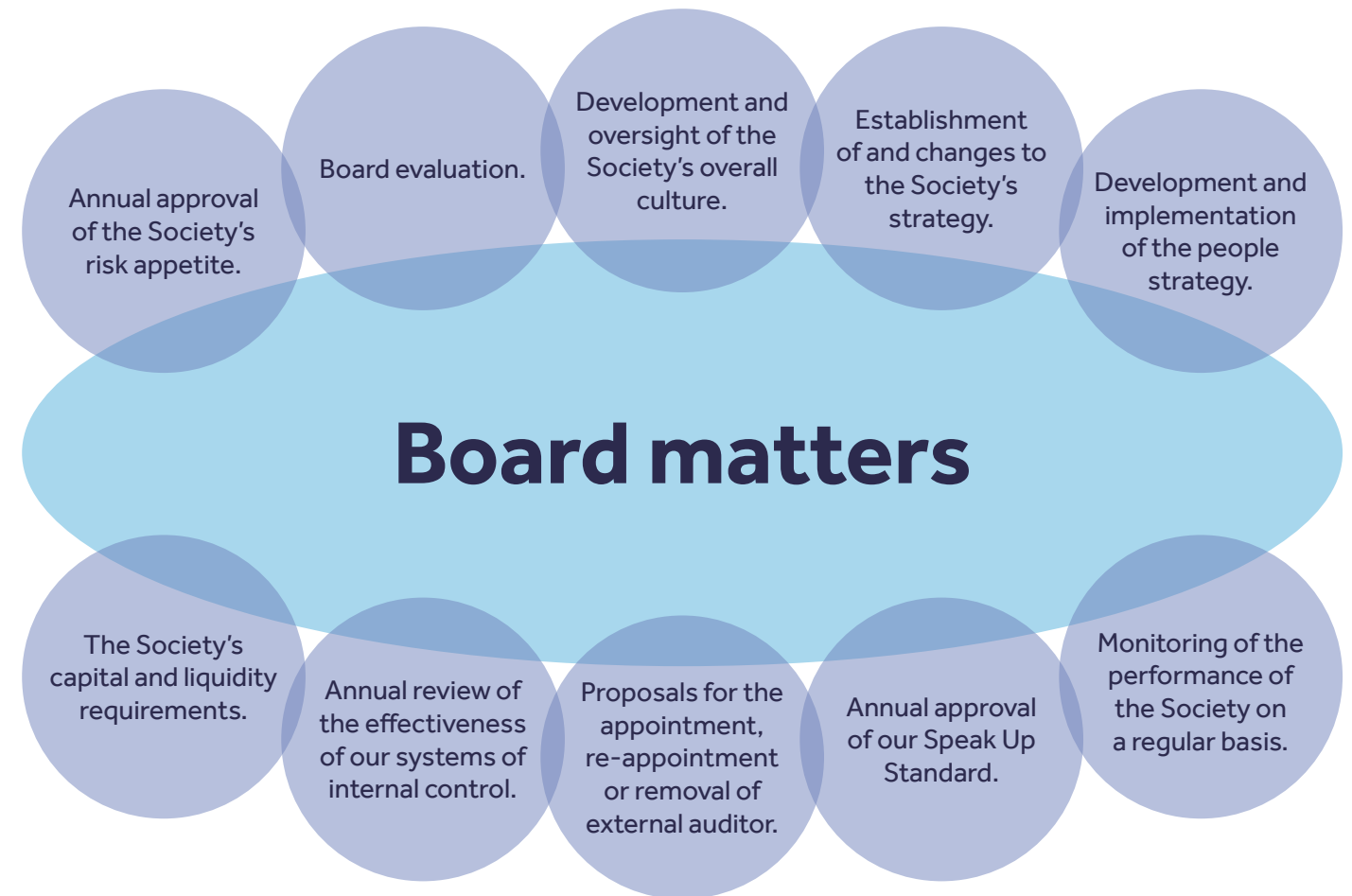
Robust corporate governance will continue to be at the core of the Board's activities, to ensure the Society continues to be successful in responding to the evolving needs of our members, colleagues and wider stakeholders, as we continue to navigate our way through 2022 and beyond.

Iain Cornish

Chair of the Board

The role and responsibilities of the Board

The Board has formal terms of reference, which incorporate a clear set of roles and responsibilities and the Board maintains a schedule of matters reserved for decision by the Board, which sets out items that cannot be delegated and have to be retained for its own approval. The infographic includes examples of matters which fall within the Board's remit. Full details of the Board's roles, 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 at leedsbuildingsociety.co.uk/your-society/about-us/board-committees/.



How does the Board operate?

The Board operates through meetings of the full Board, as often as is necessary to discharge its obligations and to ensure the smooth running of the Society. Before the pandemic this usually comprised 10 meetings a year, with two additional meetings dedicated to planning and strategy. Since 2020, the Board has scheduled additional interim meetings on a more regular basis to review and discuss, amongst other items, the ongoing impact of the pandemic on our members and the operations of the Society, as well as colleague wellbeing, operational resilience/performance and any changes or amendments to financial forecasts.

Members of the ExCo attend Board meetings regularly to provide updates from each division, any pertinent matters and market trends. This provides Board members with close visibility on all areas of the business, as well as the external environment.

In order to ensure the Board operates and manages risk effectively, we have in place a robust Enterprise Risk Management Framework (ERMF) which ensures the continuous identification and review of business risks. More information on the Society's risk management process can be found in the Risk Management Report on pages 138 to 143.

How do we make decisions effectively?

The Board sits within a governance framework which facilitates effective decision making.

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

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.

In addition, to ensure decisions are made in line with our strategic objectives and to ensure stakeholder impact is taken into consideration, supporting papers are required to include information on the key stakeholder groups which have been considered or could be impacted by the outcome of the decision. In 2021, this process was also applied to our Board and Management Committees to strengthen the quality of decision making further.

For more information and examples of the Board decision making process, please see pages 34 to 38 of the Strategic Report.

How do we monitor our culture?

We have a healthy and positive culture at the Society. Our culture helps us to deliver against our purpose and is as important to our long term success as our overall strategy.

As a mutual, we encourage behaviours which support the delivery of our purpose and are in the best interests of our members and other key stakeholders. Colleagues receive annual training, which includes information on, and examples pertaining to, the behaviours and attitudes expected of all colleagues. To support this further, the annual appraisal process requires colleagues to demonstrate how they consistently display the expected behaviours.

We have continued to monitor culture using a range of strategic risk assessment measures and the Board receives an annual report and update on culture. One of the principal ways culture was monitored in 2021 was through a colleague engagement survey, which assessed the level of colleague satisfaction and engagement, as well as their confidence in the leadership team. We were delighted to achieve an engagement index score of 86%, with a 93% rate of participation. The key results indicated that 89% of colleagues felt supported by their manager (up 9% on 2020) and 88% agreed that their manager cares for their wellbeing and actively supports them (up 7% on 2020). Additionally, 90% of colleagues said they think the Society respects individual differences (e.g. cultures, working styles, backgrounds, ideas – the same result as 2020), and 93% felt they

work in an environment where everyone can feel included, respected and accepted for 'who they are' – an 8% increase on 2020. This demonstrates our commitment to diversity and inclusion and sustaining our collaborative culture.

In November 2021, the Society also took part in the Best Companies survey and we were delighted to receive the highest award of a 3 star rating, having previously achieved a 2 star rating in 2018. The Best Companies survey was selected in order to gather further valuable colleague insight and provide the opportunity to benchmark ourselves against other organisations. We had an impressive 86% completion rate, meaning the results were representative of colleague views. We are confident that the accreditation is testament to our healthy culture and desire to do the right thing for members, colleagues and the communities in which we operate.

As a Board, collectively we also take measures to monitor culture continuously through direct conversations and the various touch points we have with colleagues, through attendance at meetings of the Colleague Association, branch and departmental visits, for example.

As part of enhancing colleague engagement and as a means of monitoring culture, this year the Board trialled new ways of bringing the colleague voice into the Board room, including the attendance of colleagues at Board meetings and videos from branch colleagues. By way of example, the Board watched six videos with colleagues providing views on the role of branches, how customer needs were met, how colleagues were treated throughout the pandemic and changes in the branch network. This led to a discussion on the important role of branches and how this had changed more recently, for example to provide support for Contact Centre, which had provided additional resilience and had the added benefits of developing branch colleagues and providing additional support for members.

The directors agreed the videos were a useful insight to demonstrate the passion of branch colleagues to meet customer needs and provide great service and agreed it would be beneficial to do something similar for other areas, such as Contact Centre, Mortgage Lending and Mortgage Support. Accordingly, dates for more colleague updates have been scheduled for the 2022 Board meetings.

Whistleblowing

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

The Board routinely reviews our Speak Up Standard and any reports arising from its operation. The annual approval of our Speak Up Standard is included on the Schedule of Key Matters reserved for the Board and was last approved in October 2021 based on the recommendation of the Audit Committee. Gareth Hoskin, Non-Executive Director and Vice Chair is the Society's appointed Whistleblowers' Champion.

In 2021, a Compliance review of colleague conduct arrangements concluded that the Speak Up Standard was written in a tone and manner to encourage colleagues to speak up and report concerns. Additionally, 36 qualitative interviews were undertaken with colleagues, all of whom stated they would raise a concern if they had one and they had confidence that in doing so, their concerns would be taken seriously and be dealt with confidentially.

We have continued to reinforce the internal arrangements for raising concerns, through ongoing communication, training and awareness of our Speak Up Standard, by a variety of means including:

- Our Speak Up procedure and guidance are available to all colleagues on the Society's intranet.
- Mandatory e-learning on the Society's Speak Up arrangements is provided to all colleagues annually. In 2021, 100% of colleagues completed the training.
- Provision of an independent and confidential route for reporting concerns is available via our external Speak Up Hotline Service, with contact details provided on our intranet and external websites accessible to both third parties and colleagues.
- New colleagues receive a mandatory induction pack which incorporates information about whistleblowing procedures.

Diversity and inclusion

In 2021, the Board continued to place great importance on diversity and this has been a priority when reviewing the composition of the Board and succession planning. Mindful of developing the diversity of the Board, a detailed recruitment process was undertaken in 2021 which successfully resulted in the appointment of Anita Tadayon in October.

In June, the Board discussed our diversity strategy and proposed targets for the future. The Chair invited an open discussion to understand how the Board as a whole, could support the Executive Committee in progressing the diversity agenda, at all levels and to agree how it could provide the right level of challenge and oversight. It was agreed that to deliver progressive results, further steps should be taken, with meaningful targets and specific supporting actions to achieve them. Consequently, it was agreed to focus attention on:

- **Diversity outcomes** – focusing on specific targets and key actions we believe are required to deliver these.
- **Inclusion enablers** – to support our diversity agenda more broadly and to continue to develop our overall inclusion approach to a position of greater maturity. Examples of inclusion enablers include:
 - Wellbeing: to create a wellbeing approach focusing on different dimensions, for example, to continue developing our programme of mental wellbeing, including support provided by Mental Health First Aiders and mindfulness, with a spotlight on specific areas, such as menopause.
 - Disability: working towards achievement of Disability Confident level 3 by 2023, supported by the new executive committee sponsor, Nikki Marsh, Chief Brand & Marketing Officer.
 - Talent development: programmes to support the development of colleagues, with meaningful interventions, enhancing the development and retention of diverse talent.
 - Colleague-led forums: we have three colleague-led forums, which focus on gender, race equality and mental health. A network was also established in 2021 for LGBTQ+ colleagues to enhance inclusion and awareness.

It was also agreed to engage with external advisors to secure additional expertise in the development and implementation of our diversity and inclusion strategy. A number of follow-on sessions have been scheduled in 2022 and we will provide an update on our progress next year.

As outlined above, one of the ways the Society seeks to build on our diversity and inclusion activities is through the work of our colleague-led forums – gender, race equality, mental health and the LGBTQ+ network. Each forum promotes colleague awareness and considers opportunities and initiatives to attract, nurture and develop a diverse talent pool – an approach fully supported by the Board.



Gender Diversity Forum – the forum's aims are to actively promote gender diversity across the Society through communications and events, focusing on helping female colleagues progress and develop in their career and sharing opportunities and initiatives with all colleagues across the Society. This year the forum's activities have included a review of maternity/paternity support and menopause research to determine further actions which can be taken. It delivered an insights session on the menopause to raise awareness and discuss the impact it can have on work life and launched a second pilot mentoring scheme.



Race Equality Forum – this year the forum sought to continue to raise awareness and educate colleagues on race equality matters through running a number of interactive insight sessions on the forum's purpose and objectives for 2021. The forum also worked with HR to discuss the setting of representation targets, as well as providing support for a reverse mentoring programme. The Race Equality Forum also provides a focal point for working towards the Race At Work Charter's initiatives.



Mental Health Forum – the forum seeks to raise mental health awareness amongst colleagues, encouraging open conversations about mental health and supporting colleagues should they need it. In 2021, the Mental Health Forum has:

- Launched virtual mental health awareness sessions.
- Worked with Contact Centre managers through bespoke wellbeing sessions to support contact centre colleagues.
- Continued to train new Mental Health First Aiders for the Society and for other building societies in partnership with the Building Societies Association.
- Continued to organise Pause and Breathe mindfulness sessions designed to support colleagues' wellbeing.



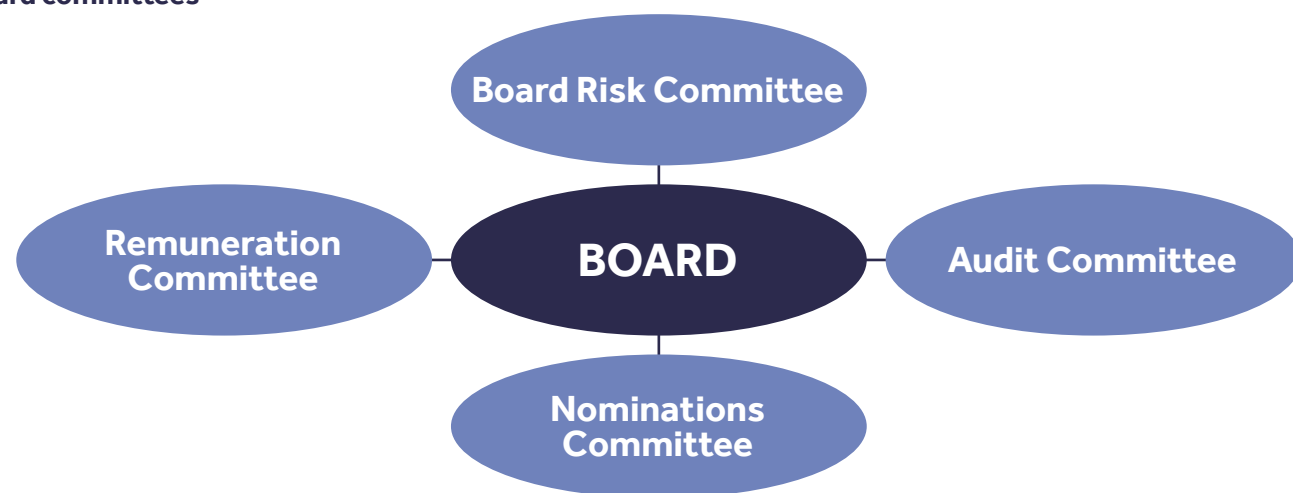
LGBTQ+ Network – this network was set up in mid-2021, with a focus on providing a social and supportive space for colleagues who identify as LGBTQ+ or are an ally of the community. The network agreed several initiatives for 2021, including:

- Improving understanding and awareness of the LGBTQ+ community and encouraging an open conversation around LGBTQ+ issues, history and culture.
- Creating a space on the colleague intranet, where colleagues can access a library of resources with information relating to support, education and awareness, and culture.

For further information on our diversity and inclusion strategy and the agreed targets in place for 2025, please refer to our Nominations Committee Report on pages 124 to 125.

Our governance structure

Board committees



To assist the Board in carrying out its role effectively and so certain matters can be discussed and considered in more detail; some responsibilities are delegated to a number of Board committees, each one having clear and detailed Terms of Reference (ToR). The ToRs list the duties of the Board committees which have been delegated to them from the Board, copies of which can be found on our website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees or by writing to the Secretary at Leeds Building Society, 26 Sovereign Street, Leeds, LS1 4BJ.

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

The Board committee governance structure is outlined below and further details on each committee, the activities undertaken in 2021 and their membership can be found in each committee’s individual report.

Board committees – Key priorities

Audit Committee	Nominations Committee (NomCo)	Remuneration Committee (RemCo)	Board Risk Committee (BRC)
<p>Key priorities</p> <ul style="list-style-type: none"> ■ To monitor the integrity of external financial reporting. ■ To review the effectiveness of the systems of internal control. ■ To assess the effectiveness, performance and independence of the Internal Audit function and the external auditor. 	<p>Key priorities</p> <ul style="list-style-type: none"> ■ To review the structure, size, diversity and composition of the Board. ■ To oversee succession planning and identify candidates to fill Board and senior leadership vacancies. ■ To ensure compliance with good corporate governance standards and the Code. 	<p>Key priorities</p> <ul style="list-style-type: none"> ■ To ensure that remuneration policies, principles and practices support our long term interests and are appropriate to attract, reward and retain talented executive directors and senior leaders. 	<p>Key priorities</p> <ul style="list-style-type: none"> ■ To review our exposure to risk and oversee the risk management framework to ensure that it is appropriate to mitigate current and prospective risks. ■ To oversee risk related reviews. ■ To develop a strategic risk appetite and review the Society’s ICAAP, ILAAP and RRP prior to Board approval.

Executive and management committees

Executive Committee (ExCo)

ExCo operates under the direction of the Chief Executive Officer and has the primary purpose of enabling the executive directors and chief officers to manage the Society in a co-ordinated way, taking a broad view of key issues and priorities. ExCo delegates some of its duties to, and is supported by, the Management Committee, Pricing Committee, Executive Transformation Committee and Balance Sheet Optimisation Group.

In 2021, ExCo continued to meet more frequently, to enable decisions to be taken more quickly and deal with any challenges arising as a result of the pandemic.

The Executive and Management Committee structure is outlined below:

Executive Committee (ExCo)			
Pricing Committee	Management Committee (ManCo)	Executive Transformation Committee	Balance Sheet Optimisation Group (BSOG)
<p>Key priorities</p> <ul style="list-style-type: none"> ■ The primary purpose of the Pricing Committee, as delegated by ExCo, is to approve new product pricing for our savings and mortgage products. 	<p>Key priorities</p> <ul style="list-style-type: none"> ■ ManCo is required to monitor performance against the corporate priorities, to facilitate early identification of divergence from the corporate plan and to monitor remedial action(s), as appropriate. 	<p>Key priorities</p> <ul style="list-style-type: none"> ■ The primary purpose of the Executive Transformation Committee is to provide oversight of our change portfolio to ensure it is aligned to our overall strategic vision. 	<p>Key priorities</p> <ul style="list-style-type: none"> ■ The primary purpose of the BSOG is to support ExCo and ALCO with monitoring of key financial measures and risk early warning indicators, along with agreeing tactical decisions to optimise the current and future balance sheet.

Board and Board committee membership attendance record

The number of meetings held throughout 2021 and the attendance of all directors at scheduled Board meetings and Board committees (members only) is shown below.

	Board	Audit	Board Risk	Nominations	Remuneration
Annette Barnes	18/19		9/9		3/3***
Andrew Conroy	19/19				
Iain Cornish	19/19			6/6	
Richard Fearon	19/19				
David Fisher	18/19	6/6	9/9		4/4
Neil Fuller	19/19	6/6	9/9		
Andrew Greenwood	18/19				
Gareth Hoskin	19/19	6/6	8/9	6/6	4/4
Rob Howse*	13/13				
Lynn McManus	19/19	6/6	9/9	6/6	4/4
Anita Tadayon*	2/2		1/1		
John Hunt**	5/5		3/4		

* Rob Howse joined the Board in May 2021 and Anita Tadayon joined the Board in October 2021
 ** John Hunt resigned from the Board in April 2021
 *** Annette Barnes joined the Remuneration Committee on 1 March 2021

Division of responsibilities

Board roles

The roles of the Chair and CEO are distinct and are held by different people, Iain Cornish (Chair) and Richard Fearon (CEO). As Chair, Iain's principal role is to lead the Board and he is not involved in the day-to-day management activities of the Society. Richard's primary role, as CEO, is to focus on the running of our business and the implementation of the strategy.

The Chair, CEO and Senior Independent Director each have a distinct job description which is reviewed and approved by the Board each year. The table below highlights the key accountabilities of these roles, as well as those for the executive directors, non-executive directors and Secretary:

All directors have access, if required to fulfil their roles and responsibilities, to independent professional advice, at our expense.

Role	Key accountabilities
Chair: Iain Cornish	<ul style="list-style-type: none"> ■ The effective running of the Board and guardian of the Board's decision making processes. ■ To support and advise the CEO in the development of strategy and more broadly to support and advise. ■ To ensure the Board receives accurate, timely and clear information and considers feedback and views from stakeholders, including members and colleagues. ■ To lead the development of our culture by the governing body as a whole. ■ To take the lead in providing a properly constructed induction programme for new directors and in identifying and seeking to meet the development needs both of individual directors and the Board as a whole. ■ To ensure the effectiveness of the Board, its committees and individual directors is formally and rigorously evaluated, at least once a year. ■ To promote the highest standards of integrity, probity and corporate governance.
Chief Executive Officer: Richard Fearon	<ul style="list-style-type: none"> ■ To develop and implement the Society's strategy and corporate priorities, having regard to promoting our success in the interest of our members and other stakeholders. ■ To ensure we operate an adequate system of control through the application of a three lines of defence model. ■ To deliver a balanced business performance across a wide range of scorecard measures, to ensure the achievement of short term corporate plan objectives, while building long term sustainable performance. ■ To set the tone in respect of our culture and to unite all colleagues around our vision, strategy and values. ■ To provide information and advice to the Chair, the Nominations Committee and other members of the Board, on succession planning, particularly in respect of executive directors. ■ Responsible for all executive management matters affecting the Society. ■ To discharge the allocated PRA/FCA Prescribed Responsibilities and FCA Business Activities via the Society's management forums in line with the Society's Risk Management Framework.
Senior Independent Director/Vice Chair: Gareth Hoskin	<ul style="list-style-type: none"> ■ 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.

Role	Key accountabilities
Non-executive directors: Annette Barnes David Fisher Neil Fuller Lynn McManus Anita Tadayon	<ul style="list-style-type: none"> ■ 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.
Executive directors: Andrew Greenwood Andrew Conroy Rob Howse	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ 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.

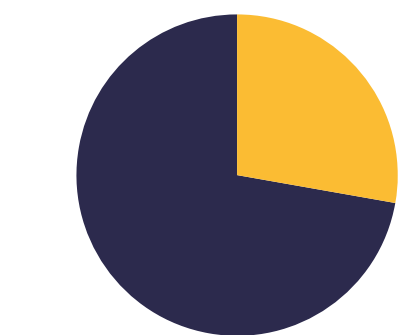
Composition, succession and evaluation

Board composition

The Code requires at least half of the Board, excluding the Chair, to be made up of independent non-executive directors. The current composition of the Board comprises eleven directors, of whom four are executive directors and seven are independent non-executive directors, which is compliant with the Code.

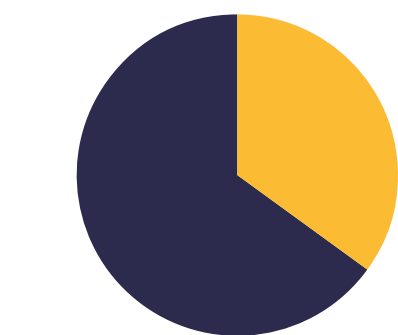
The Board considers that the current mix of skills, experience, backgrounds and opinions of the directors complement each other and provides an appropriate balance. This helps ensure members' interests are protected and that we have effective leadership and direction. More information on the overall assessment of directors' skills and experience and how this is factored into succession planning is included in the Nominations Committee report on page 119.

Gender of Board members



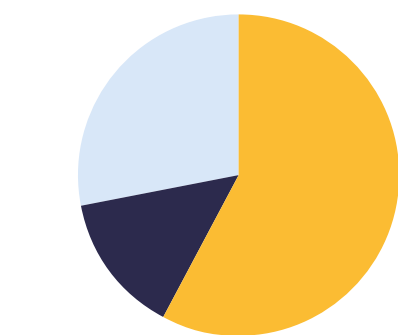
■ Female ■ Male

Executive and non-executive composition



■ Executive ■ Non-executive

Tenure of non-executive directors



■ 0 to 3 years ■ 4 to 6 years ■ 7 to 9+ years

Changes to the Board in 2021

The table below provides a summary of the changes to the Board membership in 2021.

Rob Howse	Chief Operations Officer	Appointed as Executive Director in May 2021
Anita Tadayon	Non-Executive Director	Appointed as Non-Executive Director in October 2021
John Hunt	Non-Executive Director	Resigned as Non-Executive Director in April 2021

The Board considers and acts upon recommendations for appointments from the Nominations Committee. At the first opportunity, 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 page 119.

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

Conflicts of interest

The Board has a Conflicts of Interest Policy which sets out the procedures for declaring and, if appropriate, authorising any actual or potential conflicts of interest. The policy also provides examples of what would constitute a conflict of interest and refers Board members to the Secretary for advice where required. The policy requires that all additional appointments which a director wishes to take up should first be referred to the Board for consideration and, if appropriate, approval (in terms of any potential conflict of interest and time commitment).

The Secretary maintains a detailed register of any potential or actual conflicts of interest, which is periodically submitted to the Board for review and re-affirmation that all declarations remain acceptable. The Board considers that neither the Chair, nor any director, had a material conflict of interest to declare, which would impact the effective discharge of their responsibilities, during the year ended 31 December 2021.

Time commitment and external appointments

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

In 2021, Anita Tadayon was appointed to the Board. Particular consideration was given to Anita's time commitments as she holds a full time position elsewhere. This was considered carefully as part of the recruitment and interview process and by the Nominations Committee. It was agreed that Anita would have sufficient time available to undertake the role and this would be reviewed annually as part of the appraisal and review process.

The Board considers that all individual directors have sufficient time to discharge their duties at the Society and they do not hold more than the prescribed number of directorships under Article 91 of the Capital Requirements Directive IV. None of the executive directors held a non-executive directorship in a FTSE100 company during 2021.

During the year, no Board members took on any new external appointments. However, Iain Cornish stepped down from his role as Chair and Non-Executive Director of St James's Place Plc and St James's Place UK plc in May 2021. Gareth Hoskin also retired from his position as a non-executive director of Diabetes UK Services Ltd and the British Diabetic Association in January 2021. A list of all external appointments held by Board members is shown in the Annual Business Statement on page 242.

Independence

The ongoing independence of non-executive directors is considered annually against the criteria set out in the Code by the Nominations Committee, which then provides a report and recommendation to the Board for approval. In 2021, the Board considered all non-executive directors, including the Chair, who was also considered to be independent on appointment, to remain independent in character and judgement and that there are no circumstances which are likely to impair their independence.

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

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

Further information is available within the Nominations Committee Report on page 122.

Board effectiveness

The Code requires Boards to undertake a formal and rigorous annual evaluation of their own performance and the evaluation should be externally facilitated at least every three years. In November 2021, the Chair, with the support of the Nominations Committee, engaged with Russell Reynolds, an external provider, to facilitate the evaluation process. The last external review was conducted in 2018. The outcome of the 2021 review concluded that the Board 'was performing well – with no urgent action required'. Following the Board evaluation process in November, a detailed report outlining the outcomes and any actions or suggested areas of improvement was provided to the Board in January 2022.

A summary of the outcomes and more information on the 2021 Board evaluation process is included in the Nominations Committee Report on page 123.

All Board committees also periodically evaluate their own performance and effectiveness, and that of the committee Chair, through a series of questions which is sent to all members and regular attendees of the committee. This process serves to identify any areas where members may require further training/development in order 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 2021 concluded that committees were, overall, meeting their Terms of Reference, with a small number of improvement opportunities identified, examples of which are shown below.

Committee	Improvement opportunities
Board committees	<p>Three of the Board committees received commentary regarding the length of committee papers noting that, at times, papers included too much detail.</p> <p>Each committee reminded report writers to ensure papers are succinct and concise whilst providing the right level of detail to allow the committees to discharge their duties effectively and ensure debate is focused at the right level relative to the committees' remit.</p> <p>Going forwards committee members were also encouraged to provide feedback on the content and length of meeting papers.</p>

In 2021, an internal governance review of all Society committee Terms of Reference was completed against their Schedule of Key Matters. The review was conducted by the Secretariat & Regulatory Advice Team and individual feedback was provided to committee Secretaries to ensure only papers within the relevant committees' remit are tabled. This served to ensure that committee meetings remain both efficient and effective by operating within their remit as prescribed by the Terms of Reference applicable to each committee.

Directors' induction, development and individual performance evaluation

On appointment, all new directors receive a detailed induction programme, which is tailored to their individual requirements and based on their own existing skills and expertise. The Chair works closely with HR 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. By way of example, a newly appointed director would typically meet with the Chair on a regular basis to discuss a wide range of topics, including, for example, strategic items, industry hot topics, 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, attend an introductory meeting with the Chairs and Secretaries of each Board committee and receive detailed guidance on the Board's Conflict of Interest Policy from the Society Secretary. They are also 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. This year, the induction programme was reviewed and refined, to reduce the number of overall documents provided to a new director and to ensure information was delivered in stages to avoid the excessive provision of information. A detailed but succinct manual was created for new directors, which includes information on the Board structure, how the Board operates, composition of committees as well as a summary of the Society's strategy and corporate plan, for example.

Non-executive director induction programme

Update from Neil Fuller on his recent experience of the Society's induction programme.

On his appointment in December 2020, Neil received a detailed induction programme, which included a review pack, a schedule of interviews with key colleagues from the Leadership Team, as well as with the executive and non-executive directors alongside regular meetings with the Chair to discuss a wide range of topics covering both the internal and external environment.

Neil found it extremely useful to have a structured programme which enabled him to meet other colleagues and learn about the business at an early stage. All meetings were held virtually as a result of the pandemic. However, Neil found this worked to his advantage, as he was able to meet more people over a shorter period of time.

Neil also found the induction pack was complete with detailed information on Board activities, the corporate plan and strategic objectives. Neil's induction plan was tailored further in 2021 in preparation for his appointment as Chair of the Board Risk Committee. This involved meetings with each of the senior members of the Risk function, to enable him to learn more about their individual roles.

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. Neil confirmed that this was particularly useful, especially when he first joined the Society as it enabled him to learn about the role of each committee and how they operated, at a quick pace.

Board development

In order 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. In 2021, the Board received training on a number of topics including structural hedging, IRB models and IRB capital calculation, shared ownership, UK Finance mortgages policy priorities, as well as detailed training on climate change, which included sessions from both internal and external subject matter experts on climate risk and the climate strategy.

Board activities in 2021

Some of the key areas of Board activity during 2021, linked to our corporate priorities, are shown below. Further information and examples of how stakeholders' interests were taken into account in some of the key decisions made during the year can also be found in the Strategic Report on pages 34 to 38.

Keeping the Society financially resilient

- Approval of the Annual Report and Accounts for the period ending 31 December 2020 and Interim Financial Report for period ending 30 June 2021.
- Quarterly financial updates from Chief Financial Officer.
- 2022 corporate plan.

Safely keeping the Society operating for the benefit of our members

- Approval of the move to the Society’s head office.
- Annual whistleblowing report.
- Approval of any new Board appointments.
- Annual corporate responsibility strategy and mutuality review.
- Strategic Framework Review – vision, mission and purpose.
- Update on the 2021 Board effectiveness review.
- Approval of the Board Conflicts of Interest Policy.
- Regular updates on regulatory matters and horizon scanning.
- Annual review of the Society’s systems and controls.
- Update and detailed discussion on the Society’s diversity and inclusion strategy including the agreement of targets for both gender and ethnic representation on the Board.
- Annual culture review.
- ESG strategy review.
- Discussions on purpose and vision.

Informing and engaging colleagues and customers

- Approval of the format for the 2021 and 2022 AGMs.
- People strategy update.
- Regular colleague updates provided by Lynn McManus as the appointed representative of the workforce.
- Brand strategy updates.
- The first phase of the new diversity and inclusion strategy.

Strategy conference

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
A summary of the current social, economic and political environment and how this may change over the short, medium and longer term.	<p>Purpose: To provide a brief summary of the key external environment themes, giving context for the strategic discussions.</p> <p>Outcome: To determine whether any changes were required to our strategic priorities in light of the latest update.</p>
Savings channel strategy and insight. A discussion on digital channel requirements to support our savings strategy.	<p>Purpose: To set out the extent to which our members are adopting digital, relative to wider market trends and to understand the drivers of any variance and the future outlook for our member base.</p> <p>Outcome: A shared understanding of the differences in our position relative to the market both now and in the future and implications for our channel strategy.</p>
Technology roadmap. A review of the data strategy and proposals to simplify and enhance the IT landscape and architecture.	<p>Purpose: To seek further input on the most critical elements of our technology roadmap and the alignment between front-end technology modernisation and delivery of our lending and savings strategies.</p> <p>Outcome: Consensus on the criticality of the technology roadmap in defining our change agenda and alignment on the elements of the roadmap that support the lending and savings strategies.</p>

Topic	Purpose and outcome
Vision and purpose. The Board held a detailed discussion on the cultural dimensions of vision and purpose and the importance of aligning these elements with the overall approach to Responsible Business.	<p>Purpose: To update the Board on the journey so far to refresh our vision and purpose and to put forward our shortlisted vision and purpose statements.</p> <p>Outcome: Mutual understanding of the process so far and the next steps to develop and finalise our vision and purpose.</p>
Mutual dividend. Discussions on value attribution across stakeholders in the current and upcoming environment with a view to maximising value for stakeholders.	<p>Purpose: To share thinking on value attribution across stakeholders in the current and upcoming environment.</p> <p>Outcome: Agreement on the proposed direction of travel, the prioritisation principles and increasing stakeholder value.</p>

Stakeholder engagement

The Board of Directors has a duty to promote our success, which includes engaging appropriately with all of our stakeholders. The Board recognises the diverse range of our stakeholders and the importance of assessing and understanding their needs. The diagram below displays our stakeholders, along with an explanation of how we engage with each group. 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 34 to 38 of the Strategic Report.



