# Annual Report and Accounts 2023

Leeds Building Society

# Contents

# 2023: How we performed

## Gross residential lending

£4.4bn

(2022: £5.0bn)

We helped **34,900** more people have the home they want, including **17,700** first time buyers

## Total assets

£28.1bn

(2022: £25.5bn)

## Savings balances

£20.8bn

(2022: £17.5bn)

We helped **122,300** more people save for their future

## Average savings rate[1]

3.05%

Compared to the rest of the market average of 2.46% An average benefit to all our savers of **£110.0m**

## Profit before tax

£181.5m

(2022: £220.5m)

## Common Equity Tier 1 Capital

28.2%

(2022: 33.3% )

Reserves available to protect us from future problems

## Customer satisfaction[2]

94%

(2022: 93%)

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

## Colleague engagement[3]

8.3

(out of 10)

We are committed to being a great place to work

1 CACI's Current Account & Savings Database (CSDB), stock, January 2023 to December 2023, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market.
2 Overall customer satisfaction in a survey of 3,612 members from January to December 2023.
3 Your Voice colleague survey, 1,602 respondents (91% response rate) in June 2023.

# Strategic Report

# Chair's Welcome

> Leeds Building Society's purpose is to put home ownership within reach of more people - generation after generation.

With this being one of the hardest times to afford a home since our founding year in 1875, and the number of first time buyers at a 10 year low, this goal has never been more relevant and important.

## Performance over 2023

We measure our performance in terms of how well we are delivering on our purpose across a number of key areas: to help people achieve their aspiration of home ownership, we develop innovative mortgage products and lend to them on a responsible and sustainable basis; to fund our lending we provide savings products which are consistently competitive; and to make sure that we can continue to do this for generation after generation, we need to make sufficient profit to maintain our financial strength, while also being able to invest in our people, in improving our service and in developing our technology.

The headwinds which we faced in 2023 included a much smaller mortgage market, house prices on a declining trajectory, continued pressures on the cost of living, a sluggish economy and intensified competition. Notwithstanding this, I am pleased to report that in 2023 we made strong progress in all key areas.

The details are covered in the Chief Executive's review of the year, and elsewhere in the Annual Report, however, some of the most important headlines include:

- Half of all our new mortgages went to helping first time buyers, up from one in three in 2022.
- The average interest rate on our savings accounts was 0.59% above the average rate for the market as a whole – a benefit of £110 million for our savings members.
- We won multiple awards for customer service and achieved a 94% service satisfaction score in a survey of members.
- The Society's membership reached an all-time high of 919,000.
- Colleague engagement scores improved to 8.3 out of 10, which places us in the top 25% against the benchmark for financial services.
- Pre-tax profit totalled £181.5 million, sufficient to underpin our financial strength and maintain our investment for the future.
- Through Society and member contributions of over £1 million, we supported primarily purpose-linked community schemes and projects.

## Board changes

Two new appointments were made to the board this year. Farah Buckley joined in April as an independent non-executive director. She also joined both the Audit and Board Risk Committees. Farah is a chartered accountant with extensive experience as an executive in private equity and corporate finance.

Pam Rowland joined the board in May as an independent non-executive director. She also joined the Board Risk, Nominations and Remuneration Committees. Pam is a chartered banker with over 30 years experience in financial services principally in chief operating officer and change roles.

David Fisher has agreed to remain on the board as a non-independent non-executive director. David has an extensive career in financial services at a senior level and his continued presence brings valuable continuity.

## Outlook

On a personal note, I announced in January my decision to step down as Chair in 2025. While this will be my last year with the Society, my commitment and determination to build a strong Society for future generations remains unchanged.

Looking to the future, we expect many of the headwinds that existed last year to continue into 2024, albeit that our expectation is that interest rates will begin to decline, which will support a moderate increase in activity in the housing and mortgage markets. Guided by our purpose, we remain well placed to prosper and are confident in our outlook for the year ahead and beyond.

The Society is fortunate in having an outstanding and distinctive culture. Our colleagues feel a keen sense of engagement and pride in our business and identify with our purpose. Our consistently strong performance is down to them and the Society's leadership team, and I am extremely grateful for all their efforts.

**Iain Cornish**
**Chair**

22 February 2024

# Chief Executive Officer's Highlights

Since 1875, Leeds Building Society has grown from strength to strength thanks to the care and dedication of those who came before us. They forged a strong bond between the Society and its members through good times and bad, a bond built on trust and a shared sense of purpose.

Remaining mindful of our roots served us well in 2023, a year of economic turmoil, which brought cost of living pressures that affected both members and colleagues. Yet it is at times like these that I see us at our best – delivering on our purpose, supporting our members through times of uncertainty, and continuing to build a sustainable and financially secure Society for future generations.

Our growth in 2023 highlights the effectiveness of our approach. We welcomed 157,000 new members to the Society, bringing our total membership to an all-time high of 919,000. It was a record year for net savings inflows with £2.7 billion, resulting in total savings balances of £20.8 billion, and we achieved £4.4 billion of mortgage lending, with six of the ten biggest mortgage lending days in our history.

The financial strength of our Society remains robust. I'm pleased to report pre-tax profits totalled £181.5 million, the second highest in our history, capital and reserves exceed £1.6 billion, and liquidity levels are well above regulatory requirements. Our total assets increased to £28.1 billion, an all-time high for the Society.

## Our commitment to our purpose

We're committed to making the home ownership dream a reality through our purpose: putting home ownership within reach of more people - generation after generation.

In 2022, we became the first national mortgage lender to stop providing mortgages for residential second homes. This year we deepened our support with more industry firsts, including a new partnership with Experian Boost, which enhances aspiring borrowers' credit scores by factoring in regular payments, such as council tax and even Netflix subscriptions. In December, we launched Reach Mortgages, a product range designed to help those who meet our various mortgage affordability and other criteria but have lower credit scores. In a much smaller mortgage market, these innovations contributed to us helping 17,700 first time home buyers onto the housing ladder.

This was recognised externally when we were named 'Best Shared Ownership Mortgage Lender' in the 2023 What Mortgage Awards, for the eighth consecutive year. We also won 'First time Mortgage Buyers' Choice' at the Moneyfacts Consumer Awards.

One of the largest challenges facing first time buyers is saving for a deposit. To help, we launched Home Deposit Saver, a regular savings account offering a £500 bonus upon receiving a mortgage offer from us. We also launched a new savings product tailored to shared ownership borrowers aiming to purchase a larger share of their homes.

We continue to campaign for real change in the housing market, believing that solutions lie in building more homes of all types, increasing affordable routes to home ownership, and better supporting people to save for their deposit. In September we published a new report focused on first time buyers called, 'A Place to Call Home'. This report forecasted 426,000 would-be first time buyers – 233 per day – will be priced out of the housing market in England over the next five years. I presented the findings of this report individually to MPs and at Labour Party and Conservative Party conference events, including one with the Housing Minister.

We brought further attention to the frustrations of first time buyers at Party Conferences by launching an advertising campaign based on an unseen fictional city called 'Losthaven'. We will continue to stand alongside the residents of 'Losthaven' to amplify their voices and ensure action is taken to protect the future of home ownership, generation after generation.

## Improving service for our members

I'm pleased to report that customer service and support for members improved further with satisfaction levels reaching 94%. It's clear that our members appreciate the personal service they receive when they visit us in person – our network of branches, and the people who work there, are a great strength of our Society and one that we remain deeply committed to.

Alongside this, we invested in our colleagues and new technology solutions to improve customer service and digital experiences for members. While this led to higher costs in 2023, our cost income ratio remains among the lowest for banks and building societies and we have set the foundations for new digital capabilities to be built in years to come, experiences which will allow members to engage with us in a way they choose to; be that in branch, via contact centre, digitally, or all three.

We are already seeing the benefit of this investment. For example, enhancements to the digital saving maturity journey has increased the number of members using digital channels by 41%, and a new savings application process reduced the time it takes for members to apply by over 80%. Lastly, mortgage intermediaries can now receive a mortgage offer in principle from the Society as quickly as within 17 seconds.

We know though that great products and service come from our skilled and committed colleagues, working in a diverse and inclusive culture. I'm delighted our colleague engagement scores, measured in the annual 'Your Voice' survey, improved to 8.3 (out of 10) versus 8.0 in 2022.

We reward colleagues fairly at all levels of the business and support their wellbeing. We have been a Real Living Wage employer since 2019 and in January we increased minimum salary levels by 14.6% to £22,000. This year we invested in developing colleagues to fulfil their true potential and we made considerable progress in creating a diverse and inclusive environment where we value our differences, by promoting Race Equality Week, National Inclusion Week and Black History Month. Our new digital work experience programme launched this year. 398 young people joined us virtually across two cohorts, with 69% of these cohorts being from an ethnic minority background.

> "Our purpose is more relevant than ever and our commitment to it will remain steadfast."

## Navigating interest rate challenges

A significant aspect of 2023 was the increase in the Bank of England interest rate to a 15-year high, an issue with far-reaching effects on savers and borrowers alike.

In a year which saw average savings rates at the highest levels since 2008, our dedication to providing value led us to offer savings interest rates 0.59% above the market average, translating into an additional £110 million for our members.

As a Society established nearly 150 years ago to help people save and buy their own homes, we have a long history of standing shoulder to shoulder with our members during difficult moments. We put financial wellbeing at the forefront of our decision-making and took action to protect members from the full impact of the Bank of England's base rate increases. Since December 2021, the Bank of England increased its base rate 14 times, however on six occasions we chose not to pass on these increases to our standard variable mortgage rate.

Our purpose means that it is just as important to help our members stay on the property ladder. In June we were one of the first mortgage lenders to sign the Government's new Mortgage Charter and the first to introduce a simple, digital application process for borrowers seeking assistance through the Charter. Indeed, we went well beyond these requirements and as well as investing in training for customer service teams to better identify and support members at risk of financial difficulty and partnering with debt advice charity Step Change to refer members to free financial support, we continued to not charge arrears fees to our members during 2023.

Despite the challenging economic conditions, our arrears levels remained stable, demonstrating the value of this support, as well as our responsible lending practices.

## Making a difference to each other and to our members

As a mutual, it is vital that we continue to be a sustainable business. We recognise our responsibility to consider the wider impact of our business and we believe in sharing our success with our colleagues and members, as well as our communities and the causes our members care about.

We are committed to the orderly transition to a greener, net zero economy by 2050. This year we continued our journey to significantly reduce our energy consumption by 2030 and become net zero in our operational emissions. We worked with the Energy Savings Trust to launch an online tool that helps members assess and improve the energy performance of their properties and we launched a new mortgage which factors in a property's Energy Performance Certificate (EPC) rating to offer preferential rates for the most energy-efficient homes.

The compassion and generosity of our colleagues was again clear throughout the year. We are delighted to have awarded over £1 million to communities in 2023, supporting 247 different organisations through grants, fundraising and volunteering, with over 670 colleagues donating 5,900 hours to community groups and raising £267,000 for our charity partner Dementia UK.

Using funds donated by the Society and our members through the 'Your Interest in Theirs' scheme, the Leeds Building Society Charitable Foundation awarded just under £340,000 to 47 charities, providing support to people in need of a safe and secure home across the UK. Also in line with our purpose, five community projects supporting people who experience barriers to home ownership received a share of £240,000, thanks to nominations from colleagues.

A four-year partnership with Dementia UK draws to a close in 2024 with fundraising topping over £800,000. Beyond fundraising, the 'Closer to Home' project has seen over 400 specialist face-to-face dementia care clinics in 40 of our branches and facilitated over 3,300 virtual appointments with Dementia UK's Admiral Nurse.

Recognising our roots, we extended our long-standing sponsorship of Leeds Rhinos rugby league through to 2026, expanding this partnership to include sponsoring the Leeds Rhinos netball team during the 2024 season. We also sponsored the Leeds Digital Festival and Leeds Pride, where hundreds of colleagues joined the parade through the city in June.

## 2024 outlook

As we look ahead, it is important to acknowledge the decision by Iain Cornish to step down as our Chair from 2025.

This year is likely to bring yet more economic uncertainty, political change and cost of living challenges, but we are in a strong position to support our members through them as a result of Iain's contribution to our growth and strengthening of our long-term future, his care in safeguarding this Society's rich heritage, and his determination to delivering our purpose. The Board has initiated a process for the appointment of our new Chair and an update will follow once that process is complete.

Indeed our purpose is more relevant than ever and our commitment to it remains steadfast. This, combined with our financial strength, our successful strategy, and our skilled colleagues, gives me real confidence about the future. As always, I thank you, our members, for your ongoing trust and confidence in our Society.

**Richard Fearon**
**Chief Executive Officer**

22 February 2024

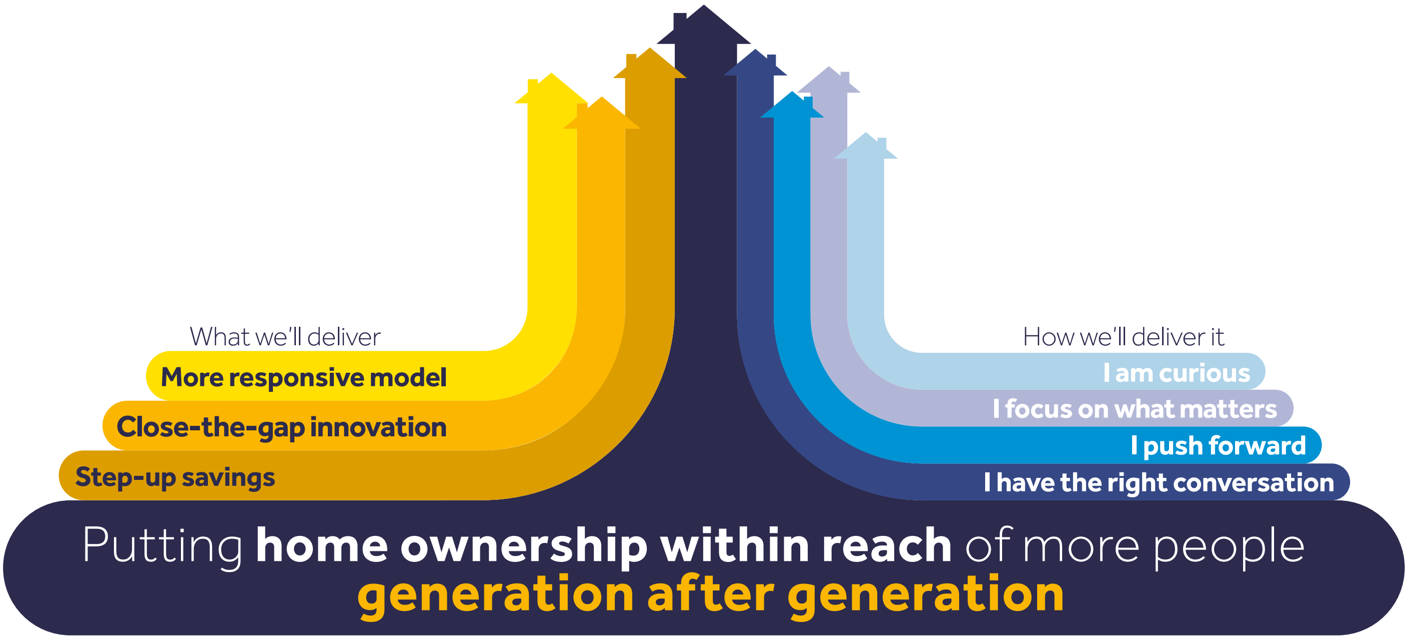
# Business Model and Strategy

## Year ended 31 December 2023

Leeds Building Society is the fifth largest building society in the UK, with assets of £28.1 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.

### Our purpose

Our 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 own home. We are committed to supporting our members onto and up the housing ladder, as well as supporting them to remain in their home when faced with an uncertain economic and market environment, among other challenges. Our strategic drivers and behaviours enable us to do so.




**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.

## 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 provides 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. As a way of helping to put home ownership within reach of more people, we no longer offer new mortgages on second homes, which reduce the availability of homes for local residents.

We fund the majority of mortgage lending with members' savings, through a range of channels. We've continued to support savers with our rates averaging 3.05% during the year. The remainder is funded from wholesale money markets on competitive terms, as well as reserves of previous profit, and Government-supported funding schemes aimed at increasing the level of lending across the market.

Our strong liquidity position helps to make sure that there are sufficient funds available to meet the requirements of savers, investors and other creditors. Assets are invested conservatively, in a range of high-quality investment instruments and across a range of counterparties. Environmental, Social and Governance (ESG) factors are considered when assessing the creditworthiness of our counterparties for liquidity investments and, if a counterparty was judged not to meet these criteria, then their limit may be rescinded.

We aim to generate sufficient profit through cost efficiency and management of the net interest margin, in order to maintain a strong capital position, supporting delivery of our purpose, generation after generation. 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, modernising our technology platforms, 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.

Our business model is summarised below:

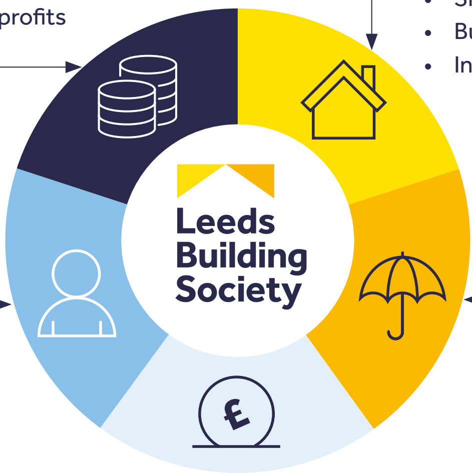
**Where our funding comes from**

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

**How we use our funding**

The Society lends to help members have the home they want, including:

- Mainstream residential
- First time buyers
- Shared ownership
- Buy to let
- Interest only




**How we remain financially stable and operationally resilient**

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

**What we need to spend**

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

**Why we need to make profit**

We are member-owned and do not pay any shareholder dividends, however we need to make profit to:

- Maintain financial strength
- Invest in the Society for the benefit of our membership as a whole (for example, maintaining our branch network, improving digital capability and customer experience, enhancing our colleague working environment) and to set up the business for future success
- Provide benefits for the communities in which we operate

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

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

## We deliver social value through the provision of

### Members and brokers

**A range of mortgages –** to enable borrowers to achieve the basic societal need of having a home, supporting first time buyers and home owners to move onto / up the property ladder and to remain in their home.

**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's important to them, including to buy a home.

**A secure home for members' savings –** our financial strength means we are able to generate robust profits that enable us to remain financially resilient, and allow us to 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, creating career development opportunities for all. Our engagement scores place us within the top 25% of the UK financial services sector benchmark.

### Communities

**Support for the communities in which we operate –** we contribute directly to society through the work of the Leeds Building Society Charitable Foundation, our fundraising efforts, colleague volunteering scheme and by paying our fair share of tax to support essential services.

### Environment

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

### 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 **Mutuality Statement**[1] and **ESG Policy**[2] setting out how we continually strive to do the right thing for our members, colleagues, communities and the environment in which we operate.

### 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, and we always strive to act responsibly as a business.

1 This can be found on our website at leedsbuildingsociety.co.uk/your-society/about-us/mutuality.
2 This can be found on our website at leedsbuildingsociety.co.uk/your-society/financial-information.

## Progress on 2023 corporate priorities

We have continued to demonstrate progress towards achieving our purpose. In 2023, one in two of our new mortgages were provided to first time buyers, supporting 17,700 into their own home. We were one of the first lenders to sign up to the Mortgage Charter, demonstrating our commitment to supporting members in financial difficulty to remain in their homes. And we launched our 'Losthaven' campaign, raising awareness of the difficulties faced by first time buyers in the current market and calling for action by the Government and industry. Our progress has been externally recognised through winning the Leading with Purpose award at the Business Culture Awards in November.