The ExCo members operate a ‘buddy’ system with the non-executive directors. This ensures that the non-executive directors have a regular point of contact and so they can be updated on substantive points from the management committees. It is also useful for supporting new non-executive directors, as referenced by Neil Fuller (see page 109). The buddy system also allows the non-executives to have regular contacts with the broader teams and they often visit departments or observe team meetings.

Members

We regularly engage with our members to understand what is important to them and gauge understanding of the products and services they'd like to receive. Member feedback is then used to influence some of the strategic discussions at Board level, for example, at the Board strategy conference in 2021, discussions on the savings channel strategy and mutual dividend took place.

With TalkingPoint, our online forum, members have the chance to tell us what they think. It is an opportunity to give feedback on a wide range of subjects, from the Society itself, to our new products and services. Using TalkingPoint, members are encouraged to engage with us – and each other. The forum has 2,723 members and over the past year 53% have actively taken part in research.

In 2021, a number of forum and research activities were undertaken, including for example, research conducted with TalkingPoint where we asked members about the following topics:

Regular Saver – To understand what member and non-members' expectations are of a regular saver product and the demand for such products. This research has provided meaningful insight into discussions around the savings products to be introduced into the Society's product range in 2022.

Savings strategy – To understand the extent to which our savings customers use digital channels in comparison to wider market trends and to explore the drivers of any variance. This research was considered in discussions at our 2021 savings strategy conference.

AGM planning – This research looked to understand our members' opinions on the voting pack content (post and email) and how they would prefer to consume future AGM content. The findings from this research were provided to the Board and have been used in the ongoing planning for the 2022 AGM.

Digital personas – This research looked to provide insight into online behaviours and preferences of both our members and the market trends of different customer segments.

AGM 2021

We were disappointed that in 2021 we were, once again, unable to hold our AGM in the usual format of a physical meeting in a Leeds city centre venue. We have carefully considered the options for our AGM in 2022 and we look forward to meeting our members again in April.

Colleagues

Reward review

In May 2021, the Board discussed reward received by colleagues and it was agreed that an additional investment would be made, to recognise colleagues' dedication and outstanding contribution to the Society during the pandemic. This was delivered by way of an additional increase, over and above the annual pay award, to all eligible colleagues. More information is included in the Strategic Report on page 38.

Stakeholder engagement in action

In order to enhance visibility of Board members from within the Society, a number of non-executive directors prioritised meeting colleagues to discuss their roles and responsibilities as well as to gain colleague insight on any pertinent issues they are currently facing.

Examples of this included:

- Throughout the course of 2021, and in preparation for his appointment as Chair of Board Risk Committee in 2022, Neil Fuller met with all colleagues across the Leadership Team, within the Risk function, to discuss their role and promote understanding of the way in which the Society manages risk and the internal control mechanisms in place.
- Annette Barnes and Iain Cornish visited Mortgage Support at our head office in Leeds to meet with colleagues and to find out more about technology changes being implemented in 2022, to improve efficiencies and the member experience.
- A number of branch visits were undertaken in 2022. Annette Barnes visited Newcastle and South Shields in September as well as our new Leeds city centre branch in October. Annette discussed how colleagues were supported by the Society during the pandemic and how colleagues have been supporting customers (for example by taking calls for Contact Centre), as well as discussing the new branch 'enquiry desk' role which has been established to assist with career progression opportunities. Lynn McManus also visited branches in Aberdeen, Glasgow and Edinburgh.

As outlined earlier in the report, the Board trialled new ways this year to bring the colleague voice into the Board room, as a means of enhancing stakeholder engagement as well as monitoring culture more closely.

Colleagues who have been invited to the Board said:

James Keatley

"As a new joiner in March, I found myself engaging with the Board over the course of my first year. On all occasions I have felt welcomed and that my voice was respected. I have been impressed by the diversity of perspectives which has added valuable focus to my own thinking. Whilst such discussions are justifiably challenging, they were conducted in a collaborative way, making my early experience at LBS overwhelmingly positive."

Graham Binns

"Presenting the 'voice of the colleague' session to the Board in September was a very positive experience. It was really important that colleagues responded in as honest a manner as possible and this really came across in the videos. The questions posed were relevant and provided the Board with a real-time view of how colleagues were feeling. The response from the Board was excellent and I felt there was a strong level of engagement. Questions asked were again relevant and enabled me to add more context if required. I was made to feel very welcome by all in attendance and felt that I was listened to and my views were completely respected."

Board-appointed colleague representative

The Board considers this an important role and an additional means by which colleague views and behaviours can be monitored on an ongoing basis.

What is the purpose of this role?

- To allow Board members to obtain a full and rich understanding of colleague views across the organisation;
- To ensure that colleague views are represented and discussed at Board level, and consequently taken into consideration inherently as part of the Board's overall decision making process; and
- To provide an additional means to monitor culture and colleague opinions more closely.

As the Board-appointed colleague representative, Lynn McManus, Non-Executive Director, carries out a number of branch and departmental visits and meets with the Colleague Association at least twice a year, to discuss key themes and ways in which the Board can provide further support. Lynn also takes an active role in reviewing colleague feedback received as part of the Society's annual colleague engagement surveys. Updates from Lynn are scheduled in advance at regular intervals, during these updates Lynn reports to the Board on her findings and agrees appropriate actions with management. This is considered an important role by the Board and one which has been discussed at the Nominations Committee this year.

Colleague Association

The Colleague Association is an elected colleague forum that works on behalf of colleagues to help ensure we provide a great place to work. The Association's committee is made up of 8 colleagues from across the business, who meet a minimum of twice a year. In 2021, the Association met more frequently to discuss the ongoing support needed for colleagues, following the introduction of hybrid ways of working as we started to return to the workplace, as well as consulting with management on the 2021 reward review.

68% of colleagues are members of the Association, which provides legal assistance, guidance and welfare support for its members. It 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.

Stakeholder engagement in action

In 2021, Lynn McManus, in her capacity as the colleague representative attended two meetings along with Andrew Greenwood, Deputy Chief Executive Officer and Becky Hewitt, Director of People. Iain Cornish, Chair, also attended a meeting in July to gain insight into the work of the Association and discuss colleague needs more closely with committee members.

Relations with other investors

The Treasury team has developed a programme for wholesale debt investor relations, which ordinarily includes a presentation of the Annual Results at an invited event in the City of London presented by Andrew Conroy, Chief Financial Officer. Regular financial performance updates are provided/made available to investors following the publication of the annual and interim results. Engagement with investors is through holding individual meetings with key institutional investors, group presentations and attendance at specially arranged investor days. Attendance at investment conferences and specially arranged investor events provide the opportunity for additional engagement. COVID-19 has impacted these meetings and conferences significantly and since March 2020 meetings have been held remotely. It is likely that face-to-face meetings will gradually resume but the landscape has changed and we expect that remote meetings will continue, allowing us to reduce our carbon footprint in the process.

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

Regular and close dialogue is maintained with credit rating agencies, Fitch and Moody's. A formal review meeting is held on an annual basis with each agency and representatives from the Society's ExCo and Treasury management. At other times, a close relationship and regular dialogue are maintained. In 2021, meetings and discussions with these agencies continued to be held via conference call or video meeting.

We continue to monitor developments in Capital Markets regarding green, social and sustainable bond issuances and other ESG factors. Demand for this type of issuance is increasing as asset managers receive further inflows requesting returns that are linked to these types of initiatives. As a building society, our investors are understanding of the social purpose that we are founded upon.

Third parties

Our supplier partners are an essential part of our business operations and key to the ability to develop and deliver services to members. It is important that third parties represent us in a manner which supports and enhances our reputation, as well as relationships with members, colleagues and other stakeholders. Our supply chain includes suppliers of goods and services, including professional services (such as conveyancing services), IT platform services (access and administration) and IT software licences.

In 2021 we grew 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. This has built on the strong governance framework in place with a renewed focus on delivering optimal value to our members through our supplier partnerships, at point of procurement and throughout the lifecycle of those relationships. We select suppliers based on their ability to reliably deliver services that enhance our members' experience, alignment to the Society's values and behavioural standards and the measurable value we benefit from in return for our investment, including joint innovation and market insight.

Our Third Party Management Policy and associated standards were fully revised in 2021, including a clearer risk-based classification of suppliers which enables us to take a more consistent and risk-appropriate approach to our management of each engagement. We provide regular updates to the Board on our progress in evolving the Third Party Management function, in addition to reporting key performance metrics to the Operational Risk Committee on a cyclical basis: in recognition of the growth of the function, a revised set of risk reporting measures are in development for 2022 implementation. We have worked to enhance our assessment of current and future suppliers' Environmental, Social and Governance practices through creating our Supplier Code of Conduct and partnering with a market-leading ratings provider, both of which will go live in early 2022. The regulated nature of financial services means that we operate within a low-risk industry for modern day slavery, but nevertheless we remain vigilant and take our responsibilities under the Modern Slavery Act seriously. Copies of our Modern Slavery statement and Supplier Code of Conduct are available for viewing on our website.

Regulators

Our regulators, the Prudential Regulation Authority and the Financial Conduct Authority, shared their areas of focus for 2021 with the sector, which included:

The Prudential Regulation Authority:

- Financial resilience.
- Credit risk.
- Operational risk and resilience.
- Transition from LIBOR to alternative risk-free rates.
- Competition and future regulatory frameworks.
- Financial risks arising from climate change.

The Financial Conduct Authority:

- Ensuring fair treatment of borrowers, including those in financial difficulties.
- Ensuring good governance and oversight of customer treatment and outcomes during business change over the next two years.
- Ensuring operational resilience over the next two years and beyond.
- Minimising fraud and other financial crime.

We have an open and transparent relationship with our regulators. Regular meetings are held with the Prudential Regulation Authority, which are attended by our Chief Financial Officer, Andrew Conroy, along with members of the Senior Leadership Team. Whilst the Society is not relationship managed by the FCA, the Society adopts 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).

The meetings with the PRA include discussion on topics such as month end results, liquidity, thematic reviews and market trends likely to impact our members and the Society. Since the outset of the pandemic, the meetings have also included detailed discussions on how the Society has adapted to the changes in the operating environment and any potential impact this has had or could have on the Society's resilience, its members, colleagues and other key stakeholders.

Communities

In 2021, the Board continued to focus on the development of its responsible business strategy and in November approved a suite of measures and associated targets, aligned to our new purpose and values, which demonstrate how our purpose-led strategy delivers social value to our stakeholders. For more information on the progress made and the agreed targets, please refer to the Strategic Report on page 23.

We are committed to supporting the communities in which we operate. As part of this commitment we entered into a four-year charity partnership with Dementia UK and have raised over £380,000 for the charity, since 2019.

As well as raising funds for our charity partner, colleagues are also encouraged to volunteer for a charity of their choice and receive 14 hours a year back from the Society in lieu of volunteering.

Tax funds the essential public services our communities rely on every day. We are proud to pay our fair share of tax and we transparently report the contribution we make. In 2021, we paid £45.9 million in corporation tax and banking surcharge and were re-accredited with the Fair Tax Mark, please see page 80 for further details.

Environment

The Board takes the impact of climate change seriously and is committed to the global call to action on climate change. During 2021, the Board approved a new Climate Risk Strategic Framework centred around the aim to support the orderly transition to a greener, net zero economy by 2050 or sooner. Our climate strategy has been designed to consider the requirements of our key stakeholders, including, for example, ways to support our colleagues and members to reduce their carbon footprint, working with our key suppliers to reduce supply chain emissions and investment in carbon offset schemes.

Stakeholder engagement in action

Board training

The Board received detailed training on climate risk, how it may impact the Society and its key stakeholders (financial and non-financial risks) and the activities that have been completed so far in response. The session included key insights across the pillars of climate risk (climate science/landscape; risk management; carbon footprint). Our external climate risk partners, Hometrack, also provided some insights on their view of the market/climate change landscape and how the Society is positioned to respond to the risks and opportunities.

For information on how the Society takes into account the impact of its activities on the environment, including climate change and our climate-related financial disclosures, please refer to pages 39 to 63.

Intermediaries (brokers)

During 2021, the Board received an overview of the Mortgage Transformation Delivery Stream to provide visibility of the value being derived through the revised delivery model and against the clear objectives agreed for the stream.

In 2020, as part of the broader transformation programme, a significant investment was made into our intermediary Mortgage Hub, which was developed in partnership with Iress. The new platform has made the mortgage process quicker, easier and more user-friendly for intermediaries, as well as improving online functionality from application to completion and offering instant decisions in principle. Throughout 2021, we worked with intermediaries to gauge feedback on the new Mortgage Hub, to develop it further to enhance the experience and overall Net Promoter Score (NPS). Enhancements have included optimisation of decisioning and mortgage processes to increase capacity throughput as well as supporting ESG deliverables and improve new business acquisition and retention performance. Service has improved, through improved offer turnaround times, which are now almost seven days quicker than at the start of the year. Work is also underway to develop an online execution only solution and an appointment booking tool, to develop our direct to consumer capabilities. Further enhancements are due to be made in 2022.

In addition, our engagement with intermediary partners has continued to evolve. In 2021, we have taken measures to develop integration across a number of third party sourcing systems, which means the Society is now visible on the majority of broker search platforms and customer information is transferred from the broker's portal directly into Mortgage Hub, saving the intermediary time re-keying the information and reducing the risk of re-keying errors.

Audit, risk, internal control and remuneration

Audit, risk and internal control

Our internal governance arrangements continue to support the independence and effectiveness of the Internal Audit function and the integrity of our financial statements. The Audit Committee Report on page 126 provides further information in this regard. We also have an Enterprise Risk Management Framework in place, designed to manage risk, oversee internal control effectiveness and determine principal risks, so that we may achieve our long term strategic objectives. The Risk Management Report on page 136 provides an overview of our approach to risk and internal control.

Remuneration

The Board continues to support a remuneration policy and practices which are designed to promote our sustainable success, with executive remuneration aligned to our purpose and behaviours and linked to the delivery of our long term strategy. A summary of the work undertaken by the Remuneration Committee can be found within the Directors' Remuneration Report at page 144.

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

Iain Cornish
Chair

24 February 2022

Nominations Committee Report

Year ended 31 December 2021

Nominations Committee highlights from 2021

- Appointment of Rob Howse as Executive Director
- Appointment of Anita Tadayon as Non-Executive Director
- External board evaluation
- Establishment of a new network for potential non-executive candidates

Committee membership

- 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
- Two additional meetings held
- 100% attendance record

Introduction from the Chair

Dear member,

I am pleased to present our 2021 report on the Nominations Committee, which reviews and summarises our activities over the past year. The report will also provide more detailed information on the role and responsibilities of the Committee.

Board appointments

As I have outlined in the Corporate Governance report, a number of changes have been made to the Board composition during 2021, including the appointment of Rob Howse as Executive Director and Anita Tadayon as Non-Executive Director. John Hunt also stepped down as a non-executive director in April. Further information is included in this report, which also explains the criteria of each appointment and the recruitment process followed.

Focus of the Committee during 2021

Key areas of focus for the Committee in 2021 have included the arrangement of an externally facilitated board evaluation review, a review of our diversity strategy and targets, a detailed review of the Board's skills matrix and Board composition to enable robust succession planning for the Board.

Throughout the year, diversity remained high on the agenda, with detailed discussions taking place, alongside an in-depth review of the Society's diversity and inclusion strategy. The Board discussed why diversity was important, the different types of diversity – which range beyond just gender and ethnicity and how the strategy could directly link back to the Society's purpose. The Board recognises it has a lead role to play in furthering this agenda and agreed that revised targets, for both gender and ethnicity, would support in the delivery of the

Nominations Committee Report continued

broader strategy. To generate debate and to challenge internal thinking, two external (independent) advisers, with extensive experience in diversity and inclusion, were used to facilitate sessions with the whole Board.

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).

What is the Nominations Committee responsible for?

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.

Key activities in 2021

A summary of the activities undertaken by the Committee in 2021 is detailed below.

Board composition and succession planning

The Committee is responsible for ensuring the Board comprises the right number of executive and non-executive directors, with the requisite skills and experience to deliver the Society's strategic objectives and to ensure the long term success of the Society.

The Committee regularly reviews the composition of the Board and its supporting board committees, to ensure they comprise 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 is 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 regularly reviews 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.

Board recruitment

In 2021, there were two non-executive director vacancies on the Board. As it does every year, the Committee completed a detailed review of the skills matrix in order to agree the necessary attributes of the candidates required to fulfil the vacancies. Consideration was also given to the gaps in skills and experience likely to arise in the future as some non-executives neared the end of their agreed term with the Society. A great deal of emphasis was placed on finding the right people for the roles, but also ensuring that the list of candidates was diverse across a range of factors.

How did we do this?

As part of this process, the Committee reviewed the vacancies on the Board, including for example, one of the non-executive vacancies and agreed that a candidate with experience in technological transformation and change was required to fulfil the gaps left by a previous non-executive director. Enhancing diversity on the Board was an important part of this search and this was discussed at length with the appointed external recruitment agents, Warren Partners (with which we have no other connection or conflict of interest), so that our requirements and expectations for the search were clear. Warren Partners is accredited by the Department for Business, Energy & Industrial Strategy for its commitment to delivering greater gender diversity in the Boardroom and it has signed up to the Enhanced Voluntary Code of Conduct. It is also a signatory of the Women in Finance Charter.

A detailed brief for a new candidate was agreed and the recruitment process took several months to complete. The Committee had agreed to take the necessary time to find the right candidate, with the requisite skills and experience. The process concluded through the appointment of Anita Tadayon, who brings to the Board a wealth of experience. Warren Partners has also been engaged to assist with the search for another non-executive director which, as at 31 December, was still underway.

Similarly, the appointment of Rob Howse as an executive director was considered by the Committee. In view of his performance, his wider contribution at Board meetings and the criticality of his role in delivering the technology strategy, the Committee concluded and recommended to the Board that it was appropriate for him to be appointed as an executive director. Rob joined the Board in May 2021.

Succession planning and developing a diverse talent pipeline for the future

As reported in the Corporate Governance Report, David Fisher reached his nine-year tenure in March 2021. To allow for succession planning and continuity, subject to his reappointment at the 2022 AGM and providing he remains independent from the Society, David expressed a willingness to remain on the Society's Board after the conclusion of his nine-year tenure. Through mutual agreement, David will continue in his role until the end of 2022.

As part of the succession planning for David's replacement, the Committee reviewed the composition of each Board committee with this in mind, including David's position as Chair of Board Risk Committee. Consequently and following completion of a successful induction programme in his first year with the Society, it was agreed Neil Fuller (Non-Executive Director) would replace David as Chair of this committee from January 2022 (subject to regulatory approval). Prior to his appointment, Neil had already served 12 months as a member of the Board Risk Committee and towards the end of 2021, Neil's induction plan was tailored to include a number of meetings with members of the leadership team within the Risk function, enabling Neil to meet relevant colleagues and gain a deeper understanding of the function and how it operates. As is the case with all non-executive directors, I, as Chair of the Board, had regular meetings with Neil about performance expectations and Neil's observations and reflections, all of which further informed the Committee's succession planning discussions. As part of the H2, 2021 activity, David then conducted a full handover to Neil, with additional support provided by the Deputy Chief Executive and Risk Director.

Talent pipeline

We want to play our part in building a pool of non-executive directors within financial services, particularly those with the right experience and skills, who are from more diverse backgrounds. To help develop this pipeline the Leeds NED Network (the Network) was set up in 2021 with input from Warren Partners.

The Network's objectives are to build a relationship with potential candidates, provide insight and training on the role of a non-executive and the skills and experience required, both at the Society and, more generally, across financial services. Each Network member was invited to join an initial meeting, held virtually, in November. The meeting was led by the Society's Director of People, with Joelle Warren from Warren Partners, Annette Barnes and Anita Tadayon, two of our non-executive directors and me, as Chair of the Committee and of the Board.

Nominations Committee Report continued

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 to 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), provided they are considered to remain independent from the Society.

In 2021, the Committee recommended to the Board that the following appointments should be extended by a further three years (subject to re-appointment at each AGM):

- Gareth Hoskin's appointment was extended following his six year anniversary with the Society in November 2021.
- Iain Cornish's appointment was extended following his three year anniversary with the Society in January 2022.
- Annette Barnes' appointment was extended following her three year anniversary with the Society in February 2022.

Iain Cornish and Gareth Hoskin did not take part in the discussions or the approval of the extension to their own appointments.

As recommended by the Committee, each non-executive director receives a tailored refresher training programme following the extension of their appointment for a further three years.

Conflicts of interest and directors' independence

The Committee is responsible for assessing the independence of all non-executive directors, ensuring a robust process for assessing and recording any potential or actual 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. It was confirmed that none of the non-executive directors had been recent employees of the Society, held a material business relationship with the Society, received any additional fees other than their director's fee or had close family ties or significant business links to other directors. With the exception of David Fisher, none of the non-executive directors have been in post for more than nine years. The Committee carefully reviewed the ongoing appointment of David Fisher, who exceeded his nine year tenure in March 2021. The Committee discussed how David's extensive experience of risk management, human resources and broad financial services knowledge and skills were considered highly valuable and agreed that his independence could be evidenced through his ongoing challenge to management at Board and committee meetings and through the productive discussions he led as Chair of BRC. His term extension was considered particularly important to support succession planning for the Chair of BRC role.

The Committee 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. The Board's Conflicts of Interest Policy was also reviewed and recommended to the Board for approval. In 2021, only minor updates were made to the policy to reflect the changes in organisational structure and changes in the Market Abuse legislation, as a result of the UK's departure from the EU.

Consequently, and taking into consideration all of the above points, the Committee concluded that all directors remain independent and that all appointments remained appropriate. Further details on conflicts of interest, external directorships and the associated time commitments are contained within the Corporate Governance Report on pages 106 to 107.

Board evaluation

The Nominations Committee is responsible for oversight of the annual board effectiveness review. Each year the Committee agrees and recommends to the Board, the process for the annual review of the Board's effectiveness.

In 2021, it was agreed to proceed with an external review (being three years since the previous external evaluation) and, following a thorough tender process led by myself and approved by the Committee, Russell Reynolds Associates (RRA) was engaged to conduct the review. RRA has no other connection or conflict of interest with the Society. RRA was chosen to lead the evaluation as the proposed approach to the review was positively different to those conducted previously and they demonstrated a good understanding of what we wanted to achieve. Central to RRA's review would be to gain insight on the culture and behaviours of the Board and it was considered this information could be used to drive meaningful actions.

The evaluation process consisted of a detailed questionnaire (to the Board directors and some key stakeholders), a psychometric self-assessment questionnaire (for the directors), RRA's attendance at the Board Planning Conference and a Board meeting (to evaluate performance) and interviews with individual Board members and stakeholders. Once RRA had collated the information, they conducted a facilitated Board discussion to explore themes, such as Board leadership and Society purpose, Board governance and performance, Board composition and people and culture. In my update to you last year, I said the effectiveness review would also focus on the independence of non-executive directors. A key part to the RRA assessment looked at the ability of directors to voice independent views, with a willingness to challenge and have a constructive debate.

To enhance the process, and in line with the recommendations of the Code and the Financial Reporting Council's (FRC) Guidance on Board Effectiveness, additional stakeholders were also requested to take part in the evaluation process, to provide additional insight into the operations of the Board. This comprised the external auditor from Deloitte, members of the Society's Executive Committee and the Society's Secretary. They completed the same questionnaire provided to Board members. The output from the facilitated Board session was collated with the interview and questionnaire results and combined into a report. The results were shared with the Board for discussion in January 2022, at which point actions were also agreed. Overall, the evaluation concluded the *'Board was performing well – with no urgent action required'*. However, there were several themes worthy of further discussion/exploration and these were focused on:

- Balancing financial, non-financial and strategic matters, so the Board can continue to operate at the required level.
- Strategy and innovation – promoting different thinking styles and to explore further the benefits of a more 'disruptive' style of discussion.
- The evolution of the governance framework should draw out how the Board can help promote greater agility in decision making.
- Diversity and inclusion – directors to continue their support to aid the effective transition of the new Board Risk Committee Chair. The Board should be live to the prospect of changing dynamics/culture at the Board as new NEDs join. The review also drew out the ongoing importance of progressing the diversity and inclusion agenda.
- Board papers and presentations – consider how board papers and presentations can be flexed to meet the different styles of the reader and the different subject matters.
- Stakeholder engagement – it is important to understand the purpose and value of each element of engagement.

The Secretary will oversee the completion of any agreed actions and provide detailed updates to the Board throughout the year.

Nominations Committee Report continued

Diversity and inclusion

The Committee is responsible for ensuring the composition of the Board and the Leadership Team is diverse and inclusive and reflects the Society's strategic ambition, which confirms that the Society is an organisation that seeks to deliver great service to its current and future members and where all colleagues feel 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 diversity and inclusion very seriously, we are not complacent and we understand that we have much more to do. We recognise that diversity and inclusion goes beyond 'just meeting targets' and the new strategy will be the foundation to engage all colleagues at the Society, from the Board to the branch network.

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. In 2020, the Board committed to increasing the representation of women in our Leadership Team and agreed a target of 33% for females on the Board, by the end of 2021.

As at 31 December 2021, three members of the Board were female, representing 27% of the total Board membership. Whilst we have not met the target of 33%, we have made positive progress and with the actions and measures currently underway, we are confident our targets will be met in the near future. In terms of the Leadership Team (our top three levels of management), 32% were female.

In 2021, the Committee completed a full review of our diversity and inclusion strategy. The Committee considered the positive steps taken since we launched our diversity and inclusion strategy in 2017, including the development of four colleague-led forums and networks, which have sought to promote, educate and inform on gender, race equality, mental health and LGBTQ+. Additionally, we became early signatories to the Women in Finance Charter, including setting and publishing targets and progress for gender representation on the Board and Leadership Team.

The various activities we have undertaken have, in turn, supported the delivery of a positive culture and strong colleague engagement, including:

- In 2021, the Society ranked 166th in the Financial Times Diversity Leaders ranking (out of 850) and sixth out of 19 in the Banking and Financial Services sector.
- Colleague awareness, understanding and education around diversity has increased, supported by training for all colleagues across a breadth of diversity and inclusion topics, including unconscious bias.
- We achieved our Investors in Diversity accreditation in 2016, followed in 2018 by the Leaders in Diversity accreditation and re-accreditation in 2020. We were the first financial services firm to achieve this accolade.
- We signed up to the Race at Work Charter in 2019 and have recently launched an ethnicity reverse mentoring programme.

Following a detailed review by the Committee, this matter was also discussed at length by the Board. Consequently, the targets set out overleaf were agreed and will be subject to review at least annually.

Element	Proposed target for 2025	Current position
Board gender diversity	33% To be reviewed in 2022	27%
Leadership Team gender diversity	35%	32%
Ethnic minority representation – Board	1 director by end of 2021 and maintain same level until 2025	1
Ethnic minority representation – Leadership Team	7%	3.8%
Ethnic minority representation – colleagues	12%	9.3%

Gender pay

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 59.5% of our workforce is female. However, there are more men than women in more senior, and, therefore more highly paid, roles. This means there is a gender pay gap. Further information can be found on our website.

More information on the activities undertaken to promote wider diversity within the Society can be found in the Corporate Governance Report on page 100 and the Strategic Report on page 16.

Corporate governance

The Committee is responsible for overseeing governance at the Society. In order to do this the Committee receives regular updates on governance matters, including changes to legislation and best practice.

These matters are taken into consideration, with any necessary actions being documented and tracked through to completion accordingly.

In 2021, the Committee received an update following a detailed review of compliance against the Code. The review confirmed the Society complies with the Code, insofar as it is possible for a building society, with no further actions required.

The remit of the Board-appointed colleague representative was also discussed in detail, with a focus on identifying further opportunities to improve the role based on our experiences to date. It was agreed that the role brought valuable insight to the Board on colleague views and this was something the Board wanted to develop further, for 2022.

Key areas of focus in 2022

In 2022, the Committee will be focused on the outcome of the Board Evaluation and ensuring all actions and improvements are made as a result of the review. The Committee will also continue to work towards the successful recruitment of a new non-executive director. Enhancing the diversity of the Board, as well as the Senior Leadership Team, will remain an area of key focus and the Committee will continue to look at ways to improve this further.

Iain Cornish
Chair

24 February 2022

Audit Committee Report

Year ended 31 December 2021

Audit Committee highlights from 2021

- Annual Report and Accounts recommended to the Board for approval
- Integrated assurance shows control environment is effective and proportionate
- Internal Audit and the external auditor remain independent and effective

Committee membership

- 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
- Meetings regularly attended by other Board members including the Chair, CEO and CFO
- The Chief Internal Auditor, representatives of the Finance and Risk functions 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,

As Chair of the Society's Audit Committee, I am pleased to present my report on the Committee's work in relation to the financial year ended 31 December 2021.

The Committee is comprised solely of non-executive directors and acts with authority delegated to it by the Board. The Committee reports directly to the Board. All members of the Committee have considerable recent and relevant financial, accounting or risk management experience and competence relevant to financial services.

Our main areas of responsibility relate to the following four areas:

- Considering the appropriateness and integrity of the Society's externally reported financial statements, including reviewing and challenging, where necessary, the actions and judgements made by management in relation to the accounts.
- Reviewing the adequacy and effectiveness of our systems of internal control and risk management.
- Monitoring the effectiveness, performance and independence of the Internal Audit function.
- Assessing the independence, performance and objectivity of the external auditor.

While the Society has delivered a strong financial performance this year, the consequences of the pandemic continue to present challenges to the business, which are reflected in the work of the Committee.

The ongoing pandemic and the measures taken by governments to mitigate the impacts have meant persistent uncertainty in the economic environment. This has caused a continued elevated reliance on management judgement in certain areas of financial reporting, notably impairment loss provisions and the fair valuation of financial assets. Committee members have devoted considerable time to reviewing and challenging these judgements for both the Interim Financial Report and the Annual Report and Accounts.

We also recognise the increasing importance of Environmental, Social and Governance (ESG) matters to the Society's stakeholders and the Committee's role in ensuring adequate, appropriate disclosures are made in the accounts. We received training and knowledge updates on this topic throughout the year.

The Committee received appropriate assurance over our risk and control environment during the year, including the results of the annual attestation process and we concluded that the control environment remains effective and proportionate to our operations.

The Internal Audit function continues to provide an effective and independent third line of defence. Internal Audit takes a flexible approach to planning its schedule of work and the regular updates provided to the Committee have generated significant discussion and challenge, so that committee members could be satisfied that Internal Audit's work was focused on the most appropriate areas of risk throughout the year.

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

In March 2021, the Department for Business, Energy and Industrial Strategy (BEIS) issued a consultation paper 'Restoring trust in audit and corporate governance'. The proposed regulations are likely to have a significant impact on the Society's future internal control environment, the work of the Committee and the relationship between the Society and its external auditor. Updated proposals following the consultation are expected in 2022 and the Committee will consider these and build any actions required into future plans and meeting agendas for 2022 and beyond.

Gareth Hoskin
Chair of Audit Committee

24 February 2022

What the Committee did during 2021

Financial statements and external reporting

The Committee reviewed the Society's 2021 external financial reporting, comprising the Annual Report and Accounts, Interim Financial Report and Pillar 3 Disclosures, on behalf of the Board. Following detailed discussion and challenge, we recommended these to the Board for approval. All Board members attended the committee meetings at which the final financial statements were reviewed, so all directors were aware of the matters discussed and challenges raised with management.

In preparing the financial statements, management was required to adopt certain accounting policies and make judgements, estimates and assumptions. The Committee reviewed these and evaluated management's views to assess whether the policies, judgements, estimates and assumptions were appropriate in the circumstances.

Management provided us with detailed reports ahead of reporting dates setting out the basis for the accounting treatments to be adopted and further reports confirming the impacts of these in the accounts. The external auditor also provided the Committee with reports detailing the challenge it has provided and its opinions on management's approach.

Committee members considered the narrative sections of the financial reports to assess whether a fair, balanced and understandable view of our performance and position has been presented, based on their knowledge and understanding of the business and the wider environment. This year we reviewed the TCFD disclosures to be included in the Annual Report and Accounts for the first time.

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.