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

| Corporate priority | Progress in 2023 |
|---|---|
| **More responsive model** | |
| Ensure we have highly engaged and empowered colleagues, a diverse workforce and talent pipeline to respond to our changing context and needs | • In 2023, our engagement score was 8.3 (out of 10) and sits above the financial services benchmark. Our score was 8.6 (out of 10) when colleagues were asked if they would recommend Leeds Building Society as a good place to work. During 2023, we piloted a pulse survey to give us richer insight throughout the year and to take a more agile approach to colleague listening.<br>• To follow on from our Inclusive Leadership work in 2023, we developed and launched our Empowering Allyship programme for all colleagues at manager level and below, to support the delivery of our Inclusion Strategy. We took the opportunity to externally assess our inclusion and diversity work, achieving the highest rating with Inclusive Employers, at Gold standard. |
| Build a sustainable technology platform and rapid transformation capability | • We have delivered several foundational steps as we embark on our multi-year technology transformation. These include the build of enhanced data and cloud capabilities, that provide us with greater flexibility and scalability and, following a successful pilot, the full mobilisation of our core banking transformation programme.<br>• In a rapidly evolving market, we have consistently launched new savings products at pace, reducing average time to launch by 60%, to ensure members have access to our most competitive products, as quickly as possible. |
| Maintain the capital strength and cost efficiency to support our differentiated product mix and thrive though the economic cycle | • We maintained our strong capital position throughout the year, with all capital ratios significantly in excess of the regulatory minima. In October 2023, the Society performed a capital optimisation exercise repurchasing £192 million of its subordinated notes and, as a result, total regulatory capital has decreased during the financial year by 4%.<br>• Our costs have increased in the year as we have invested in our multi-year technology programme and long-term sustainability, but we maintain a strong focus on efficiency with close control over our costs. Our cost ratios remain among the best in our sector. |
| Lead the business and our members through the transition to net zero | • We've continued to take action to reduce our Scope 1 and 2 operational emissions, and remain carbon neutral for Scope 1 and 2 market-based emissions and selected Scope 3 emissions. We've also set a new target to reduce our Scope 3 operational emissions by 25% by 2030, in line with the requirements of the Science-Based Targets initiative (SBTi). Refer to our climate-related financial disclosures on pages 47-82 for further details.<br>• We're working with housebuilder Keepmoat to support the first large scale development of houses built to the Government's Future Homes Standard.<br>• We've also launched a tool in conjunction with the Energy Saving Trust, which helps members to better understand the energy efficiency of their home and actions they can take to improve this. |

| Corporate priority | Progress in 2023 |
|---|---|
| **Close-the-gap innovation** | |
| Develop streamlined lending journeys to make it easy for members and brokers to do business with us | • During 2023 we've continued to streamline lending journeys, which has resulted in us reducing our average application to offer time by 24%, with our fastest mortgage offer being made 17 seconds after submission, achieving an average broker Net Promoter Score (NPS) of 62%.<br>• We have also launched a new and improved digital mortgage solution, making it easier for members who wish to take out a mortgage directly with us through our website without advice.<br>• We have responded to the growing demand amongst landlords who are increasingly opting to purchase property through a limited company by launching our own limited company buy to let offering. This will support our financial stability, and enable us to be there for our members, generation after generation. |
| Proactively spot opportunities to meet the needs of our members and intermediaries through our data and insights | • Member insights and behavioural data have been used to support the revitalisation of our digital channel. More than 1,500 members were involved in one-to-one trial sessions to co-develop and then test updated functionality.<br>• We also delivered purpose-led product innovation, informed by the needs of our members and prospective first time buyers.<br>• We introduced a new data capability to enable Society-wide insights to support our members. Our data visualisation capability has been extended to provide insights including complaints, IT performance and telephony servicing, and we have delivered a new suite of insight to measure additional customer outcomes.<br>• Following analysis of our current criteria offering, website behaviour and broker feedback, we introduced a set of dynamic improvements to the way we present and manage our acceptance criteria on the intermediary site, in conjunction with Criteria Brain, helping to improve our broker interactions and to support our intermediary teams. |
| Develop capabilities and an innovation mindset focused on helping more people onto and up the property ladder | • We launched our First Home Helper tool in July 2023. This helps first time buyers understand the ways in which they can buy their first home and how to set a budget when saving for a deposit.<br>• We were the first UK mortgage provider to work with Experian and connect to their free Boost service, which allows people to potentially 'boost' their credit scores by using open banking to assess the last 12 months of payments such as council tax, and subscriptions to streaming services.<br>• We also launched our new range of Reach Mortgages in December, which are designed for people if their credit score doesn't qualify for one of our standard mortgage products (customers still need to meet our affordability and prime lending criteria). |

| Corporate priority | Progress in 2023 |
|---|---|
| **Step-up savings** | |
| Cherish our branch network and the service and loyalty it delivers | • We continued to invest in our branch network in 2023, and we continue to have some of the most efficient branch networks amongst our peer group[3].<br>• Member satisfaction with our branch network remains extremely high, at an average of 94% during 2023[4].<br>• We have committed to our future Property Strategy (which commences in 2024), with a phased refurbishment and upgrade programme of our branch network over the next 10-12 years. |
| Deliver a multi-channel experience that meets member needs and drives a step-change in awareness, accessibility, and service | • We have started to roll out a new savings application process that has reduced the time it takes our members to open an account by over 80%. It has improved access for all members and has resulted in nine times more applications from mobile devices.<br>• We have maintained our 50 branches, and have also increased the capacity to handle an additional 5,000 calls per month in our Contact Centre, through increasing efficiency of our systems and removing some manual processes.<br>• We have audited all digital journeys to understand any potential barriers and have made enhancements to improve usability for all members. |
| Define and deliver a savings member value proposition that creates connection beyond rate | • Our new Shared Ownership Saver and Home Deposit Saver products, launched this year, support members in saving for a deposit to purchase a home of their own, or a bigger share of their current home.<br>• We have paid 0.59% above the average market savings rate during 2023, equating to an annual benefit to all our savers of £110 million.<br>• We've also been re-accredited with the Fairer Finance Gold Ribbon for our savings products, which recognises the good customer service we've offered to savers, our transparency and how well we handle complaints. |
| **Across all strategic drivers** | |
| Delivery of our purpose is underpinned by the effective identification and management of the risks we face | • For information on our identification and management of risks faced by the Society, please see the Risk Overview, Climate-Related Financial Disclosures and the Risk Management Report sections. |

## People

### Our approach

Our People Division is focused on unlocking the talent of our colleagues to supercharge our purpose. The progress that we are making for our members and future customers would not be possible without the fantastic efforts of our colleagues. Ensuring that they continue to feel a real sense of belonging and have a genuine connection to our purpose is crucial for us.

### Listening and engaging with our colleagues

Creating opportunities for our colleagues to have a valued voice is of paramount importance, it enables high performance through empowerment and removes barriers to colleagues doing their best work. There are several ways that we listen to our colleagues and create opportunities for two-way dialogue across the Society.

3 eBenchmarkers Savings Report, Spring 2023.
4 Overall customer satisfaction in a survey of 3,612 members from January to December 2023.

**Our colleague survey** – in 2023, our engagement score was 8.3 (out of 10) and sits above the financial services benchmark. Our score was 8.6 (out of 10) when colleagues were asked if they would recommend Leeds Building Society as a good place to work. During 2023, we piloted a pulse survey to give us richer insight throughout the year and to take a more agile approach to colleague listening. Additionally, colleagues have been surveyed throughout the year on subjects that are important to them, e.g. colleague benefits, climate.

**Our colleague association** – with 1,300 members, our colleague association meets regularly with our Chief Executive Officer, Richard Fearon and Annette Barnes (our non-executive director who is responsible for representing colleague views with the board). This provides feedback from our people and ensures that the board is kept informed about what is important to our colleagues.

**Our colleague voice groups** – in 2023, to amplify our colleague voice, we have piloted a network of colleague groups who work within their respective divisions to own actions from our colleague survey and to help to co-create the colleague experience across the Society.

**Our colleague-led forums** – working with our Inclusion and Diversity team, our five colleague-led forums meet monthly around disability, gender, LGBTQ+, race and wellbeing. The forums support the work of our Inclusion and Diversity Strategy, through helping shape our work, raising awareness and approaching activity in an intersectional way.

“I understand and believe in the purpose, and I feel I that I can contribute. I also believe the Society cares and wants to make people’s lives better.”

“Leeds Building Society is such a great place to work. I’ve had my confidence in myself built up through working here and the job feels rewarding too.”

“I genuinely feel as though we are here to do right by people and that makes me extremely proud to say I work at Leeds Building Society.”

### Inclusion, diversity and belonging

Through our strategy ‘Being You; Transforming Us’, our ambition is to create a truly collaborative environment where diverse perspectives are sought to fuel innovation and help deliver our purpose. We will do this by embedding inclusive practices into everything we do and working towards becoming inclusive by design.

We have continued to work on our gender and race representation on the board and in our leadership team. The five-year view of our inclusion and diversity metrics can be seen in the table below.

### 5-year view of inclusion and diversity metrics

| | | **2023** | | 2022 | | 2021 | | 2020 | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Female** | **Male** | Female | Male | Female | Male | Female | Male | Female | Male |
| Colleague group | Number | **997** | **725** | 926 | 596 | 838 | 507 | 829 | 499 | 838 | 486 |
| | Percentage | **58%** | **42%** | 61% | 39% | 62% | 38% | 62% | 38% | 63% | 37% |
| Leadership team (1) | Number | **23** | **36** | 49 | 90 | 40 | 85 | 33 | 70 | 33 | 66 |
| | Percentage | **39%** | **61%** | 35% | 65% | 32% | 68% | 32% | 68% | 33% | 67% |
| Directors (2) | Number | **4** | **8** | 3 | 8 | 3 | 8 | 2 | 8 | 3 | 9 |
| | Percentage | **33%** | **67%** | 27% | 73% | 27% | 73% | 20% | 80% | 25% | 75% |

(1) From 2023 our definition of our leadership has been updated to reflect our senior leadership population only, in line with industry best practice.

(2) Number includes executive and non-executive directors.

In 2023 we launched an internal campaign to understand more about our colleagues through asking them to share more of their equality data with us. This data will enable us to fully understand how representative we are of the communities we serve, across a variety of areas where we have not tracked data before, such as caring responsibility, sexual orientation, disability, and social mobility. As we gather greater data, we will explore further measures of representation beyond gender and race.

This year we launched our Empowering Allyship programme that takes all our colleagues on their own allyship journey. Our colleagues explore the importance of creating an inclusive culture and why it matters, how they can raise awareness of non-inclusive behaviours and how to be an ally to each other and create an environment of belonging. This programme will support us in embedding inclusive practices into everything we do.

To enable our colleagues to perform at their best, by providing flexibility in where they work, many of our office-based colleagues continue to work in a hybrid way, with some of their time spent working in the office and the remaining time working from home. This has been supported, in 2023, by further investment in our digital platform to enable effective hybrid teams. Additionally, we continue to offer a broad range of flexible working options and patterns, supporting colleagues to balance their home and work life effectively.

We undertake regular reviews of our progress and were delighted, in 2023, to be accredited Gold Standard by Inclusive Employers, the first building society to achieve a gold accreditation. We understand that this is a continuous journey and are committed to reviewing, embedding and improving our work around inclusion and diversity.

We know that home ownership is neither inclusive nor diverse and, aligned to our purpose, we are committed to supporting more people into home ownership. You can read about our inclusion and diversity efforts in our Purpose Impact Report, available on our website at leedsbuildingsociety.co.uk/press/financial-results.

### The wellbeing of our colleagues

Our colleagues and their wellbeing are core to our overall success and overall colleague sentiment on the Society's wellbeing approach is positive (+0.3 ahead of UK Financial Services benchmark).

For 2023, we have moved to a more comprehensive approach to the wellbeing of our colleagues covering emotional, physical, social, and financial wellbeing – this approach received positive feedback from Business in the Community. To ensure that we keep focus in this area we have:

- Refreshed the reach of our mental health first aiders;
- Built out our leadership development offer to include modules around wellbeing and belonging;
- Conducted focused activity during wellbeing month, for example the launch of a toolkit to support colleagues with practical ways to improve their resilience;
- Added a women's pillar to our wellbeing app (it already includes men's health, fertility and pregnancy and menopause support); and
- Introduced a virtual 24-hour GP service for all colleagues.

### Growing our people and their careers

We encourage colleagues to continually develop their skills to support them in reaching their full potential and in 2023 we put several things in place to help grow our talent pipelines and our people:

**Leadership development** – our people leaders in the Society have a key role to play in creating the right environment for colleagues to perform at their best and, in 2023, we developed a new people leader offering, 'Leading with Purpose', which is designed to clarify what we expect from our leaders, whilst stretching and supporting them to develop their leadership skills. Leaders can personalise their learning journey, helping them to enhance their skills both now and for the future.

**Ignite programme** – responding to a need identified by our colleagues, in 2023 we created a new development programme, Ignite. This programme was developed to support colleagues looking to move into a people manager role. Additionally, the programme supports the development of our diverse talent with 68% of the cohort being female and 12% being from an ethnic minority background. Data from the pilot suggests that colleagues are seven times more likely to be promoted into a people leader role by being part of Ignite. Based on the success of the programme, it will continue in 2024.

**Equipping our colleagues to support vulnerable customers** – in 2023, the Society focused on supporting our colleagues to understand the needs of our customers, with the creation of a learning solution which was delivered across our Customer division. To inclusively cater for all learning styles, these included a digital learning module, virtual and face to face workshops and a sector-first gamified solution, which provides colleagues with an immersive experience to practice having conversations with customers who might need additional support. The modules also provided information on the new Consumer Duty requirements, introduced by the FCA in July 2023.

**Our diverse talent pipelines** – in 2023, our new apprentices joined the Society across various departments, with 29% of this cohort being from an ethnic minority background. We bring them back together to work on Society-wide initiatives during their first 12 months and their energy and fresh thinking is already contributing to the delivery of our shared purpose.

Also in 2023, we launched our digital work experience programme, with 398 young people joining us virtually across two cohorts to experience life at Leeds Building Society. This enabled students to gain insight into the type of roles for which they might apply in the future. We were keen to engage with students from diverse backgrounds and across the programme saw participant representation at 45% female, 69% from ethnic minority backgrounds, 17% accessing free school meals, 29% would be first generation going to university and 5% having caring responsibility.

### Rewarding our colleagues

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

In recognition of the challenges posed by the cost of living crisis, we brought forward our April 2023 pay review to January 2023, providing support to colleagues, which included a minimum increase of 6% to eligible colleagues and 14.6% to colleagues on our minimum salary.

In 2023, we have made improvements to our benefits offering to colleagues including our colleague discount platform and other benefits to support wellbeing. We have also created parity for some colleagues through improved holiday entitlement and matched pension contributions.

In 2023, we also surveyed our colleagues to understand which benefits are most meaningful to inform our future Reward Strategy, to offer a compelling suite of options, which colleagues can identify with.

### How the board engages with our colleagues

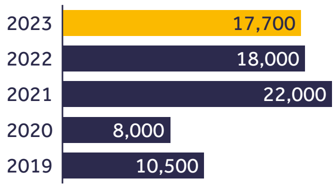
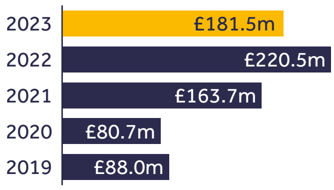
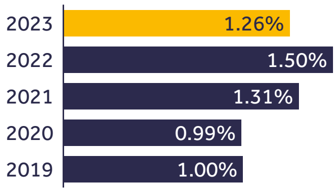
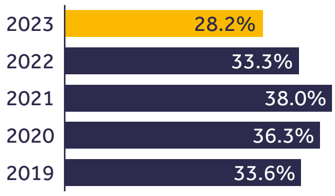
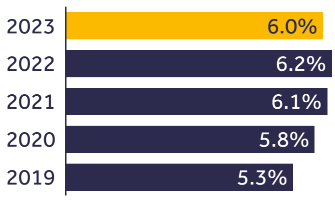
The board recognises the critical role our colleagues play in supercharging our purpose to meet the needs of our members, generation after generation and all board members play an active role in supporting this.

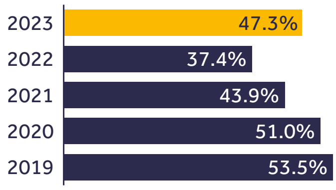
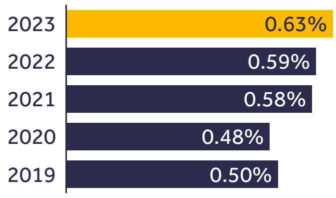
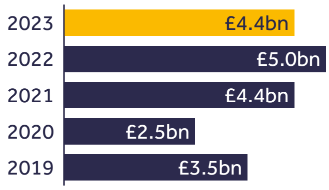
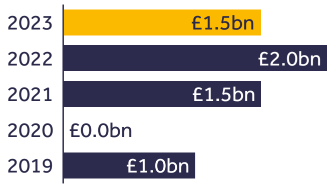
In 2023, the board has continued meeting with our colleague-led forums, including members of our inclusion and diversity forums, who shared their lived experience of work with them. Iain Cornish, Chair of the Board, met with each forum during the year.

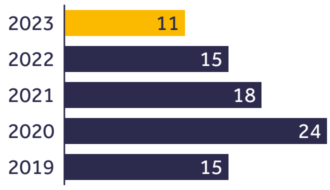
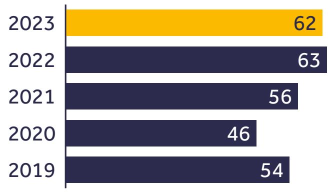
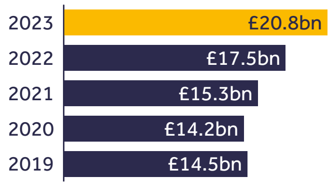
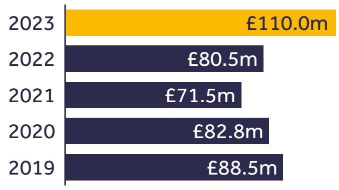
In 2023, Annette Barnes, Non-Executive Director, and Chair of the Remuneration Committee, has taken responsibility for representing colleagues' views at the board. Annette met with the Chair of our Colleague Association quarterly and the whole colleague association once during 2023, taking a keen interest in the views and opinions of our colleagues.

## 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 International Financial Reporting Standards (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 249.

| KPIs | | | |
|---|---|---|---|
| **Home ownership** | | | |
| **First time buyers** | The number of new mortgage members in the year who are first time buyers, demonstrating our purpose of putting home ownership within reach of more people. |  | We remain committed to helping first time buyers get on to the housing ladder. In 2023, despite challenging market conditions reducing the overall volume, we have increased the proportion of our lending to first time buyers. |
| **More responsive model** | | | |
| **Profit before tax** | Profit before tax, as reported in the income statement, creating capital to support future business growth. |  | Profit before tax remains elevated compared to historic levels, reflecting the strong margins achieved in recent years, contributing to the long-term resilience of the society. |
| **Net interest margin** | The difference between interest received on assets and interest paid on liabilities, measured as a percentage of mean assets. This is the Society's main source of income. |  | Net interest margin has fallen reflecting the increase in interest rates paid to savers as base rate has risen, coupled with higher mortgage market competition exerting downward pressure. |
| **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. |  | The reduction in our CET1 ratio results from an updated calculation of capital requirements due to market-wide regulatory changes. Our capital levels have increased, and we remain well above internal and regulatory requirements. |
| **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. |  | Our UK leverage ratio has remained broadly stable and comfortably above internal limits, through careful management of our balance sheet and profitability in a challenging environment. |

| More responsive model (continued) | | | |
|---|---|---|---|
| **Cost to income ratio** | A cost efficiency ratio which measures costs in relation to the Society's income. It is calculated as the percentage of the Society's total income spent on administrative expenses and depreciation and amortisation. |  | Increases in costs reflect the investment made in our multi-year technology programme and long-term sustainability, but we maintain a strong focus on efficiency with close control over our costs. Our cost ratios remain among the best in our sector. |
| **Cost to mean asset ratio** | An additional cost efficiency ratio which measures costs in relation to the Society's total assets. It is calculated as administrative expenses plus depreciation and amortisation, divided by average total assets. |  | We continue to maintain close control over our costs – balancing cost efficiency with the desire to increase member value through more resilient systems and improved service. |
| **Colleague engagement score** | Colleague engagement is measured annually across all colleagues through our colleague survey. In October 2023 we piloted an additional shorter survey to provide a 'pulse' check on critical questions. |  | Our 2023 engagement score from our full survey was 8.3 (out of 10), which was a 0.3 increase from our score in 2022. This score places us in top 25% for UK financial services sector benchmark which is an improvement from 2022 (where we placed middle of the range). |
| **Close-the-gap innovation** | | | |
| **New (gross) residential lending** | The value of residential lending advanced by the Society during the year, including loans for house purchases, remortgages and further advances. |  | Lower application levels in 2023, linked to challenging economic conditions and a smaller UK mortgage market, have reduced new lending, although we have increased our market share through our competitive product offering. |
| **Net residential lending** | Gross residential lending, less repayments of principal and redemptions. |  | Our reduced level of new lending is reflected in the lower level of net lending compared to 2022, although this is considered a strong performance relative to the pressure in the wider mortgage market. |

| | | | |
|---|---|---|---|
| **Close-the-gap innovation (continued)** | | | |
| **Number of days from mortgage application to offer** | The number of business days it takes to issue a mortgage offer from initial receipt of the application. |  | Continuous investment in technology has enabled us to improve the time it takes from mortgage application to offer, a direct result of our investment in systems and capabilities. |
| **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. |  | Our broker Net Promoter Score remains high as we continue to focus on the broker experience and a streamlined process for issuing offers. |
| **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. |  | Our attractive product range, particularly our fixed rate ISAs and increases in the variable rates we pay our existing savings members, have helped us deliver record net savings inflows in the year. |
| **Savings rate benefit** | The annual benefit to all our savers of paying above market rates to savers, based on the Society's weighted average savings rate compared to the rest of market rate. |  | We consistently pay above average market rates to our savers, paying an average of 3.05% compared to the rest of market average of 2.46%. |
| **Customer satisfaction** | The percentage of customers surveyed who described themselves as quite, very or extremely satisfied with the service received from the Society. |  | During 2023, we have focused on delivering consistently high service levels to our members and this is reflected in our customer satisfaction score which has improved from last year. |

## Responsible business

At the end of the third year of our Responsible Business Strategy (which runs from 2021 to 2025) we are pleased to report good progress, with all but three out of our 15 responsible business KPIs on target at the end of 2023, as illustrated on page 24. These targets will be kept under review to ensure we continue to stretch our ambition.

We have published our second Purpose Impact Report this year, as part of our aim to report in a clear and transparent way, which outlines in more detail how we are delivering our Responsible Business Strategy under our five key pillars: 'Supporting Home Ownership', 'Sustainable Communities', 'Inclusion and Diversity', 'Climate and Environment' and 'Trust and Transparency'. These themes were developed following extensive consultation with over 3,800 stakeholders on which responsible business issues were most important to them, and we're planning to repeat this research periodically to ensure our strategy remains focused on the right issues. The report can be found on our website at leedsbuildingsociety.co.uk/press/financial-results.

### Key achievements this year

**Supporting home ownership**

- We're proud to say that our purpose-led strategy has supported 17,700 first time buyers onto the housing ladder in 2023, which was one in two of our new mortgages.
- We launched our 'Losthaven' campaign – a fictional city we've created to highlight the upcoming generation of 'lost' first time buyers (of 426,000 would-be first time buyers by 2027).
- We've introduced a number of new products which will support people to buy their own home such as our Home Deposit Saver, Shared Ownership Saver, and our new range of Reach Mortgages. Our partnership with Experian Boost may also improve affordability prospects for some buyers.
- We've launched our new First Home Helper tool which provides first time buyers with guidance on the routes to home ownership available to them.
- We've been awarded What Mortgage's Best Shared Ownership Lender for the eighth year in a row, and we've been awarded First Time Mortgage Buyers Choice at the 2023 Moneyfacts Awards.
- We were also among the first lenders to sign up to the Mortgage Charter and the very first to launch a simple, digital application for borrowers seeking assistance through the scheme. We also continue to offer tailored support to members who struggle with their mortgage repayments, and will not charge arrears fees[5], such as failed direct debit fees, until at least January 2025, extending the suspension of these fees since the start of the pandemic.

**Sustainable communities**

- We awarded over £1 million to communities during 2023, supporting over 240 charities and community groups.
- We're working with community organisation Holbeck Together to support them in providing services to the most vulnerable in the community, including offering use of some of our office space free of charge.
- The Leeds Building Society Charitable Foundation awarded over £340,000 in new grants to 47 charities, which align with its purpose of helping people in need of a safe and secure home.
- £250,000 was awarded to six colleague-nominated charities supporting people at risk of homelessness, single mothers, vulnerable people from the LGBTQ+ community and ethnic minorities, and asylum seekers.
- We donated £25,000 to the Disasters Emergency Committee to provide aid in Turkey and Syria following two devastating earthquakes in February 2023.
- Six Ukrainian refugee families moved into newly refurbished accommodation above our Peterborough branch, and we've been working with Oasis Community Housing to help these families settle into the local community and access essential services.
- We have raised more than £860,000 for our charity partner Dementia UK since 2020, exceeding our £500,000 target. Our new charity partnership launches in April 2024.
- Colleagues volunteered more than 5,900 hours to support good causes.

**Inclusion and diversity**

- We have been accredited with the Gold Standard by Inclusive Employers, the first building society to achieve this.
- We hosted sessions with external speakers for colleagues to raise awareness of key inclusion and diversity-related topics.
- We hired our new apprentices and we launched our new digital work experience programme, with 398 young people joining us virtually across two cohorts.
- We sponsored Leeds Pride and Leeds West Indian Carnival, and attended Northern Pride, with more than 200 colleagues joining the celebrations.
- We provided a virtual sign language interpreter service for our members in conjunction with Sign Solutions, and we're working with them to develop training for our colleagues on how we can support individuals with hearing loss.