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

Area of focus	How the Committee responded
<p>Residential impairment loss provisions</p> <p>Under IFRS 9 – Financial Instruments, we are required to hold impairment loss provisions against our financial assets, calculated on an expected credit loss basis.</p> <p>For residential mortgages, these provisions are calculated using complex statistical models which incorporate historical default and loss experience information.</p> <p>The level of provision required under IFRS 9 depends on whether a significant increase in credit risk has occurred since the mortgage was originated and determining this requires significant management judgement.</p> <p>Provisions are calculated across multiple forward looking, probability weighted economic scenarios which require estimation by management.</p> <p>Where risks are identified that are not sufficiently covered by the modelled provisions and scenarios, additional provisions can be made through post model adjustments. The identification and measurement of these requires significant levels of judgement.</p> <p>Further details of the estimates and judgements used are set out on pages 183 to 189.</p>	<p>The models used for calculating residential impairment loss provisions have been substantially redeveloped in 2021 by the Society's specialist Credit Risk Modelling team. This work reflected the experience gained from operating the models in a live environment since the adoption of IFRS 9 in 2018, while also incorporating further insight and inputs from the Society's IRB models for capital calculations, as appropriate and reducing the run-time of the models, improving efficiency.</p> <p>The redevelopment work was overseen by the Models and Rating System Committee (MRSC), who approved the final models in October 2021. The Audit Committee received updates through the year on the progress of the work. As part of the approval of the final year end provisions, the Committee received analysis and explanation of the model changes and their impacts, to support the final provisions.</p> <p>The pandemic continues to have a significant bearing on the economic environment, although the economic outlook has improved during 2021 from that predicted at the start of the year. As noted last year, the measures taken to combat the pandemic and the economic support provided by the Government have meant that historic data is less reliable as a predictor of the future and a greater reliance is placed on management's judgement in key areas of IFRS 9.</p> <p>At the time of the Interim Financial Report, there was a great deal of uncertainty over how the unwind of government support schemes, such as furlough, would impact the economy in the second half of the year. Management sought to reflect this uncertainty in the range of economic scenarios used, with post model adjustments applied to cover those factors which could not be reflected in the model data or the economic assumptions.</p> <p>In order to support the Committee's review and challenge of management's assumptions, members were given early sight of the proposals through Board updates ahead of the half year end, allowing time for management to incorporate the challenges received into the final assumptions.</p> <p>Having reviewed management's justification and evidence supporting the final judgements and considered the review work of the external auditor, the Committee concluded that the level of provisions in the interim accounts was appropriate.</p> <p>By the end of the year, the emergence of a new COVID-19 variant, coupled with inflationary pressures and the continuing effects of the cessation of government support schemes meant that considerable uncertainty remained, requiring further judgement to be applied to economic assumptions and post model adjustments.</p> <p>Management's proposed scenarios, weightings and post model adjustments were reviewed and refined by the Balance Sheet Optimisation Group. The approach to setting the scenario weightings was enhanced in response to feedback from the external auditor. As at half year, the Board was also given early sight of the proposals ahead of finalisation of the year end provisions and its feedback was incorporated into the final proposals.</p> <p>The Committee is also supported in its assessment of the year end residential impairment loss provisions by MRSC, as noted above, and Credit Committee, which approves the tests used to determine whether a significant increase in credit risk has occurred, the approach to the non-UK loan portfolio and provides preliminary approval of the final provisions, including final post model adjustments.</p> <p>In January 2022, management provided us with a detailed explanation of the rationale for the economic assumptions and post model adjustments used, information on 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. There was particular focus on the range and sensitivities of the post model adjustments proposed given the evolving economic and regulatory backdrop. Diverse views were expressed and discussed, including the perspective of the external auditor.</p> <p>Management also set out for the Committee how they had addressed the matters raised by the PRA in their September 'Dear CFO' letter which set out the findings from their industry wide 2020/21 written auditor reporting review.</p> <p>The external auditor provided the Committee with a report setting out the conclusions of their work, which included a detailed review of the redeveloped models.</p>

Area of focus	How the Committee responded
Residential impairment loss provisions (continued)	<p>Having considered management's reports, the assurance from other committees and feedback from the external auditor, the Audit Committee concluded that the updated impairment models remain appropriate and that management's approach to deriving economic scenarios and probability weightings is reasonable. The Committee also agreed that the post model adjustments at the 2021 year end were appropriate in the circumstances.</p> <p>Therefore, the Committee concluded that the level of impairment provisions at 31 December 2021 is reasonable.</p>
Fair value of the collateral loan which represents a pool of equity release mortgages	<p>The model used by management to calculate the fair value of the collateral loan underwent an in-depth review in 2019 and remains appropriate. The assumptions used in the model are mostly evidence based, using historic data on the performance of the underlying mortgages. However, a significant level of judgement is required in selecting the discount rate to be used and management updated its approach to this in 2020, taking advice from third party specialists to set an appropriate approach. This approach has been applied consistently in the current year.</p> <p>We hold a collateral loan to a third party which represents a pool of equity release mortgages acquired from that third party, for which some but not all of the risks were transferred to us.</p> <p>The nature of the loan means that under IFRS 9 it is classified as being held at fair value through profit or loss.</p> <p>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.</p> <p>The key estimates and sensitivities are shown on pages 189 to 190.</p> <p>Management provided the Committee with reports for the interim and year end accounts explaining the assumptions used and the sensitivity of the model output to the changes in these assumptions. Where management applied judgement to extrapolate observed trends in historic data or made post model adjustments to override current market observations, where these were deemed to be transitory, we reviewed this in detail. We challenged the approach taken to deriving future house prices on the underlying mortgage portfolio based on recent sales data and probed the extrapolation technique used by management.</p> <p>Management also provided narrative to rationalise the movement in the fair value of the collateral loan in the year. We noted that the nature of the loan means that there is no directly comparable market data available, so a significant level of judgement is required in the valuation and therefore a wide range of valuations could be considered reasonable.</p> <p>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.</p>
Fair value of the RPI linked derivative hedging the collateral loan (equity release swap)	<p>In previous accounting periods, the Society has used the valuation provided by the counterparty for the Retail Price Index linked derivative hedging the collateral loan. Following discussions with the external auditor at the 2020 year end, during 2021 management has developed its own model for the valuation of this derivative. The valuation at 31 December 2021 has been based on this modelled valuation. The impact of the change in valuation approach is set out on page 190 of the accounts.</p> <p>The model was developed in accordance with the Society's Model Risk Policy and was reviewed by second line and approved by MRSC in October 2021. In November 2021, we received an update on this work and management's intention to deploy the model in the 2021 financial statements.</p> <p>To support the change in approach, management demonstrated that the model produced a consistent valuation to the counterparty when consistent assumptions were used. However, management have proposed changes to assumptions which drive a difference in valuation, most notably the redemption profile for the underlying mortgages.</p> <p>Management provided the Committee with analysis showing why these assumptions were more reflective of the Society's portfolio, also noting that this would provide consistency between the valuation of the collateral loan and the swap.</p> <p>Management also confirmed that it considers the new approach to be consistent with the requirements of IFRS 13, which was corroborated by the external auditor.</p> <p>Having considered and challenged the evidence provided by management and the external auditor's opinion that the resultant valuation is within a reasonable range, the Committee approved the change in valuation approach. We also concluded that the valuation of the derivative in the accounts at 31 December 2021 is reasonable.</p>

Area of focus	How the Committee responded
Hedge accounting	<p>Management continues to apply the hedge accounting rules of IAS 39 to certain of our derivative portfolios. During the year, management provided the Committee with reports on the volume and value of derivatives held, the hedge relationships in place and effectiveness testing results which showed all hedges remained effective throughout the year.</p> <p>The transition of derivatives from LIBOR to SONIA has had a significant impact on the composition of the Society's macro accounting hedges. The Committee received updates on these impacts and how the requirements of IAS 39, including the amendments relating to IBOR reform, continued to be met throughout the transition. We noted the transition oversight provided by ALCO and received assurance from Internal Audit and the external auditor on the approach taken.</p> <p>The strict and detailed rules around hedge accounting mean that the external auditor performs detailed substantive testing of management's results, including reperformance of hedge effectiveness testing and derivative valuation. We noted the results of this testing which did not reveal any material errors or control deficiencies.</p> <p>The Committee therefore satisfied itself that the hedge accounting requirements of IAS 39 have been appropriately applied and that management's hedge effectiveness testing performed throughout the year was materially appropriate.</p> <p>The Committee concluded that amounts recognised in the financial statements are fairly stated and that appropriate disclosures have been made.</p>
Other areas of management judgement	<p>The Committee reviewed the reports provided by management on these topics at the half year and year end, discussed and challenged the judgements made.</p> <p>Items of particular note to the Committee included the approach to reflecting COVID-19 impacted 2020 mortality data in the assumptions used to value the pension scheme liabilities, where management's proposed approach was informed by the professional opinion of third party experts.</p> <p>Having considered the information provided by management and the opinions of the external auditor, the Committee concluded that the judgements, estimates and assumptions made were appropriate and that the resulting balances in the financial statements are materially correct.</p>
Going concern assessment and Viability Statement	<p>Management provided the Committee with reports to support the going concern assumption for the Interim Financial Report and Annual Report and Accounts. Those reports drew on management information used within the business to 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.</p> <p>In 2021 the Board undertook an in-depth strategic review and redefined our purpose to support the long term sustainability of the Society. We factored this evolution, as well as the management information and corporate plans provided, into our evaluation of the Society's business model and concluded that the adoption of the going concern assumption to prepare the 2021 Annual Report and Accounts is appropriate.</p> <p>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.</p> <p>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.</p>

Area of focus	How the Committee responded
<p>Fair, balanced and understandable</p> <p>The Board is required to present a fair, balanced and understandable view of our position and prospects in our Annual Report and Accounts.</p> <p>The Board has requested that the Audit Committee confirm that this requirement is met.</p>	<p>The Committee considered the process for the production, review and challenge of the Annual Report and Accounts and other external reporting, and whether this would result in a balanced and consistent report.</p> <p>In reviewing the draft narrative sections of the report, we considered whether the content was consistent with other information presented to us through the year. A separate review of our performance was provided by management to the Board to support their assessment. We noted the impact of the pandemic on the Society's performance and the continued economic uncertainty and provided feedback on how these had been presented in the documents.</p> <p>After consideration of relevant information and discussion with the external auditor, the Committee was satisfied that, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable.</p>

Adequacy and effectiveness of internal controls and risk management systems

Maintaining effective systems of internal control is crucial for the Society in the achievement of its objectives and the safeguarding of member and Society assets. The Society operates an Enterprise Risk Management Framework (ERMF) which is designed to encourage a culture of sound risk management and internal control. This is overseen by the 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 136 to 141.

We are responsible for reviewing the adequacy and effectiveness of these controls and risk management systems and received information from all three lines of defence during the year in order to carry out our duties.

First line management is responsible for the design, documentation, operation and monitoring of internal controls that adhere to the Board's policies and standards. Every six months, they undertake an assessment of the design and effectiveness of those controls through the Risk Control Self-Assessment (RCSA) process. Critical controls are tested on a regular scheduled basis and the results of these tests are reviewed by the second and third line under risk based assurance programmes. Any identified deficiencies with the design or effectiveness of those controls are recorded in the risk register, along with remediation actions which are tracked to completion.

The second line Risk function and third line Internal Audit function perform ongoing risk based monitoring of the completeness and accuracy of risk registers and RCSA submissions. Second line provided reports to the Committee on the outcome of the RCSA, along with an integrated enterprise wide view of risks and controls. The reports showed an overall improvement in the control environment and that our control environment and culture is substantially effective and proportionate to our operations. Where weaknesses in controls had been identified these were receiving the appropriate level of attention from management, with remedial actions in progress. We questioned management on the impact of control weaknesses on the overall operation of the business and the matters covered in the Annual Report and Accounts.

Second line undertakes regular reviews of specific processes and functions across the business, prioritised using a risk based approach. The Committee reviewed and approved the work plans for the Prudential Risk and Compliance Monitoring teams.

Internal Audit conducts regular, independent, risk based assessments of the effectiveness and adequacy of controls in different areas of our business. Its plan of work is refreshed on a quarterly basis, taking into account reviews undertaken by the second line as part of an integrated assurance model and allowing a focus on the most pertinent areas at a particular time. We assessed the coverage provided by this plan based on our understanding of the business risks and raised challenges where we identified areas that would merit increased scrutiny. Our comments were considered and addressed by the Chief Internal Auditor and the plan was approved by the Committee in advance each quarter.

Regular reports were provided to the Committee on progress against the plan of work, together with a summary of findings from each review undertaken and tracking of the resolution of recommended actions to improve controls. Where issues of particular concern were reported by Internal Audit, we asked management to report to us directly on the action being taken to remediate the issues.

The Chief Internal Auditor provided a report to the Committee, bringing together observations from work performed in the year and themes relating to our 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 in 2021 no material issues were raised in this report.

Effectiveness and performance of the Internal Audit function

Internal Audit plays an important role in the ERMF, acting 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 ensure independence from executive management, with their objectives for the year approved by the Committee.

Internal Audit uses a dynamic 'three plus nine' month approach to planning the reviews it is to perform so that these can be focused on the areas of most relevance at a particular time. The Committee reviews, challenges and approves the plan of work on a quarterly basis. We also 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.

The Committee satisfied itself that Internal Audit had sufficient resources with the appropriate skills, competencies and qualifications to deliver the audit plan. This includes the utilisation of third party 'co-source' partners where specialist skills are required.

To 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. In 2021, 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.

In addition to the regular self-assessments, the Audit Committee is required to commission an external quality assessment of the Internal Audit function every three to five years. The most recent review was undertaken by KPMG LLP in 2018 and concluded that the Internal Audit function is fully compliant with all sections and subsections of the Chartered Institute of Internal Auditors' Standards and the Financial Services Code. The next external quality assessment is planned for 2022.

Based on work throughout the year, the Audit Committee is pleased to note that the Internal Audit function is independent, effective and compliant with applicable standards. The Committee concluded that the work completed by the Internal Audit function in 2021 has provided adequate coverage across our principal risks.

Audit Committee Report continued

Independence, performance and objectivity of the external auditor

The Committee is responsible for overseeing our relationship with the external auditor so that the auditor remains independent and effective.

Deloitte LLP's current tenure as external auditor is 17 years, having first been appointed in 2005. The current audit engagement partner is Peter Birch who was appointed in 2020. The external auditor is appointed following a competitive tender process, with the last tender being undertaken in 2016. The maximum auditor tenure allowed by regulation is 20 years.

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 qualification 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 judgements and risks. We also reviewed and approved the auditor's engagement letter and fees.

The external auditor provided regular reports to the Committee on the progress of its work throughout the audit cycle and the areas in which it has challenged management. The Committee had the opportunity to discuss these reports during the Audit Committee meetings, at which management was present, and in private sessions with the external auditor. The Audit Committee Chair also held regular meetings with the external audit partner.

To support the Committee's view of audit quality, the auditor also provided the Committee with an overview of how the firm had responded to the Financial Reporting Council's Audit Quality Review report on the firm for 2020/21 (published in July 2021).

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 2021, including one-off items, represented 26% of the audit fees for the year.

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

Other matters addressed by the Committee

Speak Up Standard

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. It also reviewed our culture in the context of whistleblowing and concluded that we have a positive, open culture, which creates an environment for colleagues to raise issues. This was supported by positive responses to internal colleague survey questions on speaking up and a review by the Compliance Monitoring team of colleague conduct arrangements.

Other reporting matters

The Committee reviewed and approved our Financial Reporting and Disclosure Policy, 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.

Maintaining Audit Committee effectiveness

The Committee undertakes an annual self-assessment of its effectiveness, via anonymous questionnaires to all members and regular attendees at meetings, including the external auditor. The review concluded that the Committee had operated effectively and in accordance with its Terms of Reference (ToR) and no significant areas for remedial action were noted. Small improvement opportunities have been shared and will be addressed through 2022. 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 2021 and are published on our website.

All committee members are required to keep their knowledge and awareness both recent and relevant. Records are maintained of where materials submitted to the Committee as part of its business contribute to member knowledge and awareness. Additionally, separate training materials are provided where particular topics of relevance are identified by members or attendees. In 2021, these additional topics included developments in ESG reporting, IBOR transition and other specific aspects of financial reporting.

The year ahead

In 2022, the Committee will continue to oversee external financial reporting and the internal control environment, together with the performance and independence of the Internal Audit function and the external auditor.

We expect to receive updates on the BEIS proposals and what they mean for the Society and on the continually evolving expectations around ESG reporting. We know we will have an important role to play in ensuring external reporting remains transparent against a background of shifting and complex regulation and continues to engender trust from our stakeholders.

We also expect to commence planning for the external audit tender ahead of the mandatory rotation of the auditor by 2025.

Risk Management Report

Year ended 31 December 2021

Board Risk Committee highlights from 2021

- Close monitoring of COVID-19 impacts across the principal risk categories
- External review of our Enterprise Risk Management Framework concluded that it remained fit for purpose
- Development and implementation of a Climate Risk Management Framework

Committee membership

- David Fisher (Chair) – Chair since March 2014
- Gareth Hoskin – member since November 2015
- Annette Barnes – member since February 2019
- Lynn McManus – member since January 2020
- Neil Fuller – member since December 2020
- Anita Tadayon – member since October 2021
- John Hunt – left April 2021

Number of meetings and attendance

- Nine meetings held during the year, with 96% attendance from Committee members
- At the invitation of the Committee, meetings were also attended by the Chair of the Board and relevant executive directors and members of the Senior Leadership Team, ensuring that the three lines of defence were fully represented

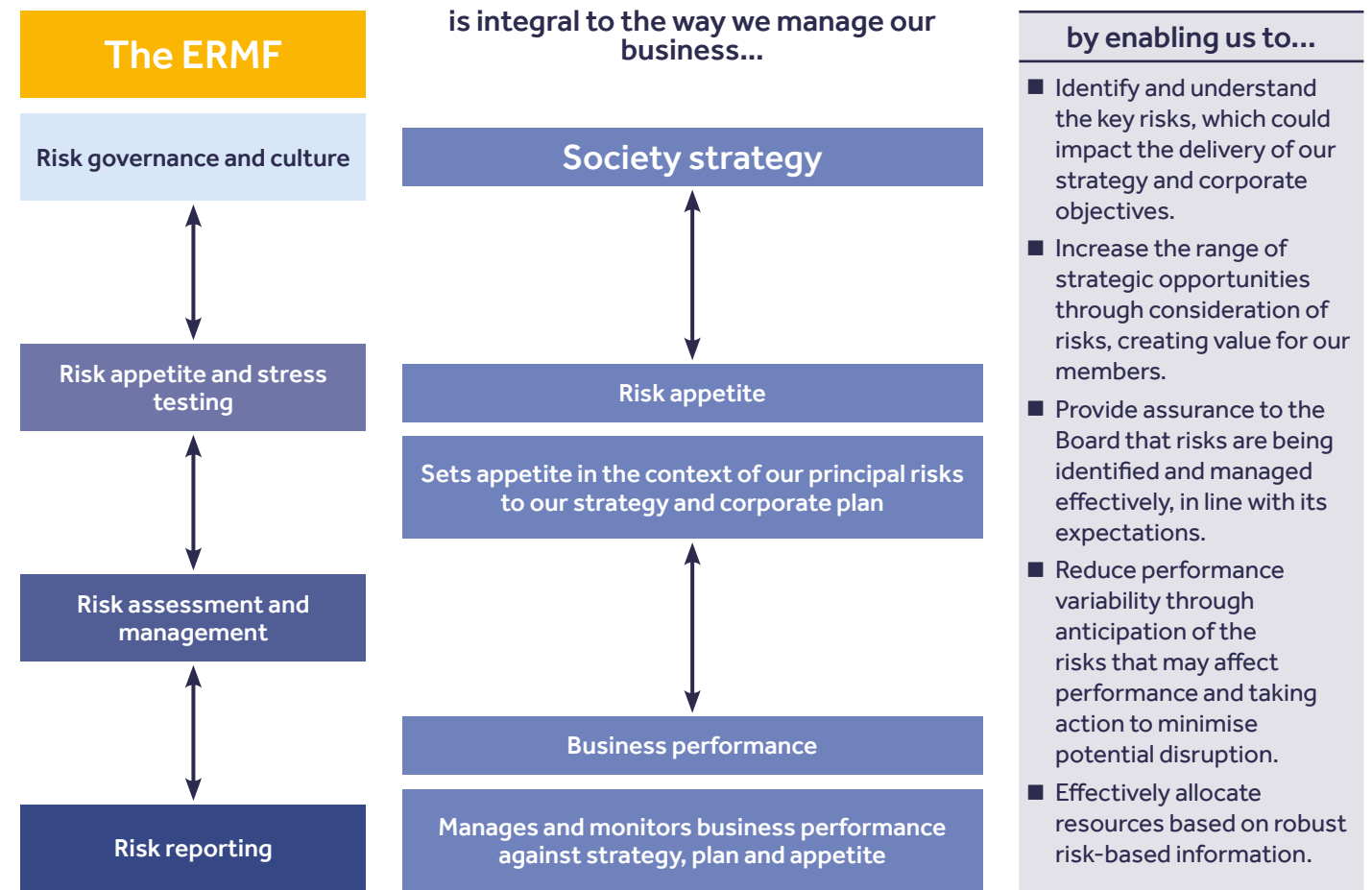
Introduction from the Chair

Dear member,

As Chair of the Board Risk Committee (BRC), I am pleased to present the 2021 Risk Management Report. This report provides an overview of our approach to risk management and a summary of the key areas of focus during the year.

Approach to risk management

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



During the year, the Society has integrated the management of climate risks and opportunities into all relevant aspects of the ERMF. Refer to pages 53 to 58 for further details.

The main components of the ERMF are discussed below:

Risk governance and culture

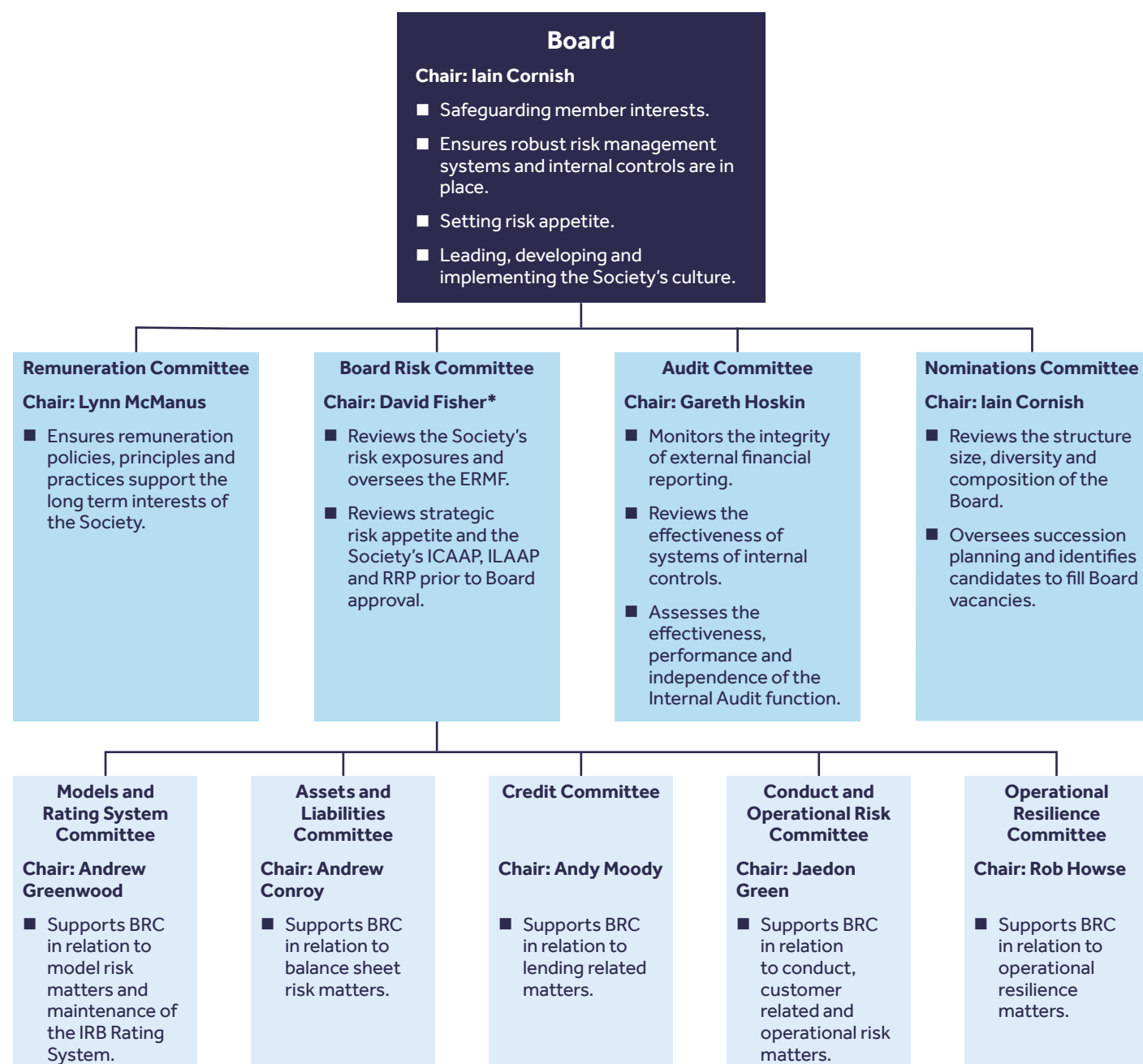
Risk governance is the processes followed to support risk-based decision making and oversight across all our operations, whereas risk culture relates to the behaviours and attitudes of colleagues in making these decisions. Appropriate structures and our behaviours support the Board in discharging its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

Risk Management Report continued

Committee structure

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

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



*Neil Fuller will become Board Risk Committee Chair from 1 January 2022 (subject to regulatory approval).

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, providing the parameters within which management should operate.
2. Policy framework	We operate a tiered policy framework, through which mandates and limits are delegated to management. Our policies are reviewed on an annual basis (or as appropriate), by relevant committees.
3. Delegated Authorities Manual	The Delegated Authorities Manual is designed to facilitate the effective discharge of responsibilities and continuity of operations within a sound system of financial, operational and budgetary control. It is reviewed by the Board annually.

Three lines of defence model and the Risk function

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

First line (Business lines)	Second line (Risk function)	Third line (Internal Audit)
<ul style="list-style-type: none"> ■ Executing strategy. ■ Identifying and managing risks. ■ Adhering to appetite, policies and standards. ■ Implementing and maintaining regulatory compliance. ■ Identifying emerging risks. 	<ul style="list-style-type: none"> ■ Oversight of day to day activities of the first line. ■ Maintenance of the ERMF. ■ Coordination and oversight of the setting of risk appetite. ■ Policy co-ordination/refresh. ■ Identifying emerging risks. ■ Enterprise risk reporting. ■ Independent risk-based assurance plans. 	<ul style="list-style-type: none"> ■ Independent risk-based assurance of the adequacy and effectiveness of first and second line risk management.

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

Risk culture

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

- **Tone from the top and desired behaviours** – The Board and Senior Leadership Team are expected to demonstrate our behaviours.
- **Accountability** – Individuals at all levels are held accountable for risk management, to support the delivery of our strategy and business objectives.
- **Effective communication** – An environment of open and transparent communication is encouraged around all risk management expectations.

Risk Management Report continued

- **Incentives and performance management** – An appropriate incentive scheme and other HR frameworks are operated to promote, and align with, the desired risk culture. As part of these frameworks, the Society provides appropriate training for the Board and wider colleagues to support a risk-aware culture.

During 2021, the Society developed a new strategic purpose, which will be delivered through a revised set of desired corporate behaviours. These new behaviours will be embedded into working practices and decision making across the Society during 2022, which will further strengthen the Society's risk-aware 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 principal risk categories (defined on pages 64 to 72) and 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 (part of the ERMF) and supports:

- A sound understanding of internal and external influences on the Society and the principal risks.
- Assistance to the Board in strategic business planning and the setting of SRA.
- Management of capital and liquidity resources against SRA and regulatory expectations.

We have developed an annual programme of stress testing activity, which informs the planning process and the calibration of SRA. The key components of the programme are as follows:

Increasing severity ↓	Activity	Description
	Corporate planning	Sensitivity analysis and a suite of alternative scenarios are used to assess the corporate plan under a range of plausible stresses.
	Prudential risk assessments	ICAAP – an internal assessment of whether we have sufficient capital, given current risks, as well as future risks from our strategy, under conditions as set out by the PRA. ILAAP – an internal assessment of whether we have sufficient liquidity and stable funding to withstand a range of severe liquidity stresses.
	Climate change	Scenario analysis is used to assess the potential financial and non-financial impacts of climate-related risks. Refer to pages 39 to 63 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 are 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. Management then evaluates and prioritises risks to inform decision making and to optimise the allocation of resources.

Risk treatment – management selects and deploys appropriate risk responses, balancing the potential benefit derived versus 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. This uses a combination of strategic and business process reporting to understand the current or potential risk profile of the business, which may impact the delivery of our strategy and corporate objectives. These reporting processes are conducted at an appropriate frequency and are co-ordinated by the Risk function.

Board Risk Committee review

Committee purpose

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

The Committee is responsible for:

- Overseeing the development and effective implementation of the ERMF.
- Reviewing and recommending risk appetite to the Board and monitoring our risk profile within these parameters.
- Monitoring our current and emerging risk profiles and ensuring that these are appropriately mitigated.
- Promoting a risk aware culture within the Society.
- Reviewing and recommending to the Board key prudential documents (ILAAP, ICAAP, and Recovery Plan).
- Ensuring that that our remuneration arrangements reflect appropriate risk considerations.

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.

Risk Management Report continued

2021 key matters

The Committee had a balanced agenda in 2021, combining oversight of our current risk profile with emerging risks/requirements. The key areas of focus for the Committee were: ongoing monitoring of the Society's response to the pandemic and impact across principal risk categories, further initiatives to enhance the Society's financial risk management and operational resilience practices and the development and implementation of a Climate Risk Management Framework.

A summary of the key matters considered by the Committee during 2021 are outlined below:

Activity	Description
COVID-19	<ul style="list-style-type: none"> ■ Close monitoring of COVID-19 impacts across the principal risk categories. ■ Ongoing review of risk appetite to manage the potential associated effects of COVID-19. ■ Understanding potential impacts of COVID-19 on key model outputs.
Frameworks and policies	<ul style="list-style-type: none"> ■ Annual review of the ERMF. ■ Annual review of Level 1a policies prior to Board submission. ■ Annual review of Strategic Risk Appetite. ■ Development and implementation of a Climate Risk Management Framework. ■ Review of the Model Governance Framework.
Stress testing	<ul style="list-style-type: none"> ■ Annual review and recommendation of the ICAAP, ILAAP and Recovery Plan to the Board. ■ Review of reverse stress testing outputs.
Remuneration	<ul style="list-style-type: none"> ■ Annual review of risk adjustment recommendations for the Senior Leadership Team. ■ Risk based assessment of corporate objectives.
Strategies	<ul style="list-style-type: none"> ■ Risk strategy. ■ Liquidity risk strategy. ■ Market risk strategy. ■ Segmental lending strategy. ■ Collections operating strategy. ■ Annual review of pricing methodologies.
Operational resilience	<ul style="list-style-type: none"> ■ Receipt of operational resilience updates. ■ Annual review of the cyber threat methodology. ■ Review of cyber penetration testing results. ■ Review of data centre migration.
Monitoring of risk profile	<ul style="list-style-type: none"> ■ Risk exposures in relation to appetite (through management information). ■ External risk assessment via the Risk Director's report and strategic heat map. ■ Review of the annual Money Laundering Reporting Officer's report. ■ Review of underserved and niche segments. ■ Review of the Data Protection Officer's report. ■ Review of risks associated with the change portfolio and key projects. ■ Review of regulatory reporting. ■ Annual review of accepted risks. ■ Review of Mortgage Support assurance reviews. ■ Oversight of executive risk committees.

Effectiveness review

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

Outlook

On 1 January 2022, the stewardship of BRC transitioned from myself to Neil Fuller, who has significant risk management experience. I wish Neil the best of luck in his new role. Furthermore, I would like to place on record my thanks to colleagues within the Risk function for their continued support to me as Chair.

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

- Oversee the finalisation of the Society's Operational Resilience Framework, ahead of regulatory implementation in March 2022.
- Continue to embed the Society's Climate Risk Management Framework across the organisation.
- Oversee ongoing investment in arrears handling capability to ensure consistent customer outcomes (people and systems focus).
- Oversee management's response to the FCA's Consumer Duty consultation.
- Oversee the risks associated with the Society's change portfolio.

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

David Fisher
Chair of Board Risk Committee

24 February 2022

Directors' Remuneration Report

Year ended 31 December 2021

Remuneration Committee highlights from 2021

- Review of compliance with the Remuneration Code
- The setting and review of performance against objectives
- Reviewing the variable remuneration schemes for 2022
- Gender Pay Gap reporting
- Providing oversight of reward for the broader colleague population

Committee membership

- Lynn McManus (Chair) - member since January 2018 (Chair since January 2019)
- David Fisher - member since May 2012
- Gareth Hoskin - member since January 2018
- Annette Barnes - member since March 2021

Number of meetings and attendance

- Four meetings during the year
- 100% attendance from Committee members
- Chair of the Board, Chief Executive Officer, Director of People and Reward Lead are regular attendees of the meetings

Introduction from the Chair

Dear member,

I am pleased to present this year's Remuneration Committee's report. The report includes a summary of our Remuneration Policy, together with key decisions made in the year.