5 Third party costs, such as solicitor costs, are passed onto the customer.

- We launched our Empowering Allyship programme, in which colleagues explore the importance of creating an inclusive culture and how they can be an ally to each other.

**Climate and environment**

- We continue to be certified as a carbon neutral company by Climate Impact Partners[6].
- We've established a new target to reduce Scope 3 operational emissions by 25% by 2030, in line with the requirements of the Science-Based Targets initiative (SBTi) and the Paris Agreement, as well as a new ambition for our Scope 3 mortgaged emissions.
- We're working with Keepmoat to support the first large scale development of houses built to the Future Homes Standard.
- We've continued to reflect energy efficiency savings in the affordability assessment for new build homes.
- We launched a tool in conjunction with Energy Saving Trust to support members to better understand the energy efficiency of their home and actions they can take to reduce them.
- Our colleagues have continued to support our environmental charity partners, spending over 1,600 volunteering hours supporting their projects, including planting over 8,700 trees in partnership with Yorkshire Dales Millennium Trust, and maintaining a mile of waterway behind our Leeds head office with the Canal & River Trust.

**Trust and transparency**

- We have been reaccredited as a Real Living Wage employer, a Disability Confident Employer and for the Fair Tax Mark. We also continue to align ourselves to our Fair Pay Charter.
- We won the Leading With Purpose award at the 2023 Business Culture Awards, demonstrating the way in which our purpose-led strategy is driving business decisions and engaging colleagues and other stakeholders, to enable us to take meaningful steps towards our ambition.
- We have recently been accredited with the Good Business Charter for the first time following an assessment in 2023, demonstrating our continued commitment to our members, colleagues, communities, suppliers and the environment.
- We've demonstrated our commitment to provide the best experience possible for our members and brokers, for example here are some of the awards we won in 2023:
  - Credit Fico Awards Mortgage Lender of the Year 2023.
  - MoneyComms Top Performers Awards Best Building Society of the Year 2023.
  - Fairer Finance Gold Ribbon for Savings.
  - Institute of Customer Services ServiceMark accreditation.
- During 2023, we maintained our strong Morningstar Sustainalytics ESG Risk Rating of 16.1, and our overall risk rating continues to be Low, placing us within the top 15% of banks[7].
- We have produced our second standalone Purpose Impact Report to clearly outline our Responsible Business Strategy and progress against our goals and have continued reporting with reference to the Global Reporting Initiative standards.
- We have published our ESG Policy[8] on our website to increase transparency of our responsible business activities.

## Our responsible business goals

We made good progress against our responsible business targets during 2023, meeting all except three of our KPIs. An unexpected air conditioning leak in one of our properties means that we have not hit our 2023 Scope 1 and 2 market-based carbon emissions target, but we are taking action to ensure we meet our 2030 climate targets. In 2023, we set a new target and ambition for our Scope 3 emissions, which are currently behind, but will become a focus for 2024 and beyond. We have also set new inclusion and diversity targets in line with industry best practice. As part of our commitment to transparency we also continue to publish an annual Purpose Impact Report, which outlines progress in more detail.

6 For Scope 1 and 2 and Scope 3 business travel emissions.

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8 This can be found on our website at leedsbuildingsociety.co.uk/your-society/financial-information.

# Supporting home ownership

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

**Progress: Ahead**

**2023 target:** 41,000 first time buyers supported by the end of 2023
**2023 actual:** 55,700 first time buyers supported by the end of 2023

**Improve mortgage broker satisfaction scores by 20% by 2025[1].**

**Progress: Achieved**

**2023 target:** +60 Broker NPS[2]
**2023 actual:** +62 Broker NPS[2]

**Maintain an average savings rate premium of at least 0.25% compared to market average.[3]**

**Progress: Achieved**

**2023 target:** >0.25%
**2023 actual:** 0.59%

## Sustainable communities

Provide £3 million to charities and communities through grants, donations and sponsorship by 2025.

**Progress: Ahead**

**2023 target:** £2.1m by end of 2023
**2023 actual:** £2.5m by end of 2023

Maintain our share of UK high street branches at higher than 0.50%.[4]

**Progress: Achieved**

**2023 target:** >0.50%
**2023 actual:** 0.65% (as at March 2023)

## Inclusion and Diversity

Achieve 45% female representation in leadership roles by 2030.

**Progress: On track**

**2023 target:** 39%
**2023 actual:** 39%

Achieve 10% ethnic minority representation in leadership roles by 2030.

**Progress: Ahead**

**2023 target:** 7.5%
**2023 actual:** 8.5%

Our inclusion and diversity colleague sentiment score is in top 25% of UK financial services by 2030.

**Progress: On track**

**2023 target:** Top 25% by 2030
**2023 actual:** 8.7
(on the cusp of top 25%)

## Climate and Environment

Reduce absolute Scope 1 and 2 market-based emissions by 90% by 2030.[5]

**Progress: Behind**

**2023 target:** 20% reduction
**2023 actual:** 29% increase

Reduce absolute Scope 1 and 2 location-based emissions by 60% by 2030.[5]

**Progress: Ahead**

**2023 target:** 13% reduction
**2023 actual:** 39% reduction

Maintain carbon neutrality for Scope 1 and 2 market-based emissions and selected Scope 3 emissions, on the pathway towards net zero.[6]

**Progress: Achieved[7]**

**2023 target:** 0 tCO2e
**2023 actual:** 0 tCO2e

Reduce absolute Scope 3 emissions (categories 1-14) by 25% by 2030.[5]

**Progress: Behind**

**2022 target:** 2.8% reduction (latest data available)
**2022 actual:** 2.7% reduction (latest data available)

Ambition to reduce the intensity of our Scope 3 financed emissions (category 15) from our residential mortgage book by 45% by 2030.[5]

**Progress: Behind**

**2022 target:** 5.0% reduction (latest data available)
**2022 actual:** 0.1% reduction (latest data available)

## Trust and Transparency

Maintain strong colleague engagement score which places us in line with the UK financial services sector benchmark.[8]

**Progress: Achieved**

**2023 target:** Top 25%
**2023 actual:** 8.3
(placing us in the top 25%)

Maintain high member satisfaction scores of over 90%.[1]

**Progress: Achieved**

**2023 target:** >90%
**2023 actual:** 94%

**Key:**

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

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

**Behind**
Where the cumulative or in year performance is below the associated target.

**Achieved**
Where the reported performance for the year is in line with or above the in year target.

1. Broker satisfaction is captured by independent research of 900 interviews between January and December 2023 (75 per month). Overall customer satisfaction is captured from a survey of 3,612 members from January 2023 to December 2023.
2. The Net Promoter Score® (NPS) is a measure of satisfaction and loyalty to the Group based on survey responses. It measures the proportion of promoters (positive responses) less the proportion of detractors (negative responses). We use the NPS methodology to measure satisfaction among the brokers we work with.
3. CACI's CSDB, Stock, January 2023 to December 2023, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market.
4. Based on bank and building society UK business count data, Office for National Statistics, March 2023.
5. Our carbon emission reduction targets begin from a 2021 base year. For more explanation of the definition of our climate targets please see pages 68 to 80.
6. In accordance with Climate Impact Partner's CarbonNeutral Protocol, this includes emissions from our business travel, fuel and energy related activities, waste generated in operations, and home working.
7. Subject to independent verification which will be completed during 2024. Any additional carbon offset credits that need to be purchased as a result of verification / final emissions calculations will be bought during 2024.
8. Our Employee Engagement Survey provider (Peakon) enables us to measure colleague sentiment and benchmark this against other financial services organisations in the UK.

## Stakeholder engagement

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 Corporate Governance Report on pages 121 to 139.

### 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 considered, are shown on pages 29 to 30 – specifically the board's considerations of the new Consumer Duty regulations and decisions taken to ensure this would be embedded throughout the Society, and the decision to approve a new climate target for Scope 3 operational emissions and a new climate ambition for Scope 3 mortgaged emissions.

Our behaviours help to underpin a strong culture appropriate for a mutual organisation, encouraging actions that are in the best interests of members and other stakeholders. Demonstration of the behaviours in the workplace forms a key part of our performance management approach. For further information on culture and how this is monitored, see the Corporate Governance Report on pages 121 to 139.

### Stakeholder engagement

We have set out below our key stakeholder groups and how we engage with them. Further information on the board's engagement with each of these stakeholder groups can be seen in the Corporate Governance Report on pages 121 to139. Key performance indicators relevant to members, colleagues and brokers can be seen in the Key Performance Indicators section 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 | Members own the Society, and the Society acts to benefit members' interests over the longer term.<br>Most of our lending is done via brokers, who are key to our business model of helping members into homes of their own. | • Independent external customer and broker research.<br>• Gain feedback though our online panel TalkingPoint.<br>• Trustpilot.<br>• Annual General Meeting (AGM).<br>• Social media.<br>• Brand perception tracking with our members and brokers.<br>• Branches and contact centre. | 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. It does so through consideration of the following reporting:<br>• Annual analysis of five year forecast of member joiners and leavers and monthly reporting.<br>• Regular reports on service performance and complaints.<br>• Regular reporting of member experience ensures services and products meet our members' needs.<br>• Consideration of mutual dividend.<br>• Reporting on savings rate benefit.<br>• Consideration of member input on specific topics e.g. development and shaping of a new purpose-led product (Home Deposit Saver). |

| Stakeholder group | Why they are important to us | How we engage with them | Reporting to the board |
|---|---|---|---|
| Colleagues | Colleagues are critical to the success of the Society. High levels of engagement mean colleagues will be more productive, have a higher level of wellbeing and will go the extra mile for our members. | • Department and branch visits<br>• Yearly colleague survey.<br>• Colleague Association roadshows.<br>• Board appointed colleague representative Annette Barnes (Non-Executive Director) met with the Chair of our Colleague Association quarterly and the whole colleague association once during 2023, the full board met with the Association once and the Chair met with the association once.<br>• Attendance by Iain Cornish (Chair), Annette Barnes and Anita Tadayon (Non-Executive Directors) at diversity forum meetings.<br>• Colleague development and wellbeing sessions.<br>• Communication on matters relevant to colleagues and the Society.<br>Further information on engagement with colleagues can be found within the Corporate Governance Report on page 121. Our Purpose Impact Report also includes information on engagement with colleagues on inclusion and diversity. | • Colleague survey results.<br>• Colleague update from colleague representative and 'Voice of the colleague' board sessions.<br>• Colleague Association topics.<br>• Pension scheme information.<br>• Update on diversity and progress against our targets.<br>• Annual Speak Up policy review and approval. |
| Third party suppliers | 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.<br>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.<br>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.<br>Our Third Party Management Policy includes a clear risk-based classification of suppliers which enables us to take a more consistent and risk-appropriate approach to our management of each engagement. | • Governance meetings at appropriate levels take place in accordance with the materiality of the relationship.<br>• Our policies and standards drive a fair and transparent supplier selection and relationship management process for new and renewed requirements, proportionate to business risk. | • The board has received regular updates on the progress made against our third-party management framework and is involved in decisions on suppliers for key strategic projects.<br>• Management information on suppliers and our approach to managing third party relationships.<br>• Annual approval of modern slavery and transparency statement. |

| Stakeholder group | Why they are important to us | How we engage with them | Reporting to the board |
|---|---|---|---|
| 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.<br><br>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. | • Annual General Meeting (AGM) voting for charity donations.<br>• Engagement via communication with charity partners and their beneficiaries.<br>• Colleagues nominate, volunteer and raise funds for charities and community groups.<br>• Commitment to pay our fair share of tax as evidenced by our Fair Tax Mark accreditation.<br>More detail, as well as further information on responsible business at Leeds Building Society, can be found within the Responsible Business section on pages 22 and 23 and within our Purpose Impact Report. | • Approval of our updated Responsible Business Strategy targets and regular updates of progress against these.<br>• Update on the selection of our new charity partner.<br>• Update on the selection of colleague-nominated charities for grants.<br>• Update on the launch of our new volunteering and fundraising platform. |
| Environment | The Society is committed to minimising our impact on the environment in the places in which we operate, as well as managing environment-related risks. This is also an increasing focus for our wider stakeholders. | The Society's Climate Strategy has been designed to support our key stakeholders through an orderly transition to a greener, net zero economy by 2050 or sooner. This includes:<br>• Discussions held with a wide range of stakeholders, including Government bodies, industry bodies and stakeholders, building society peers and third-party experts, such as Climate Impact Partners and external sustainability and consultancy specialists Carbon Intelligence.<br>• Engaging and supporting our members and colleagues to reduce their carbon footprint.<br>• Working collaboratively with third party experts to understand and reduce the emissions from our supply chain.<br>For further information on our carbon emissions and engagement with stakeholders on climate issues, please see our Climate-Related Financial Disclosures at pages 47 to 82, which are aligned to the TCFD requirements, and our Purpose Impact Report. | • Progress reports on our climate data and insights.<br>• Approval of new climate targets and ambitions. |

| Stakeholder group | Why they are important to us | How we engage with them | Reporting to the board |
|---|---|---|---|
| Regulators | Our regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), 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. | We have an open and transparent relationship with our regulators, including:<br>• Regular dialogue and interactions with our regulators both directly and through our industry bodies.<br>• Regular meetings held with the PRA which are attended by our Chief Financial Officer and Chief Risk Officer along with members of the senior leadership team.<br>• Relationship meetings with the FCA, who met the Chief Executive Officer, Chief Operating Officer, Chief Customer Officer, Chief Risk Officer and two directors.<br>• Monitoring regulatory publications from the regulators and wider stakeholder groups.<br>• Reviewing regulatory publications and taking action as required.<br>We adopt a proactive approach with the regulators and update them of any material points as they arise. | • The board receives updates on regulatory matters and a summary of key regulatory actions being undertaken by the Society.<br>• Material dialogue and interactions with our regulators are shared with the board as appropriate.<br>• The board has sight of the progress in delivery of regulatory actions.<br>• The PRA engages directly with directors e.g. the Periodic Summary Meeting. |
| Investors | Investors provide an important part of our funding, which supports our aim to help members into homes of their own.<br>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, including:<br>• Individual meetings with key institutional investors, group presentations, attendance at investment conferences and investor events.<br>• Regular and close dialogue is maintained with credit rating agencies, including formal annual review meetings.<br>Further information on engagement with investors and credit ratings agencies can be seen in the Corporate Governance Report on pages 121 to 139. | • 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. |

## Key decisions made in the year

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

Examples of two such key decisions made in 2023 are given below and a summary of board activities during the year can be found in the Corporate Governance Report on pages 121 to 139.

### Consumer Duty (H1 2023)

**Stakeholders impacted**

Members | Regulators | Colleagues

#### Context

The Society was required to comply with the new Consumer Duty requirements from 31 July 2023. The new requirements set higher and clearer standards for consumer protection across the financial services sector with a focus on ensuring consumers receive good outcomes. Whilst these new requirements are well aligned to the Society's purpose and its mutual status, a key focus of the board has been to not only ensure compliance, but to also seek assurances that the new requirements become embedded across the Society.

#### Considerations, discussion and outcomes

The board has provided governance oversight and challenged the Society's Consumer Duty implementation plans. As Consumer Duty champion, Annette Barnes has supported the Chair and the CEO in raising Consumer Duty related matters regularly in all relevant board and committee meetings and challenging senior management on how Consumer Duty is being embedded across the Society. Annette and our board have received regular updates from management in relation to the Society's compliance with the new requirements throughout 2023. During these updates, Annette and the board have challenged management on the work conducted to ensure compliance. Key areas of output have included:

- Fair value assessments completed across all on sale products and no foreseeable harm has been identified.
- Key customer journeys mapped with no foreseeable harm identified.
- All high priority communications reviewed with changes made where applicable to ensure good customer outcomes.
- Training and communication rolled out to help further embed a culture of good customer outcomes.

As part of the governance process, management were also able to confirm that all key milestones of the board-approved project plan had been completed with oversight provided by second- and third-line teams ahead of the 31 July 2023 implementation date for on sale products. In particular, management confirmed the following:

- **We can evidence that we have taken action against all requirements:** We have considered the impact of all of the rules set out in Consumer Duty regulations and can demonstrate that we have taken action where necessary to ensure we can demonstrate compliance through the gap analysis work that has been undertaken and which continues to be refreshed.
- **We can evidence that we've addressed the biggest gaps and impacts:** Through our project work we have adopted a risk-based prioritisation of the project deliverables aimed at mitigating foreseeable harm and ensuring good customer outcomes for the maximum number of customers.
- **We can show that we have considered FCA's priorities (both sector and firm specific):** We have given due consideration to the 'Dear CEO' letters, revisiting the gap analysis to ensure our project scope remained robust. We have also engaged in industry-wide consultations and ensured that our project priorities are aligned to FCA priorities.

- **We can evidence the decisions have been subject to effective governance:** The frameworks underpinning our ongoing and future compliance with the Consumer Duty, along with fair value assessments, have all been subject to our existing governance processes at board and management committees. In addition, a robust project management structure has been wrapped around the project supported by a steering group of suitably senior level management.

Responsibility for ongoing compliance post 31 July 2023 is now being monitored at management committee level and a suite of management information is being used to help oversee ongoing adherence to the Consumer Duty requirements. Given the important nature and scope of the Consumer Duty requirements, the board will continue to be engaged on this topic during 2024.

## Approval of climate Scope 3 emissions target and ambition (November 2023)

**Stakeholders impacted**

Environment | Members | Colleagues | Communities | Third parties

### Context

The board is aware of the important global issue of climate change, and the impact it is having around the world. Given that 17% of the UK's carbon emissions come from homes[1], we understand that we, along with the rest of the industry and the Government, have an important role to play in reducing these emissions.

We are committed to supporting the orderly transition to a greener, net zero economy by 2050 or sooner. During 2023, we turned our attention to the indirect Scope 3 emissions from our full value chain, which make up the majority of our total carbon footprint. That includes emissions from our operational activities (the goods and services we purchase, business travel, colleague commuting and home working), as well as our investment activities (emissions from the use of the mortgaged properties that we finance).

### Considerations and discussion

The majority of the actions to reduce our Scope 3 emissions are outside our direct control and there are a number of barriers that need to be overcome to make net zero a reality. A joined up and collaborative approach will be required across a number of stakeholders.

In setting the Society's Climate Strategy and targets, the board remains mindful of the varying and often conflicting impacts of climate change decisions on our stakeholders. Aligning immediately with requirements of the Science Based Targets initiative (SBTi) would support the UK's ambition to become net zero by 2050, and have a meaningful impact on climate change; however action taken too quickly, and without sufficient support for business and individuals, could lead to negative unintended consequences, such as climate mortgage prisoners.

As a mutual, we believe that net zero must be delivered in a just and equitable way to ensure nobody is unfairly disadvantaged or left behind. Our aim is to avoid, where possible, taking any actions to restrict finance for less energy efficient homes where it is not feasible, cost-effective or affordable to meet increased energy efficiency standards.

### Outcomes and actions

- The board approved a new Scope 3 climate target, focused on reductions to our Scope 3 operational emissions in line with the requirements of the SBTi.
- Alongside this target, a new Scope 3 climate ambition was agreed, focused on supporting the decarbonisation of the UK's housing stock. See more detail in our climate-related financial disclosures on pages 47 to 82.
- We will continue to work with the Government and the industry, including lobbying via UK Finance, to encourage and support development of green mortgage products and greener homes and ensure there is an orderly transition to net zero.

1 Provisional UK greenhouse gas emissions national statistics 2022 (Provisional UK greenhouse gas emissions national statistics 2022 – GOV.UK (www.gov.uk)).

# Financial Review

## Year ended 31 December 2023

The evolving economic environment in the UK has remained challenging for our members and the Society throughout 2023. Households continue to be impacted by the cost of living crisis, inflation remains high and there have been further increases to the Bank of England base rate. Throughout this uncertain period we have continued to serve our members, furthering our purpose of putting home ownership within reach of more people, generation after generation and maintaining a sustainable and secure Society. During 2023, one in two of our new borrowers were first time buyers, allowing 17,700 new buyers to join the housing ladder.

The Society has maintained a strong capital base, a sustainable level of profitability and a robust funding position. In turn, this has enabled us to continue to balance the interests of our savings and mortgage members throughout the uncertainty of this period. We have moderated the impact of repeated base rate rises by limiting increases in the rates that our mortgage holders pay, in order to support our mortgage members in these challenging times. In fact, while the Bank of England base rate has increased five times in 2023, we have only passed on four of these increases to our standard variable mortgage rate. Alongside this, we have helped our savings members by consistently paying above the average market rate, which equates to an extra £110[1] million in their pockets. Throughout the uncertain and challenging environment, the Society has continued to focus on providing all the support we can to borrowers who experience financial difficulty, in line with our mutual values. This will prove increasingly important as we move into 2024 with the depressed financial outlook in the UK.

Investment in our multi-year technology programme is progressing at pace, with the focus on increasing functionality, security and resilience of our systems, and improving the experience for our members, colleagues and intermediary partners. We remain focused on cost efficiency, and our cost to income ratio remains among the lowest in the financial services sector at 47.3%.

This report includes a number of alternative performance measures (APMs) which are not defined in International Financial Reporting Standards but provide useful additional information about our financial performance and position[2]. Further information on the calculation of APMs and reconciliation to equivalent statutory measures can be found on page 249.

### Mortgage lending

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

Our purpose-led lending initiatives support our borrowers in vital market areas such as first time buyers and shared ownership. Putting home ownership within reach of more people, generation after generation continues to be our driver as we look to help more people into home ownership and, during 2023, one in every two of our new mortgages was to a first time buyer. We have won a number of awards aligned to our purpose, including First-Time Mortgage Buyers' Choice at the Moneyfacts Consumer Awards 2023 and the What Mortgage Best Shared Ownership Mortgage Lender award for the eighth time.

Mortgage market conditions in 2023 have been challenging with consumer confidence in the sector at an all-time low following the pandemic, but we have continued to offer our members a wide range of products at accessible rates throughout the year.

During 2023, we launched a number of innovative new products designed to close the gap to home ownership. These include products which support members to save for a deposit on their future home or to purchase additional shares in their shared ownership property, and our mortgage range for borrowers who would not be eligible for a standard product. We supported our members further by re-launching 95% loan to value (LTV) products, as well as increasing our maximum loan sizes for higher LTVs, which underpin buying ability for first time buyers and home movers.

Remaining active in the lending market throughout the uncertainties has enabled us to achieve our busiest ever day for mortgage applications in April 2023 reflecting the strength of our product proposition and the service we provide for our broker partners and our members. The achievement of record volumes is a testament to the investment we have made to evolve the capabilities of our Mortgage Hub, our core mortgage application system. Better technology has made it easier to deal with us, resulting in a better experience for members and brokers.

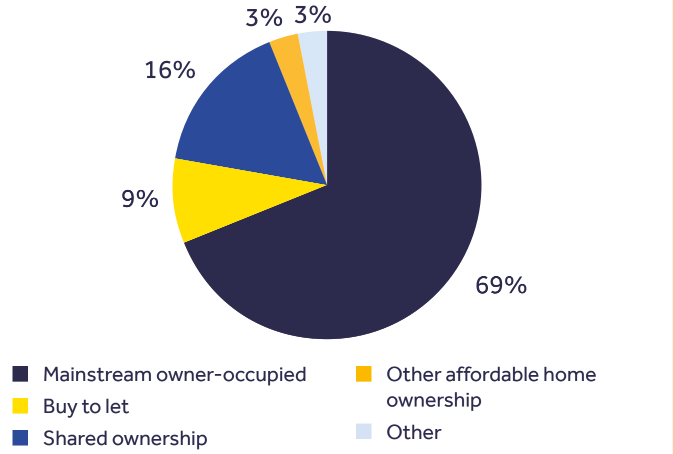
1 We paid an average rate of 3.05% against the rest of the market average of 2.46%. CACI's CSDB, Stock, January 2023 to December 2023, latest data available.
2 Financial information refers to the performance of the group, as reported on pages 189 to 244.

We remain conscious of the impact that continuing increases in living costs have on mortgage affordability and have proactively supported any members who are struggling to meet their monthly payments with a suite of forbearance options, and with our commitment to the Mortgage Charter. We have renewed our decision to suspend the charging of arrears fees[3] until at least 1 January 2025, so that we can continue to support members in financial difficulties.

Gross new lending during the year was £4.4 billion (2022: £5.0 billion). This reduction in lending was driven by a smaller mortgage market as confidence in the UK economy was suppressed by the uncertain rate environment and rising affordability concerns.

The chart below shows the mix of new lending by product type in 2023.

**2023 new residential lending by type**




The focus of our purpose is on home ownership and helping people onto the housing ladder and this is reflected in the level of shared ownership and other affordable home ownership lending. We continue to see buy to let as an important sector of the market, which we use to support the delivery of our purpose, but we recognise that it has been heavily affected by changes in regulation and tax rules. In July 2023, we entered the buy to let limited company market as landlords shift towards using company structures due to the regulatory changes.

Our share of new mortgage lending was 2.0% (2022: 1.6%) compared to our natural market share of 1.3% (2022: 1.2%)[4].

Our lending policy has been updated during the year to reflect an appropriate balance between supporting home ownership and protecting both existing and future members through the current challenging economic environment, with credit criteria tightened in response to the rise in the cost of living.

The average LTV of new lending in 2023 was 62.3% (2022: 65.1%), reflecting our balanced, risk-managed approach to lending, with lower risk mortgages enabling the delivery of more of our most purposeful lending.

Overall net lending increased to £1.5 billion (2022: £2.0 billion). Redemptions have been consistently higher than forecast throughout 2023, as customers have sought to lock in lower rates in a competitive mortgage market. This has put pressure on 2023 net lending targets. Despite this, the majority of mortgage customers elected to stay at the Society when their mortgage matured this year, taking a product transfer.

We support members by offering product transfers to any customer whose fixed rate deal has ended and who is up to date on their mortgage repayments. We were also one of first lenders to sign up to the Mortgage Charter, demonstrating our commitment to supporting members in financial difficulty to remain in their homes. The Mortgage Charter provides customers who are approaching the end of a fixed rate deal the opportunity to lock into a new deal up to six months ahead of maturity.

3 Third party costs, such as solicitor costs, are passed onto the customer.
4 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 2023 as a proportion of total UK mortgage market balances.

## Profitability

The Group Income Statement for the year is summarised below:

| | 2023 £M | 2022 £M |
|---|---|---|
| Net interest income | 337.6 | 359.6 |
| Fees, commissions and other income | 26.6 | 2.4 |
| Fair value (losses) / gains | (6.7) | 14.7 |
| **Total income** | **357.5** | **376.7** |
| Management expenses | (169.0) | (141.0) |
| Impairment on loans and advances to customers | (6.1) | (11.9) |
| Other impairments and provisions | (0.9) | (3.3) |
| **Profit before tax** | **181.5** | **220.5** |
| Tax expense | (47.6) | (58.6) |
| **Profit after tax** | **133.9** | **161.9** |

The Group made a profit before tax in 2023 of £181.5 million (2022: £220.5 million). Despite a decrease from the highest level in our history in 2022, profit for the year remains above historic levels, reflecting the continued success and stability of the Society.

As the level of competition has increased in our core markets of mortgages and savings, we have continued to follow our mutual ethos and pass benefits on to our members through our mortgage and savings rates, resulting in a decrease in net interest income as described below. Management expenses have increased this year, as we continue to invest in the Society's long term sustainability, but we maintain a strong focus on efficiency with close control over our costs.

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

| | 2023 £M | 2022 £M |
|---|---|---|
| Net interest income | 337.6 | 359.6 |
| Mean total assets | 26,829.9 | 24,013.8 |

| | % | % |
|---|---|---|
| Net interest margin | 1.26 | 1.50 |

Net interest income is broadly in line with the prior year with the positive effect of asset growth being offset by tighter net interest margin. This has been impacted by lower mortgage returns as a direct result of a more competitive mortgage market, and our continued support for members as the central bank rate of interest has increased.

As the Bank of England base rate has risen through the year, we passed the benefits directly to our savings members through several rate increases, and our minimum member variable savings rate increased to 2.45%. During the year we paid an average rate of 3.05% (2022: 1.15%) to our savers, compared to the average market rate of 2.46% (2022: 0.65%)[5].

### 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. This year we launched a new multi-channel offering to provide high quality home and landlord insurance products. Other income also includes rental income, foreign exchange movements, and other ancillary fees and receipts.

During October, the Society successfully repurchased £192 million of externally issued capital at a discounted rate. The transaction resulted in the recognition of a one off gain which is reported in other income. Following the repurchase, the Society continues to hold capital resources considerably in excess of regulatory requirements.

### 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.

For the financial year ended 31 December 2023, we have recognised a net fair value loss of £6.7 million (2022: £14.7 million gain). These losses have largely been recorded on our collateral loan which represents a pool of equity release mortgages.

The application of cash flow hedge accounting, introduced during 2022, enables us to manage volatility and mitigate some of the impact of fair value movements. Cash flow hedging enabled us to recognise £32.3 million (2022: £112.9 million) of fair value movements in the period in the cash flow hedge reserve as opposed to the Income Statement.

5 Source: CACI's CSDB, Stock, January 2023 to December 2023, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market.

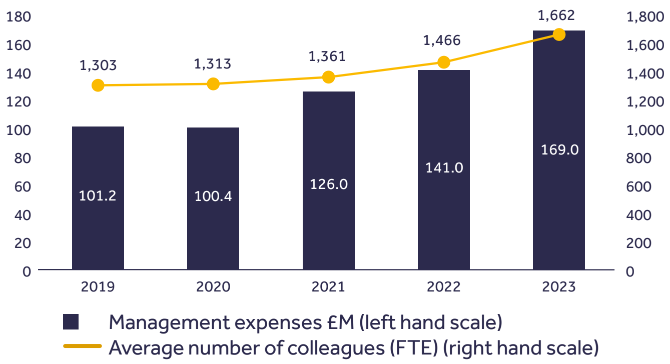
## Management expenses

Management expenses for the year are summarised below:

| | 2023 £M | 2022 £M |
|---|---|---|
| Colleague costs | 102.9 | 83.8 |
| Other administrative expenses | 53.1 | 46.3 |
| Depreciation and amortisation | 9.1 | 10.9 |
| **Ongoing management expenses** | **165.1** | **141.0** |
| IT transformation spend | 3.9 | – |
| **Total management expenses** | **169.0** | **141.0** |

| | % | % |
|---|---|---|
| Cost to income ratio | 47.3 | 37.4 |
| Cost to mean asset ratio | 0.63 | 0.59 |

**Management expenses £M and colleague numbers**




In the year 2023, management expenses have increased by 20%, compared to an increase in total assets of 10%. While this increase has been necessary to position the Society for a successful and sustainable long-term future, we continue to focus on utilising our members' money wisely and operating as efficiently as possible, controlling costs so that our cost ratios remain among the best in our sector. This is particularly important when faced with the current economic uncertainties.

During 2023, we have increased our investment in transformation and systems. A key component of this is the Society's multi-year technology transformation programme, which will create long-term value for the Society through increased technical resilience and functionality, enabling us to provide our members with the best possible experience and interaction with the Society into the future.

We have also maintained our investment into the branch network as we recognise and cherish the value our members place on engaging with our colleagues through this channel, which is demonstrated through our branch customer experience indicator of 9.26 out of 10. Our enhancements to the branch network have a particular focus on environmentally friendly initiatives to align with our purpose.

We continue to invest in our colleagues to ensure we have the right skills and experience to deliver our purpose and the service that our members value, and consequently the average number of colleagues (full time equivalent) employed by the Society in 2023 has increased to 1,662 (2022: 1,466). We also supported our existing colleagues by bringing forward our 2023 pay review and making an overall fair reward investment of over £5 million, including a 14.6% increase to our minimum salary level.

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

## Impairments and provisions

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

| | 2023 £M | 2022 £M |
|---|---|---|
| Residential loans | 6.3 | 12.0 |
| Commercial loans | (0.2) | (0.1) |
| **Impairment charge on loans and advances to customers** | **6.1** | **11.9** |
| Other impairments and provisions | 0.9 | 3.3 |
| **Total impairments and provisions** | **7.0** | **15.2** |

## Residential impairment

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

Despite the challenges being faced by borrowers, we have not experienced a significant increase in the number of borrowers in arrears. At 31 December 2023, 0.68% of borrowers were in arrears by 1.5% of balance or more (December 2022: 0.58%).

Although the economy has remained stronger than originally expected in 2023, downside risk remains due to higher interest rates, elevated levels of inflation and the potentially adverse impacts of tighter financial market conditions.

The macroeconomic scenarios used for calculating impairment have been revised to reflect the current economic pressures, including high levels of inflation and the high interest rate environment. The central scenario has been updated in anticipation of a reduction in consumer spending during the next two years and also a rise in unemployment.

The uncertain economic environment is also reflected in the alternative modelled scenarios, overlays and post model adjustments. In particular, affordability concerns remain due to the risk associated with high mortgage rates and the effect of these on members who are coming to the end of their current fixed term. The key judgements and estimates involved in the calculation of impairment loss provisions are set out in note 2 of the accounts on pages 200 to 208.

The impact for the financial year is a £6.3 million charge (2022: £12.0 million charge) which equates to a cost of risk of 0.02% (2022: 0.06%). Total balance sheet impairment loss provisions against residential mortgages at 31 December 2023 are £53.5 million (2022: £48.0 million), as summarised below:

| | 2023 £M | 2022 £M |
|---|---|---|
| UK | 44.5 | 41.8 |
| Overseas | 9.0 | 6.2 |
| **Total residential impairment provisions** | **53.5** | **48.0** |
| *UK coverage* | *0.21%* | *0.21%* |

## Taxation

The income tax expense of £47.6 million (2022: £58.6 million) represents 27.2% (2022: 26.6%) of profit before tax. We pay UK corporation tax at the prevailing rate of 23.5% for 2023 (2022: 19%) and also a surcharge on banking profits over the defined thresholds, averaging 4.25% for the year (2022: 8%).

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

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

## Assets

Our strong lending and savings growth is reflected in overall balance sheet growth of 10.2% from £25.5 billion to £28.1 billion.

| | 2023 £M | 2022 £M |
|---|---|---|
| Residential loans | 21,836.4 | 20,372.3 |
| Commercial loans | 6.1 | 8.6 |
| Other loans | 153.6 | 164.4 |
| Impairment provision | (54.9) | (52.1) |
| **Loans and advances to customers** | **21,941.2** | **20,493.2** |
| Liquid assets | 5,559.3 | 4,580.7 |
| Derivative financial instruments | 443.6 | 679.9 |
| Fair value adjustments | (132.3) | (585.9) |
| Fixed and other assets | 334.1 | 346.0 |
| **Total assets** | **28,145.9** | **25,513.9** |

### Loans and advances to customers

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

| Residential mortgage asset quality | 2023 % | 2022 % |
|---|---|---|
| Proportion of mortgages in arrears[6] | 0.68 | 0.58 |
| Balance-weighted average indexed LTV of mortgage book | 51.2 | 48.8 |
| Balance-weighted average LTV of new lending | 62.3 | 65.1 |

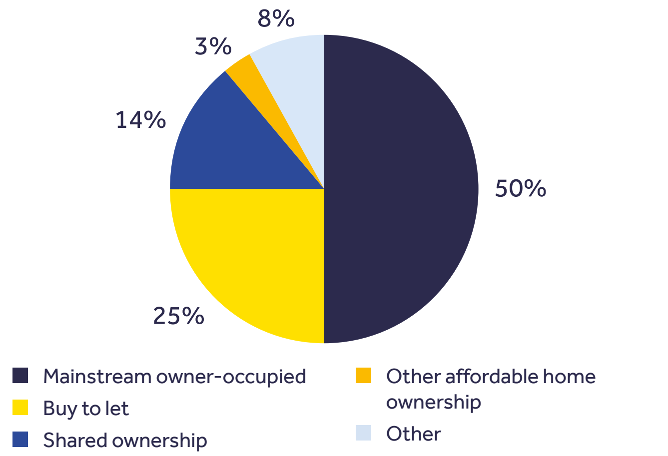
### UK residential mortgage balances

The Society's purpose focuses on enabling home ownership, with a particular emphasis on first time buyers and affordable home ownership products such as shared ownership.

The composition of our mortgage book as a whole reflects our segmental lending strategy of recent years, with buy to let and shared ownership making up significant proportions of the book alongside mainstream owner-occupied.

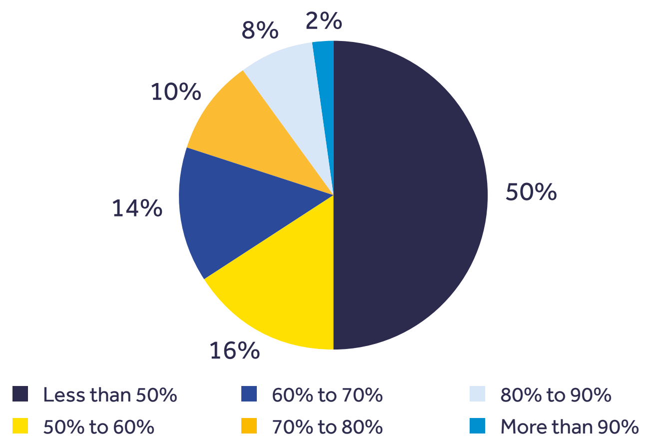
6 Arrears of more than 1.5% of the balance or in possession.

**2023 UK residential mortgage balances by type**




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

**2023 UK residential mortgage balances by indexed LTV**




## Liquid assets

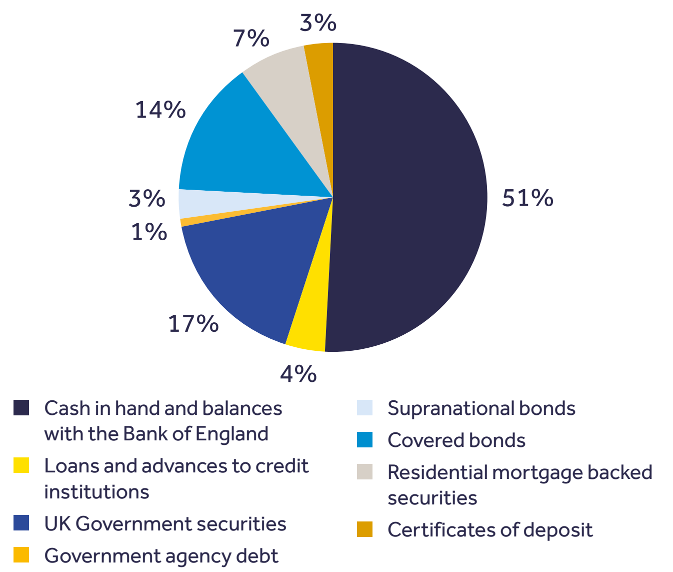
| Liquidity ratios | 2023 % | 2022 % |
|---|---|---|
| Liquidity Coverage Ratio | 227 | 230 |
| Liquid assets as a percentage of shares and borrowings | 21.77 | 20.15 |

The level of liquid assets, which includes cash reserves with the Bank of England, as well as investments in other assets, varies throughout the year depending on the level of funding receipts compared to mortgage completions and other obligations. The level of liquidity required is closely monitored and considers forecasted and stressed outflows on a dynamic basis. During 2023, our record breaking savings performance has meant that we have maintained good levels of liquidity and the year end position is strong, which provides protection and flexibility in this uncertain economic environment.

At 31 December 2023, liquid assets included £5.0 billion of High Quality Liquid Assets (2022: £4.1 billion), which are either in cash or are readily realisable as cash when required. 100% of our liquid assets have credit ratings of A or above (2022: 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 2023 is shown below.

**2023 liquidity portfolio**




The PRA monitors liquidity under the Capital Requirements Regulation (CRR) framework. Our Liquidity Coverage Ratio (LCR) is 227% at 31 December 2023 (2022: 230%), significantly in excess of the regulatory minimum of 100%.

## Liabilities

A summary of our liabilities is shown below:

| | 2023 £M | 2022 £M |
|---|---|---|
| Shares | 20,793.0 | 17,520.4 |
| Wholesale funding | 4,747.8 | 5,209.1 |
| Derivative financial instruments | 233.0 | 251.9 |
| Other liabilities | 371.8 | 519.0 |
| Subordinated liabilities | 323.9 | 309.1 |
| Subscribed capital | 33.0 | 197.6 |
| **Total liabilities** | **26,502.5** | **24,007.1** |
| Equity attributable to members | 1,643.4 | 1,506.8 |
| **Total liabilities and equity** | **28,145.9** | **25,513.9** |
| **Key ratios** | **%** | **%** |
| Wholesale funding as proportion of total borrowing | 18.6 | 22.9 |

### Shares (retail savings)

Our savings members play a key role in allowing us to achieve our purpose of helping more people into homeownership and we remain dedicated to providing them with a secure place for their money. This year we attracted record savings inflows and achieved record net retail savings growth of £3.3 billion (2022: £2.2 billion), while simultaneously maintaining service levels within appetite following investment in this area.

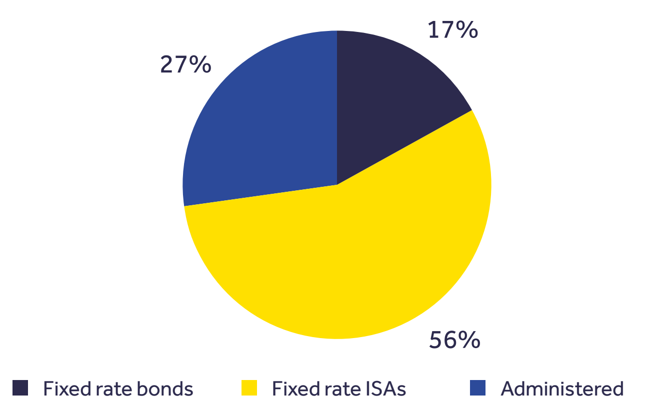
We continue to be committed to providing savers with compelling offerings as well as competitive interest rates and easy access to their savings accounts. We have made improvements to our online channel to streamline the experience for our members when accessing their savings and we cherish our branch network to give members the choice of how they save and interact with us. Our branch network Customer Experience Indicator score increased further to 9.26 out of 10 in 2023, reflecting the outstanding service our branch colleagues provide to members.

Our total retail savings balance is now £20.8 billion (2022: £17.5 billion). Our 2023 growth has been particularly driven by our popular fixed rate ISA products, which have had competitive rates during the year.

We aim to support our members through this challenging period of higher cost of living by paying attractive rates while managing current and future financial risks. We continue to pay above average market rates to our members, with our average rate for the year of 3.05% (2022: 1.15%) being 0.59% (2022: 0.50%) above the rest of the market average of 2.46% (2022: 0.65%)[7]. This means a benefit to our members of £110 million in 2023.

We offer our members a range of savings products, including easy access and fixed rate bonds and ISAs. The chart below shows the mix of savings balances by rate type.

**2023 retail savings balances by type**




### Wholesale funding

Total wholesale funding at 31 December 2023 was £4.7 billion (31 December 2022: £5.2 billion), representing 18.6% of total funding. Our Net Stable Funding Ratio (NSFR), a measure of the stability of our funding sources relative to our assets, was 143.1% (2022: 139.9%) and therefore comfortably above the regulatory minimum of 100%.

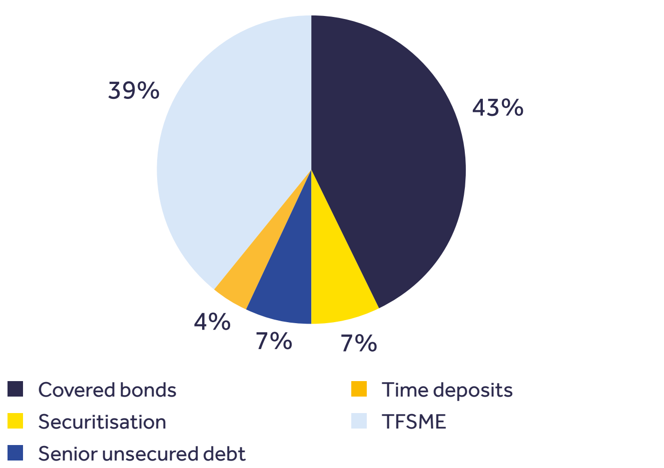
During the year we raised £350 million of external wholesale funding through a successful Albion No.5 residential mortgage backed securities (RMBS) issuance. This was to replace the Albion No.4 issuance, which was repaid in the year.

The overall reduction in wholesale funding in 2023 reflects a £400 million repayment of TFSME[8] funding and the maturity of a covered bond.

7 Source: CACI's CSDB, Stock, January 2023 to December 2023, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market.
8 Our final TFSME drawings were made in October 2021 and the scheme is now closed.