The focus of the Committee is to set our Remuneration Policy, 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 and I particularly welcomed the significant investment in colleagues in 2021.

Performance and awards 2021

Earlier sections of the Annual Report and Accounts have explained that we have delivered an extraordinary performance, across all our key metrics and, as such, our variable pay outturn reflects this performance.

As reported last year, significant changes were made to the variable pay scheme last year, providing a stronger link to our culture and behaviours. This is an important step in providing a clearer link to our mutual culture.

As part of the changes, the Committee decided to reduce the maximum bonus potential from 50% to 20%, thereby aligning the bonus scheme potential for the entire Senior Leadership Team.

After careful consideration, annual bonuses of between 16.7% and 18.8% (2020: 40.8% and 41.4%) have been awarded for 2021 to the executive directors, which represents between 83.5% and 94% (2020: 82% and 83%) 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 was deemed necessary. The Remuneration Policy has operated as intended.

As reported last year, the executive directors, other members of the Senior Leadership Team and non-executive directors (including the Chair) did not receive an annual pay or fee increase in April 2021. Basic salary increases for colleagues ranged from 0% to 25%, with an average of 5.80% in the year.

In light of the uncertainty surrounding the pandemic, the Committee took the decision to defer the 2020 variable remuneration for executive directors and re-test the outturn in 2021. This re-test has confirmed the outturn reported last year and endorses the strong performance achieved in 2020. The 2020 awards received by executive directors will be made in April 2022 and are subject to the normal payment and deferral schedule.

Directors' Remuneration Policy

We are asking members to approve a change to the Directors' Remuneration Policy at the 2022 AGM. Following the significant changes to the structure of remuneration packages in 2021, we are not proposing major changes this year. However, during 2021, there has been increasing competition for talent and we are not immune to this. Whilst we have the option to use retention bonuses for all colleagues in the Society, we are seeking additional flexibility to make retention awards specifically to executive directors in exceptional cases, where we believe it is necessary in the interests of members and the Society to retain the service of an executive. These awards are designed to incentivise a key individual to stay with the Society for a limited period and during the completion of a specific project or other multi-year deliverable; the flexibility will ensure we have the capacity to respond to a particular circumstance, without having to permanently increase pay levels.

Any retention awards will be subject to regulatory requirements around variable pay and we are proposing the Committee has the flexibility to make an award up to the maximum permitted (in conjunction with the annual bonus) without breaching the regulatory cap on variable pay, of 100% of fixed pay.

Presently, for example, the Remuneration Committee is considering the successful delivery of the critical, multi-year core system migration programme.

I can assure you that the Committee will be, as we always are, very focused on the interests of members, colleagues and other stakeholders when considering whether to make an award. If we do use the flexibility, we will explain carefully in the subsequent annual report why we considered it was necessary to do so.

Looking ahead

We will continue to ensure we have the right reward structures to support our mutual culture, purpose and the long term sustainability of the Society. As such, for 2022, the Committee has approved the inclusion of specific measures for our diversity and inclusion and climate change aspirations in the annual variable remuneration scheme.

I trust this report is helpful and informative. The Remuneration Committee recommends that members vote in favour of the 2021 Directors' Remuneration Report and the referenced change to the Remuneration Policy at the AGM.

Lynn McManus
Chair of the Remuneration Committee

24 February 2022

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 business strategy, values and the 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	<p>Provides ability to attract and retain executives through market competitive rates of pay.</p> <p>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.</p> <p>The only exception is if there is a material increase in scope or responsibility to the executive director's role.</p>
	Pension	<p>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.</p> <p>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.</p> <p>Executive directors appointed on or after 1 April 2019 will receive a maximum contribution fully aligned with the colleague population who joined after 1 April 2019, of 10% of basic salary.</p>
	Benefits	<p>The principal benefits executive directors receive are:</p> <ul style="list-style-type: none"> ■ life assurance (up to 4 x basic salary) ■ private medical insurance ■ group income protection ■ health screening ■ cash health plan. <p>Other benefits may be provided based on individual circumstances, for example, relocation.</p>

	Remuneration element	Summary
Variable remuneration	Annual bonus scheme	<p>The 20% maximum is split between:</p> <p>Society performance – 10%</p> <p>Personal performance – 10%.</p> <p>Performance objectives are agreed by the Remuneration Committee at the start of each year and reflect business priorities.</p> <p>Personal performance objectives, appropriate to the responsibilities of the director, are set at the start of each year and agreed by the Remuneration Committee. 30% of the personal performance award is allocated to the demonstration of leadership behaviours.</p> <p>The 20% maximum for the executive director in a control function is based on a range of personal objectives only, with 30% of the award allocated to the demonstration of leadership behaviours.</p> <p>Robust risk evaluation measures are independently assessed by the Board Risk Committee, with measures for the Deputy Chief Executive Officer assessed by an independent senior manager.</p> <p>For executive directors designated as 'Senior Managers' under the Senior Managers Regime and over the de-minimis¹, 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 instrument².</p>
	Retention awards	<p>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 usually be tied to the completion of a defined period of service and the satisfactory completion of a specific project or other multi-task deliverable.</p> <p>Where awards have performance conditions, these will usually be defined when the award is made and linked to the purpose of the award. For example, performance measures might include satisfactory individual performance or successful completion of a specific project.</p> <p>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.</p> <p>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.</p>

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.

Directors' Remuneration Report continued

Bonus deferral and share-like instrument

For executive directors designated as 'Senior Managers' under the Senior Managers 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 2021 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	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	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 subcommittee 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 2021

Executive director remuneration summary for 2021

The total remuneration received by executive directors for 2021 is detailed below, compared with 2020. The total remuneration for executive directors equates to 1.2% of profit before tax (2020: 2.0%). This information has been audited and shows remuneration for the years ended 31 December 2020 and 31 December 2021, as required to be reported under the Building Societies (Accounts and Related Provisions) Regulations 1998. The awards made in respect of performance in 2021 are in line with the 2021 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.

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

2020 audited

Executive directors	Salary	Annual bonus	Pension	Loss of office	Total fixed remuneration	Total variable remuneration	Total remuneration
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
R G Fearon	457	190	37 ⁽¹⁾	–	494	190	684
A P Conroy	290	119	29 ⁽¹⁾	–	319	119	438
A J Greenwood	305	125	43 ⁽¹⁾	–	348	125	473
Total remuneration⁽³⁾	1,052	434	109	–	1,161	434	1,595

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 2021, financial performance and corporate performance incentive opportunities were based on the performance measures in the table overleaf.

The table also illustrates performance against each of the measures. Personal performance achievement for executive directors was in the range of 8.06% to 17.05% (17.05% in respect of the Deputy CEO).

Directors' Remuneration Report continued

Vision: strategic pillar	Corporate performance measure	Weightings for maximum (as % of salary)	Target	Pay out %
Secure	Keeping the Society financially resilient	3.34%	<ul style="list-style-type: none"> ■ Maintain a strong capital position. ■ Maintain an effective level of liquidity above internal and regulatory limits. ■ Achieve a resilient level of profitability. ■ Balance the risk-reward equation in lending choices. 	3.34%
Customer centred	Safely keeping the Society operating for the benefit of our members	3.33%	<ul style="list-style-type: none"> ■ Prioritise the safety and wellbeing of colleagues and members. ■ Prepare the Society for the post-crisis world, ensuring we are future facing (people, products, process, technology). ■ Support our members, particularly as they face financial difficulty. ■ Keep the business running and seek to enhance operational resilience. ■ Appropriately balance savings and mortgage members' interests. 	3%
People	Informing and engaging colleagues and customers	3.33%	<ul style="list-style-type: none"> ■ Ensure colleagues remain informed and engaged. ■ Keep our members and brokers informed and maintain trust and customer satisfaction across all channels. ■ Provide robust service to our intermediary partners. 	3.19%

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.

Risk assessment

The risk assessment process is independently managed by the Risk function. Following completion of the risk assessment process, the Risk Director provides an annual report on areas the Remuneration Committee should consider, in respect of whether performance or risk adjustment is necessary to remuneration outcomes. The report is initially reviewed by the Board Risk Committee, which then highlights any specific areas for further consideration to the Remuneration Committee. In addition, the Risk function considers the corporate priorities and personal objectives for executive directors' future year remuneration, to ensure they are aligned with our risk appetite.

The report from the Risk Director 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 Board Risk Committee considered the 2021 report in full and determined the Remuneration Committee should assess whether an adjustment was required. Following full consideration, no adjustment was applied.

Unpaid deferred elements of the annual bonus scheme

Executive directors	Performance year	Due 2022 £'000	Due 2023 £'000	Due 2024 £'000	Due 2025 £'000	Due 2026 £'000	Due 2027 £'000	Due 2028 £'000	Due 2029 £'000	Due 2030 £'000	Total £'000
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
R G Fearon	2018	20	–	–	–	–	–	–	–	–	20
	2019	–	10	20	20	20	20	11	–	–	101
	2020	48	28	3	14	23	23	23	20	8	190
	2021	20	20	–	6	12	12	12	12	8	102
	Total	88	58	23	40	55	55	46	32	16	413
A P Conroy	2020	76	16	16	11	–	–	–	–	–	119
	2021	12	12	–	4	7	7	7	7	4	60
	Total	88	28	16	15	7	7	7	7	4	179
A J Greenwood	2018	16	–	–	–	–	–	–	–	–	16
	2019	16	16	–	–	–	–	–	–	–	32
	2020	79	17	16	13	–	–	–	–	–	125
	2021	13	13	–	4	7	7	7	7	4	62
	Total	124	46	16	17	7	7	7	7	4	235
R J Howse	2021	13	13	–	4	7	7	7	7	5	63
	Total	13	13	–	4	7	7	7	7	5	63
P A Hill	2018	13	25	25	25	25	14	–	–	–	127
	Total	13	25	25	25	25	14	–	–	–	127
R S P Litten	2018	9	17	17	17	17	9	–	–	–	86
	2019	–	2	3	3	4	4	2	–	–	18
	Total	9	19	20	20	21	13	2	–	–	104
K R Wint	2018	15	–	–	–	–	–	–	–	–	15
	2019	12	12	–	–	–	–	–	–	–	24
	Total	27	12	–	–	–	–	–	–	–	39
Total		362	201	100	121	122	103	69	53	29	1,160

The payment of deferred elements is subject to future performance, for example, the application of malus. Clawback will be applied as required by regulation.

Directors' Remuneration Report continued

Pensions and other benefits

A J Greenwood is a deferred member of the defined contribution section of the pension scheme and has opted for a cash allowance in lieu of the Society's pension contribution. R G Fearon and A P Conroy opted to receive pension benefits as part contributions to the defined contribution section of the pension scheme and part cash allowance, in lieu of the Society's pension contribution. 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 executive would have received if still in our employment.

Long term incentive awards made in the financial year

There were no long term incentive awards made in the financial year.

Payments for loss of office

There were no payments for loss of office made in the financial year.

Remuneration for Material Risk Takers (MRTs) in 2021

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 2021, there were 27 Material Risk Takers during the year.

Aggregate remuneration for Material Risk Takers is reported in the table below.

Remuneration for Material Risk Takers

	Number of beneficiaries		Fixed pay ⁽¹⁾		Current year variable pay ⁽²⁾		Total	
	2021	2020	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Senior management	27	26	5,428	4,426	497	957	5,925	5,383
Other MRTs	–	–	–	–	–	–	–	–
Total	27	26	5,428	4,426	497	957	5,925	5,383

Notes:

(1) Fixed pay includes basic salary, benefits, pension, loss of office payments and fees for non-executive directors.

(2) £933k of variable pay is deferred for one, three, or seven years (2020: £1.589 million).

(3) Material Risk Takers who left the Society during the calendar year are included in the table above.

Remuneration for non-executive directors

The fees for non-executive directors are made up of a basic fee, plus a committee chair fee, as appropriate. The Chair does not receive additional fees for roles carried out other than that of Chair.

Non-executive directors	Basic fees (£'000)		Benefits ⁽¹⁾ (£'000)		Committee chair fees (£'000)		Total (£'000)	
	2021	2020	2021	2020	2021	2020	2021	2020
I C A Cornish ⁽²⁾	154	127	1	0	–	–	155	127
R J Ashton (previous Chair)	–	40	–	1	–	–	–	41
G J Hoskin (current Vice Chair)	51	51	0	1	24	24	75	76
A M Barnes	51	51	1	1	–	–	52	52
D Fisher	51	51	0	0	17	17	68	68
N A Fuller ⁽³⁾	51	4	1	0	–	–	52	4
J A Hunt ⁽⁴⁾	15	51	0	1	–	–	15	52
P A Jenks ⁽⁵⁾	–	12	–	0	–	–	–	12
L R McManus	51	51	1	1	11	11	63	63
A Tadayon ⁽⁶⁾	13	–	2	–	–	–	15	–
Total	437	438	6	5	52	52	495	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 became Chair on 3 April 2020.

(3) This director was appointed on 1 December 2020.

(4) This director retired on 15 April 2021.

(5) This director retired on 26 March 2020.

(6) This director was appointed on 22 October 2021.

Non-executive directors (including the Chair) did not receive an annual pay or fee increase in April 2021.

The annual pay review takes place in April, for all colleagues in the Society, including non-executive directors. Following a market review and external benchmarking, fees from 1 April 2022 will be as follows:

Non-executive directors	Basic fees (£'000)	Committee chair fees (£'000)	Total (£'000)
	2022	2022	2022
I C A Cornish (Chair)	160	–	160
G J Hoskin (Vice Chair)	52	24	76
A M Barnes	52	–	52
D Fisher	52	–	52
N A Fuller	52	18	70
L R McManus	52	12	64
A Tadayon	52	–	52
Total	472	54	526

Payments to former directors

A payment of £12,653 has been made in 2021 to P A Hill, the former Chief Executive Officer, who retired on 30 June 2019. A payment of £8,531 has been made in 2021 to R S P Litten, the former Chief Financial Officer, who left the Society on 18 April 2019. A payment of £26,877 has been made in 2021 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 2021 AGM.

Annual General Meeting 2021 results

Resolution	% votes for	% votes against
Directors' Remuneration Report	92.37%	7.63%

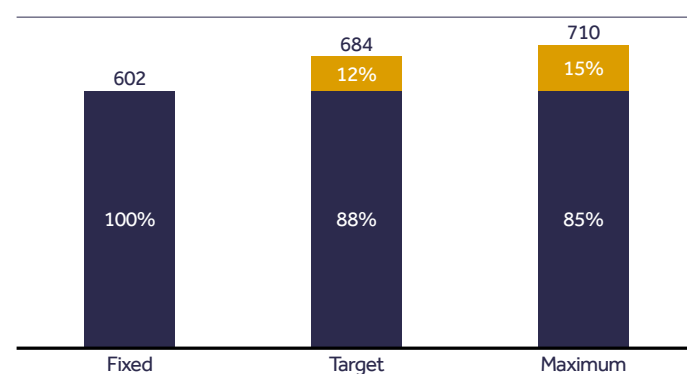
Annual General Meeting 2021 results

Resolution	% votes for	% votes against
Directors' Remuneration Policy	91.73%	8.27%

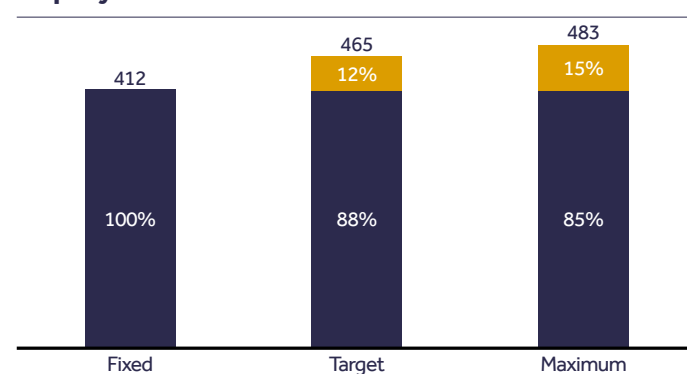
Awards under different scenarios

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:

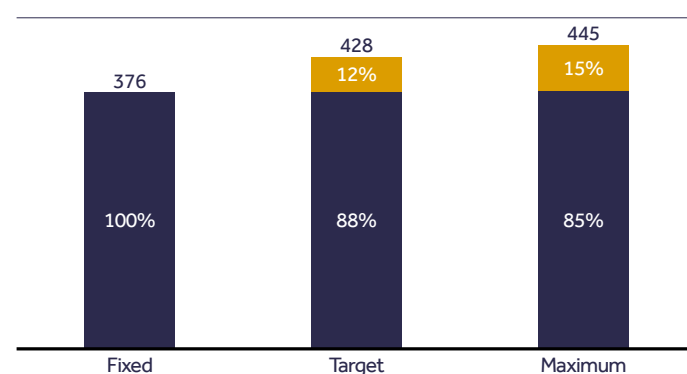
Chief Executive Officer



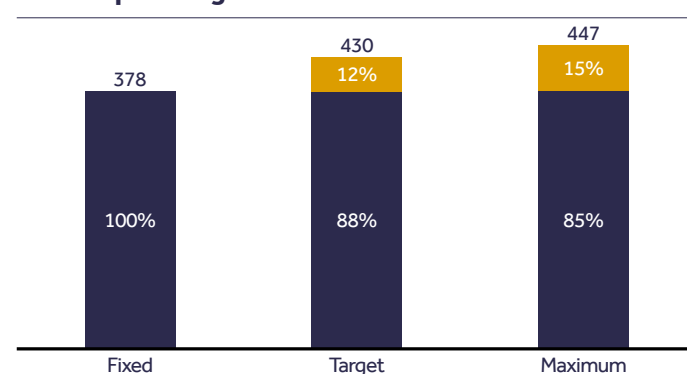
Deputy Chief Executive Officer



Chief Financial Officer



Chief Operating Officer



Fixed	Consists of basic salary and pension (£'000)			
	Basic salary is as at 1 January 2022			
	Executive director	Basic salary	Pension	Total fixed
	Chief Executive Officer	543	59	602
	Deputy Chief Executive Officer	361	51	412
	Chief Financial Officer	342	34	376
	Chief Operating Officer	344	34	378
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.

Service contracts

Executive directors' terms and conditions of employment, including details of remuneration, are detailed in their individual service agreements, which include a notice period of twelve months. The standard contract is available to view at the Society's head office.

None of the executive directors currently hold any paid external directorships.

The non-executive directors do not have service contracts with the Society.

Policy on payment for loss of office

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.

Directors' Remuneration Report continued

	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.
	Annual bonus	Where an executive director's employment is terminated during or after the end of a performance year, but before the payment is made, the executive may be eligible for a pro-rated annual bonus for that performance year, subject to an assessment based on performance achieved over the period and subject to risk adjustment. No award will be made in the event of misconduct. Where an executive director leaves the Society after an award is made, deferred payments will remain payable, subject to the normal rules of the scheme, including risk adjustment. The Remuneration Committee, in determining the final awards, may apply judgement to assess performance in the round. When assessing performance in the round, the Remuneration Committee may take into account (inter alia) wider market, regulatory and stakeholder considerations.
Variable remuneration		

Statement of consideration of conditions elsewhere in the Society

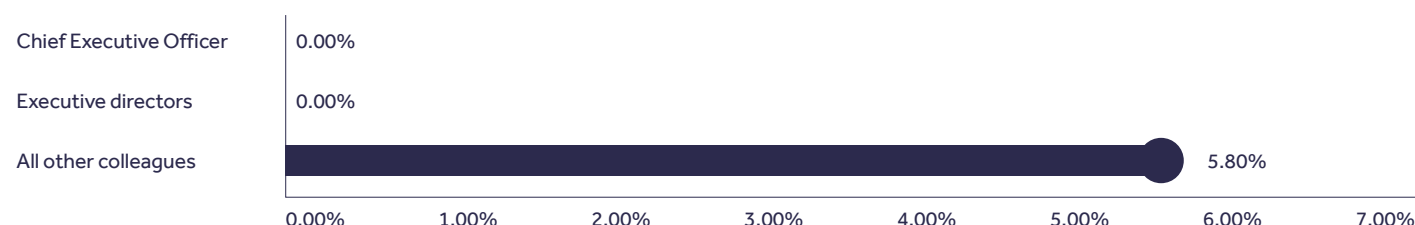
The Remuneration Committee considers the increase in general basic salary for the wider colleague population when determining the annual salary increases for the executive directors.

As reported last year, the Committee decided to reduce the maximum bonus potential from 50% to 20%, thereby aligning the bonus scheme potential for the entire Senior Leadership Team. The change reduces 'on target' performance to 15% of base salary (formerly 36%).

To ensure total compensation remains competitive, fixed pay was adjusted to reflect a proportion of the lost variable pay opportunity. From 1 January 2021, base pay was adjusted by between 17.8% and 18.2% for the executive directors.

Colleagues received pay reviews in both April and September but executive directors, other members of the Senior Leadership Team and non-executive directors (including the Chair) did not receive an annual pay or fee increase in April or September 2021.

The table below illustrates the comparison of average basic salary increase made in April and September 2021 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 2022 are as follows, compared with 1 January 2021:

	1 January 2022	1 January 2021
R G Fearon	£542,670	£542,670
A J Greenwood	£360,980	£360,980
A P Conroy	£342,020	£342,020
R J Howse	£343,620	n/a

The annual pay review takes place in April, for all colleagues in the Society, including executive directors. Following a market review and external benchmarking, salaries from this date will be as follows:

	1 April 2022	Increase
R G Fearon	£590,000	8.7%
A J Greenwood	£379,030	5.0%
A P Conroy	£359,120	5.0%
R J Howse	£370,000	7.7%

Chief Executive Officer (CEO) pay ratio

The Companies (Miscellaneous Reporting) Regulations 2018, came into force for accounting periods starting from 1 January 2019 and requires the publication of the ratio of the CEO's single figure total remuneration. We have chosen to use the Government's preferred methodology (option A), which determines the total full time equivalent total remuneration for all colleagues for the relevant financial year, and compares the median, 25th and 75th percentiles against the CEO single figure.

Year	Method	25th percentile	Median	75th percentile
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 ratios below are calculated as at 31 December 2021:

Remuneration element	25th percentile (£)	Median (£)	75th percentile (£)
Total pay and benefits	23,010	34,875	51,681
Salary	19,590	30,062	44,130

Directors' loans, transactions and related business activity

The aggregate amount outstanding at 31 December 2021 in respect of loans from the Society or a subsidiary undertaking to directors of the Society or persons associated with directors was nil (2020: £766,337), being no mortgages (2020: three) to directors and persons connected to directors. These loans were at normal commercial rates. A register of loans and transactions with directors and their connected persons is maintained at the head office of the Society and may be inspected by members. There were no significant contracts between the Society or our subsidiaries and any director of the Society during the year.

History of remuneration of 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
2021	695	94.0
2020	684	82.9
2019	659	75.0
2018	785	89.7
2017	765	87.0

Percentage change in salary for Chief Executive Officer

The basic salary of the Chief Executive Officer did not increase during 2021. An average annual increase of 5.8% 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	0%
Deputy Chief Executive Officer	0%
Chief Financial Officer	0%
Chief Operating Officer	0%
Colleague average	5.8%

Relative importance of spend on pay

The following table sets out the percentage change in profit and overall spend on remuneration in the year ended 31 December 2021, compared to the previous year.

	2021	2020	Percentage change
Profit after tax	£120.2m	£62.0m	94%
Colleague remuneration costs	£56.0m	£50.4m	11%
Headcount	1,474	1,432	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 2021 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 does not have any conflict of interest in advising the Remuneration Committee.

Directors' Report

Year ended 31 December 2021

The directors are pleased to present their Annual Report and Accounts and Annual Business Statement, for the year ended 31 December 2021.

Our business model and new purpose-led strategy are described in the Business Model and Strategy section of the Strategic Report on pages 8 to 38, where key performance indicators are also presented.

Profits and capital

Profit before tax for the year was £163.7 million (2020: £80.7 million). The profit after tax transferred to the general reserve was £120.2 million (2020: £62.0 million). Total equity attributable to members at 31 December 2021 was £1,274.6 million (2020: £1,154.7 million).

Gross capital at 31 December 2021 was £1,840.5 million (2020: £1,390.8 million) including £339.4 million (2020: £nil) of subordinated liabilities and £227.3 million (2020: £241.5 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings was 9.04% at 31 December 2021 (2020: 7.39%) and the free capital ratio was 8.51% (2020: 6.81%). Further explanation of these ratios is provided in the Annual Business Statement on page 241.

Mortgage arrears

At 31 December 2021, there were 360 (2020: 228) mortgage accounts 12 months or more in arrears. The total mortgage arrears, for these cases, was £3.9 million (2020: £2.7 million) and the total principal balance outstanding was £36.2 million (2020: £23.1 million).

Charitable and political donations

In 2021, the Group made a donation of £90,000 (2020: £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 £141,250 (2020: £86,000).

The Caring Saver Account and the Your Interest In Theirs scheme provided further donations of £12,750 (2020: £13,535) and £79,600 (2020: £98,300) respectively to specified charities. Additionally, the Society launched a fixed rate bond supporting Dementia UK which resulted in a donation of £24,000 in 2021.

Other charitable contributions from colleagues and members totalled £80,700 (2020: £83,600) taking total donations to charity and good causes to £428,300 (2020: £371,600).

No political donations were made during the year (2020: none).

Principal risks and uncertainties

Our approach to managing risks is set out in the Risk Management Report on pages 136 to 143. The principal risks and uncertainties we face are set out in the Strategic Report on pages 64 to 72. Further information relating to our financial risks and the approach to management of those risks is included in notes 32 to 35 of the accounts.

Colleagues

Information on key colleague policies and associated key performance indicators, including processes for communicating and consulting with colleagues, are included in the Strategic Report on pages 15 to 18 and the Corporate Governance Report on pages 112 to 114.

We are proud to be accredited as a Leader in Diversity and are committed to maintaining an inclusive workplace which provides all colleagues with equal access to development and opportunities, without barriers. We are a Disability Confident accredited employer and give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Where a colleague becomes disabled during the course of their employment, every effort is made to continue their employment, making reasonable and proportionate adjustments as necessary.

Business relationships

We are committed to developing strong business relationships 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 34 to 38.

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 10 days at 31 December 2021 (2020: 15 days).

Environmental policy

The directors recognise 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 taken time to deepen our understanding of the risks and opportunities for the business from climate change and identify the actions we will take to manage these. In this Annual Report we have opted to include disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures and these can be found on pages 39 to 63 of the Strategic Report.

The actions we are taking to reduce our impact on the environment, including updated targets, are set out on pages 25 to 27 of the Strategic Report.

Pillar 3 disclosures

The disclosures required under Pillar 3 of CRD IV 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 95 to 118.

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 pages 168 and 169.

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 64 to 74.

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 75 to 76 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 2021, their roles and membership of board committees are detailed on pages 88 to 93.

In line with best practice, all executive and non-executive directors offer themselves for election or re-election by the members at the AGM.

None of the directors holds any beneficial interest in shares in, or debentures of, any subsidiary undertaking of the Society.

Auditor

In accordance with Section 77 of the Building Societies Act 1986, a resolution for Deloitte LLP's re-appointment as auditor will be proposed at the AGM.

Post balance sheet events

The directors consider that no events have occurred since the year end to the date of this Annual Report that are likely to have a material effect on the financial position of the Group, as disclosed in the Annual Accounts.

Katherine Tong Director of Legal, Compliance and Secretary

24 February 2022

Independent Auditor's Report to the Members of Leeds Building Society

Year ended 31 December 2021

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 2021 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 International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); 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 38.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom international accounting standards and IFRS as issued by the IASB.


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	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> ■ 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. <p>Within this report, key audit matters are identified as follows:</p> <p> Similar level of risk</p>
Materiality	The materiality that we used for the Group financial statements was £7.5 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 regulation including capital and liquidity requirements;
- involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts, including the stress testing and reverse stress testing performed by management;
- assessing the assumptions used in the forecasts prepared by management; and
- assessing historical accuracy of forecasts prepared by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Year ended 31 December 2021

5.1. IFRS 9 Financial Instruments – UK Residential Expected Credit Loss (ECL) provisioning 

Key audit matter description	<p>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.</p> <p>During the financial year management made a number of updates to the accounting models.</p> <p>The Group held £37.3 million (2020: £42.8 million) of impairment provisions at year end in accordance with IFRS 9, against total retail mortgages and loan commitments of £19,668.7 million (2020: £17,447.1 million).</p> <p>The Group applies four macroeconomic scenarios when determining the ECL calculation: a central outlook, a downside and an alternative downside scenario and a growth scenario. The selection and probability weighting of relevant macroeconomic scenarios is judgemental and has a significant impact on the ECL calculation. In the current year, additional post model adjustments of £9.4 million (2020: £9.5 million) were put in place by management.</p> <p>Our key audit matters in relation to ECL provisioning have been identified as:</p> <ul style="list-style-type: none"> ■ 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 also a potential lack of consistency in approach when determining the weightings period on period. As the downside scenarios are the most sensitive within the model and have the largest impact on the overall ECL, there is a risk of management bias in selecting the probability weightings of macroeconomic assumptions and the level of consistency in approach when determining the probability weightings for each scenario period on period; and ■ the completeness and accuracy of post model adjustments to address risks that may not be reflected in the ECL models. Management has recognised post model adjustments that increase the provision in order to mitigate the model uncertainty risk, in particular those arising from downside inflation risk and cladding issues associated with flats and apartments. <p>The Group's loan loss provision balances are detailed within note 8. Management's associated accounting policies are detailed on pages 179 to 180 with detail about judgements in applying accounting policies and critical accounting estimates on pages 183 to 189. Management's consideration of the effect of the future economic environment is disclosed on pages 184 to 188. The Audit Committee's consideration of the matter is described on pages 129 to 130.</p>
How the scope of our audit responded to the key audit matter	<p>We have tested 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.</p> <p>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 IT and credit risk specialists we assessed whether the documented modelled approach was implemented in practice and whether the approach generated an IFRS 9 compliant output.</p> <p>We challenged management's consideration of the future economic environment by engaging our economic specialists to review management's approach as well as comparing modelled assumptions to publicly available data from peer organisations, regulators and economic commentators.</p> <p>We involved credit risk specialists to evaluate the completeness and accuracy of post model adjustments made by management to address risks that may not be reflected in the ECL models.</p> <p>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 reconciled our substantive testing through to the financial statements disclosures to ensure accuracy.</p> <p>We have validated that the forecasts collated from third party data sources have been taken directly and validated that the underlying data feeding into management's calculations for post model adjustments is without management bias.</p>
Key observations	<p>Based on the work performed, we concluded that the Group's ECL applied to the UK residential mortgage book was within a reasonable range.</p>

5.2. Hedge Accounting 

Key audit matter description	<p>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.</p> <p>Management 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 179. The Audit Committee's consideration of this risk is included on page 131.</p> <p>In line with the requirements of IAS 39 management carries out prospective and retrospective effectiveness testing on a monthly basis.</p> <p>We have identified a key audit matter around the completeness of the identification of items which are designated and de-designated from the hedge relationship, as well as the accuracy of the amortisation adjustments posted against these items.</p>
How the scope of our audit responded to the key audit matter	<p>We have tested the relevant controls over the hedge accounting process, including the Group's controls over the identification and recording of the designation and de-designation adjustments.</p> <p>We obtained management's master document where the designation and de-designation adjustments are calculated on a monthly basis and reviewed management's methodology for assessing items that have de-designated from the hedge relationship. We then tested the accuracy of the amortisation adjustments posted by management through a full recalculation of the expected remaining amortisation as at 31 December 2021.</p> <p>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.</p> <p>We assessed management's prospective and retrospective effectiveness testing.</p> <p>We tested the completeness of the population of items within the master document through reperformance of management's monthly designation and de-designation process.</p>
Key observations	<p>Based on the work performed, we concluded that the overall treatment in relation to the macro hedge relationships adopted, and subsequent amortisation of de-designated items, was appropriate.</p>

5.3. Fair value of collateral loan 

Key audit matter description	<p>The Group holds a collateral loan to a third party secured on a portfolio of equity release mortgages.</p> <p>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 2021 of £215.5 million (2020: £222.0 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.</p> <p>Our key audit matter relates to the risk of management bias in selecting the discount rate used within the fair value model and the impact the selection of discount rate has on the modelling of the no negative equity guarantee. This includes consideration of repayment profiles and the credit risk associated with the assets.</p> <p>The Group's disclosure of the collateral loan is detailed within note 13 and note 32. Management's associated accounting policies are detailed on page 178 with detail about judgements in applying accounting policies and critical accounting estimates on page 189. The Audit Committee's consideration of the matter is described on page 130.</p>
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Year ended 31 December 2021

How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the fair valuation of the collateral loan process.</p> <p>We challenged management's valuation methodology for the equity release mortgage portfolio with assistance from our valuation specialists in the review of management's valuation approach.</p> <p>We performed testing over the accuracy of the valuation model by involving our modelling specialists in the review of the model mechanics, which included an assessment of whether the model had been prepared in accordance with the loan contractual terms with the third party.</p> <p>We performed an independent assessment of the rate used to discount the future cash flows to present value, including alternative approaches to calculating the discount rate. We utilised both internal and external data 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.</p> <p>We performed testing over the appropriateness of the other elements inherent in the valuation of the underlying loan assets, such as no negative equity guarantees provided by the Group to the originator of the underlying loans and evaluated the appropriateness of the assumptions in light of the current economic environment.</p>
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	<p>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.</p> <p>These financial instrument liabilities have a net carrying value of £77.6 million (2020: £64.2 million) and comprise the following:</p> <ul style="list-style-type: none"> ■ 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. <p>The following are the unobservable inputs:</p> <ul style="list-style-type: none"> ■ the RPI assumptions applied to the RPI linked derivative; and ■ the prepayment rate of mortgages within the RMBS securitisation vehicle. <p>During the financial year, management changed its valuation methodology for the RPI swap and now employs an internal model rather than an external counterparty valuation. The internal methodology enables greater consistency of mortality and prepayment assumptions between the swap valuation and the valuation of the collateral loan. The impact of this change is disclosed on page 190.</p> <p>Management's chosen accounting policies are detailed on page 179 with details about valuation techniques and key inputs on page 239. The Audit Committee's consideration of this risk is included on page 130.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the fair valuation of complex derivative instruments process.</p> <p>We performed testing over the complex derivatives outlined above, with the involvement of our pricing specialists, we valued these instruments using independently developed models. We independently sourced data for the RPI and other inputs used in our model.</p> <p>We tested the appropriateness of the prepayment rate used in the valuation of the RMBS derivative by considering historical actual prepayment rates.</p>
Key observations	Based on the work performed, we concluded that the Group's valuation of complex derivative instruments was within a reasonable range.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Materiality	£7.5 million (2020: £6.5 million)	£7.2 million (2020: £6.1 million)
Basis for determining materiality	0.5% of net assets (2020: 0.5% of net assets)	0.5% of net assets capped at 95% of Group materiality (2020: 0.5% of net assets 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 comparisons 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	62% (2020: 70%) of Group materiality	62% (2020: 70%) of Society materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> 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 reduction in performance materiality is based on past experience of the number of corrected and uncorrected errors. 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.38 million (2020: £0.3 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and material subsidiaries. This provided 100% coverage of revenue, profit before tax and net assets of the Group, executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £3.6 million to £7.2 million (2020: £3.1 million to £6.1 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.