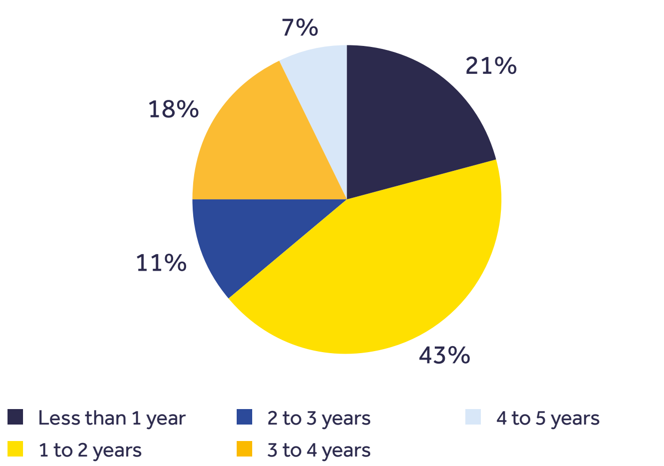
The mix of our wholesale funding portfolio at 31 December 2023 is shown below:

**2023 wholesale funding portfolio**




The maturity profile of our wholesale funding is shown below:

**2023 wholesale maturity**




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

| Credit Rating | Long term | Short term | Outlook |
|---|---|---|---|
| **Moody's** | A3 | P-2 | Stable |
| **Fitch** | A- | F1 | Stable |

## Derivative financial instruments

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

Swap rates have decreased significantly during the financial year and, as a net recipient of floating rates on swaps, this has resulted in a decrease in the net balance sheet position for derivative financial instruments.

We make use of fair value hedge accounting to reduce volatility in profits by hedging exposures to variability in the fair value of financial assets and liabilities. Changes in the fair value of derivatives that are designated in fair value hedges are recorded in the Income Statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

## Capital

Our regulatory capital principally comprises accumulated retained profits in the general reserve and subscribed capital provided through subordinated debt and permanent interest bearing shares (PIBS). Capital is ultimately held for the protection of depositors and other creditors by providing a buffer against unexpected losses. 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 decreased by £71.2 million during 2023 to £1,551.8 million (2022: £1,622.9 million). In October 2023, the Society performed a capital optimisation exercise, successfully repurchasing £192.0 million of its subordinated notes at a discount to par. £8.0 million of notes remain outstanding at 31 December 2023 (2022: £200 million). This one off event was offset by strong capital resource growth throughout the year.

Risk-weighted assets (RWAs) have grown by £1,191.2 million during 2023 to £5,355.1 million (2022: £4,163.9 million) predominately driven by an increase in IRB risk weights. Post model adjustments (PMAs) relating to changes in IRB capital requirements have resulted in increased RWAs. While these PMAs have been in place since January 2022, they have been subject to further calibration during the year. Further refinement is ongoing across the industry in relation to the IRB regulations and this is expected to be finalised in the next 12 months. Until the latest generation of IRB models are approved by the PRA, the PMA is subject to change and may lead to further movements in the regulatory capital ratios. These increased requirements have been partly offset by strong capital generation through retained profits during 2023. As a result of these movements, the CET 1 ratio, calculated on a transitional basis, has reduced to 28.2% from 33.3%.

The following table shows the composition of our regulatory capital. More detailed disclosures can be found in the Pillar 3 document available on our website at leedsbuildingsociety.co.uk/press/financial-results.

| | 2023 £M | 2022 £M |
|---|---|---|
| **Capital resources** | | |
| Total equity attributable to members (excl cash flow hedge reserve) | 1,569.1 | 1,425.6 |
| Less pension surplus, intangible assets and other regulatory adjustments | (60.2) | (37.3) |
| **Common Equity Tier 1 (CET1) capital** | **1,508.9** | **1,388.3** |
| Additional Tier 1 capital | – | – |
| **Total Tier 1 capital** | **1,508.9** | **1,388.3** |
| Tier 2 capital | 42.9 | 234.6 |
| **Total regulatory capital resources** | **1,551.8** | **1,622.9** |
| Senior non preferred notes | 350.0 | 350.0 |
| **Total MREL eligible resources** | **1,901.8** | **1,972.9** |
| | | |
| **Risk-weighted assets (RWAs)** | **5,355.1** | **4,163.9** |
| | | |
| **CRD V capital ratios**[8] | **%** | **%** |
| CET1 ratio | 28.2 | 33.3 |
| Total capital ratio | 29.0 | 39.0 |
| Total MREL ratio | 35.5 | 47.4 |
| UK leverage ratio[9] | 6.0 | 6.2 |

### 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 V. The capital requirements of the group are monitored on an ongoing basis, to ensure the minimum regulatory requirement is always met and that the Society has sufficient levels of capital for current and projected future activities.

### Pillar 1

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

8 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).

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

### Pillar 2A

The PRA requires us to hold additional Pillar 2A capital for the risks not covered under Pillar 1. At 31 December 2023, the regulatory requirement was 2.83% of risk weighted assets, a point in time estimate set by the PRA during the year.

### Capital buffers

The PRA 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%, as well as a macro-prudential Countercyclical Capital Buffer currently set at 2% of RWAs for exposures to the UK. In addition, the Internal Capital Adequacy Assessment Process (ICAAP) considers whether any additional capital is required over and above the regulatory buffers to satisfy our risk appetite over the planning horizon and absorb the impact of a severe, but plausible, stress scenario. The ICAAP is reviewed by the PRA when setting our Total Capital Requirement (Pillar 1 and Pillar 2A). We have performed regular stress tests on our capital base and these tests have consistently demonstrated a capital surplus above requirements after applying management actions.

We have utilised available transitional arrangements in relation to the impact of adopting IFRS 9 on regulatory capital and the figures above reflect those arrangements. As the impact has materially reduced, had these arrangements not been adopted, at 31 December 2023 the CET1 ratio 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 MREL requirements.

The Society became subject to end state requirements on 21 July 2023. End state MREL requirements are two times minimum regulatory requirements plus any regulatory buffers. 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

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

## Financial outlook

While the outlook for the UK economy remains unclear going into 2024, it appears as though we may have passed through the peak of the interest rate rises as inflation has started to come under control. Despite this, it is expected that interest rates will remain elevated for some time, at a higher level than seen in recent years. While higher interest rates are positive for savers, they have increased the cost of borrowing for mortgage customers and therefore uncertainty for many of our members. As our mortgage holders come to the end of their fixed rate terms, many face re-mortgaging at higher rates than they were previously used to; we remain committed to supporting our members through this.

Although our members continue to face affordability pressures and global political instability remains prevalent, we will continue to utilise our expertise in key segments to drive our purpose of putting home ownership within reach of more people - generation after generation. We will continue to manage growth and invest in the business, supported by strong efficiency ratios, a keen awareness of risk and with our members' interests at the heart of every decision.

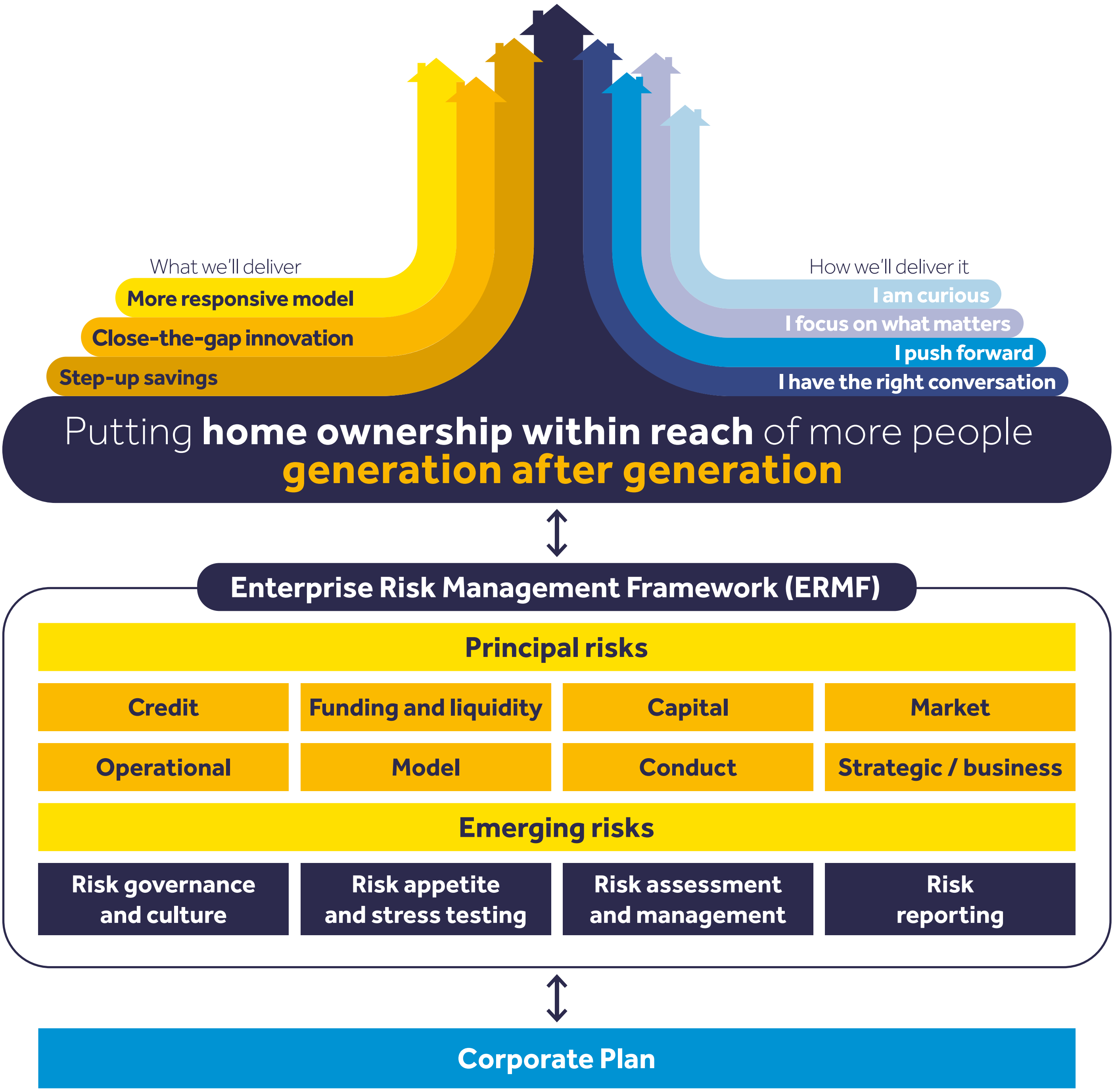
The strength of our balance sheet, business model and our high quality assets, position us well to generate sustainable levels of profitability across the economic cycle and as we progress through the current challenges. We are resolute in delivering on our purpose of balancing support for members through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

# Risk Overview

## Year ended 31 December 2023

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 to reduce anticipated performance variability, which supports delivery of our strategic objectives and protection of our longer term viability and members' interests.

We deliver our purpose through a Corporate Strategy, which is built upon three strategic drivers (as described on page 9). Inherent within this strategy are eight principal risk categories. These comprise: credit; funding and liquidity; capital; market; operational; conduct; model and strategic / business risks. We operate an enterprise risk management framework covering all principal risk types and processes including risk governance, appetite setting, policies and key risk indicator reporting. In aggregate, this sets the risk parameters within which the corporate plan needs to be delivered, as well as providing appropriate triggers for Management response under stressed conditions.



## Enterprise Risk Management Framework

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

Further information on the Society's ERMF and its key components can be found on pages 85-88 within the Risk Management Report.

## Risk profile

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

### 1. Principal risks

The Society has identified eight principal risks, which are inherent within our strategy and have the potential to significantly impact performance or viability. These principal risk categories remain consistent with those disclosed within the 2022 Annual Report and Accounts. Further information can be found on pages 89 to 111 within the Risk Management Report.

With regard to climate change, the Society does not view climate-related risks as a separate principal risk category, but as risk factors that have a bearing across the Society's existing principal risk universe. Refer to pages 47 to 82 for details of our assessment of the potential impacts of climate-related risks.

### 2. Emerging risks

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

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

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

| Economic / political risks | |
|---|---|
| **Overview** | **Mitigating actions** |
| • Whilst the economy was more resilient than expected in 2023, the outlook remains finely balanced. A number of risks remain which may weigh on activity in 2024 including stubborn levels of inflation; impacts from previous increases in interest rates; and weakness in labour supply.<br>• Against this backdrop of economic uncertainty, activity within the UK housing market has moderated relative to recent years. Activity is expected to remain subdued in the near term, with the longer-term outlook dependent on the performance of the wider economy.<br>• Domestic UK political risks persist. The forthcoming general election may result in changes to the UK political landscape that could have wide ranging impacts on the UK economy and the Society's business model.<br>• Wider geopolitical risks outside the UK remain heightened with the ongoing conflicts in Ukraine and the Middle East. While the Society does not have any direct exposure to these regions, there is a risk tensions will escalate causing further macroeconomic shocks. | • Macroeconomic risks are regularly assessed under both central and stressed conditions to understand and manage the impact on our business model e.g. tightening of lending appetite (volume, risk premia and mix).<br>• Horizon scanning and close monitoring of key economic data and forecasts is regularly undertaken to support timely management response.<br>• Robust levels of capital and liquidity are maintained to manage periods of economic volatility, supported by frequent stress testing and sensitivity analysis to understand the impacts on the Society's balance sheet and business model. |

| Affordability risks | |
|---|---|
| **Overview** | **Mitigating actions** |
| • Although household balance sheets have been more resilient than previously expected, mortgage affordability challenges remain prominent following a prolonged period of elevated inflation, driven by increases in energy and food prices.<br>• Households also remain under pressure from higher interest rates, as members transition from their current (lower) fixed rate mortgage products onto a higher pay rate.<br>• The culmination of these factors, along with an expected increase in unemployment during 2024, is forecast to result in a higher number of borrowers falling into arrears. | • Close monitoring of the performance of the Society's lending portfolios is performed and the appropriateness of credit policies, criteria, and affordability assessments are regularly assessed against prevailing conditions. In particular, during 2023, the Society made further adjustments to the stressed interest rate used in affordability assessments to account for the higher interest rate environment.<br>• Credit provisions are regularly assessed to ensure they remain appropriate, reflective of prevailing conditions within the UK economy.<br>• The Society has signed up to the new UK Mortgage Charter to ensure that borrowers who get into financial difficulty continue to receive the support they need.<br>• Continued investment in the Society's Mortgage Services Department to ensure adequate systems, processes and resources are in place to support members who experience financial difficulty.<br>• Pre-delinquency strategies have been deployed to proactively engage members who may find themselves struggling financially. |

| Competition risks | |
|---|---|
| **Overview** | **Mitigating actions** |
| • The Society operates in highly competitive markets, increasing the risk of a loss of market share, reduced revenue, and lower profitability.<br>• Competition risks also relate to changes in regulation, developments in digital technology, new market entrants (predominantly Fintechs) and changes in customer behaviour. | • The competitive landscape is regularly reviewed, and our product proposition updated accordingly.<br>• Management carefully considers competition risks as part of our strategic / business planning activities, which set the future path for strategic investment and development to ensure that the Society can adapt accordingly.<br>• Further investment in the Society's service and digital capabilities to support our product offering, customer journeys and future scalability / flexibility. |

| Operational resilience risks | |
|---|---|
| Overview | Mitigating actions |
| • A significant operational risk event could result in disruption to important business services, leading to customer harm, financial or regulatory impacts, or reputational damage.<br>• Such events could include the increasing threat of cyber-attacks, third / fourth party failure, loss of data or service outages.<br>• Resilience to such threats and an ability to respond effectively remain essential to protect the Society and maintain the trust of our members and the confidence of the market and regulators. | • The Society manages resilience related risks through its Operational Resilience Framework and regularly tests its response to potential resilience scenarios.<br>• Operational resilience processes are in place which aim to ensure that the Society's important business services are able to recover in a timely manner in the event of disruption.<br>• The Society continues to invest in its IT security and operational controls to improve overall resilience and combat these evolving threats.<br>• We frequently monitor both the effectiveness of the services we receive, and the risks that third party service providers pose to the Society. |

| Change risk | |
|---|---|
| **Overview** | **Mitigating actions** |
| • The Society's change portfolio includes the delivery of a multi-year technology programme, other strategic initiatives and new regulatory requirements.<br>• The volume of change transformation could lead to increases in execution, operational and people risks.<br>• Failure to appropriately prioritise and deliver change on time and within agreed budgets may also inhibit the Society's ability to achieve its purpose or strategic objectives. | • The Society continues to prioritise, manage and implement change in line with its strategic plans while assessing execution risks and taking appropriate mitigating action.<br>• The Society continues to invest in its change management processes, capabilities, capacity, and governance to better control the execution risks associated with large scale change.<br>• Board Risk Committee oversight of the key risks associated with the multi-year technology programme. |

| Climate change risk | |
|---|---|
| **Overview** | **Mitigating actions** |
| • Climate risk continues to be classified as an emerging risk due to uncertainty surrounding the exact nature and timing of the impact on the Society's strategy and operations.<br>• Both transitional and physical risks could materially affect the Society's eight principal risks, with impacts dependent on the future path of climate change and timescales of Government intervention and actions.<br>• Stakeholder expectations continue to rise with regard to the Society's management and response to climate risk, which could present heightened reputational risks. | • The Society has developed a Climate Strategy centered upon supporting the orderly transition to a greener, net zero economy by 2050 or sooner.<br>• As part of this strategy, the Society has set near-term Scope 1 and 2 and Scope 3 (categories 1-14 only) targets to underpin its net zero ambitions.<br>• Our Scope 3 methodologies and practices continue to be developed to better understand the climate impacts of our wider value chain, including from our suppliers and mortgage portfolio.<br>• A Climate Risk Management Framework (CRMF) has been implemented across the organisation, including use of climate risk factors and data in our mortgage lending policy and credit decisioning processes.<br>• Scenario analysis is undertaken to assess the potential future impacts of climate change on the Society under various climate pathways.<br>• Close monitoring of emerging regulation, disclosure standards, and market practices is performed to ensure the Society management of climate risks aligns with good practice. |

# Viability Statement

## Year ended 31 December 2023

In accordance with provision 31 of the UK Corporate Governance Code, the board is required to explain how it has assessed 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 41 to 44.

### Assessment of longer term prospects

Our business model, purpose statement and strategic drivers are set out on pages 9 to 11. The board receives strategic updates throughout the year, which assess the business model across multiple dimensions. These include consideration of threats from principal and emerging risks, additional scenarios that may occur and stress testing. The directors have also reviewed our strategy in respect of the environment, considering the opportunities and risks to the Society's business from climate change. This includes physical risks to the Society's mortgage stock and own properties, and transitional risks as the UK migrates to a net zero economy. Further details are provided on pages 47 to 82 of the Strategic Report.

The strengths of our business model and the Society's financial position, capital strength and forecast of profitability over the next five years and beyond are included in the board's consideration.

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

### Financial and operational stress testing

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

The Society's process for forecasting financial performance takes into account our strategic objectives, the risk involved in meeting those objectives and our strategic risk appetite. The corporate planning and alternative scenario modelling processes assess these forecasts under a range of macroeconomic scenarios, which reflect the current uncertainty in the macroeconomic environment and the behaviours and needs of current and potential future members.

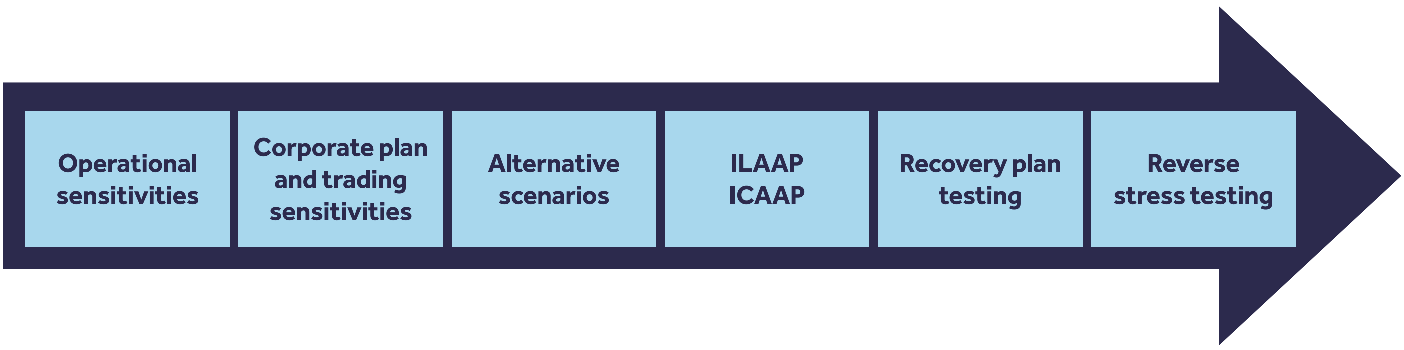
The board assesses the Society's capital and liquidity viability through the ICAAP and ILAAP. These consider our ability to withstand severe capital and liquidity stresses set out by regulators. The processes incorporate new and emerging regulation, where sufficient information is available. Mitigating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

The ICAAP concluded that the Society has headroom over regulatory requirements and would have sufficient capital resources to withstand both the central and stressed scenarios under current and confirmed future requirements.

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

Further stress testing, including Recovery Plan testing, is carried out on each of the principal risks outlined on pages 89 to 111. This is performed to understand our ability to withstand extreme stress scenarios, including adverse economic scenarios that go above and beyond those experienced at any point previously, major volatility in financial markets, significant liquidity outflows and operational risk events. This testing demonstrates that there are appropriate resources, measures and controls in place to withstand these extreme events.

Reverse stress testing considers a range of specific scenarios which would cause the Society to fail and has 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 84 to 111, includes ongoing monitoring and reporting of new and emerging risks. This allows us to make additional enhancements to the control environment, to adapt to and respond quickly to these risks.

### Assessment period used for reviewing viability

The board considers the viability of the Society over a three year period to 31 December 2026. A three year period for viability is determined to be appropriate for the following reasons:

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

### Assessment of viability

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

- Our business model remains appropriate and will continue to be relevant as the operating environment evolves.
- We have and will continue to maintain an appropriate level of liquidity that meets the expected demands of the business and the requirements that arise in modelled stressed scenarios.
- We hold sufficient capital resources, including an excess above the regulatory minimum and have plans in place to ensure we meet future known requirements. We have sufficient resources under both central and modelled stressed scenarios.
- There are suitable operational capacities in place to manage the impacts of risk events to a reasonable extent, though it is impossible to eliminate all risk. This has been evidenced as we operated effectively under the stress of the cost of living crisis and the economic uncertainty and disruption observed during 2023.

The board has a reasonable expectation that the Society will be able to continue in operation and meet our liabilities as they fall due, over the three year period to 31 December 2026.

# Climate-Related Financial Disclosures

Year ended 31 December 2023

**Andrew Greenwood**
**Deputy Chief Executive Officer**

> “Urgent action is needed to prevent catastrophic impacts from climate change and to make sure every generation has a safe and sustainable place to call home.
>
> We're committed to playing our part and we've taken some big steps forward in our net zero journey during 2023 as we continue to develop our climate transition plans and ambitions.”

## Climate-related disclosures overview

Our climate disclosures are compliant with the requirements of the Companies (Strategic Report) (Climate-Related Financial Disclosure) Regulations 2022 and we have voluntarily adopted areas of the Task Force on Climate-Related Financial Disclosures (TCFD) framework. Our climate disclosures are structured around four key pillars to provide consistent information on the Society's exposure to, and management of, climate risks and opportunities.

| 1. Strategy | 2. Governance | 3. Risk management | 4. Metrics and targets |
|---|---|---|---|
| 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. | The processes used by the Society to identify, assess, and manage climate-related risks. | The metrics and targets used by the Society to assess and manage relevant climate-related risks and opportunities. |
| ▶ See section 1 Pages 51 to 58 | ▶ See section 2 Pages 59 to 61 | ▶ See section 3 Pages 61 to 67 | ▶ See section 4 Pages 68 to 82 |

In line with the UK Government's target to reduce greenhouse gas emissions by 100% by 2050, we remain committed to supporting the orderly transition to a greener, net zero economy. During 2023, we have further developed our climate targets, plans and disclosures and will continue to update them in future years in line with emerging standards and good practice (for example, recommendations from the UK's Transition Plan Taskforce (TPT) and the International Sustainability Standards Board (ISSB), which were finalised during 2023).

## Summary of our climate ambitions and targets

# Overall strategic aim

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

**↓ 90%**

Targeted reduction in our absolute Scope 1 and 2 market-based emissions of 90% by 2030 from a 2021 base year.

**2023: 29% increase (2022: 34% increase)**

**↓ 60%**

Targeted reduction in our absolute Scope 1 and 2 location-based emissions of 60% by 2030 from a 2021 base year.

**2023: 39% decrease (2022: 39% decrease)**

# Carbon neutral

Maintain carbon neutrality for our Scope 1 and 2 market-based emissions and selected Scope 3 emissions, on the pathway towards net zero.

**2023: Achieved (2022: Achieved)**

**↓ 25%**

Targeted reduction in our absolute indirect operational Scope 3 emissions (categories 1-14) of 25% by 2030 from a 2021 base year.

**2023: New target (2022: 2.7% reduction)**

**↓ 45%**

Ambition to reduce the intensity of our Scope 3 financed emissions (category 15) from our residential mortgage book 45% by 2030 from a 2021 base year.

**2023: New ambition (2022: 0.1% reduction)**

Refer to section 4.1 pages 68 to 80 for further details on our ambitions, targets and current progress.

## Summary of TCFD requirements

The table below summarises our response to the 11 TCFD recommendations, as well as areas of planned future development to further enhance our approach. Page references are included to signpost where additional details can be found within these disclosures:

<table>
<tr><th>TCFD recommendation</th><th>Key progress areas</th><th>Future priorities</th><th>Further details</th></tr>
<tr><td colspan="4">1. Strategy</td></tr>
<tr><td>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.</td><td rowspan="3">• Assessment of climate risks and opportunities reviewed and enhanced.<br>• Actions implemented to support our Scope 1 and 2 targets.<br>• Emissions reported and monitored across our full value chain (including Scope 3 emissions).<br>• Scope 3 targets and ambitions developed and approved by the board.<br>• Stakeholder engagement across our value chain, including our material suppliers.<br>• Scenario analysis capabilities further developed.</td><td rowspan="3">• Embedding of actions to support our near-term climate targets.<br>• Development of long-term transition plans to support our climate targets and ambitions.<br>• Continued stakeholder engagement across our value chain, including our members and material suppliers.<br>• Further development and roll out of our green finance proposition and partnerships.<br>• Development of our scenario testing capabilities.</td><td>Section 1.1 to 1.3<br>Pages 51 to 55</td></tr>
<tr><td>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.</td><td>Section 1.4<br>Page 56</td></tr>
<tr><td>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</td><td>Section 1.5<br>Pages 56 to 58</td></tr>
<tr><td colspan="4">2. Governance</td></tr>
<tr><td>a) Describe the board's oversight of climate-related risks and opportunities.</td><td rowspan="2">• Climate objectives defined and included in 2023 personal objectives for members of the senior leadership team, aligned to the target operating model.<br>• Senior leadership team and board oversight of our climate targets and ambitions.<br>• Climate risk training delivered to all colleagues.</td><td rowspan="2">• Oversight of progress against our climate targets.<br>• Oversight of changes in the Society's climate risk profile.<br>• Development and refinement of transition plans, targets and disclosures.</td><td>Section 2.1<br>Pages 59 to60</td></tr>
<tr><td>b) Describe management's role in assessing and managing climate-related risks and opportunities.</td><td>Section 2.2<br>Pages 60 to 61</td></tr>
</table>

| TCFD recommendation | Key progress areas | Future priorities | Further details |
|---|---|---|---|
| **3. Risk management** | | | |
| **a) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.** | • Assessment of climate risks on a present and future basis.<br>• Physical and transition risk factors and data embedded in our mortgage lending policy and credit decisioning processes.<br>• Monitoring of climate physical and transitional risk data for our mortgage book.<br>• Climate risk factors embedded into third party management processes. | • Review, update and refinement of our climate risk appetite in line with agreed net zero targets and transition plans.<br>• Further analysis of climate transition risks following changes in Government net zero policy priorities.<br>• Development of our climate data architecture and reporting capabilities. | Section 3.1<br>Pages 61 to 62 |
| **b) Describe the organisation's processes for identifying and assessing climate-related risks.** | | | Section 3.2<br>Pages 63 to 67 |
| **c) Describe the organisation's processes for managing climate-related risks.** | | | |
| **4. Metrics and targets** | | | |
| **a) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.** | • Monitoring of climate-related Key Risk Indicators (KRIs) and Management Information (MI).<br>• Scope 3 emissions (categories 1 – 15) reported and monitored, including refinement of methodologies. Target and ambitions approved for Scope 3 emissions.<br>• Decarbonisation plans implemented to support our Scope 1 and 2 targets, guided by the principles of a science-based net zero pathway.<br>• Verified as carbon neutral (Scope 1 and 2 market-based emissions plus selected Scope 3 emissions[1]). | • Development and refinement of climate-related internal MI, KRIs, and external disclosures.<br>• Embedding of decarbonisation plans for our Scope 1 and 2 operational emissions.<br>• Further analysis of material Scope 3 categories (purchased goods and services and investments) and refinement of calculation methodologies.<br>• Development of transition plans for Scope 3 emissions. | Section 4.1<br>Pages 68 to 80 |
| **b) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.** | | | Section 4.2<br>Pages 81 to 82 |
| **c) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.** | | | Section 4.1 to 4.2<br>Pages 68 to 82 |

## Governance and assurance approach

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

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

## Section 1 – Climate risk strategy

### Section 1.1 - Our approach

The board has approved a climate strategy centered around the aim of supporting the orderly transition to a greener, net zero economy by 2050 or sooner. This strategic aim will be underpinned by a transition plan setting out our strategic pillars, targets, and capabilities that will be required to support our net zero ambitions. We intend to continually review, update, and disclose progress against our plans and targets in the coming years as our strategy evolves, in line with changes in the external environment and net zero standards and guidance. Refer to section 4 pages 68-82 for further detail on current targets and action plans.

### Climate strategic framework

**Climate change strategic aim**

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

**Transition plan**

**Climate strategic pillars**

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

**Climate ambitions and targets**

**1** Targeted reduction in our absolute Scope 1 and 2 market-based emissions of 90% by 2030, from a 2021 base year.

**2** Targeted reduction in our absolute Scope 1 and 2 location-based emissions of 60% by 2030, from a 2021 base year.

**3** Maintain carbon neutrality for Scope 1 and 2 market-based emissions and selected Scope 3 emissions, on the pathway towards net zero.

**4** Targeted reduction in our absolute Scope 3 operational emissions (categories 1-14) of 25% by 2030, from a 2021 base year.

**5** Ambition to reduce the Scope 3 emissions intensity of our residential mortgage book (category 15) 45% by 2030, from a 2021 base year.

**Climate capabilities and enablers**

| Green finance | Data | Disclosure | Engagement & education | Governance | Operating model | Risk management |
|---|---|---|---|---|---|---|

## Transition plan roadmap

### Develop Capabilities

Progress to date

2016 — 2020 — 2023

**Key achievements:**

- Reduced our Scope 1 and 2 market-based emissions by 92% between 2016 and 2023.
- Verified as carbon neutral since 2021.
- Full carbon footprint baselined in 2022 (including Scope 3 emissions).
- Near term targets agreed to reduce our own operational emissions (Scope 1, 2 and 3).
- Ambition agreed in 2023 to reduce financed emissions from our residential mortgage portfolio in line with science-based requirements.

### Mobilise Transition Plans

Near term targets and actions

2025 — 2030

**Deliver targets and ambitions:**

- Implement plans to reduce our absolute Scope 1 and 2 emissions by 90% (market-based approach) and 60% (location-based approach) by 2030 from a 2021 base year.
- Maintain carbon neutrality for Scope 1, 2 market-based emissions and selected Scope 3 emissions.
- Work with our suppliers and other key stakeholders to reduce our operational Scope 3 emissions by 25% by 2030.
- Work with the Government, our members and industry stakeholders to reduce the emissions intensity of our mortgage portfolio 45% by 2030.

### Net Zero

Long term aims

2050

**Transition to net zero:**

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

## Climate strategic pillars

### Pillar 1- Our own operational emissions

We are committed to reducing the climate change impacts from our own operations (Scope 1 and 2 emissions) in line with Paris Agreement goals to limit future temperature increases to 1.5°c. We have set ambitious near-term targets to reduce our absolute Scope 1 and 2 emissions in line with a science-based pathway. We already purchase all our electricity from renewable sources and will now focus on removing gas from our remaining properties and completing an ambitious refurbishment programme across our branch estate to enhance the efficiency of the buildings and reduce energy consumption.

On the journey to net zero, we will maintain our carbon neutral status for our Scope 1 and 2 market-based emissions and selected Scope 3 emissions. This means we will purchase high quality verified carbon credits to offset our residual emissions to zero while we are taking action to permanently eliminate them, but offsets will not be used to meet our reduction targets. Refer to section 4 for further details.

### Pillar 2- Supporting the transition to net zero

We are also committed to reducing the indirect emissions from our full value chain (referred to as Scope 3 emissions), in line with a 2050 science-based net zero pathway. We acknowledge the potential size of these emissions and importance of taking action to reduce them in order to reach net zero, but many of the levers to do so are outside our direct control and there are a number of barriers that need to be overcome. During 2023, we have agreed a new target to reduce our absolute Scope 3 operational emissions (categories 1-14) 25% by 2030, from a 2021 base year. To achieve this, we will work with our suppliers to reduce emissions from the goods and services that we buy and look for opportunities to eliminate operational waste and emissions from employee business travel, commuting and homeworking.

**We support UK Finance's recommendations as part of their Net Zero Homes report and call on the Government to:**

1. Finalise and implement remaining elements of the Future Homes Standard (FHS) to ensure that all new homes being built in the UK are net zero ready.
2. Ensure energy performance methodologies for buildings are fit for purpose.
3. Provide certainty for firms involved in retrofitting homes with long-term public policies.
4. Provide additional support to vulnerable people with the cost of energy efficiency.

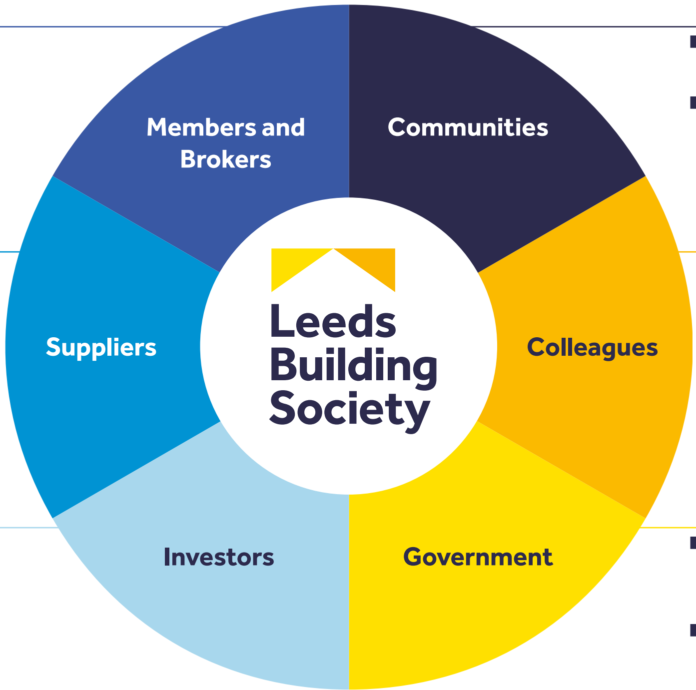
We also have ambitions to align the Scope 3 emissions from the residential mortgages that we finance with a near-term science-based reduction pathway over the next decade. Achieving our ambition will be extremely challenging and we won't be able to do it alone. A joined-up and collaborative approach will be required across government, industry, and wider society to overcome the current barriers to progress. The UK has the oldest and least efficient housing stock in Europe and there continue to be several key gaps in Government policy required to deliver low-carbon greener homes. As a mutual, we believe that net zero must be delivered in an equitable way to ensure nobody is unfairly disadvantaged or left behind. Our aim is to avoid, where possible, taking any actions to restrict finance for less energy efficient homes where it is not feasible, cost-effective, or affordable to meet increased energy efficiency standards.

### Pillar 3 – Managing the risks from climate change

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

## Section 1.2 – Stakeholder considerations

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




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

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

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

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

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

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

## Section 1.3 – Climate-related risks and opportunities over the short, medium and long term

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 | 0-3 years | Our horizon for assessing business model viability |
| Medium term | 3-5 years | Our financial planning horizon |
| Long term | 5-30 years | Our climate risk stress testing horizon |

## Climate-related risks

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

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

Refer to sections 2.2 and 3.2 for further details of our assessment of these risks, potential impacts and current mitigants in place.

## Climate-related opportunities

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

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

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

## Section 1.4 – Climate change impacts on our business, strategy, and financial planning

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

| Key potential impacts | Our response and future plans |
|---|---|
| **Physical risk** | |
| • Future rises in temperatures and precipitation in the UK have the potential to impact the credit quality of our mortgage portfolio e.g. damage to properties from flooding and erosion leading to reductions in the value of mortgage collateral or impacting borrowers' ability to repay the debt.<br>• An increase in adverse weather events such as flooding may impact the resilience of our operations through damage to our premises, infrastructure, and disruption to our critical third-party services and colleagues.<br>• Macroeconomic shocks in the UK due to increased global disruption from climate change may impact our future profitability and growth because of increased unemployment and falling house prices. | • Partnered with Hometrack to assess property-level physical risk profile.<br>• Climate data incorporated into our mortgage origination process and lending policy / underwriting.<br>• Scenario analysis completed as part of our annual Internal Capital Adequacy Assessment Process (ICAAP) to better understand the potential financial impacts from physical risks. Refer to section 1.5 for further details.<br>• Physical risk profile of our key operational sites, branches and key third parties assessed. |
| **Transition risk** | |
| • Changes in Government policy, such as minimum energy standards for homes, have the potential to impact the future credit quality of our mortgage book i.e. reductions in house prices where properties do not meet minimum standards, and stresses to borrower affordability due to the cost of making energy efficiency improvements and rising energy prices.<br>• 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.<br>• Increasing demand for green mortgages and savings in the UK may impact our future profitability and growth if we fail to adapt to meet changing consumer preferences.<br>• An increased focus from stakeholders on green credentials may impact our reputation if the risks and opportunities are not effectively managed and disclosed. | • Scenario analysis completed as part of the ICAAP to assess financial impacts from the transition to minimum energy ratings.<br>• Backstop credit controls implemented in line with minimum requirements for energy ratings.<br>• Uplifts within affordability models for the highest EPC rated properties.<br>• Development of green commercial proposition and green customer communications.<br>• Alignment with TCFD for climate-related disclosures and consideration of emerging disclosure requirements.<br>• Climate targets developed and implemented to minimise and reduce our emissions over the medium to longer term. |

## Section 1.5 – Scenario analysis

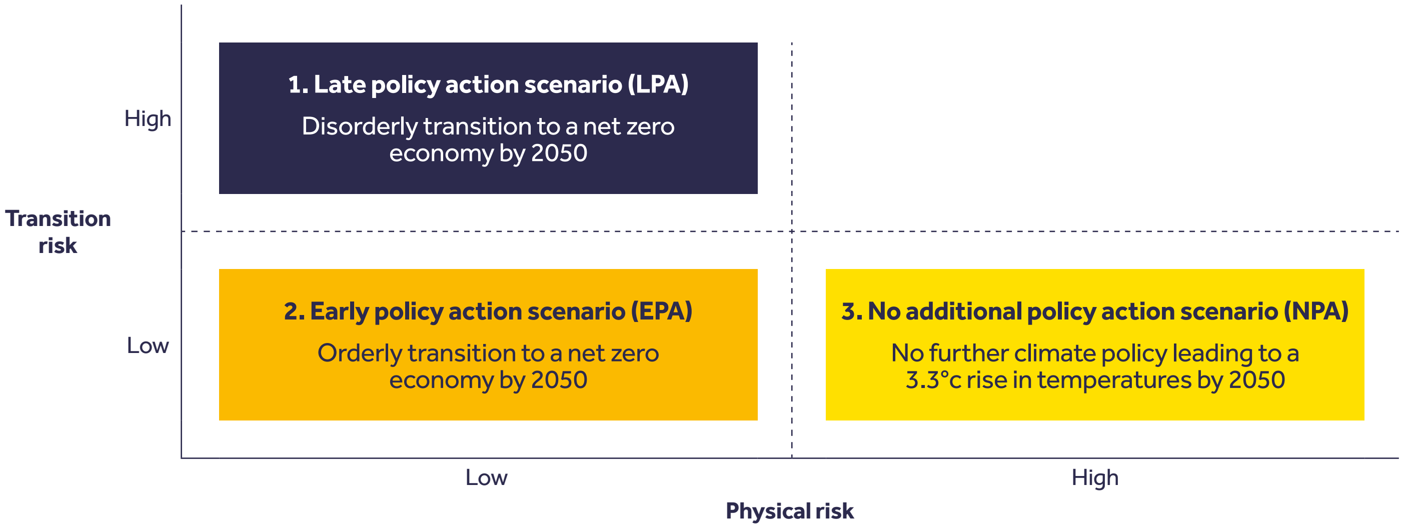
The Society has developed a proportionate approach to climate risk scenario analysis as part of our Internal Capital Adequacy Assessment Process (ICAAP), to understand the potential future impacts of climate change on our overall risk profile and to inform strategic planning.

### Scenario testing approach

Aligned with the principles of the Bank of England's 2021 Climate Biennial Exploratory Scenario (CBES) exercise, the Society models three climate-related scenarios as part of our ICAAP. The scenarios assess the potential financial impacts from different combinations of physical, transition and economic risks over a 30-year time horizon (2023 to 2050s). Impacts on expected losses are modelled based on a static balance sheet[3] (i.e. no run off of assets and liabilities and no management actions).

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

## Climate change scenarios




## 2023 Climate change scenario descriptions and key assumption

| | Late policy action (LPA) | Early policy action (EPA) | No policy action (NPA) |
|---|---|---|---|
| **Description** | Disorderly transition to a net zero economy by 2050 | Orderly transition to a net zero economy by 2050 | No further climate policy leading to a 3.3°c rise in temperatures by 2050 |
| **Transition risk** | High | Medium | Limited |
| Transition begins | 2031 | 2023 | N/A |
| Nature of transition | Late and disorderly. New climate policy from 2030 | Early and orderly. New climate policy from 2023 | Only climate policies in place pre-2023 |
| 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 Co2 | £580 / tonne Co2 | N/A |
| **Physical risk** | Limited | Limited | High |
| Mean global warming[4] | 1.8°c increase | 1.8°c increase | 3.3°c increase |
| Emissions RCP[5] | 2.6 | 2.6 | 8.5 |
| **Economic impact (UK)** | Sudden recession | Temporary downturn | Permanent downturn |

## Scenario conclusions

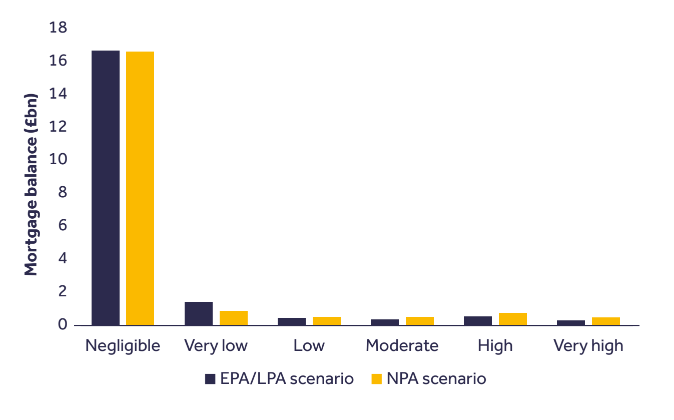
The exploratory climate scenario analysis completed during 2023 has provided the following insights:

- Modelling of climate change impacts continues to be complex and highly uncertain. This is primarily due to the longer-term time horizons that the risks are expected to materialise over (versus the relatively short behavioural lives of the current mortgage book) and uncertainties around the timings and impacts of future Government climate policies.
- The Society continues to have limited potential exposure to physical risk, both currently and under a range of future climate pathways modelled over the next 30 years, due to the geographically diversified and low LTV profile of our UK focused mortgage portfolio.
- More material potential impacts have been observed through transition risks. For example, 45% of the mortgaged properties in our portfolio with a valid energy performance certificate (EPC) were rated D or lower at 30 June 2023 and are therefore more exposed to potential changes in Government policy for minimum energy ratings.

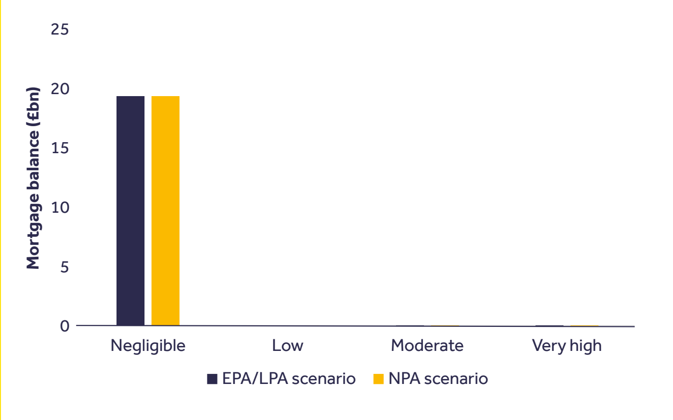
4 Increase in average global temperatures compared to pre-industrial levels.
5 Equivalent Representative Concentration Pathway (RCP) developed by the Intergovernmental Panel on Climate Change (IPCC) to model different climate futures based on the volume of greenhouse gas emissions. RCP 2.6 is a very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

- Transitional impacts were greatest under a late transition scenario, where actions to achieve net zero are disorderly and concentrated in a short time period during the 2030s. As a result, total expected losses under this scenario were more than two times higher than an orderly scenario. Despite these potential impacts, the Society's business model and capital position were found to be resilient to the risks under all three of the scenarios modelled.
- Based on current progress and a change in Government policy priorities announced in September 2023, there is an increased probability of a disorderly scenario materialising in the medium to long term. In this context, the Society is closely monitoring exposure to climate risks and factoring this into strategic decision making and accounting policies where appropriate. We intend to continue to refine and enhance our scenario testing capabilities in future years as additional data becomes available and further industry good practice emerges.