Independent Auditor's Report continued

Year ended 31 December 2021

7.2. Our consideration of the control environment

Our approach in relation to the Group's business cycles

We relied on controls over the following business cycles for the Group:

- Residential mortgage lending
- Customer deposits
- Valuation of vanilla derivatives

We obtained an understanding of the relevant business cycles within the Group. We tested the relevant controls by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence.

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
- Data reporting tool
- Underlying servers and databases for the above systems where applicable
- Review of third party assurance report for key IT outsourced vendor

We obtained an understanding of the relevant IT controls associated with the above mentioned systems. We tested the relevant IT controls by selecting a representative sample based on the frequency of the operation of the control and assessing the effectiveness against supporting evidence. We tested key automated controls as identified during our walkthroughs of the business cycles described in the preceding section.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets.
- The results of our enquiries of management, Internal Audit and the Audit Committee about their own identification and assessment of the risks of irregularities.
- Any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- The matters discussed among the audit engagement team and involving relevant internal specialists, including tax, financial instruments, pensions, IT, economic, credit risk, pricing, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: IFRS 9 Financial instruments – UK residential expected credit loss provisioning and the fair value of collateral loan. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory 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 Societies 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.

Year ended 31 December 2021

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Internal Audit reports and reviewing correspondence with the Prudential Regulation Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

13. Opinion on other matter prescribed by the Capital Requirements (Country by Country Reporting) Regulations 2013

In our opinion the information given on page 243 of the financial statements for the financial year ended 31 December 2021 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 page 161;
- 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 75 to 76;
- the directors' statement on fair, balanced and understandable set out on page 160;

- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 64 to 74;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 132 to 133; and
- the section describing the work of the Audit Committee set out on pages 126 to 135.

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 17 years, covering the years ended 31 December 2005 to 31 December 2021.

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.

Peter Birch FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

24 February 2022

Income Statements

For the year ended 31 December 2021

	Notes	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Interest receivable and similar income	3	424.7	402.6	423.2	401.3
Interest payable and similar charges	4	(142.5)	(197.2)	(141.4)	(196.3)
Net interest receivable		282.2	205.4	281.8	205.0
Fees and commissions receivable		6.8	5.6	6.8	5.6
Fees and commissions payable		(0.4)	(0.6)	(0.1)	(0.4)
Fair value losses from financial instruments	5	(0.5)	(16.8)	(4.6)	(13.7)
Other operating (expense) / income		(1.1)	3.2	0.1	2.4
Total income		287.0	196.8	284.0	198.9
Administrative expenses	6	(116.9)	(92.9)	(116.9)	(92.9)
Depreciation and amortisation	16, 17	(9.1)	(7.5)	(9.1)	(7.5)
Impairment credit / (charge) on loans and advances to customers	8	4.1	(14.6)	4.1	(14.6)
Provisions charge	22	(1.4)	(1.1)	(1.4)	(1.1)
Operating profit and profit before tax		163.7	80.7	160.7	82.8
Tax expense	9	(43.5)	(18.7)	(43.5)	(20.4)
Profit for the financial year		120.2	62.0	117.2	62.4

All amounts relate to continuing operations.

The notes on pages 177 to 240 form part of these accounts.

Statements of Comprehensive Income

For the year ended 31 December 2021

	Notes	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Profit for the financial year		120.2	62.0	117.2	62.4
Items that may subsequently be reclassified to profit and loss:					
Fair value (losses) / gains on investment securities measured at fair value through other comprehensive income		(4.6)	11.1	(4.6)	11.1
Gains on investment securities measured through other comprehensive income reclassified to profit or loss on disposal		(1.9)	(2.5)	(1.9)	(2.5)
Tax relating to items that may subsequently be reclassified		1.3	(1.6)	1.3	(1.6)
Effect of change in corporation tax rate		0.5	(0.7)	0.5	(0.7)
Items that may not subsequently be reclassified to profit and loss:					
Actuarial gain / (loss) on retirement benefit surplus	25	7.1	(1.9)	7.1	(1.9)
Revaluation (loss) / gain on properties	17	(1.0)	2.7	(1.0)	2.7
Tax relating to items that may not be reclassified		(1.0)	(0.5)	(1.0)	(0.3)
Effect of change in corporation tax rate		(0.7)	–	(0.7)	–
Total comprehensive income for the year		119.9	68.6	116.9	69.2

Statements of Financial Position

As at 31 December 2021

Notes	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M	
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England	11, 29	2,538.7	1,823.2	2,538.7	1,823.2
Loans and advances to credit institutions	29	159.0	201.9	96.5	86.2
Investment securities	12	949.1	949.7	1,040.4	1,071.0
Derivative financial instruments	36	219.3	192.8	210.4	179.3
Loans and advances to customers					
Loans fully secured on residential property		18,303.0	16,752.5	18,303.0	16,752.5
Other loans		224.2	236.4	224.2	236.4
Fair value adjustment for hedged risk on loans and advances to customers		(169.1)	96.1	(169.1)	96.1
Other assets, prepayments and accrued income	14	166.5	270.4	205.2	361.4
Current tax assets		2.8	–	2.8	–
Deferred tax assets	26	4.5	5.6	4.5	5.6
Investments in subsidiary undertakings	15	–	–	1.9	1.9
Intangible assets	16	25.0	28.8	25.0	28.8
Property, plant and equipment	17	82.4	81.3	82.4	81.3
Retirement benefit surplus	25	8.3	1.0	8.3	1.0
Total assets		22,513.7	20,639.7	22,574.2	20,724.7
Liabilities					
Shares	18	15,258.0	14,162.7	15,258.0	14,162.7
Fair value adjustment for hedged risk on shares		(72.9)	(13.5)	(72.9)	(13.5)
Derivative financial instruments	36	166.8	237.9	141.2	235.4
Amounts owed to credit institutions		2,258.9	1,497.3	2,258.9	1,497.3
Amounts owed to other customers	19	297.5	256.7	540.9	580.5
Debt securities in issue	20	2,554.6	2,900.7	2,395.2	2,685.8
Other liabilities and accruals	21	201.4	192.9	197.7	162.7
Current tax liabilities		–	2.3	–	2.3
Deferred tax liabilities	26	6.2	4.7	6.6	5.1
Provisions for liabilities and charges	22	1.9	1.8	1.9	1.8
Subordinated liabilities	23	339.4	–	339.4	–
Subscribed capital	24	227.3	241.5	227.3	241.5
Total liabilities		21,239.1	19,485.0	21,294.2	19,561.6
Total equity attributable to members		1,274.6	1,154.7	1,280.0	1,163.1
Total liabilities and equity		22,513.7	20,639.7	22,574.2	20,724.7

The accounts on pages 172 to 240 were approved by the Board of Directors on 24 February 2022.

Signed on behalf of the Board of Directors by:

Iain Cornish **Richard Fearon** **Andrew Conroy**
Chair Chief Executive Officer Chief Financial Officer

Statements of Changes in Members' Interest

For the year ended 31 December 2021

Group 2021	General 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

Group 2020	General reserve €M	Fair value reserve €M	Revaluation reserve €M	Other reserve €M	Total equity attributable to members €M
At 1 January 2020	1,064.6	(0.9)	8.1	14.3	1,086.1
Comprehensive income for the year	60.5	6.3	1.8	–	68.6
At 31 December 2020	1,125.1	5.4	9.9	14.3	1,154.7

Society 2021	General 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

Society 2020	General reserve €M	Fair value reserve €M	Revaluation reserve €M	Other reserve €M	Total equity attributable to members €M
At 1 January 2020	1,072.6	(0.9)	8.1	14.1	1,093.9
Comprehensive income for the year	60.9	6.3	1.8	0.2	69.2
At 31 December 2020	1,133.5	5.4	9.9	14.3	1,163.1

Statements of Cash Flows

For the year ended 31 December 2021

Notes	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Profit before tax	163.7	80.7	160.7	82.8
Adjusted for:				
Impairment release / (charge)	(3.8)	14.0	(3.8)	14.0
Provisions charge	1.4	0.6	1.4	0.6
Depreciation and amortisation	9.1	7.5	9.1	7.5
Fair value of collateral loan which represents a pool of equity release mortgages	(0.6)	(6.2)	(0.6)	(6.2)
Non-cash and other items	(30.3)	3.5	(30.1)	(7.9)
Cash generated from operations	139.5	100.1	136.7	90.8
Changes in operating assets and liabilities:				
Derivative financial instruments	68.5	20.1	46.4	13.5
Loans and advances to customers	(1,533.9)	(21.9)	(1,533.9)	(21.9)
Other operating assets	102.8	(61.2)	154.7	(85.4)
Shares	1,095.3	(354.8)	1,095.3	(354.8)
Amounts owed to credit institutions and other customers	802.4	79.8	722.0	(238.8)
Other operating liabilities	9.2	55.8	35.8	31.4
Taxation paid	(45.9)	(27.0)	(45.9)	(27.0)
Net cash flows from operating activities	637.9	(209.1)	611.1	(592.2)
Cash flows from investing activities				
Purchase of investment securities	(511.8)	(796.3)	(511.8)	(796.3)
Proceeds from sale and redemption of investment securities	504.7	1,562.4	534.7	1,861.2
Purchase of intangible assets	(1.7)	(11.7)	(1.7)	(11.7)
Purchase of property, plant and equipment	(5.5)	(19.1)	(5.5)	(19.1)
Proceeds from sale of property, plant and equipment	0.2	–	0.2	–
Net cash flows from investing activities	(14.1)	735.3	15.9	1,034.1
Cash flows from financing activities	28			
Net proceeds from issue of debt securities	508.7	2,427.2	508.7	2,427.2
Repayments of debt securities in issue	(804.8)	(2,541.4)	(754.8)	(2,493.5)
Net proceeds from issue of subordinated liabilities	346.9	–	346.9	–
Principal lease payments	(2.0)	(2.0)	(2.0)	(2.0)
Net cash flows from financing activities	48.8	(116.2)	98.8	(68.3)
Net increase in cash and cash equivalents	672.6	410.0	725.8	373.6
Cash and cash equivalents at the beginning of the year	2,025.1	1,615.1	1,909.4	1,535.8
Cash and cash equivalents at the end of the year	2,697.7	2,025.1	2,635.2	1,909.4

Notes to the Accounts

Year ended 31 December 2021

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.

The Group has applied Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) with effect from 1 January 2021. These amendments introduced a practical expedient in relation to modifications of financial instruments required as a result of interest rate benchmark reform and ensure that hedge accounting is not discontinued solely as a result of the reform. The Group has applied the amendments in accounting for one of its micro fair value hedges where the hedging instrument transitioned from LIBOR to SONIA.

These financial statements are presented in sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds.

(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 currently accounted for under IFRS 9 – Financial Instruments. The 'no negative equity' feature of the equity release mortgages could be considered to represent an insurance contract but the standard permits the continued application of IFRS 9 to this loan following the adoption of IFRS 17.

(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 2021

1. Accounting policies (continued)

(d) Financial instruments (continued)

(i) Classification and measurement (continued)

■ At fair value through other comprehensive income (FVOCI)

These are categories of assets for which the business model is to hold the asset and collect the contractual cash flows or to sell the assets. The contractual cash flows must be solely payments of principal and interest. The Group holds investment securities in order to meet current and future liquidity requirements, and these are considered to meet the definition of the hold or sell business model. They are therefore classified as 'at FVOCI', apart from those assets for which the cash flows are not solely payments of principal and interest, as noted below.

These assets are initially recognised at fair value plus any attributable costs. Subsequent changes in fair value are recognised in equity, except for impairment losses which are recognised in the Income Statement. Upon derecognition, any accumulated movements in fair value previously recognised in equity are reclassified to profit or loss in the Income Statement.

Premia and discounts arising on the purchase of assets held at FVOCI are spread over the life of the asset using the effective interest rate method.

■ At fair value through profit or loss (FVTPL)

Assets for which the business model is neither to hold nor to hold or sell, or those for which contractual cash flows are not solely payments of principal and interest, are classified as 'at FVTPL'. The Group has classified the collateral loan which represents a pool of equity release mortgages as 'at FVTPL' since the underlying contract with the customer contains a 'no negative equity guarantee' that any shortfall arising on the sale of the property securing the mortgage will not be pursued.

Certain investment securities 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 2021 the Group did not have any investment securities which met this classification (2020: none).

In addition, IFRS 9 has mandated that derivative financial instruments are classified as 'at FVTPL'.

These assets are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement.

Financial liabilities

All financial liabilities are classified as 'at amortised cost', with the exception of derivative financial instruments which under IFRS 9 are mandatorily classified as 'at FVTPL'.

Financial liabilities are initially recorded at their fair value, and those to be measured at amortised cost are subsequently measured using the effective interest rate method. The premia and discounts, together with commissions and other costs incurred in the raising of wholesale funds and subordinated liabilities, are amortised over the period to maturity using the effective interest rate method. Those liabilities measured at FVTPL are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement.

(ii) Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the Statement of Financial Position when substantially all of the risks and rewards of ownership remain within the Group, and the counterparty liability is included separately on the Statement of Financial Position as appropriate. Where applicable, the difference between sale and repurchase price is accrued over the life of the agreement using the effective interest rate method.

(iii) 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 fair value hedges to reduce volatility in the Income Statement. If derivatives are not designated as accounting hedges then changes in fair values are recognised immediately in the Income Statement.

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the relationship is de-designated and the adjustment to the carrying amount of the hedged item is amortised to the Income Statement over the period to maturity. The Group has not had any cash flow hedge relationships in place during the current or prior years or at the end of the current year.

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.

(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.

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.

Year ended 31 December 2021

1. Accounting policies (continued)

(e) Impairment of financial assets (continued)

(i) Impairment of loans and advances to customers (continued)

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 has updated its definition of default during 2021 to align to the regulatory definition under the Internal Ratings Based (IRB) approach for capital requirements. This has resulted in a change in the list of events considered to be a default. The impact of this change is shown in note 8.

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.

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'.

1. Accounting policies (continued)

(g) Fees and commissions receivable

Fees and commissions are earned on referral of customers to third party service providers. The Group's performance obligation is satisfied at the point of referral and income is recognised at this point. Commission received by the Group from third parties may be required to be repaid at a later date if certain policies are cancelled. A provision is included in the accounts to cover the estimate of the amount of clawbacks that will become payable in the future, based on products that have been sold and commissions received prior to the year end.

(h) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised to the extent it is probable that expected future economic benefits will flow from it and the costs can be measured reliably. Intangible assets primarily arise from IT development activity and the cost of the asset includes both external costs, such as software licences and IT development services, and the costs of Group colleagues directly involved in the development of the asset. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once it is brought into use, as follows:

New core systems – 10 years
System enhancements or non-core additions – 5 years

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 book value.

All other items of property, plant and equipment are initially recognised at cost and then depreciated. Depreciation is calculated on a straight line basis, to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Short leasehold properties	Unexpired lease term
Improvements to properties	8 to 10 years
Office and computer equipment	3 to 5 years

Property, plant and equipment are reviewed annually for indications of impairment. Impairment losses are recognised immediately as an expense in the Income Statement.

(j) Leases

The Group classifies all contracts which give the right to control the use of an identified asset for a period of time in exchange for a consideration as leases. If the supplier of the asset has a substitution right then this is not classified as an asset and the contract is not classified as a lease.

(i) Lessee

At the commencement of a lease, the Group recognises a right-of-use asset within 'Property, plant and equipment' and a lease liability within 'Other liabilities and accruals' in the Statement of Financial Position. The lease liability is initially measured at the present value of all contractual payments that are 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.

Notes to the Accounts continued

Year ended 31 December 2021

1. Accounting policies (continued)

(j) Leases (continued)

(i) Lessee (continued)

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.

(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 the Income Statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves. Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the Statement of Financial Position date and any adjustment to tax payable in respect of previous years.

Deferred tax 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.

(n) Segmental reporting

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the Group's internal reporting and is responsible for all significant decisions. The Group has determined that it has one reportable segment under IFRS 8 as the Chief Executive Officer reviews performance and makes decisions on the Group as a whole. Therefore, no separate segmental reporting note has been provided.

2. Critical accounting estimates and judgements

The preparation of these financial statements involves making judgements in the application of accounting policies which affect the amounts recognised in the financial statements. In addition, the Group makes estimates and assumptions which could affect the reported amounts of assets and liabilities in the next financial year and beyond.

The Group reviews all critical judgements and estimates on a regular basis, including approval by the Audit Committee as explained on pages 128 to 132, to ensure that these remain appropriate. The critical judgements and estimates which have a significant impact on the financial statements of the Group are described below.

(a) Critical judgements

(i) Classification of financial assets

Management judgement is applied in the classification of financial assets in determining the business model for managing the assets and in determining whether the contractual cash flows are solely payments of principal and interest. In particular, for retail mortgages, it has been determined that term extensions and forbearance activity are not contractual so do not impact on the assessment and such assets remain held at amortised cost.

In the case of the collateral loan which represents a pool of equity release mortgages, the existence of the no negative equity guarantee, which means that certain receipts would be foregone in the event of a shortfall on sale, is judged not to be consistent with payments being solely principal and interest. Further, the no negative equity guarantee is not considered to represent a significant insurance risk requiring accounting under IFRS 4 – Insurance Contracts. The collateral loan is therefore classified under IFRS 9 as a financial instrument measured 'at FVTPL'.

(ii) Impairment of loans and advances to customers

■ Significant increase in credit risk

As described in note 1e(i), a test-based approach is used to determine the thresholds, expressed as a percentage increase, over which an increase in lifetime PD compared to the lifetime PD calculated on initial recognition represents a significant increase in credit risk. Management judgement is applied to determine the appropriate tests required to derive the thresholds. The tests, which have been applied consistently with the previous year, aim to move loans through the stages in a timely manner, so that loans move to Stage 2 in advance of falling into arrears and to Stage 3 in advance of default, thus minimising the reliance on the 30 days past due and 90 days past due backstops respectively. If these thresholds moved such that all loans were assessed as having experienced a significant increase in credit risk 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 2021 would increase by £4.8m (2020: £7.6m).

■ Definition of default

The definition of default is given in note 1e(i). Management has judged that the definition of default for impairment loss calculations should 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 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 the Credit Committee and must be reviewed and reapproved at least annually.

At 31 December 2021, the total of the material PMAs used by the Group was £9.4m (2020: £9.5m). These PMAs were applied to cover the following:

- The model performance risk resulting from factors which were not reflected in the development of the models due to lack of historic data and therefore result in the risk of loss not being fully reflected in the modelled ECL. These factors include:
 - the ongoing impacts of government interventions previously implemented to mitigate the adverse impacts of the pandemic which may continue to mask potential adverse loan performance. At 31 December 2021 this is primarily focused on the ongoing performance of those loans where a mortgage payment deferral extension was taken and on the effect of the continued backlogs in possession proceedings following a moratorium during the pandemic;
 - the potential impacts of short term inflationary pressures and national insurance 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; and
 - 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.

Year ended 31 December 2021

2. Critical accounting estimates and judgements (continued)

(a) Critical judgements (continued)

(ii) Impairment of loans and advances to customers (continued)

- 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.

Further details of the estimates used to evaluate these PMAs are presented in note 2b(i) below.

(iii) Intangible assets

The Group applies judgement as to whether IT development activity results in an asset that qualifies for recognition as an intangible asset. For an asset to be recognised under IAS 38 it must be probable that future economic benefits will flow from the asset and the cost of the asset must be able to be measured reliably. For each significant project undertaken by the Group, an assessment is performed by the relevant business area of whether a separately identifiable asset is being developed and the level of future benefits flowing from the asset.

Intangible assets are reviewed annually for indications of impairment, which includes the application of judgement as to whether it is probable that future economic benefits will be realised from the asset, and whether the value in use of the asset is in excess of the carrying value (see note 16 for further information).

(iv) Property, plant and equipment

Freehold and long leasehold premises are revalued every three years by an independent firm of valuers, with the last formal valuation having taken place at 31 December 2019 (or 31 December 2020 for the Group's new head office).

It is management's judgement that the 'highest and best use' valuation of this 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 previous head office property and branches continue to be valued on an open market basis.

It is management's judgement that the valuations obtained at 31 December 2019 (or 2020) 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 for leased assets requires the application of judgement as to whether a contract contains a lease. In particular, the Group has a multi-year service contract with a third party for the provision and maintenance of its IT infrastructure. It is management's judgement that this contract does not provide the Group with the right to control the use of an identified asset and therefore does not meet the definition of a lease under IFRS 16.

(b) Significant accounting estimates and assumptions

(i) Impairment losses on loans and advances to customers

Wherever possible, the calculation of impairment loss provisions for loans and advances to customers has been performed using statistical modelling. For the UK residential mortgage portfolio, probability of default (PD) is modelled based on analysis of how macroeconomic variables have impacted the performance of loans with similar credit risk characteristics historically. Loss given default (LGD) is modelled based on projected house prices combined with analysis of historic experience of forced sale discounts.

The significant estimates required for the calculation of impairment loss provisions are forecast UK macroeconomic variables, the probability weightings of the macroeconomic scenarios used and in the calculation of post model adjustments.

Macroeconomic scenarios and probability weightings

The Group has used four macroeconomic scenarios (2020: 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 improved economic performance in the year while recognising there are still significant downside risks around inflation, the effect of the easing of COVID-19 restrictions and the unwind of government support schemes.

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

A summary of each of the four revised macroeconomic scenarios is as follows:

- Central scenario reflecting the improved economic performance in the year, including GDP returning to pre-pandemic levels, balanced against continued uncertainty due to inflationary pressures which will drive modest increases in interest rates. This scenario shows that unemployment has already peaked following the success of the furlough scheme and forecasts that house price growth will continue during 2022 due to the shortage of supply of properties and higher affordability.
- 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 reductions in house prices as demand falls.
- Alternative downside scenario representing a more severe downturn than in the downside scenario with peak unemployment of 10.3% 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 recovery from the pandemic than assumed in the central scenario, including higher house price growth due to an imbalance between supply and demand.

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 balance sheet date. This determines 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 2021, the ongoing uncertainty as a result of the pandemic and the UK's departure from the European Union have 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.

	2021	2020
Central	45%	45%
Downside	30%	30%
Alternative Downside	10%	10%
Growth	15%	15%

The tables on page 187 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 Bank Base Rate. Beyond the five year period shown, assumptions move towards historic long run averages over the following five years and then remain constant at these rates thereafter.

In both the downside and alternative downside scenarios the unemployment rate is forecast to peak at the end of 2022 before reducing over the next five years as illustrated in the chart below, while the second chart illustrates the cumulative impact of the annual house price inflation assumptions.

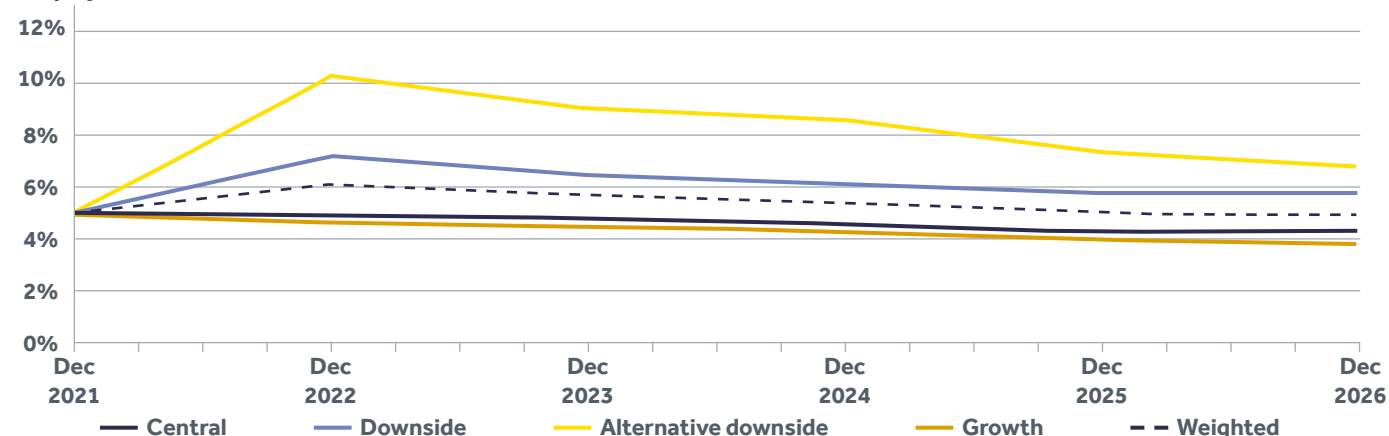
Year ended 31 December 2021

2. Critical accounting estimates and judgements (continued)

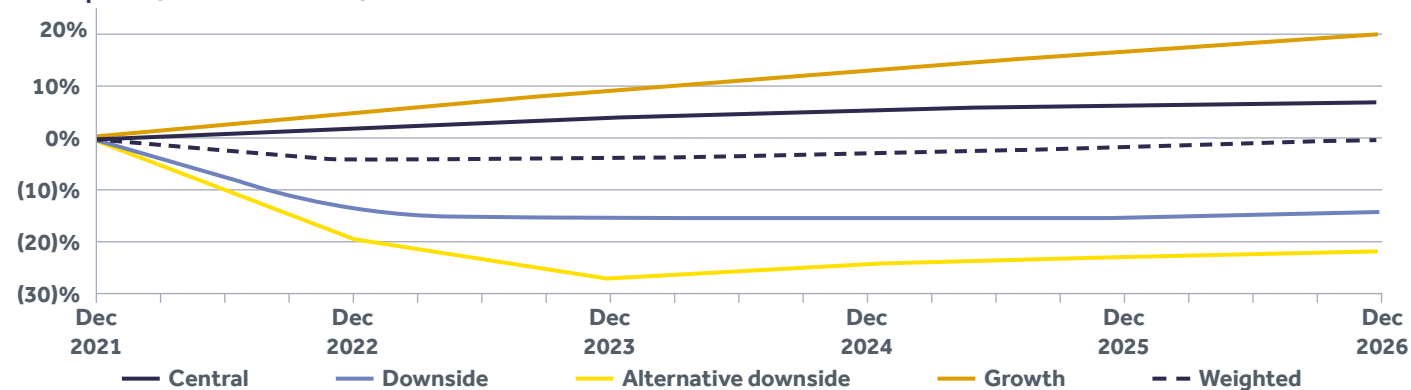
(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

Unemployment Rate (%)



House prices (December 2021= 0)



2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

		31 December 2021				
		2022	2023	2024	2025	2026
House price inflation	Central	2.0%	2.0%	1.0%	1.0%	1.0%
	Downside	(13.7)%	(2.0)%	0.0%	0.0%	1.0%
	Alternative Downside	(19.5)%	(9.5)%	3.5%	2.0%	1.5%
	Growth	6.0%	4.0%	3.5%	3.0%	3.0%
	Weighted*	(4.3)%	(0.1)%	1.3%	1.1%	1.4%
Unemployment rate (31 December)	Central	4.9%	4.8%	4.6%	4.3%	4.3%
	Downside	7.3%	6.5%	6.2%	5.8%	5.8%
	Alternative Downside	10.3%	9.0%	8.6%	7.4%	6.8%
	Growth	4.7%	4.5%	4.3%	4.0%	3.8%
	Weighted*	6.1%	5.7%	5.4%	5.0%	4.9%
Gross Domestic Product growth	Central	5.0%	2.0%	1.5%	1.5%	1.0%
	Downside	3.0%	1.7%	1.3%	1.3%	1.0%
	Alternative Downside	2.1%	2.2%	1.4%	1.1%	0.9%
	Growth	7.5%	4.0%	2.0%	2.5%	2.0%
	Weighted*	4.5%	2.2%	1.5%	1.6%	1.1%
Bank Base Rate (31 December)	Central	0.5%	0.75%	0.75%	0.75%	0.75%
	Downside	0.1%	0.1%	0.1%	0.1%	0.1%
	Alternative Downside	(0.1)%	(0.1)%	0.1%	0.1%	0.1%
	Growth	0.75%	1.0%	1.0%	1.25%	1.25%
	Weighted*	0.4%	0.5%	0.5%	0.6%	0.6%

		31 December 2020				
		2021	2022	2023	2024	2025
House price inflation	Central	(5.0)%	(1.0)%	0.0%	2.0%	2.0%
	Downside	(13.7)%	(2.0)%	0.0%	0.0%	1.0%
	Alternative Downside	(10.0)%	(14.5)%	5.0%	3.5%	3.5%
	Growth	2.0%	3.0%	4.0%	3.5%	3.5%
	Weighted*	(7.1)%	(2.1)%	1.1%	1.8%	2.1%
Unemployment rate (31 December)	Central	7.0%	5.0%	4.8%	4.5%	4.3%
	Downside	7.0%	7.0%	6.5%	6.5%	6.1%
	Alternative Downside	10.0%	9.0%	8.5%	7.5%	7.0%
	Growth	4.5%	3.9%	3.5%	3.5%	3.5%
	Weighted*	6.9%	5.8%	5.5%	5.3%	5.0%
Gross Domestic Product growth	Central	7.0%	4.0%	2.0%	2.0%	2.0%
	Downside	2.0%	2.0%	1.5%	1.5%	1.6%
	Alternative Downside	0.0%	5.0%	3.5%	3.0%	2.0%
	Growth	14.0%	3.0%	3.0%	3.0%	2.0%
	Weighted*	5.9%	3.4%	2.2%	2.1%	1.9%
Bank Base Rate (31 December)	Central	0.1%	0.1%	0.1%	0.1%	0.1%
	Downside	0.1%	0.1%	0.1%	0.1%	0.1%
	Alternative Downside	(0.1)%	(0.1)%	0.1%	0.1%	0.1%
	Growth	0.1%	0.1%	0.25%	0.25%	0.25%
	Weighted*	0.1%	0.1%	0.1%	0.1%	0.1%

*Note that ECLs are calculated for each loan in each scenario and then probability weighted, so the weighted figure here is for illustrative purposes only.

Year ended 31 December 2021

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

The sensitivity of calculated impairment loss provisions at 31 December 2021 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)	(0.6)	(0.3)	0.4	0.8

The impact of changing the assumption for unemployment in each of the first two years of the central scenario is as follows:

	+ 2.0 percentage points	+ 1.0 percentage point	- 1.0 percentage point	- 2.0 percentage points
Increase / (decrease) in impairment loss provisions (€M)	1.7	0.3	(0.1)	(0.1)

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%:

	2021 €M	2020 €M
(Decrease) / increase in impairment loss provisions if scenarios are weighted 100%:		
Central	(12.6)	(8.8)
Downside	(0.1)	10.0
Alternative Downside*	98.0	66.5
Growth	(13.5)	(14.7)

* The macroeconomic variables assumed in the alternative downside scenario are outside of the range of actual historic observations used in the development of the ECL models and therefore there is a risk that the model output for this scenario is over-sensitive to particular variables.

The total impairment loss provisions if the central scenario were weighted 100% would be €24.6m (2020: €34.0m).

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.

Model performance post model adjustments – €5.0m (2020: €3.2m)

The PMA reflecting the continued impact of government interventions as a result of the pandemic is focused on those borrowers who took mortgage payment deferral extensions when these were available in 2020 since there has not yet been a sufficient period since the end of the extension for credit deterioration to emerge completely. The PMA has been estimated by applying a high level uplift to the provision coverage rate. The continued impact of the possessions moratorium, which delayed sales and recoveries, has been estimated by increasing the assumed time from default to possession by 24 months. The combined value of these PMAs is €1.1m.

The potential impact of inflationary pressures has been estimated by applying increases of between 3% and 5% to customers' recorded expenditure and identifying those at risk of affordability concerns. The PMA has then been estimated as the additional impairment loss provisions which would be required should those 'at risk' accounts migrate from Stage 1 to Stage 2 or from Stage 2 to Stage 3 (depending on their staging at the date of the Statement of Financial Position), based on weighted coverage rates by stage. The resultant PMA is in a range of €1.3m to €2.3m with the final PMA set at €2.3m.

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(i) Impairment losses on loans and advances to customers (continued)

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 for the period of the pandemic and applying a haircut to collateral valuations. The resulting PMA is calculated as €0.8m. A further PMA of €0.8m is also in place to reflect the possible differential performance of a small segment of the Group's book in a downturn scenario for which there is insufficient data on which to base the modelling since the Group's controls around this segment have tightened since the previous downturn.

Inadequate cladding post model adjustment – €4.4m (2020: €2.0m)

As in 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 unacceptable valuations have been returned and applying a range of haircuts to property valuations and making an allowance for remediation costs. The PMA has been revised based on updated market information and guidance from the Royal Institution of Chartered Surveyors, resulting in an increased population of 'at risk' properties. A judgemental uplift has also been applied to allow for the future identification of further 'at risk' properties. The judgemental nature of some of the assumptions used results in a range for the PMA of €3.4m to €5.1m, with a PMA of €4.4m considered to be appropriate as at 31 December 2021.

The economic uncertainty post model adjustment of €4.3m in the prior year is no longer considered necessary as the modelled macroeconomic scenarios are considered to appropriately reflect the range of possible outcomes. The overall value of post model adjustments at 31 December 2021 is therefore €9.4m (2020: €9.5m).

(ii) Fair value of the collateral loan

The Group measures the collateral loan which represents a pool of equity release mortgages at FVTPL. The fair value of this loan is calculated using a model which uses a combination of observable market data (such as interest rate curves and RPI swap prices) and unobservable inputs which require estimation, such as the discount rate, property price volatility and the haircut applied to individual sales prices. The model projects the future cash flows anticipated from the loan based on the contractual terms with the third party from which the mortgages were acquired, with the timing of those cash flows determined with reference to mortality tables (which are subject to estimation uncertainty). The model also calculates a value for the 'no negative equity guarantee' provided to the customer using a stochastic methodology applying a variant of the Black-Scholes formula.

The key estimates used in the model and the basis of estimation are summarised below:

Assumption	Basis of estimation
Discount rate	Derived from current market rates for new equity release loans adjusted for the specific profile of the Group's portfolio; also reflects liquidity term premium in current market funding costs
Property price volatility	Analysis of historic property price volatility and third party research with judgemental overlay giving estimate of 10%
Sales price haircut	Average actual discounts observed on the portfolio during the 2021 financial year, with judgemental uplift to reflect anticipated future increases in discount

At 31 December 2021 the carrying value of the collateral loan was €215.5m (2020: €222.0m). The sensitivity of this value to the estimates shown above is as follows:

Assumption	Change to current assumption	(Decrease) / increase in fair value of collateral loan (€M)
Discount rate	+ / - 0.5 percentage points (floored at the risk free rate)	(10.9) / 7.3
Property price volatility	+ / - 3 percentage points	(5.6) / 4.4
Sales price haircut	+ / - 5 percentage points	(6.6) / 5.9

The sensitivities shown reflect a range of alternative assumptions based on observed historic data and regulatory guidance. The discount rate sensitivity has been floored at the risk free rate because using a lower rate would imply that the collateral loan was less risky than 'risk free' which is not considered appropriate.

A post model adjustment was applied to the modelled valuation at 31 December 2021 to reflect management's judgement that current market conditions, used to derive the discount rate, include some short term, transitory factors which should not be reflected in the valuation of this long term asset. The PMA was estimated by calculating the impact of a 0.2 percentage point increase in the discount rate and reduced the value of the collateral loan by €4.5m (2020: €nil).

Notes to the Accounts continued

Year ended 31 December 2021

2. Critical accounting estimates and judgements (continued)

(b) Significant accounting estimates and assumptions (continued)

(ii) Fair value of the collateral loan (continued)

At 31 December 2020, a post model adjustment of £(3.3m) was applied to the modelled valuation to reflect economic uncertainty, with the calculation of the adjustment focused on consideration of the reversal of a proportion of the growth in house prices. We have re-assessed the post model adjustment at the current year end and have determined that the risk of material short term reductions in house prices beyond the sales price haircut for these properties applied in the model has reduced and have therefore removed the PMA.

(iii) Fair value of the RPI-linked equity release swap

During the year the Group has changed how it calculates the fair value of the equity release swap which is linked to the retail price index (RPI). In previous years, the Group has used the valuation of the RPI-linked equity release swap obtained from the swap counterparty as the fair value of the swap in the Statement of Financial Position. During the financial year we have developed our own internal valuation model which uses a materially consistent valuation approach to that used by the counterparty. We have also updated the assumptions for the swap valuation to align to those used for the valuation of the collateral loan and this has resulted in an increase in the fair value liability and consequent charge to the Income Statement of £21.1m.

This is considered to be a change in accounting estimate as the material impact of the change results from changes in the expected future cash flows from the swap as a result of a change in assumptions. The underlying modelling approach is materially unchanged and therefore this is not considered a change in accounting policy.

The valuation uses market observable inputs where possible, with the significant unobservable input being the future profile of the swap notional balance. Since this is a 'balance guaranteed' swap, this is assumed to match the profile of the corresponding equity release mortgages underlying the collateral loan, which is a function of mortality rates and prepayment rate. A 1 percentage point increase in the assumed prepayment rate would increase the value of the swap by £6.8m, 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 £7.8m, resulting in a corresponding fair value loss in the Income Statement.

3. Interest receivable and similar income

	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Interest receivable calculated using the effective interest rate method:				
On instruments held at amortised cost:				
On loans fully secured on residential property	456.5	447.1	456.5	447.1
On other loans and advances to customers	0.6	0.7	0.6	0.7
On liquid assets	2.1	4.2	2.1	4.2
Total interest receivable on instruments held at amortised cost	459.2	452.0	459.2	452.0
On instruments held at fair value through other comprehensive income:				
On investment securities	4.8	9.6	5.5	11.2
Total interest receivable calculated using the effective interest rate method	464.0	461.6	464.7	463.2
Similar income / (expense) on instruments held at fair value through profit or loss:				
On other loans and advances to customers	13.2	10.2	13.2	10.2
Net expense on derivatives that hedge financial assets and are designated in accounting hedge relationships	(42.2)	(31.4)	(42.2)	(31.4)
Net expense on derivatives that hedge financial assets and are not designated in accounting hedge relationships	(10.3)	(37.8)	(12.5)	(40.7)
Total similar income on instruments held at fair value through profit or loss	(39.3)	(59.0)	(41.5)	(61.9)
Total interest receivable and similar income	424.7	402.6	423.2	401.3
Included in the above is:				
Interest receivable on impaired financial assets	8.2	6.8	8.2	6.8

4. Interest payable and similar charges

	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Interest payable on instruments held at amortised cost:				
On shares held by individuals	110.2	163.1	110.2	163.1
On deposits and other borrowings:				
Wholesale and other funding	26.2	50.8	25.0	49.9
Lease liabilities	0.3	0.3	0.3	0.3
On subordinated liabilities	4.6	–	4.6	–
On subscribed capital	10.9	10.8	10.9	10.8
Total interest payable on instruments held at amortised cost	152.2	225.0	151.0	224.1
Similar (income) / charges on instruments held at fair value through profit or loss:				
Net income on derivatives which hedge financial liabilities and are designated in accounting hedge relationships	(18.1)	(12.3)	(16.0)	(9.6)
Net charges / (income) on derivatives which hedge financial liabilities and are not designated in accounting hedge relationships	8.4	(15.5)	6.4	(18.2)
Total similar charges on instruments held at fair value through profit or loss	(9.7)	(27.8)	(9.6)	(27.8)
Total interest payable and similar charges	142.5	197.2	141.4	196.3

5. Fair value losses from financial instruments

	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Fair value hedge relationships				
Derivatives designated in fair value hedge relationships	168.8	(58.2)	174.2	(55.3)
Fair value adjustment for hedged risk of hedged items	(166.2)	51.1	(171.6)	48.7
Derivatives not designated in fair value hedge relationships				
Equity release swaps	(7.2)	(11.2)	(7.2)	(11.2)
Cross currency swaps net of retranslation on matched Euro liabilities	3.5	(0.7)	1.6	(0.6)
Other derivatives	–	(4.0)	(2.2)	(1.5)
Other financial instruments measured at fair value through profit or loss				
Collateral loan which represents a pool of equity release mortgages	0.6	6.2	0.6	6.2
Total fair value losses from financial instruments	(0.5)	(16.8)	(4.6)	(13.7)

The fair value accounting volatility loss arises due to accounting ineffectiveness on designated hedges, or because hedge accounting could not be applied to certain items. Volatility also arises from the collateral loan which represents a pool of equity release mortgages which is measured at FVTPL. For further information refer to notes 36 and 37.

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.

Notes to the Accounts continued

Year ended 31 December 2021

6. Administrative expenses

	Group & Society 2021 £M	Group & Society 2020 £M
Staff costs		
Wages and salaries	56.0	50.4
Social security costs	5.5	5.0
Pension costs	7.1	6.8
Temporary staff	3.7	1.5
Other staff costs	1.4	1.3
Less capitalised staff costs	(0.7)	(3.9)
Remuneration of auditor (see below)	0.8	0.6
Other administrative expenses		
Technology	12.0	10.4
Development activity	8.3	4.1
Property	6.8	4.9
Legal and professional fees	4.0	1.8
Marketing	3.1	2.5
Regulatory fees	2.5	2.5
Other	6.4	5.0
Total administrative expenses	116.9	92.9

There are 27 directors, senior management and colleagues whose actions have a material impact on the risk profile of the Group, with fixed remuneration of £5.4m and variable remuneration of £0.5m (2020: 26 individuals, £4.4m and £1.0m). Further details of directors' remuneration can be found on page 149 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.

The analysis of auditor's remuneration is as follows:

	Group & Society 2021 £'000	Group & Society 2020 £'000
Fee payable to the Society's auditor for the audit of the Society's annual accounts	617.0	460.0
Fees payable to the Society's auditor for the audit of the Society's subsidiaries	43.0	27.0
Total audit fees	660.0	487.0
Assurance services	170.2	142.8
Total non-audit fees	170.2	142.8
Total auditor's remuneration	830.2	629.8
Fees payable to the Society's auditor and its associates in respect of associated pension schemes	11.6	11.8

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 2021 Number	Group & Society 2020 Number
Central administration	1,181	1,118
Branches	293	314
Total monthly average number of people employed	1,474	1,432
Total monthly average number of full time equivalent employees	1,361	1,313

At 31 December 2021 the total number of people employed by the Group and the Society was 1,485 (2020: 1,439).

8. Impairment on loans and advances to customers

	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
Group & Society 2021				
Impairment loss provision:				
At 1 January 2021	42.8	1.9	2.5	47.2
Release 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				
Release 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)
Group & Society 2020				
Impairment loss provision:				
At 1 January 2020	28.7	2.0	2.5	33.2
Charge / (release) for the year	15.0	(0.1)	–	14.9
Amount written off during the year	(1.3)	–	–	(1.3)
Movement in foreign exchange rate	0.4	–	–	0.4
At 31 December 2020	42.8	1.9	2.5	47.2
Income Statement				
Charge / (release) for the year	15.0	(0.1)	–	14.9
Recoveries of amounts previously written off	(0.3)	–	–	(0.3)
Total income statement charge / (credit)	14.7	(0.1)	–	14.6

The Group's policy for calculating impairment of loans and advances to customers (including retail mortgages and loan commitments) is detailed in note 1e. Details of the significant accounting estimates and judgements required in the calculation of impairment loss provisions, including the incorporation of forward looking information, are provided in note 2.

Notes to the Accounts continued

Year ended 31 December 2021

8. Impairment on loans and advances to customers (continued)

The table below summarises the Group's retail mortgage balances, loan commitments and associated impairment loss provisions. The classification of loans into stages for impairment purposes is explained in note 1e.

	Group & Society 2021			Group & Society 2020		
	Gross exposure €M	Impairment loss provision €M	Provision coverage %	Gross exposure €M	Impairment loss provision €M	Provision coverage %
Retail mortgages						
Stage 1	16,208.6	9.3	0.06	14,287.6	7.7	0.05
Stage 2 and <30 days past due	1,824.2	9.8	0.54	2,243.1	15.1	0.67
Stage 2 and 30+ days past due	79.1	1.8	2.28	83.9	1.8	2.15
Stage 3 and <90 days past due	113.1	6.6	5.84	78.3	6.0	7.66
Stage 3 and 90+ days past due	115.3	9.5	8.24	102.4	12.2	11.91
Total retail mortgages	18,340.3	37.0	0.20	16,795.3	42.8	0.25
Loan commitments						
Stage 1	1,328.4	0.3	0.02	651.8	–	0.01
Total impairment loss provision	19,668.7	37.3	0.19	17,447.1	42.8	0.25

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	
	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
Group & Society 2021								
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

The change in the Group's definition of default implemented in 2021 (see note 1e) increased Stage 3 exposures by €35.0 million.

8. Impairment on loans and advances to customers (continued)

	Stage 1		Stage 2		Stage 3		Total	
	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
Group & Society 2020								
At 1 January 2020	15,048.1	3.7	1,548.3	9.9	172.1	15.1	16,768.5	28.7
Transfers resulting in increased impairment loss provision								
From Stage 1 to Stage 2	(1,338.9)	(0.7)	1,338.9	4.4	–	–	–	3.7
From Stage 1 to Stage 3	(22.9)	–	–	–	22.9	1.5	–	1.5
From Stage 2 to Stage 3	–	–	(40.3)	(0.6)	40.3	3.1	–	2.5
Transfers resulting in reduced impairment loss provision								
From Stage 2 to Stage 1	446.9	0.2	(446.9)	(1.2)	–	–	–	(1.0)
From Stage 3 to Stage 1	4.5	–	–	–	(4.5)	–	–	–
From Stage 3 to Stage 2	–	–	28.9	0.4	(28.9)	(1.7)	–	(1.3)
Change in impairment loss provision resulting from loan modifications	–	–	–	0.1	–	0.2	–	0.3
Other remeasurement of impairment loss provision (no movement in stage)	–	3.9	–	4.4	–	2.5	–	10.8
New advances	2,562.2	0.9	–	–	–	–	2,562.2	0.9
Redemptions and repayments	(2,412.3)	(0.3)	(101.9)	(0.5)	(21.2)	(1.2)	(2,535.4)	(2.0)
Write offs	–	–	–	–	–	(1.3)	–	(1.3)
At 31 December 2020	14,287.6	7.7	2,327.0	16.9	180.7	18.2	16,795.3	42.8

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.

Notes to the Accounts continued

Year ended 31 December 2021

9. Tax expense

	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits for the year	42.7	20.7	42.7	20.7
Adjustments in respect of prior year	(1.3)	(0.2)	(1.3)	(0.2)
Total current tax	41.4	20.5	41.4	20.5
Deferred tax				
Origination and reversal of timing differences	0.2	(0.3)	(0.5)	(0.2)
Adjustments in respect of prior year	1.7	(1.5)	2.4	0.1
Adjustments for changes in tax rates	0.2	–	0.2	–
Total deferred tax	2.1	(1.8)	2.1	(0.1)
Tax on profit on ordinary activities	43.5	18.7	43.5	20.4
Factors affecting total tax charge for the year:				
Profit on ordinary activities before tax	163.7	80.7	160.7	82.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	31.1	15.3	30.5	15.7
Effects of:				
Banking surcharge	11.1	4.6	11.1	4.6
Adjustments in respect of prior year (current tax)	(1.3)	(0.2)	(1.3)	(0.2)
Tax on profits of Leeds Building Society Covered Bonds LLP	–	–	0.2	0.1
Expenses not deductible for tax purposes	0.3	0.1	0.3	0.1
Other differences	0.2	0.7	0.6	0.2
Total current tax	41.4	20.5	41.4	20.5
Origination and reversal of timing differences	0.2	(0.3)	(0.5)	(0.2)
Adjustments in respect of prior year (deferred tax)	1.7	(1.5)	2.4	0.1
Adjustments for changes in tax rates (deferred tax)	0.2	–	0.2	–
Tax on profit on ordinary activities	43.5	18.7	43.5	20.4

Adjustments in respect of prior year primarily relate to differences between the balances in the 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 2021 was 19% (year ended 31 December 2020: 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. In the Autumn Budget 2021, the Government announced that with effect from 1 April 2023, this surcharge would be 3% of banking profits above a €100m threshold. This amendment had not been substantively enacted by the date of the Statement of Financial Position.

Deferred tax balances have been calculated at a rate of 33% (2020: 27%), reflecting the increased corporation tax rate from 2023 but not the unenacted reduction in the banking surcharge.

10. Classification of financial assets and liabilities

The following tables summarise the classification and carrying value of the Group's and Society's financial assets and liabilities:

	Amortised cost €M	FVOCI €M	FVTPL €M	Total €M
Group 2021				
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

	Amortised cost €M	FVOCI €M	FVTPL €M	Total €M
Group 2020				
Financial assets:				
Cash in hand and balances with the Bank of England	1,823.2	–	–	1,823.2
Loans and advances to credit institutions	201.9	–	–	201.9
Investment securities	–	949.7	–	949.7
Derivative financial instruments	–	–	192.8	192.8
Loans and advances to customers:				
Loans fully secured on residential property	16,752.5	–	–	16,752.5
Other loans	14.4	–	222.0	236.4
Fair value adjustment for hedged risk on loans and advances to customers	–	–	96.1	96.1
Total financial assets	18,792.0	949.7	510.9	20,252.6
Financial liabilities:				
Shares	14,162.7	–	–	14,162.7
Fair value adjustment for hedged risk on shares	–	–	(13.5)	(13.5)
Derivative financial instruments	–	–	237.9	237.9
Amounts owed to credit institutions	1,497.3	–	–	1,497.3
Amounts owed to other customers	256.7	–	–	256.7
Debt securities in issue	2,900.7	–	–	2,900.7
Subscribed capital	241.5	–	–	241.5
Total financial liabilities	19,058.9	–	224.4	19,283.3

Notes to the Accounts continued

Year ended 31 December 2021

10. Classification of financial assets and liabilities (continued)

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

Society 2020	Amortised cost €M	FVOCI €M	FVTPL €M	Total €M
Financial assets:				
Cash in hand and balances with the Bank of England	1,823.2	–	–	1,823.2
Loans and advances to credit institutions	86.2	–	–	86.2
Investment securities	–	1,071.0	–	1,071.0
Derivative financial instruments	–	–	179.3	179.3
Loans and advances to customers:				
Loans fully secured on residential property	16,752.5	–	–	16,752.5
Other loans	14.4	–	222.0	236.4
Fair value adjustment for hedged risk on loans and advances to customers	–	–	96.1	96.1
Total financial assets	18,676.3	1,071.0	497.4	20,244.7
Financial liabilities:				
Shares	14,162.7	–	–	14,162.7
Fair value adjustment for hedged risk on shares	–	–	(13.5)	(13.5)
Derivative financial instruments	–	–	235.4	235.4
Amounts owed to credit institutions	1,497.3	–	–	1,497.3
Amounts owed to other customers	580.5	–	–	580.5
Debt securities in issue	2,685.8	–	–	2,685.8
Subscribed capital	241.5	–	–	241.5
Total financial liabilities	19,167.8	–	221.9	19,389.7

11. Cash in hand and balances with the Bank of England

	Group & Society 2021 €M	Group & Society 2020 €M
Cash in hand	2.0	2.1
Balances with the Bank of England	2,536.7	1,821.1
Included in cash and cash equivalents (see note 29)	2,538.7	1,823.2

Balances with the Bank of England do not include mandatory reserve deposits of €62.1m (2020: €53.9m) which are not available for use in the Group's day to day operations. Such deposits are included within loans and advances to credit institutions in the Statement of Financial Position.

12. Investment securities

	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Debt securities				
Listed	949.1	949.7	1,040.4	1,071.0

In addition to those securities held by the Group, the Society has purchased investment securities issued by other Group entities. Investment securities held by the Group and the Society are measured at fair value through OCI. The tables below show the changes in fair value during the year. All of the Group's and Society's investment securities at 31 December 2021 are of investment grade. No impairment loss provision is held against these assets since calculated ECL is immaterial (2020: no provision).

	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
At 1 January	949.7	1,708.1	1,071.0	2,128.2
Additions	511.8	796.3	511.8	796.3
Disposals (sale and redemption)	(504.7)	(1,562.4)	(534.7)	(1,861.2)
Movement in fair value	(7.7)	7.7	(7.7)	7.7
At 31 December	949.1	949.7	1,040.4	1,071.0

At 31 December 2021, no investment securities were pledged as collateral under sale and repurchase agreements (2020: none).

13. Loans and advances to customers

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

Notes to the Accounts continued

Year ended 31 December 2021

13. Loans and advances to customers (continued)

Group & Society 2020	Gross exposure €M	Impairment loss provision €M	Total €M
Loans fully secured on residential property	16,795.3	(42.8)	16,752.5
Loans fully secured on land	16.3	(1.9)	14.4
Other loans	224.5	(2.5)	222.0
Total loans and advances to customers	17,036.1	(47.2)	16,988.9

The Group has previously acquired a pool of equity release mortgages from a third party. The Group assumed certain, but not all, risks arising from these loans with the remainder retained by the third party, which also retained a proportion of the income from the underlying equity release mortgages. As a consequence these mortgages have been recognised as a collateral loan to the third party within other loans in the table above. This loan is measured at fair value through profit or loss. The net fair value movement on loans and advances to customers at fair value through profit or loss was a gain of €0.6m (2020: €6.2m) for both the Group and Society.

Loans and advances to customers, for both the Group and Society, include €2,575.5m (2020: €2,914.1m) of loans which have been ringfenced from the Society for its associated secured funding vehicles.

The following transfers have been made:

	LBS Covered Bonds LLP €M	Albion No. 4 plc €M	Total €M
2021			
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
	LBS Covered Bonds LLP €M	Albion No. 4 plc €M	Total €M
2020			
Loans and advances transferred from the Society to securitisation vehicles	2,567.4	346.7	2,914.1
Loan notes issued by securitisation vehicles	1,640.5	367.2	2,007.7

The covered bonds and residential mortgage backed securities issued have been used to secure long term funding from other financial institutions. The loans are retained in the Society's Statement of Financial Position as the Society continues to control the loans and substantially retains the risks and rewards relating to them.

14. Other assets, prepayments and accrued income

	Group 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Collateral	159.1	256.9	159.1	256.9
Prepayments	5.0	5.1	5.0	5.1
Other assets	2.4	8.4	41.1	99.4
Total other assets, prepayments and accrued income	166.5	270.4	205.2	361.4

In the above table, collateral represents amounts owed by credit institutions on cash collateralisation of derivatives.

15. Investments in subsidiary undertakings

At 31 December 2021, the value of shares in subsidiaries was €2,040 (2020: €2,040).

(a) Loans to subsidiary undertakings

	Society 2021 €M	Society 2020 €M
At 1 January	1.9	1.9
Net movement during the year	-	-
At 31 December	1.9	1.9
Total investments in subsidiary undertakings	1.9	1.9

(b) Interest in subsidiary undertakings

The Society holds the following interests in subsidiary undertakings at 31 December 2021, all of which are incorporated in the United Kingdom and registered in England.

Name	Major Activities	Class of Shares held	Interest of Society	Address
Leeds Financial Services Limited	Non-trading	Ordinary €1 shares	100%	26 Sovereign Street, Leeds, LS1 4BJ
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. 3 Holdings Limited (dissolved 4 January 2022)	Holding company to Albion No. 3 plc	*	*	1 Bartholomew Lane, London, EC2N 2AX
Albion No. 4 plc	Provision of residential mortgage backed securities	*	*	11th Floor, 200 Aldersgate Street, London, EC1A 4HD
Albion No. 4 Holdings Limited	Holding company to Albion No. 4 plc	*	*	11th Floor, 200 Aldersgate Street, London, EC1A 4HD
Guildford No.1 plc (liquidated 3 February 2022)	Provision of residential mortgage backed securities	*	*	7th Floor, 21 Lombard Street, London, EC3V 9AH
Guildford No. 1 Holdings Limited (liquidated 3 February 2022)	Holding company to Guildford No.1 plc	*	*	7th Floor, 21 Lombard Street, London, EC3V 9AH

* The Society's interest is equal to being a 100% owned subsidiary as these entities pass the test of control under IFRS 10. Consequently they have been consolidated in the Group accounts in accordance with IFRS 10 Consolidated Financial Statements. Although the Society does not legally own these entities, it is deemed to control them, as it has power over the activities undertaken by the subsidiaries through the management and operational structures in place, and it has exposure to variable returns through the purchase of loan notes, deferred consideration and intragroup loans.

Notes to the Accounts continued

Year ended 31 December 2021

16. Intangible assets

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

Group & Society 2020	New core systems £M	System enhancements £M	Total £M
Cost			
At 1 January 2020	9.1	15.9	25.0
Additions	7.8	3.9	11.7
At 31 December 2020	16.9	19.8	36.7
Amortisation and impairment			
At 1 January 2020	–	5.4	5.4
Amortisation charged in the year	0.5	2.0	2.5
At 31 December 2020	0.5	7.4	7.9
Net book value			
At 31 December 2020	16.4	12.4	28.8

During 2021 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 1h.

The only individually material intangible asset is the Mortgage Hub mortgage origination system, with a net book value of £14.0m (2020: £18.4m).

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 2021 no impairment (2020: none) was recognised in the Income Statement.

In 2021 the cost of new core systems was adjusted by £0.8m to transfer previously capitalised costs to the Income Statement as it is considered to be more appropriate to recognise them as administrative expenses.

17. Property, plant and equipment

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

Group & Society 2020	Freehold premises £M	Long leasehold premises £M	Short leasehold premises £M	Office & computer equipment £M	Right-of-use assets £M	Total £M
Cost or valuation						
At 1 January 2020	44.2	0.2	1.0	35.5	13.2	94.1
Additions	14.7	–	–	4.4	0.9	20.0
Disposals	–	–	–	–	(0.8)	(0.8)
Increase in value reported in Other Comprehensive Income	2.7	–	–	–	–	2.7
At 31 December 2020	61.6	0.2	1.0	39.9	13.3	116.0
Depreciation and impairment						
At 1 January 2020	1.0	–	1.0	26.3	1.6	29.9
Disposals	–	–	–	–	(0.2)	(0.2)
Depreciation charged in the year	–	–	–	3.2	1.8	5.0
At 31 December 2020	1.0	–	1.0	29.5	3.2	34.7
Net book value						
At 31 December 2020	60.6	0.2	–	10.4	10.1	81.3

The Group's accounting policy is for all freehold and long leasehold premises to be revalued at least every three years, with the latest full valuation undertaken as at 31 December 2019. In the periods between formal valuations, an assessment is made to ascertain whether there are indications of material changes in property values. Details of the judgements involved in this assessment can be found in note 2a(iv).

Where portions of freehold premises are leased out, these properties do not meet the definition of investment property under IAS 40 as the leased out portions could not be sold separately and the Group retains the use of a significant portion of the property.

Notes to the Accounts continued

Year ended 31 December 2021

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 2021 £M	Group & Society 2020 £M
Freehold premises	47.9	47.7
Long leasehold premises	0.2	0.1
Net book value	48.1	47.8
Land and buildings occupied by the Group and Society for its own activities		
Net book value	50.7	55.1

The average remaining lease term of right-of-use assets is 5.9 years (2020: 6.5 years).

18. Shares

	Group & Society 2021 £M	Group & Society 2020 £M
Held by individuals	15,251.6	14,155.9
Other shares	6.4	6.8
Total shares	15,258.0	14,162.7

19. Amounts owed to other customers

	Group 2021 £M	Group 2020 £M	Society 2021 £M	Society 2020 £M
Amounts owed to subsidiary undertakings	–	–	243.4	323.8
Other deposits	297.5	256.7	297.5	256.7
Total amounts owed to other customers	297.5	256.7	540.9	580.5

20. Debt securities in issue

	Group 2021 £M	Group 2020 £M	Society 2021 £M	Society 2020 £M
Certificates of deposit	6.0	126.9	6.0	126.9
Senior unsecured debt	768.8	912.2	768.8	912.2
Covered bonds	1,627.6	1,659.3	1,620.4	1,646.7
Residential mortgage backed securities	152.2	202.3	–	–
Total debt securities in issue	2,554.6	2,900.7	2,395.2	2,685.8

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 2021 £M	Group 2020 £M	Society 2021 £M	Society 2020 £M
Accruals	22.7	19.9	22.0	19.3
Lease liabilities				
Current	1.3	1.7	1.3	1.7
Non-current	8.6	8.7	8.6	8.7
Other payables	168.8	162.6	165.8	133.0
Total other liabilities and accruals	201.4	192.9	197.7	162.7

Other payables within Group includes £165.6m (2020: £162.0m) owed to credit institutions on cash collateralisation of derivatives, Society £165.6m (2020: £129.3m).

The maturity of lease liabilities is shown below.

	Group & Society 2021 £M	Group & Society 2020 £M
Maturity analysis – contractual undiscounted cash flows		
Less than one year	1.6	1.9
One to five years	5.3	4.9
More than five years	4.3	4.9
Total undiscounted cash flows at 31 December	11.2	11.7

At 31 December 2021, the Group and Society have no commitments under short term leases (2020: none). Total lease commitments for low value assets were less than £0.1m (2020: less than £0.1m).

Amounts recognised in Income Statement in respect of leases

	Group & Society 2021 £M	Group & Society 2020 £M
Interest payable on lease liabilities	0.3	0.3
Depreciation of right-of-use assets	1.8	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	2.3	2.3

Amounts recognised in the Statement of Cash Flows in respect of leases

	Group & Society 2021 £M	Group & Society 2020 £M
Total cash outflow for leases	2.4	2.8

Year ended 31 December 2021

22. Provisions for liabilities and charges

	FSCS Levy €M	Customer redress and related provisions €M	Commission clawback €M	Property related €M	Other provisions €M	Total €M
Group & Society 2021						
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

	FSCS Levy €M	Customer redress and related provisions €M	Commission clawback €M	Property related €M	Other provisions €M	Total €M
Group & Society 2020						
At 1 January 2020	–	0.5	0.2	0.3	0.2	1.2
Amounts paid during the year	–	(0.3)	–	–	(0.2)	(0.5)
Provision charge / (release) in the year	–	0.6	(0.1)	–	0.6	1.1
At 31 December 2020	–	0.8	0.1	0.3	0.6	1.8

Financial Services Compensation Scheme (FSCS) levy

The Group has a contingent liability in respect of FSCS levies (see note 30). A provision is made for levies payable in 2022.

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.

Commission clawback

This provision has been made for the potential clawback of commission on assurance policies sold.

Property related provisions

A provision has been made for potential dilapidations on leased premises.

Other provisions

This includes provisions in respect of individual customer accounts where it is probable that there will be an outflow of funds, such as in relation to financial crime investigations.

23. Subordinated liabilities

In March 2021, the Group issued €350m of senior non-preferred fixed rate reset notes under its €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 accounting policy, presentation and method of computation adopted for subordinated liabilities are consistent with those applied by the Group for other financial liabilities that are classified as 'at amortised cost' (see note 1d for further details).

The total amount reported in the Statement of Financial Position represents the nominal value 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 2021 €M	Group & Society 2020 €M
13 ^{3/8} % permanent interest bearing shares	25.0	25.0
3 ^{3/4} % tier 2 capital	202.3	216.5
Total	227.3	241.5

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 (2020: one individual) in the UK, an employer funded retirement benefits scheme. The schemes have been accounted for under IAS19, which covers employee benefits.

The defined benefit scheme provides benefits based on final salary for certain employees. The assets of the scheme are held in a separate trustee-administered fund. Contributions to the defined benefit section are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The defined benefit section was closed to new entrants from 1 January 2000, and closed to future benefit accrual from 31 December 2014. As at 31 December 2021 there were 287 deferred defined benefit members (2020: 287). The Society's unfunded liability is €0.8m (2020: €0.9m) and is detailed below.

The defined benefit scheme operates under UK trust law and the trust is a separate legal entity from the Society. The scheme is governed by a Trustee company, Leeds Building Society Staff Pension Scheme Limited. Directors of the Trustee company are required by law to act in the best interests of scheme members and are responsible for setting certain policies, such as investment and funding, together with the Society. Trustees are appointed in line with UK law and the Trustee Deed and Rules.

The scheme's adopted and agreed funding target is 100% of its technical provisions. The Society and the trustees have implemented a lower risk 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 20 years (2020: 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 2021 can be approximately attributed to the scheme members as follows:

- Deferred members: 54% (2020: 51%)
- Pensioner members: 46% (2020: 49%)

GMP equalisation

On 20 November 2020, the High Court issued a supplementary ruling in relation to the equalisation of benefits for the effect of unequal Guaranteed Minimum Pensions between men and women, following its initial ruling in 2018. This further ruling applies the original findings to former members who have transferred out of a scheme and meant that the Society's pension scheme had additional liabilities with effect from 20 November 2020. The increase in liabilities was treated as a past service cost (change in benefit entitlement), with an amount of €0.2m charged to the Income Statement in 2020.