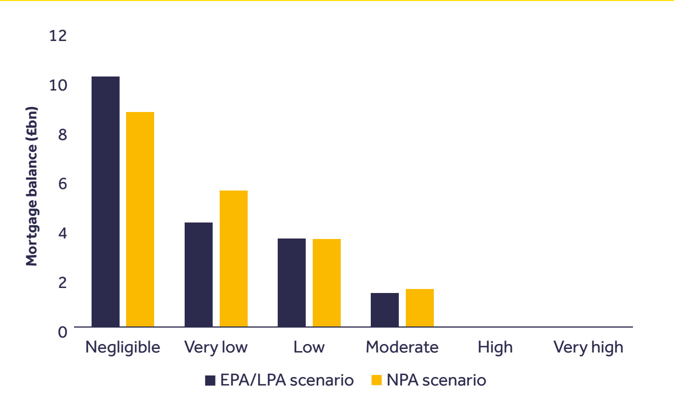
**2050s flood risk profile[6]**



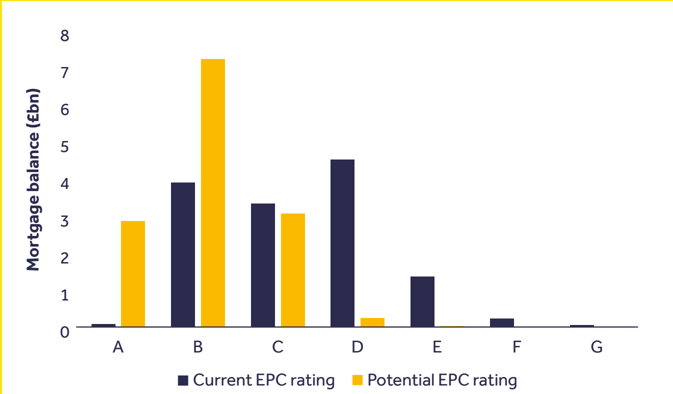

**2050s coastal erosion risk profile[6]**




**2050s subsidence risk profile[6]**




**Current and potential EPC ratings[6]**




## Impacts on our longer-term strategy

We will continue to use scenario analysis to monitor the potential impacts of climate change on our business model and adapt our strategy accordingly. Using the scenario insights, we have implemented the following actions to support the development of our climate strategy and mitigate against the evolving risks from climate change:

- Investment in our climate risk management and modelling capabilities.
- Implementation of lending policy controls to manage exposure to climate risks.
- Consideration of the impacts of climate risks on our expected credit losses and provisions. Refer to note 2 on page 201 for further details.

6 Based on the mortgage portfolio as at 30th June 2023.

## Section 2 – Climate risk governance

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


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

| Committee | Role | Meetings with climate-related items | Activities and areas of focus in 2023 |
|---|---|---|---|
| **Board** | The board has ultimate accountability for overseeing the implementation of our purpose led strategy, including the management of climate-related risks.<br><br>While the board fulfils some of these duties directly, other responsibilities are cascaded through the Society's committee structure. See pages 121 to 139 for further details of the Society's governance arrangements. | 2 | • Oversight of implementation of the Society's Responsible Business and climate strategies and associated targets and objectives.<br>• Review of the external environment and competitor benchmarking.<br>• Review and approval of new climate targets and ambitions for our Scope 3 emissions. |
| **Board Risk Committee** | The board has delegated responsibility to the Board Risk Committee for overseeing the identification and management of current and future risks associated with climate change in line with its stated appetite. | 4 | • Oversight of progress with climate activities and deliverables.<br>• Approval of credit risk climate backstop controls and incorporation of climate factors into the Society's lending policy.<br>• Review and approval of outputs and conclusions from climate stress testing activity, as part of the ICAAP.<br>• Monitoring of climate risks and controls. |

| Committee | Role | Meetings with climate-related items | Activities and areas of focus in 2023 |
|---|---|---|---|
| **Audit Committee** | The Audit Committee assists the board in ensuring that the internal systems of control and external disclosures relating to climate change are appropriate. | 1 | • Consideration of the critical accounting estimates and judgements for climate-related risks.<br>• Annual review and approval of TCFD climate disclosures. |
| **Remuneration Committee** | The Remuneration Committee oversees the design and implementation of reward structures to ensure they appropriately motivate colleagues, whilst underpinning the longer-term viability of the Society. | 1 | • Review, approval and monitoring of 2023 climate-related objectives for the senior management team, and assessment of associated impacts on variable remuneration. |

### Section 2.2 - Management level oversight of climate-related risks

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

| Forum | Chair | Responsibilities | Meetings with climate-related items | 2023 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. | 4 | • Climate credit controls and policy.<br>• Impacts on borrower affordability assessments.<br>• Climate risk credit MI. |
| **Assets and Liabilities Committee** | Chief Financial Officer | Oversees the management of treasury related risks impacted by climate change (e.g. funding and liquidity, market risk and capital) and the development of associated policy / appetite. | 3 | • Treasury Policy.<br>• ICAAP scenario analysis.<br>• Climate Risk update on financial risks, including Scope 3 requirements for Sovereign Debt. |
| **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. | 2 | • Climate risk training.<br>• ICAAP scenario analysis. |
| **Operational Resilience Committee** | Chief Operating Officer | Oversees the management of resilience risks from climate change (e.g. disruption to operations from physical climate events such as flooding and increased supply chain costs) and the development of associated policy / appetite. | 1 | • Climate resilience update. |
| **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. | 2 | • Climate model materiality.<br>• Climate model methodology and developments. |

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

| Forum | Chair | Responsibilities | Times met during 2023 | 2023 Discussion Topics |
|---|---|---|---|---|
| **Responsible Business Forum** | Chief Strategy and Insights Officer | Ensures appropriate alignment of climate change initiatives to the Society's Responsible Business Strategy. | 4 | • Oversight of Responsible Business Strategy.<br>• Progress updates from Climate Forum. |
| **Climate Risk Forum** | Head of Prudential and Enterprise Risk | Delivery of climate activities including compliance with PRA SS3/19, industry best practice and operational implementation of the climate objectives. | 5 | • Progress against climate deliverables.<br>• Climate targets and ambitions progress and proposals.<br>• Property refurbishment strategy.<br>• Climate communications.<br>• Partnership opportunities. |

### Senior management function

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

### Training and awareness

Ensuring robust understanding of climate-related risks and opportunities is crucial for colleagues at all levels of the organisation. During the year, both the board and senior leadership team undertook training on the Science Based Targets initiative (SBTi) and considerations for setting Scope 3 targets. Mandatory climate risk training has been introduced for all colleagues, and colleague engagement has been facilitated through a dedicated internal communications climate week and Green Champions network of colleagues.

### Remuneration

During 2023, climate factors were reflected in the Society's remuneration scheme for the first time with relevant members of the senior leadership team required to have a personal objective linked to climate priorities within their area of responsibility. Supporting the transition to net zero has also been included as one of the Society's ten corporate priorities under our purpose blueprint to help put homeownership within reach of more people - generation after generation.

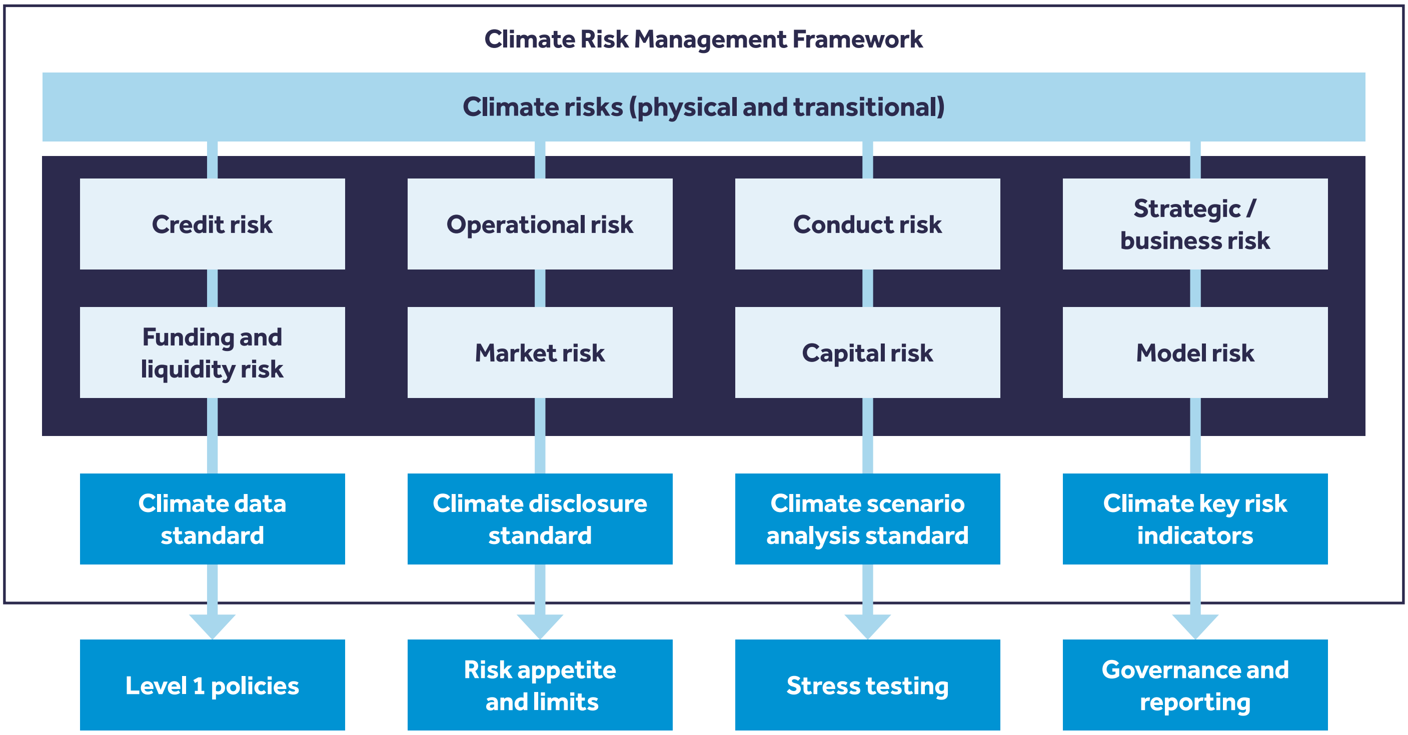
## Section 3 – Climate risk management

### Section 3.1 – Integration of climate change in risk management

### Climate risk management framework

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

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




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

## Risk appetite

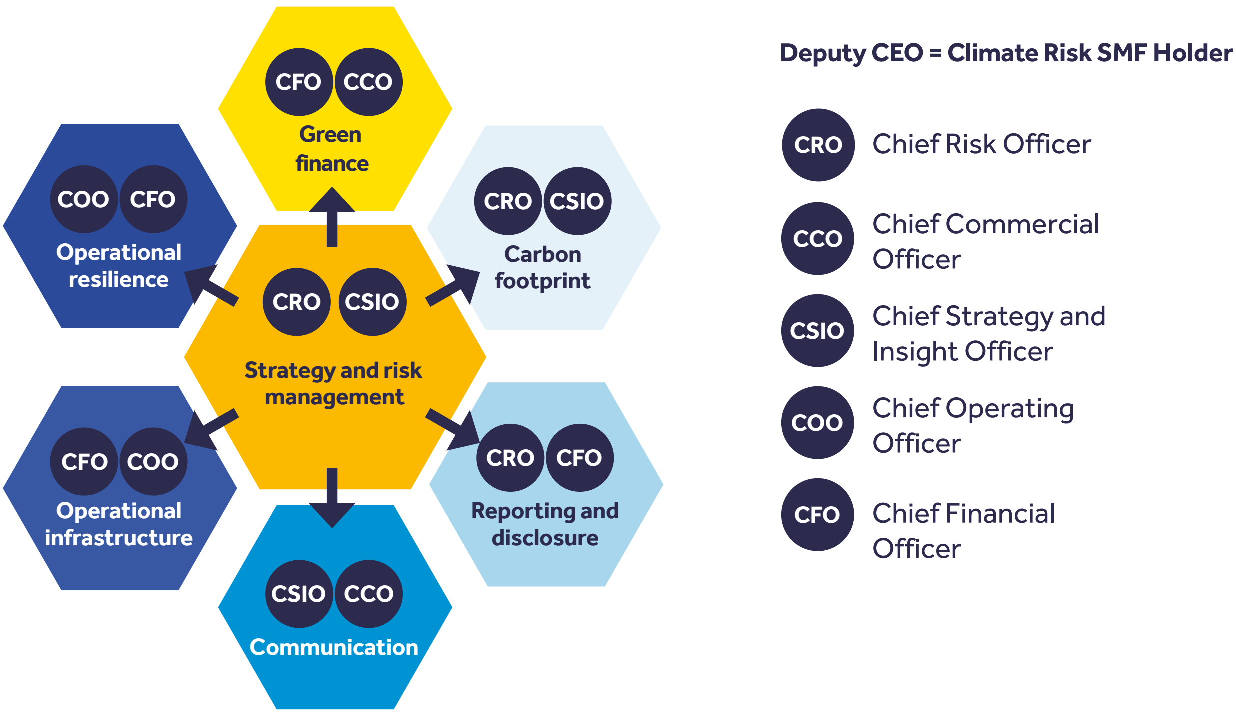
Our climate risk appetite has been defined in line with current good practice guidance, combining a qualitative statement with measures the Society uses to assess adherence to appetite over a time period reflective of the risks from climate change.

| | |
|---|---|
| **Vision** | **Climate change strategic aim**<br>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** | **Targets / ambitions:**<br>• Reduce absolute Scope 1 & 2 emissions by 90% by 2030, using a market-based approach.<br>• Reduce absolute Scope 1 & 2 emissions by 60% by 2030, using a location-based approach.<br>• Maintain carbon neutrality for Scope 1, 2 market-based emissions and selected Scope 3 emissions, on the pathway to net zero.<br>• Reduce absolute operational Scope 3 emissions (Categories 1 – 14) by 25% by 2030.<br>• Ambition to reduce intensity of our financed Scope 3 emissions from residential mortgages (Category 15) by 45% by 2030.<br>**Risk exposure:**<br>• Maintain negligible / low exposure to physical climate risks (flooding, ground hazards, and coastal erosion).<br>• Limit exposure to transition risks through our credit policy and criteria.<br>• Maintain zero appetite for the funding of fossil fuel and other carbon-intensive industries. |

## 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.




### 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 |
|---|---|
| **1st Line (Business Lines)** | • Development of the Society's climate strategy and wider responsible business strategy.<br>• Identification, assessment, and management of climate change risks across the Society.<br>• Member and colleague engagement campaigns. |
| **2nd Line (Risk Function)** | • Maintenance of the climate risk management framework.<br>• Climate risk monitoring and reporting.<br>• Development of climate scenario analysis and stress testing. |
| **3rd Line (Internal Audit)** | • Independent assurance of the adequacy and effectiveness of first and second line risk management, on a risk-based approach.<br>• Supplemented by external assurance reviews as required. |

### Assessment and management of climate-related risks

The Society uses its CRMF to assess how climate change risks could impact each of the Society's principal risks. Our current assessment of the potential impacts against each of our eight principal risks is presented overleaf (based on short and long-term view of the risk impacts) along with key mitigants and climate risk metrics in place to manage the risks. 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 | Impact | | Key mitigants | Climate risk metrics |
|---|---|---|---|---|---|
| | | Present | Long-term | | |
| **Credit risk** | | | | | |
| Physical Risk | • Increasingly frequent / severe flooding, subsidence, and erosion from climate change causes physical damage to properties, negatively impacting the value of the collateral.<br>• Higher insurance / repair costs for members, impacting debt serviceability.<br>• Increased default risk for wholesale counterparties exposed to climate change. | ▲ | ■ | • Automated flood and ground risk assessment as part of the credit decisioning process.<br>• Credit policy controls.<br>• Building insurance required under mortgage T&Cs.<br>• Stressed affordability assessments.<br>• Postcode concentration limits.<br>• LTV limit structure for lending segments.<br>• Semi-annual back book assessment of physical risks under multiple climate pathways / stresses.<br>• ESG assessments for wholesale counterparties. | • % mortgage balances with high / very high physical risk.<br>• Stressed credit risk losses. |
| **Credit risk** | | | | | |
| Transition risk | • Changes in Government policy negatively impact house prices and borrower affordability (e.g. minimum EPC ratings).<br>• Transition to a green economy impacts borrower affordability (e.g. rising energy costs).<br>• Macroeconomic downturn from climate change impacts house prices and borrower affordability (e.g. higher unemployment). | ▲ | ■ | • EPC data incorporated into automated credit decisioning processes and assessed as part of underwriting for certain products.<br>• Credit policy controls.<br>• Stressed affordability assessments.<br>• Semi-annual back book assessments of EPC ratings to assess concentration risks.<br>• Transitional risk stress testing conducted as part of ICAAP assessment.<br>• Horizon scanning for technological changes, changes in consumer sentiment or Government policy. | • % mortgage balances with current EPC >C.<br>• % mortgage balances with potential EPC >C.<br>• Stressed transitional credit risk losses. |

| Risk factor | Risk description | Impact | | Key mitigants | Climate risk metrics |
|---|---|---|---|---|---|
| | | Present | Long-term | | |
| **Strategic / business risk** | | | | | |
| Physical and transition risk | • Failure to manage exposures to, or take advantage of opportunities relating to climate change, which inhibits longer-term business model viability.<br>• Stakeholder expectations are negatively impacted by the Society's response to climate change resulting in impairment to reputation, or delivery of strategic objectives.<br>• Reputational impact of carbon footprint of products and services leading to lower member attraction and retention. | ▲ | ■ | • Responsible Business and Green Strategies, including the setting of appropriate appetite and targets for climate risk.<br>• Green product proposition and governance.<br>• ICAAP stress testing / sensitivity analysis.<br>• Disclosures articulating the Society's approach to climate risk management.<br>• Horizon scanning and assessment (e.g. regulatory change).<br>• Member engagement and education. | • Climate targets, refer to section 4.<br>• External ESG ratings.<br>• Adverse publicity.<br>• Carbon prices.<br>• Climate risk landscape. |
| **Operational risk** | | | | | |
| Physical risk | • Branches or offices are damaged, or loss of systems, processes or data, due to physical impacts (e.g. flooding).<br>• Increased incidence of environmental perils affecting the delivery of third-party goods and services.<br>• Operational resilience affected by physical events preventing colleagues from accessing the office or branches.<br>• Regulatory breaches / censure. | ● | ▲ | • Corporate insurance policy.<br>• Business continuity planning and operational resilience factored into our investment strategy (e.g. additional flood defences for our head office site in Leeds).<br>• Disaster recovery testing.<br>• ICAAP Operational Risk Pillar 2a assessment.<br>• Remote working capabilities.<br>• Environment factors considered as part of supplier due diligence.<br>• Supplier audits / recovery testing.<br>• Regulatory horizon scanning and compliance assessments. | • Number of Society properties with high / very high physical risk.<br>• Number of supplier sites with high / very high physical risk.<br>• % colleagues located in high physical risk area.<br>• Stressed operational losses. |

| Risk factor | Risk description | Impact | | Key mitigants | Climate risk metrics |
|---|---|---|---|---|---|
| | | Present | Long-term | | |
| Transition risk | • Increased supply chain costs due to climate-related inflationary pressures.<br>• Reputational damage from third-party relationships due to their climate change credentials. | ▲ | ▲ | • Supplier due diligence and exit planning.<br>• Supplier relationship meetings to engage and monitor progress with implementing climate targets and plans. | • Number of critical suppliers without a climate risk assessment. |
| **Model risk** | | | | | |
| Physical and transition risk | • Increased reliance on complex models to understand climate-related risks over longer-term horizons to support current day decision making.<br>• Models are based on the latest climate science, with historic performance not an indicator of future performance.<br>• A lack of transparency around model assumptions and limitations results in incorrect decision-making. | ▲ | ▲ | • Model Risk Policy requirements and materiality assessment.<br>• Independent model validation reports.<br>• Data completeness checks and reconciliations.<br>• Variance analysis and associated commentary to understand key trends.<br>• Model documentation and localised procedures.<br>• Credit risk and modelling SMEs.<br>• Third party management arrangements / oversight. | • Under development. |
| **Funding and liquidity risk** | | | | | |
| Physical and transition risk | • Reduction in retail funding as a result of climate change (e.g. due to property retro-fit costs or loss of income from climate-related macroeconomic or transitional impacts).<br>• Reduction in savings balances due to a change in member preferences towards green products.<br>• Increased cost of wholesale funding due to a change in investor appetite for green bonds.<br>• Increased losses from counterparties with a higher exposure to climate risk. | ● | ▲ | • Annual ILAAP and Recovery Planning processes.<br>• Daily monitoring of the Society's liquidity position and early warning indicators.<br>• Weekly cashflow forecasting.<br>• Liquidity management actions under the Recovery Plan.<br>• Climate risk disclosures articulating the Society's approach to the management of climate risk.<br>• Green product proposition and governance. | • Number of liquidity investments with high climate risk.<br>• External ESG ratings. |

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

# Section 4 – Climate risk metrics and targets

## Section 4.1 - Climate risk ambitions, targets, and performance

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

## Our greenhouse gas (GHG) emissions

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

Reported emissions have been calculated using the World Resources Institute and the World Business Council for Sustainable Development GHG Protocol, which is the internationally recognised standard for the measurement, management, and reporting of GHG emissions.

The Society has set its organisational GHG emissions boundary using the operational control approach, which captures GHG emissions linked to entities under our control. Reported emissions encompass the seven GHGs defined under the Kyoto Protocol and are broken down into three main categories:

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

The Society's GHG emissions for 2023 are summarised below, with comparison to 2021 (our baseline year for reporting purposes), in line with reporting requirements under SECR. Our 2022 disclosures for fugitive emissions have been restated[1] following the completion of data quality checks which identified additional unreported emissions from the leakage of an air conditioning system in one of our offices. Restated prior year disclosures are provided for comparative purposes.