Notes to the Accounts continued

Year ended 31 December 2021

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's liabilities
Longevity risk	An increase in life expectancies results in a longer benefit payment period which in turn increases the scheme liabilities
Investment market risk	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):

	2021	2020
Discount rate	1.85%	1.35%
Price inflation		
RPI	3.50%	3.10%
CPI	2.90%	2.50%
Future salary increases	N/A	N/A
Future pension increases		
RPI max 5%	3.40%	3.05%
RPI min 3% max 5%	3.75%	3.55%
Cash commutation	100% of members assumed to take 80% of maximum tax free cash	75% of members assumed to take 75% of maximum tax free cash
Mortality		
Actuarial base table	S2PMA/S2PFA tables	S2PMA/S2PFA tables
Future improvements	CMI_2020 with 1.25% p.a. long term trend, smoothing factor of 7, initial addition of 0 and w2020 parameter of 10%	CMI_2019 with 1.25% p.a. long term trend, smoothing factor of 7 and initial addition of 0
Life expectancy		
Male at age 63	23.2 years	23.4 years
Female at age 63	25.3 years	25.4 years
Male at age 63 (currently aged 43)	24.6 years	24.8 years
Female at age 63 (current age 43)	26.9 years	27.0 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 2021 £M	Group & Society 2020 £M
Present value of funded obligations	(112.1)	(124.1)
Present value of unfunded obligations	(0.8)	(0.9)
Assets at fair value	121.2	126.0
Surplus	8.3	1.0

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 2021 £M	Group & Society 2020 £M
At 1 January	125.0	116.3
Interest cost	1.6	2.2
Actuarial (gains) / losses arising from changes in demographic assumptions	(2.2)	0.4
Actuarial (gains) / losses arising from changes in financial assumptions	(3.7)	13.7
Actuarial gains on experience adjustment	(2.8)	(0.3)
Benefits paid	(5.0)	(7.5)
Past service cost	–	0.2
At 31 December	112.9	125.0

Changes in the present value of the scheme's assets are as follows:

	Group & Society 2021 £M	Group & Society 2020 £M
At 1 January	126.0	119.3
Interest income	1.7	2.3
Return on scheme assets excluding interest income	(1.6)	11.9
Contribution by employer	0.4	0.4
Contribution by scheme members	–	–
Administrative expenses	(0.3)	(0.4)
Benefits paid	(5.0)	(7.5)
At 31 December	121.2	126.0

(e) Scheme assets

The major categories of scheme assets are as follows:

	Group & Society 2021 £M	Group & Society 2020 £M
Corporate bonds	51.9	55.7
Index-linked government bonds	25.6	27.3
Absolute return bonds	19.7	20.0
Liability driven investments	21.2	19.8
Fixed-interest government bonds	1.9	2.1
Cash and cash equivalents	0.9	1.1
Total assets	121.2	126.0

All assets have quoted market prices in active markets. The pension scheme assets include no assets from the Society's own financial instruments (unchanged from 2020). The pension scheme assets include no property occupied by, or other assets used by, the Society (unchanged from 2020).

Notes to the Accounts continued

Year ended 31 December 2021

25. Retirement benefit surplus (continued)

(f) Amounts recognised in the Income Statements

	Group & Society 2021 £M	Group & Society 2020 £M
Past service cost	–	0.2
Administration expenses	0.3	0.4
Net interest on the defined benefit asset	(0.1)	(0.1)
Total cost – defined benefit scheme	0.2	0.5

(g) Amounts recognised in the Statements of Comprehensive Income (SOCl)

	Group & Society 2021 £M	Group & Society 2020 £M
Actuarial gains on experience adjustment	2.8	0.3
Actuarial gains / (losses) arising from changes in demographic assumptions	2.2	(0.4)
Actuarial gains / (losses) arising from changes in financial assumptions	3.7	(13.7)
Percentage of scheme liabilities (%)	7.7%	10.9%
Return on scheme assets excluding interest income	(1.6)	11.9
Percentage of scheme assets (%)	(1.3)%	9.4%
Total gain / (loss) recognised in SOCl during the year	7.1	(1.9)

The cumulative amount of actuarial gains and losses recognised in the Statements of Other Comprehensive Income since the date of transition to IFRS is a net loss of £16.8m (2020: £23.9m loss).

(h) Sensitivity to changes in key assumptions

The table below gives a broad indication of the impact on the pension surplus to changes in assumptions and experience. All figures are before allowing for deferred tax. Although the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation of the sensitivity of the assumptions shown.

Approximate impact on defined benefit surplus	Group & Society 2021 £M
Increase discount rate by 0.25%	4.7
Increase inflation assumption by 0.25%	(3.7)
Change long term trend of increases in mortality improvement from 1.25% to 1.50%	(1.1)

(i) Estimated contributions for 2022 financial year

	Group & Society 2021 £M
Estimated employer normal contributions in financial year 2022	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 2021 £M	Group 2020 £M	Society 2021 £M	Society 2020 £M
Deferred tax				
At 1 January	0.9	2.4	0.5	3.6
Adjustment in respect of prior years	(1.7)	1.2	(2.4)	(0.3)
Amount recognised directly in equity	(0.5)	(3.0)	(0.5)	(3.0)
Income and expenditure movement during the year	(0.4)	0.3	0.3	0.2
At 31 December	(1.7)	0.9	(2.1)	0.5

	Group 2021 £M	Group 2020 £M	Society 2021 £M	Society 2020 £M
Deferred tax assets				
IFRS9 transitional adjustments	5.3	5.0	5.3	5.0
Differences relating to fixed assets	(0.8)	0.6	(0.8)	0.6
Total deferred tax assets	4.5	5.6	4.5	5.6
Deferred tax liabilities				
Revaluation reserve	4.1	3.6	4.1	3.6
Pensions	2.7	0.3	2.7	0.3
Temporary differences relating to trading items	(0.4)	(0.8)	(0.4)	(0.8)
Fair value reserve	(0.3)	2.0	0.2	2.0
Other temporary differences	0.1	(0.4)	–	–
Total deferred tax liabilities	6.2	4.7	6.6	5.1

27. Tax effects relating to each component of other comprehensive income

	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 / (losses) 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)

Notes to the Accounts continued

Year ended 31 December 2021

27. Tax effects relating to each component of other comprehensive income (continued)

	Group 2020			Society 2020		
	Before tax amount €M	Tax benefit/ (expense) €M	Net of tax amount €M	Before tax amount €M	Tax benefit/ (expense) €M	Net of tax amount €M
Investment securities at FVOCI	8.6	(2.3)	6.3	8.6	(2.3)	6.3
Revaluation gain on properties	2.7	(0.9)	1.8	2.7	(0.9)	1.8
Actuarial gains / (losses) on retirement benefit obligations	(1.9)	0.5	(1.4)	(1.9)	0.5	(1.4)
IFRS9 transitional adjustment	–	(0.3)	(0.3)	–	(0.3)	(0.3)
Adjustment to tax in relation to prior periods	–	0.2	0.2	–	0.4	0.4
Other comprehensive income	9.4	(2.8)	6.6	9.4	(2.6)	6.8

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 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
At 1 January	3,142.2	3,204.6	2,927.3	2,939.0
Cash flows:				
Net proceeds from issue of debt securities	508.7	2,427.2	508.7	2,427.2
Repayments of debt securities in issue	(804.8)	(2,541.4)	(754.8)	(2,493.5)
Net proceeds from issue of subordinated liabilities	346.9	–	346.9	–
Non-cash flows:				
Amortisation of discount on issue	0.2	2.4	0.2	2.4
Accrued interest movements	(6.1)	(1.9)	(6.1)	(1.1)
Foreign exchange movements	(26.1)	48.1	(26.1)	47.5
Movement in fair value	(39.7)	3.2	(34.2)	5.8
At 31 December	3,121.3	3,142.2	2,961.9	2,927.3

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 2021 €M	Group 2020 €M	Society 2021 €M	Society 2020 €M
Cash in hand and balances with the Bank of England (note 11)	2,538.7	1,823.2	2,538.7	1,823.2
Loans and advances to credit institutions	159.0	201.9	96.5	86.2
Total cash and cash equivalents	2,697.7	2,025.1	2,635.2	1,909.4

The Group's loans and advances to credit institutions includes €62.5m (2020: £115.7m) 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 £0.3m (2020: £2.3m) relating to technology investment programmes (intangible assets and property, plant and equipment) and £nil (2020: £3.0m) relating to the fit out of the Society's new head office and Leeds city centre branch (property, plant and equipment). This amount is inclusive of value added tax.

(d) Other commitments

The Group is committed to a multi-year service contract for the provision and maintenance of its IT infrastructure. The remaining commitment at 31 December 2021 is £17.2m (2020: £22.7m). This service contract does not meet the definition of a lease under IFRS 16 – Leases since it does not give the Group the right to control the assets used to provide the service.

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 volumes of related party transactions, outstanding balances at the year end, and the related income and expenses for the year are as follows:

	Society subsidiaries		Directors and connected persons	
	2021 €M	2020 €M	2021 €M	2020 €M
Loans payable to the Society				
Loans outstanding at 1 January	1.9	1.9	0.8	1.0
Net movement during the year	–	–	(0.8)	(0.2)
Loans outstanding at 31 December	1.9	1.9	–	0.8
Deposits payable by the Society				
Deposits outstanding at 1 January	323.8	642.9	0.2	0.6
Net movement during the year	(80.4)	(319.1)	–	(0.4)
Deposits outstanding at 31 December	243.4	323.8	0.2	0.2

Directors' emoluments

	Group & Society 2021 €M	Group & Society 2020 €M
Total remuneration	2.4	2.1

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Year ended 31 December 2021

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 144 to 158. No directors are active members of the defined benefit section of the Leeds Building Society Pension Scheme (2020: none). Two directors were active members of the defined contribution section of the Leeds Building Society Pension Scheme during 2021 (2020: two).

32. Credit risk on loans and advances to customers

(a) Credit risk management

Credit risk is defined as the current or prospective loss of earnings and impact on capital (expected and unexpected loss) arising from lending, as a result of borrowers defaulting on their credit obligations as they fall due.

Credit risk identification, measurement and management are integrated into a Board approved framework that covers all strategic risks. Credit risk is measured using a range of appropriate key performance indicators, largely underpinned by modelling techniques that are themselves developed and maintained in line with the Model Risk Policy. Key performance indicators are assessed across both new lending and stock and include: risk weighted assets, impairment charge ratio, expected credit losses (ECL), loan to value (LTV), Probability of Default (PD), in addition to a broad range of concentration limits that cover a number of dimensions.

The Group employs a 'three lines of defence' credit risk management approach which includes a dedicated Credit Risk function that is independent from the areas responsible for originating or renewing exposures. The Group uses a range of approaches to support credit risk management which include the use of 'through the cycle' principles and regular stress testing to understand the impacts of credit volatility. Oversight of first line activity is provided to support credit risk mitigation and a broad range of quantitative and qualitative benchmarking is undertaken. This is supplemented with external independent assurance where required.

Comprehensive management insight and information enable the prevailing, future and stressed levels of credit risk within the Group's credit portfolios to be understood and any adverse trends to be identified before impacting on performance.

Further information on the Group's management of retail credit risk during 2021 can be found on page 66 of the Strategic Report.

The Group's exposure to credit risk on loans and advances to customers can be broken down as below:

	Group & Society 2021 £M	Group & Society 2020 £M
Retail mortgages	18,340.3	16,795.3
Commercial lending	10.4	16.3
Other loans	157.6	164.7
Total gross exposure (contractual amounts)	18,508.3	16,976.3
Impairment loss provisions	(41.5)	(47.2)
Fair value adjustments	60.4	59.8
Total net exposure	18,527.2	16,988.9

The Group's retail mortgage exposures are analysed in note 32b below. The Group's commercial lending balances are not past due. The overall indexed loan to value of commercial lending is 53% (2020: 62%).

Other loans includes a collateral loan which represents a pool of equity release mortgages of £155.1m (2020: £162.2m) and an other loan of £2.5m (2020: £2.5m). The collateral loan is measured at FVTPL and is neither past due nor impaired. The risk relating to this balance arises due to the presence of a guarantee to the equity release mortgage customer whereby any shortfall in the value of the property on redemption of the loan is not pursued. The expected impact of this guarantee on the Group is reflected in the calculated fair value of the loan. The overall indexed loan to value of the collateral loan is 35% (2020: 35%) with the value of property on which the equity release mortgages are secured totalling £503m (2020: £516m).

The other loan is not past due but is impaired and is fully provided for.

In addition to the above exposures which are recorded in the Statement of Financial Position, the analysis below also considers undrawn loan commitments where a loan offer has been issued to a customer and remains unexpired but the loan has not yet completed and so has not yet been recognised in the Statement of Financial Position.

32. Credit risk on loans and advances to customers (continued)

(b) Retail credit risk

The Group is firmly committed to the management of credit risk at all stages of the lending cycle. The Group maintains appropriate policies which set out acceptable lending and debt management activity. The Group originates first charge, prime residential mortgage assets in the UK. Bespoke scorecards and affordability assessments are applied alongside appropriate underwriting and fraud detection techniques to manage losses. It also takes a proactive approach to the management of customer arrears which is undertaken by a specialist team dedicated solely to the collections and recovery process.

The Group monitors individual borrowers but also sets and applies limits to manage concentration risk. The limits are managed through the mortgage application process and monitored throughout the life of the products to ensure that new lending complements the risk profile of loans already within the Group's portfolio. This mitigates the risk that the Group is overexposed to borrowers with similar characteristics, for example properties in similar locations where local housing market fluctuations may arise. The use of distributional new lending and portfolio policy limits provides additional resilience to stress and prevents an over-concentration of marginal risk exposures.

The Group's retail mortgage exposures are predominantly in the UK, with some legacy exposure from historic lending in Spain.

(i) Credit quality

The following table sets out information about the credit quality of the Group's retail mortgages, which are all fully secured on residential property and are measured at amortised cost, and loan commitments where the amounts in the table represent the amounts committed. Classification into low, medium or high is based on internal rating grades which approximately translate into the IRB probabilities of default (PD) shown in the table. Explanation of the classification of loans into Stages 1 to 3 can be found in note 1e.

Group & Society 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

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Year ended 31 December 2021

32. Credit risk on loans and advances to customers (continued)

(b) Retail credit risk (continued)

(i) Credit quality (continued)

Group & Society 2020		Stage 1 €M	Stage 2 €M	Stage 3 €M	Total €M
Retail mortgages					
Low	IRB PD < 2.02%	13,738.0	1,064.5	0.7	14,803.2
Medium	IRB PD ≥ 2.02% and < 25.97%	485.1	1,048.8	7.7	1,541.6
High	IRB PD ≥ 25.97%	64.5	213.7	172.3	450.5
Total gross exposure		14,287.6	2,327.0	180.7	16,795.3
Impairment loss provision		(7.7)	(16.9)	(18.2)	(42.8)
Net exposure		14,279.9	2,310.1	162.5	16,752.5
Loan commitments					
Low	IRB PD < 2.02%	454.3	–	–	454.3
Medium	IRB PD ≥ 2.02% and < 25.97%	22.6	–	–	22.6
High	IRB PD ≥ 25.97%	174.9	–	–	174.9
Total gross exposure		651.8	–	–	651.8
Impairment loss provision		–	–	–	–
Net exposure		651.8	–	–	651.8

The table below provides further information on the Group's retail mortgages by payment due status as at 31 December 2021, excluding impairment loss provisions. The table includes €4.8m (2020: €8.6m) of loans and advances secured on residential property in Spain that are past due and €1.0m (2020: €1.0m) that are in possession.

	Group & Society 2021 €M	Group & Society 2021 %	Group & Society 2020 €M	Group & Society 2020 €M
Not past due	18,105.8	98.8	16,567.4	98.7
Past due up to 3 months	115.2	0.6	121.0	0.7
Past due 3 to 6 months	43.2	0.2	49.1	0.3
Past due 6 to 12 months	39.8	0.2	33.9	0.2
Past due over 12 months	31.0	0.2	19.4	0.1
Possessions	5.3	–	4.5	–
Total gross exposure	18,340.3	100.0	16,795.3	100.0

During the year, we have changed the reporting of arrears and have therefore restated the prior year comparatives.

32. Credit risk on loans and advances to customers (continued)

(b) Retail credit risk (continued)

(ii) Geographical analysis

The geographical distribution of retail mortgages is as follows:

	Group & Society 2021 %	Group & Society 2020 %
Scotland	8.3	8.2
North East	3.7	3.9
Yorkshire and Humberside	8.8	8.9
North West	8.9	8.4
Midlands	14.0	15.1
East of England	9.9	4.9
South West	10.0	9.2
Greater London	14.0	16.3
South East	15.7	18.8
Wales	3.5	3.1
Northern Ireland	2.8	2.7
Spain	0.3	0.4
Other	0.1	0.1
Total	100.0	100.0

(iii) Collateral

Retail mortgages are all fully secured on residential property. Collateral values are assessed at the point of origination and in line with the Group's lending policy. The Group requires collateral to be valued by an appropriately qualified source, independent of both the credit decisioning team and the customer, at the time of borrowing. This includes the selected use of automated valuation models. These are developed on market data and usage is subject to accuracy and criteria thresholds.

One of the key indicators of the credit risk associated with a mortgage book is the relationship between the amount of the loan made and the value of the underlying security, which is known as the loan to value percentage (LTV). In general the lower the LTV the greater the equity within the property, and the lower the losses expected to be realised in the event of default and subsequent repossession. The Group's lending policy permits owner occupier applications with a maximum LTV of 95 per cent and buy to let mortgages with a maximum LTV of 80 per cent, with scope to tighten these criteria if required, as occurred following the outbreak of COVID-19 in 2020. Higher LTV lending is subject to enhanced underwriting criteria.

The loan to value profile of the Group's book is monitored closely against the limits set by the Credit Committee.

The indexed loan to value analysis of the Group's retail mortgage portfolio is as follows:

	Group & Society 2021 €M	Group & Society 2021 %	Group & Society 2020 €M	Group & Society 2020 %
Less than 10%	169.4	0.9	138.1	0.8
10% to 20%	802.7	4.4	685.7	4.1
20% to 30%	1,704.4	9.3	1,451.9	8.7
30% to 40%	2,787.8	15.2	2,274.9	13.6
40% to 50%	3,737.0	20.4	3,310.8	19.7
50% to 60%	3,580.6	19.5	3,651.3	21.8
60% to 70%	2,459.8	13.4	2,877.2	17.1
70% to 80%	1,879.2	10.2	1,553.8	9.2
80% to 90%	915.0	5.0	751.7	4.4
90% to 100%	295.7	1.6	82.7	0.5
Over 100%	8.7	0.1	17.2	0.1
Total	18,340.3	100.0	16,795.3	100.0

Year ended 31 December 2021

32. Credit risk on loans and advances to customers (continued)

(b) Retail credit risk (continued)

(iii) Collateral (continued)

The overall weighted average loan to value of the retail mortgage portfolio is 50.5% (2020: 50.9%). The weighted average loan to value of new lending in 2021 was 67.4% (2020: 59.0%).

Upon initial recognition of loans and advances, the fair value of collateral is based on the valuation of the property undertaken as part of the application process. In subsequent periods, the fair value is updated to reflect current market price using regional house price indices. The table below shows the value of collateral held, capped at 100% of the individual loan amount:

	Group & Society 2021 £M	Group & Society 2020 £M
Not past due	18,109.5	16,474.9
Past due up to 3 months	77.2	177.6
Past due over 3 months	112.7	102.0
Possessions	5.3	4.4
Total collateral	18,304.7	16,758.9

The fair value of collateral for loans in stage 3 for impairment provisioning (capped at 100% of the individual loan amount) is £224.9m (2020: £179.9m).

(iv) Forbearance

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk losses, whilst ensuring that customers are treated fairly. The Group has a wide range of forbearance options which can be offered to customers in financial distress. Forbearance is intended to support both the customer and the Group and the primary aim of a forbearance facility is to enable a complete recovery of the mortgage through the full repayment of arrears and 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 below provides further information on loans existing at the 2021 reporting date which have had their terms renegotiated in the last 24 months, regardless of whether the renegotiation is still in place or whether the loan has reverted to its original terms.

Mortgage payment deferrals offered to customers as a result of the COVID-19 pandemic are not considered to be forbearance and are therefore excluded from the tables below.

Group & Society 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

Group & Society 2020	Capitalisation £M	Transfer to interest only £M	Term extension £M	Other payment arrangements £M	Total forbearance £M
Not past due	11.9	10.3	85.8	22.8	130.8
Past due up to 3 months	6.5	2.4	–	19.8	28.7
Past due over 3 months	7.4	2.7	–	24.4	34.5
Total forbearance	25.8	15.4	85.8	67.0	194.0

33. Wholesale credit risk

(a) Summary

The Group holds various investments (liquid assets) in order to satisfy operational demand and to meet current and future liquidity requirements. Credit risk arises because of the risk of factors such as deterioration in the individual investee's financial health and uncertainty within the wholesale market generally. Wholesale credit risk is managed through setting strict upper and lower limits to each type of investment that are dependent on criteria such as: time to maturity, credit rating and originating country. These limits are set by ALCO and monitored by the Treasury function on a continuous basis.

Wholesale credit risk also arises on the Group's derivative portfolio, which is used for hedging market risk. This is mitigated through the exchange of collateral through clearing and other netting arrangements.

Comprehensive management information on movement and performance within the wholesale portfolios means that credit risk is effectively controlled and any adverse trends are identified before they impact on performance.

Further details on the Group's management of wholesale credit risk are available on page 67 of the Strategic Report.

(b) Credit quality analysis

Counterparty credit ratings are used to inform the Group's assessment of wholesale credit risk. The table below shows the liquid assets impacted by wholesale credit risk and provides credit rating details for each exposure. The table shows exposures external to the Group only and does not include debt securities issued by Group entities and retained by the Society.

Group 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
Total liquid assets	734.0	2,816.0	96.8	–	3,646.8
	20.1%	77.2%	2.7%	–	100.0%

Group 2020	Aaa £M	Aa1-Aa3 £M	A1-A3 £M	Unrated £M	Total £M
Cash in hand and balances with the Bank of England	–	1,823.2	–	–	1,823.2
Loans and advances to credit institutions	–	95.3	106.5	0.1	201.9
Investment securities					
UK Government securities	–	57.1	–	–	57.1
Government agency debt	245.3	–	–	–	245.3
Supranational bonds	218.5	–	–	–	218.5
Covered bonds	322.2	–	–	–	322.2
Residential mortgage backed securities	104.1	2.5	–	–	106.6
Total liquid assets	890.1	1,978.1	106.5	0.1	2,974.8
	29.9%	66.5%	3.6%	–	100.0%

All wholesale exposures are to financial institutions in major industrial countries. The largest exposure to a single institution other than the UK Government was £68.8m (2020: £109.1m).

At 31 December 2021 none of the Group's wholesale portfolio exposure was either past due or impaired (2020: none). There are no assets that would otherwise be past due or impaired whose terms have been renegotiated.

The Group has implemented a policy that initial investments in liquid assets must be grade A3 or above. At 31 December 2021 100% (2020: 100%) of the Group's investments are rated single A or better.

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Year ended 31 December 2021

33. Wholesale credit risk (continued)

(b) Credit quality analysis (continued)

The Group's accounting policy for the calculation of impairment on liquid assets is detailed in note 1e. All liquid assets were classified as at Stage 1 at 31 December 2021 and throughout the year. No impairment loss provision is held against these assets at 31 December 2021 or throughout the year since calculated ECLs are immaterial.

(c) Concentration risk

The Group's exposure to counterparty concentrations is also kept under watch. Limits exist to mitigate the risk of overexposure to geographical areas, and these are continuously reviewed and updated. At 31 December 2021, the Group had exposures to the following geographical regions:

	Group 2021 €M	Group 2021 %	Group 2020 €M	Group 2020 %
UK	3,275.4	89.8	2,478.1	83.2
Germany	136.6	3.7	195.2	6.6
Canada	50.0	1.4	50.0	1.7
USA	0.2	–	33.0	1.1
Global Supranational	119.5	3.3	136.9	4.6
European Supranational	36.0	1.0	44.1	1.5
Asia Supranational	29.1	0.8	37.5	1.3
Total liquid assets	3,646.8	100.0	2,974.8	100.0

(d) Collateral

The nature of the instrument determines the level of collateral held. Loans and debt securities are generally unsecured with the exception of asset-backed securities which are secured by a collection of financial assets. The Group prefers to document its derivative activity via the International Swaps and Derivatives Association (ISDA) Master Agreement. The majority of the Group's derivatives are transacted through a central clearing house. In conjunction with this the Group has executed with some counterparties a Credit Support Annex (CSA). Under a CSA, cash is posted as collateral between the counterparties of the transaction to mitigate some of the counterparty credit risk inherent in outstanding derivative positions, as well as credit risk exposure arising on sale and repurchase transactions.

Transactions are usually settled on a gross basis, and therefore there is no netting in the financial statements. Legally the Group does have a right of set-off for those transactions. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark-to-market valuations on derivatives will offset positive mark-to-market values on derivatives, subject to an absolute of zero.

34. Liquidity risk

(a) Summary

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due, or can only do so at excessive cost. The Group's business model is to fund long term mortgages through short term retail customer deposits. In practice, although mortgages may have long legal contractual maturities and customer deposits may have short notice periods, customer behaviour tends to shorten mortgage lives and extend retail deposits. This reduces the inherent mismatch of the Group's liquidity position, but does not eliminate the risk and therefore the Group is required to take additional steps to manage and monitor the liquidity gap.

The Group's liquidity policy is to maintain sufficient liquid resources to meet statutory, regulatory and operational requirements. These requirements are designed to allow the Group to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group, and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of high quality purchased liquid assets, through committed wholesale funding facilities (including securitisation arrangements) and through management control of the growth of the business.

The development and implementation of liquidity policy is the responsibility of ALCO. The day-to-day management of liquidity is the responsibility of the Treasury function with oversight from the Risk function.

34. Liquidity risk (continued)

(a) Summary (continued)

A series of liquidity stress tests is performed each month to confirm that the level of liquid resources remains appropriate. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group's Statement of Financial Position.

Liquidity policy is approved by ALCO and agreed with the Board. Limits on potential cash flow mismatches over defined time horizons are the principal method of liquidity control. The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows and access to contingent funding from the Bank of England.

Further information on the Group's management of liquidity risk in 2021 can be found on page 68 of the Strategic Report.

(b) Maturity profile of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the date of the Statement of Financial Position and the contractual maturity date.

Group 2021	Repayable on demand €M	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M	Total €M
Financial assets						
Cash in hand and balances with the Bank of England	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

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Year ended 31 December 2021

34. Liquidity risk (continued)

(b) Maturity profile of financial assets and liabilities (continued)

	Repayable on demand €M	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M	Total €M
Group 2020						
Financial assets						
Cash in hand and balances with the Bank of England	1,823.2	–	–	–	–	1,823.2
Loans and advances to credit institutions	201.9	–	–	–	–	201.9
Investment securities	–	12.2	142.3	678.4	116.8	949.7
Derivative financial instruments	–	28.4	2.5	139.4	22.5	192.8
Loans and advances to customers						
Loans fully secured on residential property	8.9	9.8	43.8	590.9	16,099.1	16,752.5
Other loans	4.5	–	–	0.9	231.0	236.4
Fair value adjustment for hedged risk on loans and advances to customers	–	–	20.0	74.3	1.8	96.1
Total financial assets	2,038.5	50.4	208.6	1,483.9	16,471.2	20,252.6
Financial liabilities						
Shares	5,794.7	944.7	3,621.5	3,784.4	17.4	14,162.7
Fair value adjustment for hedged risk on shares	–	(0.2)	(7.3)	(6.0)	–	(13.5)
Derivative financial instruments	–	1.9	8.6	126.9	100.5	237.9
Amounts owed to credit institutions	–	109.5	202.6	1,185.2	–	1,497.3
Amounts owed to other customers	18.6	189.1	49.0	–	–	256.7
Debt securities in issue	–	96.3	481.2	2,120.9	202.3	2,900.7
Subscribed capital	–	–	–	–	241.5	241.5
Total financial liabilities	5,813.3	1,341.3	4,355.6	7,211.4	561.7	19,283.3

	Repayable on demand €M	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M	Total €M
Society 2021						
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	–	34.8	198.1	591.7	215.8	1,040.4
Derivative financial instruments	–	–	75.5	116.6	18.3	210.4
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	2,650.4	44.0	319.9	1,302.2	17,927.6	22,244.1
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	35.8	99.9	141.2
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	243.4	540.9
Debt securities in issue	–	–	427.7	1,620.4	347.1	2,395.2
Subordinated liabilities	–	–	–	–	339.4	339.4
Subscribed capital	–	–	–	–	227.3	227.3
Total financial liabilities	6,627.6	1,330.6	3,962.8	7,889.0	1,278.0	21,088.0

34. Liquidity risk (continued)

(b) Maturity profile of financial assets and liabilities (continued)

	Repayable on demand €M	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M	Total €M
Society 2020						
Financial assets						
Cash in hand and balances with the Bank of England	1,823.2	–	–	–	–	1,823.2
Loans and advances to credit institutions	86.2	–	–	–	–	86.2
Investment securities	–	12.2	142.3	678.4	238.1	1,071.0
Derivative financial instruments	–	28.4	2.5	125.9	22.5	179.3
Loans and advances to customers						
Loans fully secured on residential property	8.9	9.8	43.8	590.9	16,099.1	16,752.5
Other loans	4.5	–	–	0.9	231.0	236.4
Fair value adjustment for hedged risk on loans and advances to customers	–	–	20.0	74.3	1.8	96.1
Total financial assets	1,922.8	50.4	208.6	1,470.4	16,592.5	20,244.7
Financial liabilities						
Shares	5,794.7	944.7	3,621.5	3,784.4	17.4	14,162.7
Fair value adjustment for hedged risk on shares	–	(0.2)	(7.3)	(6.0)	–	(13.5)
Derivative financial instruments	–	1.9	8.6	126.3	98.6	235.4
Amounts owed to credit institutions	–	109.5	202.6	1,185.2	–	1,497.3
Amounts owed to other customers	37.9	189.1	49.0	–	304.5	580.5
Debt securities in issue	–	96.3	481.2	2,108.3	–	2,685.8
Subscribed capital	–	–	–	–	241.5	241.5
Total financial liabilities	5,832.6	1,341.3	4,355.6	7,198.2	662.0	19,389.7

(c) Gross contractual cash flows for financial liabilities

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

	Repayable on demand €M	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M	Total €M
Group 2021						
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 assets	6,671.7	1,505.1	4,019.2	7,914.1	1,228.2	21,338.3

Notes to the Accounts continued

Year ended 31 December 2021

34. Liquidity risk (continued)

(c) Gross contractual cash flows for financial liabilities (continued)

	Repayable on demand €M	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M	Total €M
Group 2020						
Shares	5,797.0	990.3	3,619.6	3,867.2	16.5	14,290.6
Amounts owed to credit institutions	–	109.6	200.9	1,191.4	–	1,501.9
Amounts owed to other customers	–	202.6	49.1	–	–	251.7
Debt securities in issue	–	96.3	484.3	2,184.9	213.0	2,978.5
Subscribed capital*	–	1.7	9.2	13.4	360.6	384.9
Total financial assets	5,797.0	1,400.5	4,363.1	7,256.9	590.1	19,407.6

* The prior year comparatives for subscribed capital have been restated following a re-assessment of future gross contractual cash flows.

The following table details the Group's contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows / (outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows / (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the conditions existing at the reporting date. For example, interest rates have been projected as illustrated by the yield curves existing at the reporting date, and where the amount varies with changes in an index, the amount disclosed is based on the level of the index at the reporting date.

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

Group 2020	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M	Total €M
Swap contracts	20.1	47.4	69.3	143.5	280.3

(d) Pledged assets (encumbrance)

The Group has issued a number of debt instruments which are secured against its assets, specifically the retail mortgage portfolio. These provide long term funding from institutional counterparties, either through cash realised from the sale of securities, or through sale and repurchase agreements.

The Society established Leeds Building Society Covered Bonds LLP in 2009 and at 31 December 2021 had €1,640.5m covered bonds in issue (2020: €1,640.5m). In addition, the Group had a further €152.1m (2020: €202.1m) of debt securities in issue through the Albion No. 4 securitisation programme.

The table below illustrates the external secured funding balances after redemptions in the mortgage pool:

	2021		2020	
	Assets pledged €M	Secured funding €M	Assets pledged €M	Secured funding €M
Secured against loans and advances to customers – LBS Covered Bonds LLP	2,304.7	1,640.5	2,567.4	1,640.5
Secured against loans and advances to customers – Albion No.4 plc	270.8	152.1	346.7	202.1
Total	2,575.5	1,792.6	2,914.1	1,842.6

Pledged assets include those available to Leeds Building Society Covered Bonds LLP and Albion No.4 plc to provide collateral to support external funding transactions. The secured funding balances above show issuance external to the Group, and do not include debt securities retained by the Society.

34. Liquidity risk (continued)

(d) Pledged assets (encumbrance) (continued)

All of the assets pledged are retained in the Society's Statement of Financial Position as it substantially retains control of the loans and the risks and rewards associated with them.

The covered bond programme operates under a Mortgage Sale Agreement in which there is an equitable assignment of the loans from the Society to the LLP. Legal title remains with the Society and full transfer of title is not effected until the occurrence of certain 'perfection' events, such as a failure to pay or breach of obligation on behalf of the Society, or the insolvency of the Society or the LLP.

The securitisation programme operates under a Mortgage Sale Agreement, where there is an equitable assignment of the loans from the seller to the issuer, Albion No.4 plc. Legal title remains with the Society and full transfer of title is not effected until the occurrence of certain 'perfection' events such as it being directed by a regulatory authority, the courts or the Society.

35. Market risk

(a) Summary

Market risk is the risk that market movements adversely impact the Group. It is the risk that the value of, or income arising from, the Group's assets and liabilities changes adversely due to movements in market variables, primarily interest rates (including interest bases) or foreign currency rates. These risks are measured and managed at Group level.

The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of member value.

The Group's exposure to market risk is governed by the Board approved Market Risk Policy. This policy sets out the nature of risk which may be taken and aggregate risk limits. Based on these aggregate limits, ALCO assigns risk limits to all Group businesses and monitors compliance with these limits. At each meeting ALCO reviews reports showing the Group's exposure to market risks.

The Group's exposure to market risk is managed by the Treasury function by using appropriate hedging instruments or by taking advantage of natural hedges within the Group. Market risk is managed within a clearly defined framework of policy limits.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, duration analysis, basis point value analysis, scenario analysis, and earnings at risk.

There has been no change in the year to the Group's approach to managing and measuring market risk. Further details are on page 68 of the Strategic Report.

(b) Interest rate risk

The primary market risk faced by the Group is interest rate risk. The net interest income and asset position of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of offsetting assets and liabilities and derivatives. The Group uses interest rate stress testing and gap analysis to monitor and manage its interest rate position.

The Group does not run a trading book and therefore does not have the type of higher risk exposure run by some banking institutions. Given the Group's policy of hedging fixed rate assets and liabilities back to floating rate, outright interest rate risk arises mainly from the Board's decision to invest the Group's reserves according to a specified fixed rate maturity profile.

The following table provides a summary of the interest rate repricing profile of the Group's assets and liabilities as at 31 December 2021. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. The table takes account of derivative financial instruments whose effect is to alter the interest basis of Group assets and liabilities. The non-interest bearing balances have been included in a separate column.

Year ended 31 December 2021

35. Market risk (continued)

(b) Interest rate risk (continued)

Group 2021	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	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 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)	–

35. Market risk (continued)

(b) Interest rate risk (continued)

Group 2020	Less than 3 months €M	3 to 6 months €M	6 to 12 months €M	1 to 5 years €M	More than 5 years €M	No specific reprice date €M	Non-interest bearing €M	Total €M
Assets								
Liquid assets	2,595.8	55.1	78.4	226.3	–	–	19.2	2,974.8
Loans and advances to customers	3,666.8	1,301.3	2,435.5	9,365.3	179.0	–	41.0	16,988.9
Total interest bearing assets	6,262.6	1,356.4	2,513.9	9,591.6	179.0	–	60.2	19,963.7
Total non-interest bearing assets	–	–	–	–	–	–	676.0	676.0
Total assets	6,262.6	1,356.4	2,513.9	9,591.6	179.0	–	736.2	20,639.7
Liabilities								
Shares	6,739.3	868.1	2,753.5	3,784.4	17.4	–	–	14,162.7
Wholesale funding	3,199.7	476.0	48.2	899.0	–	–	31.8	4,654.7
Subscribed capital	–	–	–	–	200.0	23.4	18.1	241.5
Total interest bearing liabilities	9,939.0	1,344.1	2,801.7	4,683.4	217.4	23.4	49.9	19,058.9
Total non-interest bearing liabilities and equity	–	–	–	–	–	–	1,580.8	1,580.8
Total liabilities and equity	9,939.0	1,344.1	2,801.7	4,683.4	217.4	23.4	1,630.7	20,639.7
Effect of derivatives	5,691.3	224.4	(148.7)	(5,524.1)	(242.9)	–	–	–
Interest rate sensitivity gap	2,014.9	236.7	(436.5)	(615.9)	(281.3)	(23.4)	(894.5)	–

The Society's interest rate repricing profile is not materially different to the Group position.

Liquid assets comprise cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities. Wholesale funding comprises amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

The Group uses derivatives to manage interest rate risk and reduce its overall interest rate gap position. The profile of the interest flows arising from these derivatives is set out above.

The Group monitors the impact of a range of possible interest rate changes on its assets and liabilities closely and sensitivities are reported to ALCO on a monthly basis. The following table details the sensitivity of the Group's and Society's annual earnings to a 200 basis point change in interest rates at the year end (with all other variables held constant), subject to floors as stated which were updated in 2020 to reflect the possibility of negative interest rates. A positive number indicates an increase in profit or other equity.

Group	+200bps 2021 €M	+200bps 2020 €M	-200bps Floor at -1% 2021 €M	-200bps Floor at -1% 2020 €M
Impact	48.8	74.4	(101.6)	(48.5)

Interest rate risk is managed on a Group basis. The Society will differ to the overall Group position as the sensitivity would generate offsetting movements in the subsidiaries.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – such as SONIA and Bank Base Rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages and loans) are also monitored closely and regularly reported to ALCO.

Notes to the Accounts continued

Year ended 31 December 2021

35. Market risk (continued)

(c) Foreign currency risk

Foreign currency risk arises as a result of the Group's activities in raising funds and purchasing investment securities in foreign currencies. This is done to allow cost effective funding to be obtained across a wider pool of providers. The Group's policy is not to run any speculative foreign exchange positions. The majority of the Group's assets and liabilities are denominated in sterling; however it also holds euro mortgages and receives funding via its debt issuance in foreign currencies, which give rise to exchange rate impacts. Cross currency interest rate swaps are utilised to reduce both the interest rate and exchange rate risk exposures that arise from operating in foreign currencies.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

Group	Assets 2021 €M	Assets 2020 €M	Liabilities 2021 €M	Liabilities 2020 €M
Euro	824.0	1,401.7	821.9	1,404.0

At the year end the Group has hedges in place to match 100% of its foreign currency exposures, via the use of cross currency swaps which offset the impact of foreign exchange fluctuations. Therefore any movement in foreign currency through profit or loss and other equity will be minimised. At 31 December 2021, a 10% movement in the sterling: euro exchange rate would result in a movement of €0.2m (2020: €0.2m) in profit or loss or other equity.

(d) Other price risk

Other price risk is the risk resulting from the possibility that the price of a security may decline.

The Group's policy is to have no material exposure to equity markets and to purchase only high quality liquid assets. Any exposures arising from the Group's products are eliminated as far as it is practicable by appropriate hedging contracts.

36. 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.

Activity	Risk	Type of Derivative	Hedge Accounting
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Pay fixed interest rate swaps	Fair value hedge
Fixed rate asset investments	Sensitivity to changes in interest rates	Pay fixed interest rate swaps	Fair value hedge
Fixed rate savings products	Sensitivity to changes in interest rates	Receive fixed interest rate swaps	Fair value hedge
Fixed rate wholesale funding	Sensitivity to changes in interest rates	Receive fixed interest rate swaps	Fair value hedge
Equity release mortgages	Sensitivity to changes in interest rates	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	-

36. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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.

The table below shows the value of derivatives by type:

	Group 2021			Group 2020		
	Contract or underlying principal amount €M	Positive fair value €M	Negative fair value €M	Contract or underlying principal amount €M	Positive fair value €M	Negative fair value €M
Interest rate swaps available to designate in fair value accounting hedges	19,498.9	157.2	(48.5)	15,524.9	84.8	(149.6)
Derivatives not designated in accounting hedges:						
Equity release swaps	69.9	-	(92.4)	73.5	-	(85.1)
Interest rate swaps	-	-	-	682.2	1.9	(1.9)
Cross currency swaps	874.4	62.1	(25.9)	1,246.6	105.8	(0.5)
Floating swaps	-	-	-	881.0	0.3	(0.8)
Total derivatives held for hedging purposes	20,443.2	219.3	(166.8)	18,408.2	192.8	(237.9)

	Society 2021			Society 2020		
	Contract or underlying principal amount €M	Positive fair value €M	Negative fair value €M	Contract or underlying principal amount €M	Positive fair value €M	Negative fair value €M
Interest rate swaps available to designate in fair value accounting hedges	19,078.7	148.3	(48.5)	15,078.0	71.3	(149.5)
Derivatives not designated in accounting hedges:						
Equity release swaps	69.9	-	(92.4)	73.5	-	(85.1)
Interest rate swaps	267.8	-	(0.3)	341.1	1.9	-
Cross currency swaps	433.9	62.1	-	799.8	105.8	-
Floating swaps	-	-	-	881.0	0.3	(0.8)
Total derivatives held for hedging purposes	19,850.3	210.4	(141.2)	17,173.4	179.3	(235.4)

Notes to the Accounts continued

Year ended 31 December 2021

36. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

The following tables analyse derivatives by contractual and residual maturity:

	Group 2021		Group 2020	
	Notional principal amount €M	Replacement cost €M	Notional principal amount €M	Negative fair value €M
Under 1 year	6,320.5	75.5	4,639.0	30.9
Between 1 and 5 years inclusive	12,369.2	125.2	12,151.0	139.4
Over 5 years	1,753.5	18.6	1,618.2	22.5
Total derivatives	20,443.2	219.3	18,408.2	192.8

	Society 2021		Society 2020	
	Notional principal amount €M	Replacement cost €M	Notional principal amount €M	Negative fair value €M
Under 1 year	6,320.5	75.5	4,639.0	30.9
Between 1 and 5 years inclusive	11,508.5	116.6	11,257.3	125.9
Over 5 years	2,021.3	18.3	1,277.1	22.5
Total derivatives	19,850.3	210.4	17,173.4	179.3

(b) Hedge accounting

The Group holds a portfolio of fixed rate mortgages, savings and investments and is therefore exposed to changes in interest rate risk (see note 35). 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 swaps on a monthly basis. The exposure fluctuates due to new products being added, products maturing and early repayments in the case of mortgage products. For this reason the Group utilises a dynamic hedge accounting strategy (also known as macro hedging) to manage the exposure created by entering into swap contracts this way.

The Group uses macro fair value hedges to recognise the changes in fair value of the hedged items (the mortgage and savings products) due to the changes in interest rates and therefore can 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 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.

36. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

The notional value of interest rate swaps designated into hedge relationships is as follows, analysed by maturity date:

Group 2021	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M
	Macro hedges of loans and advances to customers			
Swap notional	5.0	2,730.8	8,162.7	464.6
Average fixed rate	0.7	0.2	0.5	0.8
Macro hedges of shares				
Swap notional	504.0	1,771.5	1,161.0	–
Average fixed rate	(0.1)	0.1	0.4	–
Micro hedges of wholesale funding denominated in Sterling				
Swap notional	–	–	350.0	550.0
Average fixed rate	–	–	1.5	2.2
Micro hedges of wholesale funding denominated in Euros				
Swap notional	–	420.1	420.1	–
Average fixed rate	–	1.4	0.5	–

Group 2020	Less than 3 months €M	3 to 12 months €M	1 to 5 years €M	Over 5 years €M
	Macro hedges of loans and advances to customers			
Swap notional	200.9	1,025.5	5,973.2	275.7
Average fixed rate	1.1	0.7	0.9	0.8
Macro hedges of shares				
Swap notional	208.0	1,199.0	1,590.5	–
Average fixed rate	0.5	0.7	0.9	–
Micro hedges of wholesale funding denominated in Sterling				
Swap notional	–	–	–	200.0
Average fixed rate	–	–	–	3.8
Micro hedges of wholesale funding denominated in Euros				
Swap notional	–	–	893.7	–
Average fixed rate	–	–	0.9	–

Notes to the Accounts continued

Year ended 31 December 2021

36. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

The tables below provide analysis of the impacts of hedge accounting on the Statement of Financial Position and the Income Statement:

Group 2021	Notional amount €M	Carrying Amount		Line item in the Statement of Financial Position that includes the hedging instrument	Change in fair value of the hedging instrument used for recognising ineffectiveness in the year €M	Total ineffectiveness recognised in Income Statement €M	Line item in Income Statement that includes hedge effectiveness
		Assets €M	Liabilities €M				
Interest rate swaps							
Hedge of loans and advances to customers	11,363.1	125.7	(9.9)	Derivative financial instruments	227.5	(54.4)	Fair value gains less losses from financial instruments
Hedge of shares	3,436.5	0.3	(16.9)	Derivative financial instruments	(47.7)	(17.5)	Fair value gains less losses from financial instruments
Hedge of wholesale funding denominated in Sterling	900.0	4.1	(12.9)	Derivative financial instruments	(22.7)	(0.1)	Fair value gains less losses from financial instruments
Hedge of wholesale funding denominated in Euros	840.2	13.8	–	Derivative financial instruments	(9.3)	–	Fair value gains less losses from financial instruments

Group 2021	Carrying Amount		Accumulated amount of fair value adjustments on the hedged item		Line item in the Statement of Financial Position which includes the hedged item	Change in value used to calculate hedge ineffectiveness €M	Accumulated amount of fair value adjustments remaining in the Statement of Financial Position due to items that have ceased to be adjusted for hedging gains or losses €M
	Assets €M	Liabilities €M	Assets €M	Liabilities €M			
Hedged items							
Loans and advances to customers	11,480.1	–	6.1	(123.0)	Fair value adjustment for hedged risk on loans and advances to customers	(281.9)	14.9
Shares	–	3,136.3	0.2	(17.2)	Fair value adjustment for hedged risk on shares	30.2	(8.2)
Wholesale funding denominated in Sterling	–	900.0	14.8	(3.7)	Debt securities in issue / subordinated liabilities / subscribed capital	22.6	(0.9)
Wholesale funding denominated in Euros	–	840.2	–	(8.8)	Debt securities in issue	9.3	(1.5)

36. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Group 2020	Notional amount €M	Carrying Amount		Line item in the Statement of Financial Position that includes the hedging instrument	Change in fair value of the hedging instrument used for recognising ineffectiveness in the year €M	Total ineffectiveness recognised in Income Statement €M	Line item in Income Statement that includes hedge effectiveness
		Assets €M	Liabilities €M				
Interest rate swaps							
Hedge of loans and advances to customers	7,475.3	0.4	(108.5)	Derivative financial instruments	(86.6)	(17.3)	Fair value gains less losses from financial instruments
Hedge of shares	2,997.5	31.0	(0.2)	Derivative financial instruments	15.4	(10.1)	Fair value gains less losses from financial instruments
Hedge of wholesale funding denominated in Sterling	200.0	18.1	–	Derivative financial instruments	4.5	(0.6)	Fair value gains less losses from financial instruments
Hedge of wholesale funding denominated in Euros	893.7	19.2	–	Derivative financial instruments	0.6	0.1	Fair value gains less losses from financial instruments

Group 2020	Carrying Amount		Accumulated amount of fair value adjustments on the hedged item		Line item in the Statement of Financial Position which includes the hedged item	Change in value used to calculate hedge ineffectiveness €M	Accumulated amount of fair value adjustments remaining in the Statement of Financial Position due to items that have ceased to be adjusted for hedging gains or losses €M
	Assets €M	Liabilities €M	Assets €M	Liabilities €M			
Hedged items							
Loans and advances to customers	11,782.8	–	164.0	(0.5)	Fair value adjustment for hedged risk on loans and advances to customers	103.9	45.3
Shares	–	2,311.3	0.2	(12.7)	Fair value adjustment for hedged risk on shares	(5.3)	(17.0)
Wholesale funding denominated in Sterling	–	201.4	–	(18.1)	Debt securities in issue	(3.9)	–
Wholesale funding denominated in Euros	–	1,005.8	–	(19.3)	Debt securities in issue	(0.7)	(1.8)

(c) IBOR reform

During 2021, the Group successfully completed its transition programme to transfer all contracts impacted by IBOR reform to an alternative benchmark rate.

At 31 December 2021 the Group therefore had no remaining exposure to LIBOR.

Notes to the Accounts continued

Year ended 31 December 2021

37. 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 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

		Group 2020		Society 2020		
		Fair value hierarchy level	Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets:						
Cash in hand and balances with the Bank of England		Level 1	1,823.2	1,823.2	1,823.2	1,823.2
Loans and advances to credit institutions	i)	Level 2	201.9	201.9	86.2	86.2
Loans and advances to customers						
Loans fully secured on residential property	ii)	Level 3	16,752.5	18,575.2	16,752.5	18,575.2
Other loans	ii)	Level 2	14.4	14.4	14.4	14.4
Financial liabilities:						
Shares	ii)	Level 2	14,162.7	14,267.7	14,162.7	14,267.7
Amounts owed to credit institutions	iii)	Level 2	1,497.3	1,497.3	1,497.3	1,497.3
Amounts owed to other customers	ii)	Level 2	256.7	256.7	580.5	580.5
Debt securities in issue	iv)	Level 1	2,698.6	2,786.9	2,685.8	2,799.6
Debt securities in issue	iv)	Level 2	202.1	202.0	–	–
Subscribed capital	v)	Level 1	241.5	251.8	241.5	251.8

37. 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:

- The carrying amount of loans and advances to credit institutions, with a maturity of under 12 months, is assumed to equate to their fair value.
- 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.
- 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.
- 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.
- 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 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

Group 2020	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	57.1	892.6	–	949.7
Derivative financial instruments	–	190.9	1.9	192.8
Loans and advances to customers	–	–	222.0	222.0
Fair value adjustment for hedged risk on loans and advances to customers	–	–	96.1	96.1
Total assets	57.1	1,083.5	320.0	1,460.6
Liabilities:				
Fair value adjustment for hedged risk on shares	–	–	(13.5)	(13.5)
Derivative financial instruments	–	171.8	66.1	237.9
Total liabilities	–	171.8	52.6	224.4

Notes to the Accounts continued

Year ended 31 December 2021

37. Fair values (continued)

(b) Fair value measurement basis for financial instruments carried at fair value (continued)

	Level 1 €M	Level 2 €M	Level 3 €M	Total €M
Society 2021				
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
Society 2020				
Assets:				
Investment securities	57.1	1,013.9	–	1,071.0
Derivative financial instruments	–	177.4	1.9	179.3
Loans and advances to customers	–	–	222.0	222.0
Fair value adjustment for hedged risk on loans and advances to customers	–	–	96.1	96.1
Total assets	57.1	1,191.3	320.0	1,568.4
Liabilities:				
Fair value adjustment for hedged risk on shares	–	–	(13.5)	(13.5)
Derivative financial instruments	–	171.2	64.2	235.4
Total liabilities	–	171.2	50.7	221.9

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 or 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 valuations where 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.

During the year, the fair value adjustment for hedged risk on shares has been reclassified from Level 3 to Level 2 since the valuation does not use unobservable inputs.

37. Fair values (continued)

(c) Reconciliation of level 3 fair value measurements of financial instruments

	Derivative financial instruments €M	Loans and advances to customers €M	Fair value adjustment for hedged risk €M	Total €M
Group 2021				
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)
Group 2020				
At 1 January 2020	(54.8)	219.4	54.2	218.8
Total (losses) / gains in the Income Statement	(9.4)	6.2	–	(3.2)
Movement in fair value adjustment for hedged risk on loans and advances to customers	–	–	72.2	72.2
Movement in fair value adjustment for hedged risk on shares	–	–	(16.8)	(16.8)
Net repayment in the year	–	(3.6)	–	(3.6)
At 31 December 2020	(64.2)	222.0	109.6	267.4
Society 2021				
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)
Society 2020				
At 1 January 2020	(54.8)	219.4	54.2	218.8
Total (losses) / gains in the Income Statement	(9.4)	6.2	–	(3.2)
Movement in fair value adjustment for hedged risk on loans and advances to customers	–	–	72.2	72.2
Movement in fair value adjustment for hedged risk on shares	–	–	(16.8)	(16.8)
Net repayment in the year	–	(3.6)	–	(3.6)
At 31 December 2020	(64.2)	222.0	109.6	267.4

Total losses for the year are included in fair value losses from financial instruments in the Income Statement.

Year ended 31 December 2021

37. Fair values (continued)

(d) Recurring fair value measurement

Financial assets / financial liabilities	Fair value at 31 December 2021	Fair value at 31 December 2020	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 – £215.1m Society Assets – £215.1m	Group Assets – £57.1m Society Assets – £57.1m	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 – £734.0m Society Assets – £825.3m	Group Assets – £892.6m Society Assets – £1,013.9m	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 – £157.2m and Liabilities – £48.5m Society Assets – £148.3m and Liabilities – £48.5m	Group Assets – £85.1m and Liabilities – £150.4m Society Assets – £71.6m and Liabilities – £150.3m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties.	N/A	N/A
Derivative financial instruments (cross currency swaps)	Group Assets – £62.1m and Liabilities – £25.9m Society Assets – £62.1m	Group Assets – £105.8m and Liabilities – £0.5m Society Assets – £105.8m	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 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 – £14.8m Society Liabilities – £14.8m	Group Liabilities – £20.9m Society Liabilities – £20.9m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates discounted at a rate that reflects the credit risk exposure to the counterparty. The profile of future notional amounts is specified in the contract.	N/A	N/A

37. Fair values (continued)

(d) Recurring fair value measurement (continued)

Financial assets / financial liabilities	Fair value at 31 December 2021	Fair value at 31 December 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Fair value adjustment for hedged risk on shares	Group Liabilities – £(72.9m) Society Liabilities – £(72.9m)	Group Liabilities – £(13.5m) Society Liabilities – £(13.5m)	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
Derivative financial instruments (equity release swaps) (Level 3)	Group Liabilities – £77.6m Society Liabilities – £77.6m	Group Liabilities – £64.2m Society Liabilities – £64.2m	Level 3	Discounted cash flow. Future cash flows are 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 – £0.3m	Society Assets – £1.9m	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 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 – £215.5m Society Assets – £215.5m	Group Assets – £222.0m Society Assets – £222.0m	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 – £(169.1m) Society Assets – £(169.1m)	Group Assets – £96.1m Society Assets – £96.1m	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.

Year ended 31 December 2021

37. Fair values (continued)

(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 2021, a 20% proportionate increase in prepayments would lead to an increase in the fair value of the swaps of £0.4m. A 20% proportionate reduction in prepayments would decrease the fair value by £0.5m. 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 unobservable input assumptions for RPI, 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 variable which is considered to have the largest impact on the value of the swap is the prepayment rate. At 31 December 2021, a 100 basis points increase in assumed prepayment rate would increase the value of the swap by £6.8m and a 100 basis points decrease in assumed prepayment rates would reduce the value of the swap by £7.8m.

(ii) Loans and advances to customers (collateral loan)

The collateral loan which represents a pool of equity release mortgages is valued using a discounted cash flow model which uses unobservable input assumptions for property price volatility, sales price haircut, mortality, prepayment and the discount rate used to discount future cash flows. Wherever possible these input assumptions are calculated with reference to actual historic experience. The variables which are considered to have the largest impact on the value of the loan are property price volatility, sales price haircut and the discount rate. The sensitivities below reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

At 31 December 2021, a 300 basis points increase in assumed property price volatility would reduce the value of the collateral loan by £5.6m and a 300 basis points decrease in assumed property price volatility would increase the value of the collateral loan by £4.4m. A 500 basis points increase in the sales price haircut would reduce the value of the collateral loan by £6.6m and a 500 basis points decrease in the sales price haircut would increase the value of the collateral loan by £5.9m. A 50 basis points increase in the discount rate would reduce the value of the collateral loan by £10.9m and a 50 basis points decrease in the discount rate would increase the value of the collateral loan by £7.3m.

(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 2021, a 20% proportionate increase in mortgage repayments would lead to a reduction in the fair value of the mortgages in the hedge relationship of £3.6 million. A 20% proportionate decrease in mortgage repayments would lead to an increase in the fair value of the mortgages of £3.8 million.

38. Events after the date of the Statement of Financial Position

There have been no subsequent events between 31 December 2021 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.

Annual Business Statement

Year ended 31 December 2021

1. Statutory percentages

	31 December 2021	Statutory Limit
Lending limit	2.4%	25%
Funding limit	25.1%	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 2021	31 December 2020
As a percentage of shares and borrowings:		
Gross capital	9.04%	7.39%
Free capital	8.51%	6.81%
Liquid assets	17.90%	15.81%
Profit for the financial year as a percentage of mean total assets	0.56%	0.30%
Management expenses as a percentage of mean total assets	0.58%	0.48%

The above percentages have been prepared from the Group's consolidated accounts and in particular:

- 'shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue;
- 'gross capital' represents the aggregate of general reserve, other reserve, revaluation reserve, 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.

Year ended 31 December 2021

3. Information relating to the directors at 31 December 2021

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 Investment Platform Ltd Quilter Life & Pensions Ltd
*A. P. Conroy	Chief Financial Officer	11.12.75	06.01.20	Saltmine Trust (Trustee) **Leeds Financial Services Ltd **Leeds Mortgage Funding Ltd 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	Aspinall Financial Services Ltd
*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	Non-Executive Director	17.06.68	01.09.17	Doggy Day Care Academy Ltd 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 PB), 1 City Square, Leeds, LS1 2AL.

Country by Country Reporting

Year ended 31 December 2021

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 (2020: 50), total assets of £22.5bn (2020: £20.6bn) and 788,000 members (2020: 769,000). 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 201. 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. Since a Double Taxation Agreement between the UK and Gibraltar came in to force on 1 July 2020, Gibraltar mortgage income is no longer taxable in Gibraltar.

Results by country

The information for the year ended 31 December 2021 presented below is at a full Group level of consolidation, which has been prepared under IFRS. Total income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable), fair value gains less losses from financial instruments, together with all other components of operating income. Average monthly number of employees is shown on a full time equivalent basis. Colleague costs comprise wages and salaries, social security costs and pension costs.

Total income, profit before tax and corporation tax charge are as disclosed in the Group's Income Statement on page 172. Colleague costs are as disclosed in note 6 on page 192. Corporation tax paid represents the total payments as reported in the Statement of Cash Flows on page 176.

2021	UK*	Spain	Total	*UK includes Gibraltar
Total income (€m)	286.6	0.4	287.0	0.7
Profit before tax (€m)	163.4	0.3	163.7	0.8
Total assets (€m)	22,454.8	58.9	22,513.7	11.1
Total assets less liabilities (€m)	1,215.7	58.9	1,274.6	11.0
Average number of FTEs	1,361	–	1,361	–
Staff costs (€m)	68.6	–	68.6	–
Corporation tax charge (€m)	43.5	–	43.5	–
Corporation tax paid (€m)	45.9	–	45.9	–

Return on assets

The return on assets, calculated as profit before tax divided by mean total assets, was 0.76% (2020: 0.39%) for the year ended 31 December 2021.

Public subsidies received

The Group received no public subsidies in the year ended 31 December 2021.

Glossary of Terms

Year ended 31 December 2021

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.

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 customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue. Such a customer can also be said to be in a state of delinquency.

Assets and Liabilities Committee (ALCO)

This is a management committee which reports into the Board Risk Committee and provides support in relation to balance sheet risk matters and oversight of the Treasury operations of the Group.

Basel III

Basel III is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for banks and building societies. The framework has been embedded into UK law through the European Capital Requirements Directive IV (CRD IV). From 1 January 2021 banks and building societies in the UK have operated under policy statements issued by the PRA.

Basis point

One hundredth of one per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

Commercial lending

Loans secured on commercial property.

Common Equity Tier 1 (CET1) ratio

This is a regulatory ratio, calculated as the total of CET1 capital divided by Risk Weighted Assets (RWAs). CET1 capital is the highest quality form of capital and comprises general reserves from retained profits, less the book values of any pension surplus, goodwill and intangible assets and other regulatory adjustments as defined under CRD IV.

Contractual maturity

The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be repaid.

Covered bonds

Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The Group issues covered bonds as part of its funding activities.

Credit risk

This is the risk that a customer or counterparty is unable to pay the interest or to repay the capital on a loan when required.

Debt securities

Assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue

Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.

Default

An account is classified as in default for impairment provisioning under IFRS 9 if one or more of the following events occurs:

- the account is more than 90 days past due;
- the account is subject to certain forbearance activities;
- the account is in possession;
- the account meets 'unlikely to pay' criteria; or
- the customer has been identified as being bankrupt and is in arrears by more than a nominal amount.

Derivative financial instruments

A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value is based on the underlying asset, index or reference rate to which it is linked. The Group uses derivative financial instruments to hedge its exposures to market risks, such as interest rate and foreign currency risk.

Effective interest rate method (EIR)

The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

Expected credit loss (ECL)

A calculation to estimate potential losses on current exposures due to potential defaults; the term is used in relation to impairment loss provisioning under IFRS 9 and is derived from the multiplication of the PD, LGD and EAD.

Exposure at default (EAD)

An estimate of the maximum loss that an entity might suffer if a borrower or other counterparty fails to meet their obligations at default.

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.

Glossary of Terms continued

Year ended 31 December 2021

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, other reserve, revaluation reserve, subordinated liabilities and subscribed capital.

Impaired loans (credit impaired)

Loans where there is objective evidence that an impairment event has occurred, meaning that the Group does not expect to collect all the contractual cash flows or expect to collect them when they are contractually due.

Internal Capital Adequacy Assessment Process (ICAAP)

The Group's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of regulatory capital requirements for risks it faces under a business-as-usual scenario and a number of stressed scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP)

The Group's own internal assessment of the level of liquidity that it needs to hold in respect of regulatory liquidity requirements in relation to a number of stressed scenarios.

Internal Ratings Based (IRB) Approach

An approach for measuring exposure to credit risk which is more sophisticated than the Standardised Approach, where an entity can calculate its own risk weights for certain assets. IRB approaches can only be used with the permission of the Prudential Regulation Authority.

International Swaps and Derivatives Association (ISDA) master agreement

A standardised contract developed by ISDA and used to enter into bilateral derivative transactions granting legal rights of offsetting for derivative transactions with the same counterparty.

Lending limit

Measures the proportion of business assets not in the form of loans fully secured on residential property.

Leverage ratio

A regulatory ratio which measures the value of the Society's Tier 1 capital as a proportion of total relevant non-risk weighted assets. The CRR leverage ratio is defined by the EU's Capital Requirements Regulation, while the UK leverage ratio modifies this ratio to exclude central bank reserves. The UK regime does not apply to the Society due to its size (less than £50 billion of retail deposits).

LIBOR

The London Inter-Bank Offered Rate, the average interest rate estimated by lending banks in London that the average lending bank would be charged if borrowing from other banks. The publication of LIBOR ceased from 31 December 2021.

Liquid assets

Assets which are either in the form of cash or are readily convertible into cash. Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, and investment securities.

Liquidity Coverage Ratio (LCR)

A regulatory standard ratio implemented by the Basel III Reforms. It is calculated as the stock of high quality liquid assets divided by the total net stressed cash outflows over the next 30 calendar days expressed as a percentage.

Liquidity risk

The risk that the Group is not able to meet its financial obligations as they fall due, or will only be able to do so at an excessive cost. This risk arises from timing mismatches of cash inflows and outflows.

Loan to value ratio (LTV)

A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index).

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 the IRB approach and IFRS 9; an estimate of the difference between the EAD and the net amount recovered, expressed as a percentage of the EAD.

Management expenses

Management expenses represent the aggregate of administrative expenses, depreciation and amortisation as recorded in the Income Statement.

Market risk

The risk that movements in market risk factors, including foreign exchange rates, interest rates and customer-driven factors will create losses or decrease portfolio values.

Mean total assets

Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Member

A person who has a share investment or a mortgage loan with the Society which satisfies the Society's rules for membership.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

MREL is the total loss absorbing capital a financial institution must hold to facilitate the recapitalisation of the institution in resolution.

Mortgage backed securities (MBS)

A category of asset backed security that represents interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Net interest income

The difference between interest received on assets and similar income and interest paid on liabilities and similar charges. This is the same as net interest receivable in the Income Statement.

Net Promoter Score®

The Net Promoter Score® is a measure of customer loyalty to the Group.

Net Stable Funding Ratio (NSFR)

A regulatory standard ratio implemented by the Basel III reforms which is the total amount of stable funding divided by the total amount of required stable funding, expressed as a percentage. The NSFR is currently an observable measure which is intended to become a minimum standard in 2022 with the implementation of CRR2.

Notional principal amount

The notional principal amount indicates the amount on which 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 in which the parent company sells a group of mortgages to a special purpose vehicle (SPV). The SPV then uses the mortgages to issue mortgage backed securities in the form of class A and Z notes.

Shares

Money deposited by a person in a retail savings account with the Group. Such funds are recorded as liabilities for the Group.

Shares and borrowings

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.

Sovereign debt

Bonds issued by a national government. Historically sovereign debt has been viewed as less risky than other forms of debt issued.

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.

Glossary of Terms continued

Year ended 31 December 2021

Subscribed capital

Debt securities issued by the Group which have certain terms and conditions attached relating to the payment of interest and principal such that they are treated as capital.

Tier 1 capital

A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital is defined above, while other Tier 1 capital includes qualifying capital instruments such as PIBS.

Tier 2 capital

A further component of regulatory and financial capital as defined by CRD IV which for the Society is represented by certain impairment provisions.

Wholesale funding

The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less balances deposited by offshore customers.

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