We have calculated a data score of 1.48 for our Scope 1 and 2 market-based emissions and 1.93 for our Scope 1 and 2 location-based emissions using the Partnership for Carbon Accounting Financials (PCAF) methodology (with 1 being the highest data quality and 5 the lowest quality). This reflects the high proportion of actual versus estimated consumption data and average emissions factors used in the calculations.

1 The adjustments did not change the net carbon outturn for 2022, with additional voluntary carbon credits purchased during 2023 to offset the difference.

## 2023 SECR reporting[2,3]

| | Market-based approach | | | Location-based approach | | |
|---|---|---|---|---|---|---|
| **Emissions (t/CO2e)** | **2023** | **2021 (Baseline)** | **Change** | **2023** | **2021 (Baseline)** | **Change** |
| **Scope 1** | | | | | | |
| Diesel | 1 | 0 | – | 1 | 0 | – |
| Gas | 33 | 45 | (26%) | 33 | 45 | (26%) |
| Fugitive emissions | 59 | 12 | 370% | 59 | 12 | 370% |
| **Scope 2** | | | | | | |
| Electricity | 4 | 18 | (78%) | 490 | 906 | (46%) |
| **Total Scope 1 and 2** | **97** | **75** | **29%** | **583** | **963** | **(39%)** |
| **Scope 3** | | | | | | |
| Business travel | 175 | 103 | 70% | 175 | 103 | 70% |
| **Total scope 1, 2 and Scope 3 business travel** | **272** | **178** | **53%** | **758** | **1,066** | **(29%)** |
| Purchased carbon offsets | (272) | (178) | 53% | (272) | (178) | 53% |
| **Net carbon outturn** | **–** | **–** | **–** | **486** | **888** | **(45%)** |
| **Other metrics** | | | | | | |
| Emissions per FTE (Scope 1 and 2) | 0.06 | 0.06 | 6% | 0.35 | 0.71 | (50%) |
| Energy consumption (Mwh) | 2,509 | 4,512* | (44%) | 2,509 | 4,512* | (44%) |
| Energy consumption per FTE | 1.51 | 3.32* | (54%) | 1.51 | 3.32* | (54%) |
| Data score (Scope 1 and 2) | 1.48 | – | – | 1.93 | – | – |

* Energy consumption and consumption per FTE for 2021 have been restated following validation checks (previously 4,491 and 3.30 respectively)

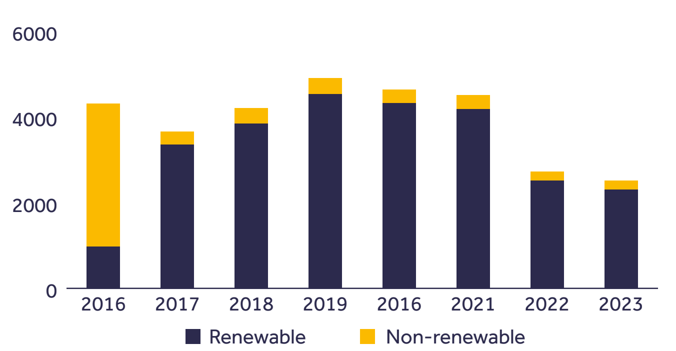
## Restated SECR prior year disclosures

| | Market-based approach | Location-based approach |
|---|---|---|
| **Emissions (t/CO2e)** | **2022** | **2022** |
| **Scope 1** | | |
| Diesel | 1 | 1 |
| Gas | 34 | 34 |
| Fugitive emissions | 59 | 59 |
| **Scope 2** | | |
| Electricity | 7 | 493 |
| **Total Scope 1 and 2** | **101** | **587** |
| **Scope 3** | | |
| Business travel | 156 | 156 |
| **Total Scope 1, 2 and Scope 3 business travel** | **257** | **743** |
| Purchased carbon offsets | (257) | (257) |
| **Net carbon outturn** | **–** | **486** |

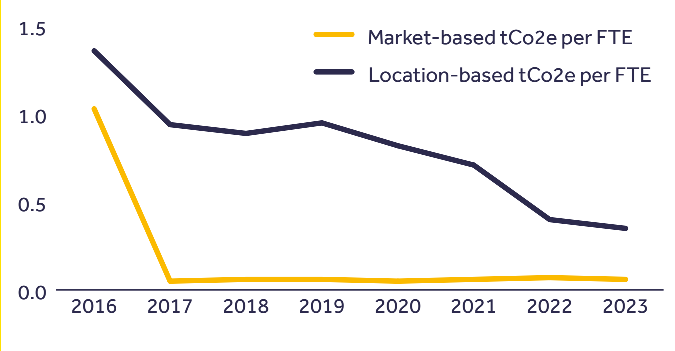
2 t/Co2e stands for tonnes of carbon dioxide equivalent (the recognised measure for GHG emissions).
3 Offsets for our 2023 emissions will be finalised once final energy consumption data is available and has been independently verified.

Using a market-based approach, our Scope 1 and 2 emissions have increased by 29% since our 2021 base year (overall 92% reduction since 2016 when we first started reporting). This increase was caused by two leakages of fugitive emissions from the air conditioning system at one of our offices in 2022 and 2023. Using a location-based approach, our Scope 1 and 2 emissions have reduced by 39% since 2021 (overall 65% reduction since 2016). This has been driven by reductions in the consumption of electricity following the consolidation of three of our existing head office sites into one and the divestment of another legacy contingency site during 2022, as well as a lower emissions conversion factor for electricity due to a higher proportion of renewable versus fossil fuel generated electricity on the UK National Grid during 2023.

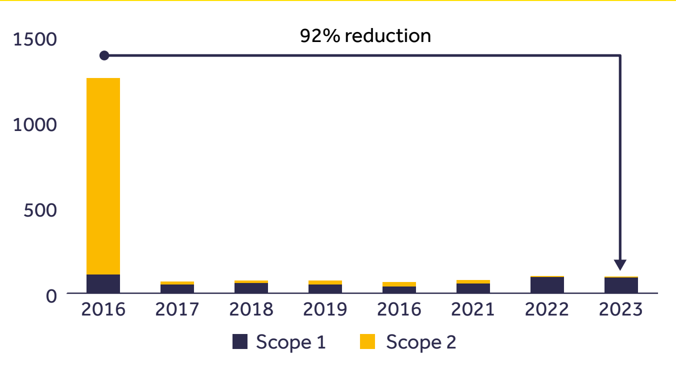
**Energy consumption (Mwh)**



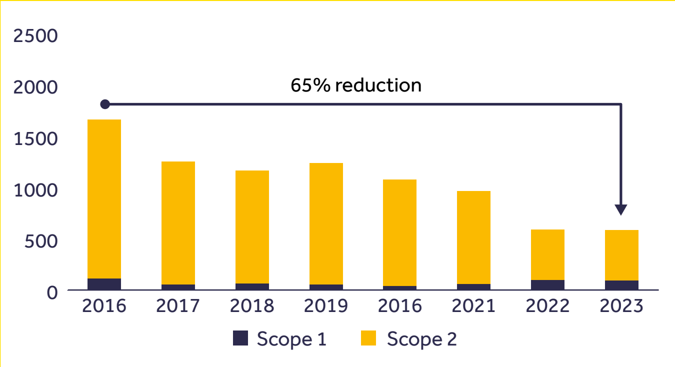

**Emissions intensity ratios (per employee)**




**Market-based emissions (tCO2e)**




**Location-based emissions (tCO2e)**




## Section 4.1.1 – Our Scope 1 and 2 emissions

### Scope 1 and 2 targets

As part of our strategic aim to support the orderly transition to net zero by 2050 or sooner, we have set two ambitious near-term targets to reduce our Scope 1 and 2 emissions while we maintain carbon neutrality:

**90%**
**by 2030**

Reduce our absolute Scope 1 and 2 emissions by 90% by 2030, from a 2021 base-year using a **market-based methodology.**

**60%**
**by 2030**

Reduce our absolute Scope 1 and 2 emissions by 60% by 2030, from a 2021 base-year using a **location-based methodology.**

## Carbon neutral

Maintain carbon neutrality for our Scope 1, 2 market-based emissions and selected Scope 3 emissions, on the pathway towards net zero.

These targets have been guided by the principles of a science-based net zero pathway and will align our Scope 1 and 2 operational emissions with the Paris Agreement goal to limit future temperature increases to 1.5°C. This means we will reach net zero for our Scope 1 and 2 emissions by 2030 on a market-based approach, and more than halve Scope 1 and 2 emissions on a location-based approach by the end of the decade. To achieve these targets, we have agreed a plan to upgrade all our branches to the latest net zero standards by 2030. We will continue to only purchase our electricity from renewable sources that meet requirements of the GHG Protocol Scope 2 Standard, and during 2024 we will explore opportunities to generate onsite renewable energy. Achieving our location-based target will also be heavily dependent on decarbonisation of the UK electricity grid in line with the National Grid's 'Consumer Transformation' Future Energy Scenario (FES).

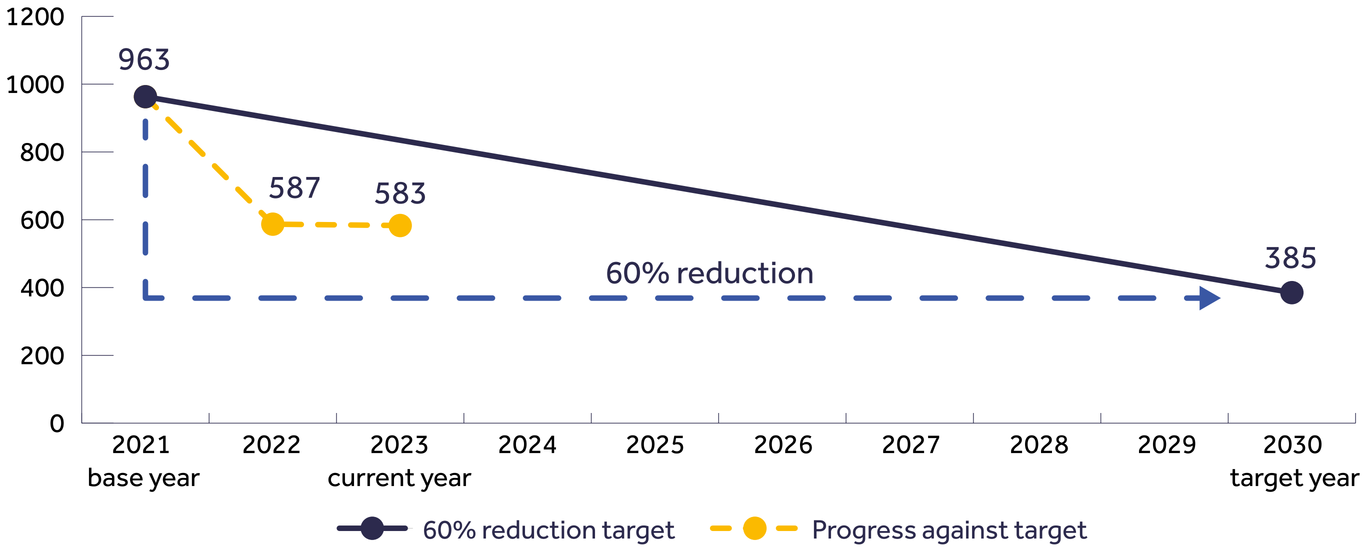
We're committed to maintaining carbon neutrality for our Scope 1 and 2 market-based emissions and selected Scope 3 emissions[4]. We will purchase only high quality verified carbon credits to offset our residual emissions to zero while we are taking action to permanently eliminate them. Offsets will not be relied upon to meet our reduction targets. Once we have reached our net zero market-based target, we will offset any residual hard to abate emissions through investment in high quality certified nature-based or man-made carbon removal projects.

## Progress against Scope 1 and 2 targets

We are currently ahead of our 60% location-based reduction target, having reduced our overall energy consumption following the opening of our A rated head office building in 2022. As a result of two unexpected leakages of fugitive gas from the air conditioning system at one of our offices, we exceeded our market-based reduction target in both 2022 and 2023. We have taken action to minimise the risk of future leakages as far as practical and expect our emissions to trend back down in line with the target pathway in future years as we implement our emissions reduction plans.

**Summary of progress against our Scope 1 and 2 location-based target**

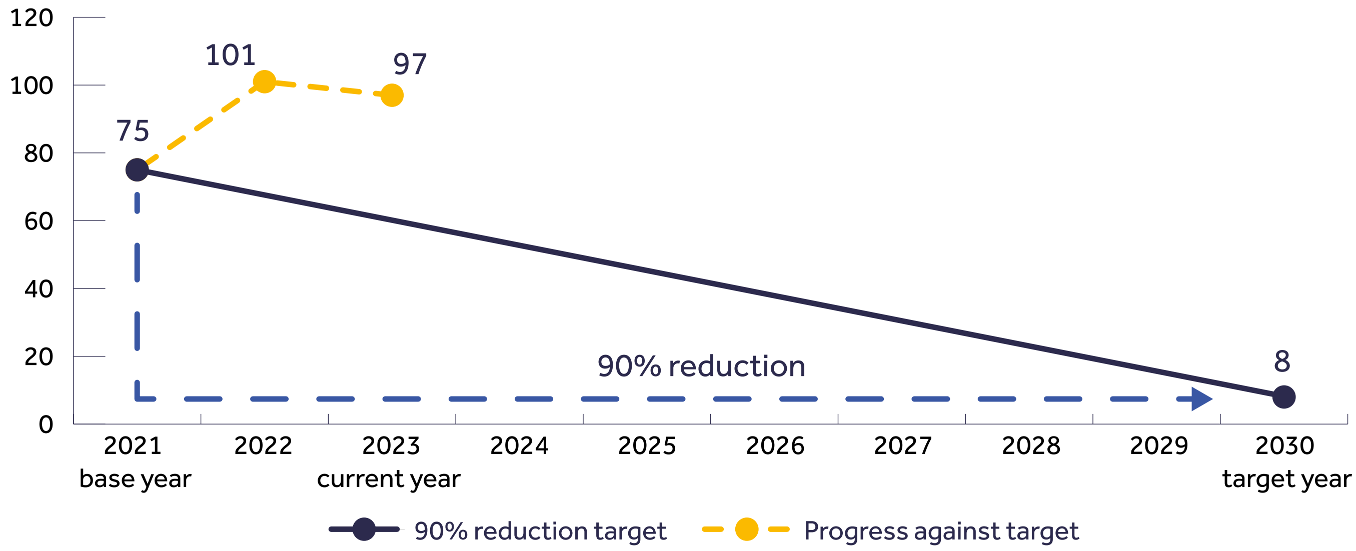
| Scope 1 and 2 emissions | Location-based approach |
|---|---|
| Absolute emissions - 2021 Base Year (tCo2e) | 963 |
| Absolute emissions - 2023 (tCo2e) | 583 |
| **% change vs base year** | **-39%** |
| **Target % reduction vs base year** | **-13%** |
| **Status** | **Ahead** |




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

**Summary of progress against our Scope 1 and 2 market-based target**

| Scope 1 and 2 emissions | Market-based approach |
|---|---|
| Absolute emissions - 2021 Base Year (tCo2e) | 75 |
| Absolute emissions - 2023 (tCo2e) | 97 |
| **% change vs base year** | **29%** |
| **Target % reduction vs base year** | **-20%** |
| **Status** | **Behind** |




## Carbon neutral status

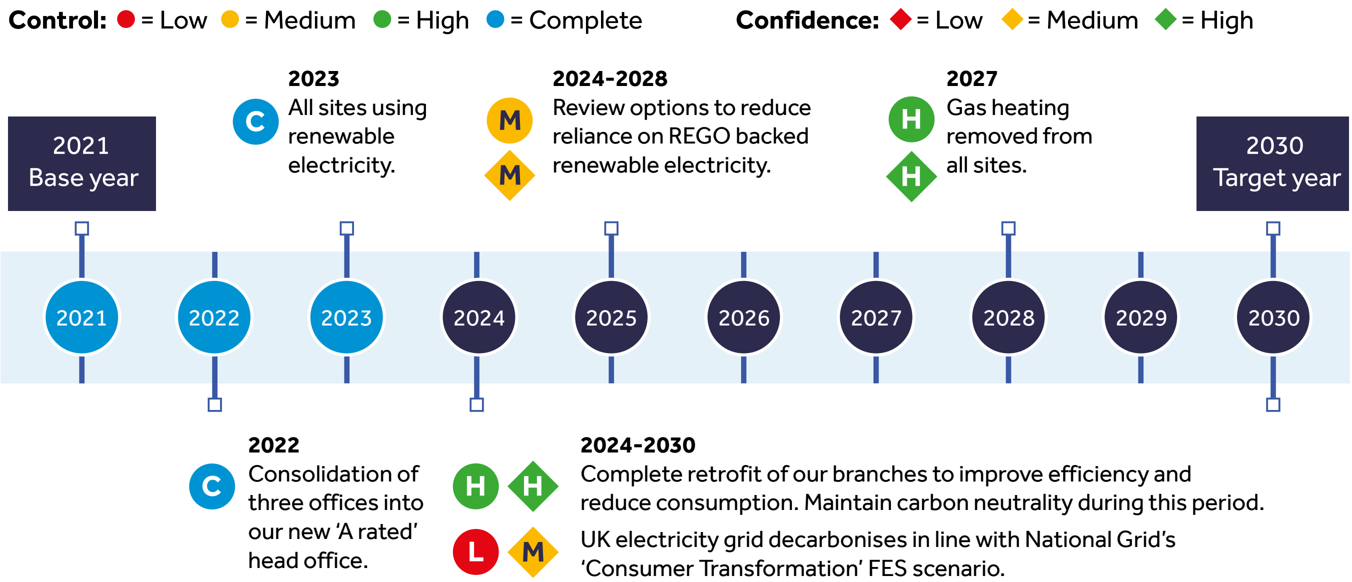
To maintain our carbon neutral status, we're working with Climate Impact Partners, a specialist in carbon market solutions for climate action.

During 2023, we maintained our CarbonNeutral® company certification in accordance with The CarbonNeutral Protocol, the leading global framework for carbon neutrality, and had an independent assessment of our Scope 1 and 2 market-based emissions and selected Scope 3 emissions.

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

## Scope 1 and 2 transition plan milestones, assumptions and dependencies

The key actions that will be taken over the remainder of the next decade to deliver our Scope 1 and 2 emissions reduction targets are summarised below.



## Section 4.1.2 – Scope 3 emissions

Assessment of our Scope 3 emissions is based on the methodologies set out in the GHG Protocol Scope 3 Accounting and Reporting Standard. Nine of the 15 Scope 3 categories have been identified as relevant for our business model.

**Assessment of Scope 3 emission categories**

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

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

## Section 4.1.3 – Scope 3 emissions: categories 1-14

Our Scope 3 operational emissions are set out below (as at 31 December 2022, which is the most recent data point available). As indicated by the data scores below, our Scope 3 calculations are based on a large proportion of estimated data because accurate actual data is not currently available. As this data quality improves, we will update our calculations and re-baseline our disclosures where there are any material changes.

**Scope 3 category 1-14 emissions at 31 December 2022**

| Scope 3 category | | | 2022 | | 2021 baseline | | % Change | Data score[8] | |
|---|---|---|---|---|---|---|---|---|---|
| | | | tCo2e | % Total | tCo2e | % Total | | 2022 | 2021 |
| Category 1 | Purchased goods and services | | 17,674 | 83.7% | 17,292 | 81.8% | 2% | 5.00 | 5.00 |
| Category 2 | Capital goods | | 1,243 | 5.9% | 2,544 | 12.0% | -51% | 5.00 | 5.00 |
| Category 3 | Fuel and energy related activities (FERA) | Upstream emissions of purchased fuels | 6 | 0.0% | 8 | 0.0% | -24% | 2.03 | 2.03 |
| | | Upstream emissions of purchased electricity | 129 | 0.6% | 257 | 1.2% | -50% | | |
| | | Transmission and distribution losses (T&D)[9] | 45 | 0.2% | 80 | 0.4% | -44% | | |
| Category 4 | Upstream transportation and distribution | | 521 | 2.5% | 409 | 1.9% | 28% | 5.00 | 5.00 |
| Category 5 | Waste generated in operations[9] | | 3 | 0.0% | 2 | 0.0% | 0% | 2.00 | 2.00 |
| Category 6 | Business travel | Air, public transport, rented / leased vehicle, and taxi[9] | 140 | 0.7% | 85 | 0.4% | 65% | 2.27 | 3.84 |
| | | Hotel accomodation[9] | 16 | 0.1% | 18 | 0.1% | -11% | | |
| Category 7 | Employee commuting and home working[10] | Commuting | 879 | 4.2% | 324 | 1.5% | 172% | 4.00 | 5.00 |
| | | Home working[9] | 436 | 2.1% | 664 | 3.1% | -34% | | |
| Category 13 | Downstream leased assets | | 36 | 0.2% | 40 | 0.2% | -11% | 4.00 | 4.00 |
| **Total Scope 3 category 1-14** | | | **21,127** | **100%** | **21,723** | **100%** | **-3%** | **4.89** | **4.95** |
| Subject to voluntary offsetting | | | (640) | 3% | (509) | 2% | 26% | | |
| **Net outturn** | | | **20,487** | **–** | **21,214** | **–** | **-3%** | | |

## Scope 3 categories 1, 2 and 4

The goods and services that we purchase continue to account for most of our Scope 3 operational emissions (92%). We have used a spend-based methodology to calculate these emissions, multiplying our annual spend per supplier by average sectoral emission factors derived from the Quantis Scope 3 evaluator tool. Most of these emissions (78%) are attributed to goods and services purchased from our top 50 suppliers by spend. Throughout 2023, we have started the process of engaging with these suppliers to better understand their emissions footprint and carbon reduction plans. We are utilising the EcoVadis sustainability platform to support this and enhance our supplier due diligence processes. Activity will continue in 2024 as we work with our suppliers to meet emissions reduction targets and improve data quality and reporting. We have also embedded climate factors into procurement processes for new goods and services, including introducing contractual requirements for suppliers to set and meet near term net zero targets by 2030.

8 A data score has been applied to each category based on the principles of the PCAF standard (1= highest data quality; 5 = lowest data quality).
9 Emissions categories that are subject to voluntary carbon offsetting. Employee commuting and home working includes home working element only.
10 Values for 2021 have been re-baselined following a change in the calculation methodology.

### Scope 3 category 7

During 2023, we conducted a survey with our colleagues to more accurately assess our Scope 3 emissions from employee commuting and homeworking and identify opportunities to reduce them. As a result of this methodology change, we have re-baselined our 2021 emissions for this category resulting in a 49% reduction versus our previous disclosures.

### Scope 3 operational target

During 2023, we have set a new target to reduce our absolute Scope 3 operational emissions by 25% by 2030 from a 2021 base-year, which aligns with principles of the SBTi and a well-below 2°C temperature pathway.

**25% by 2030**

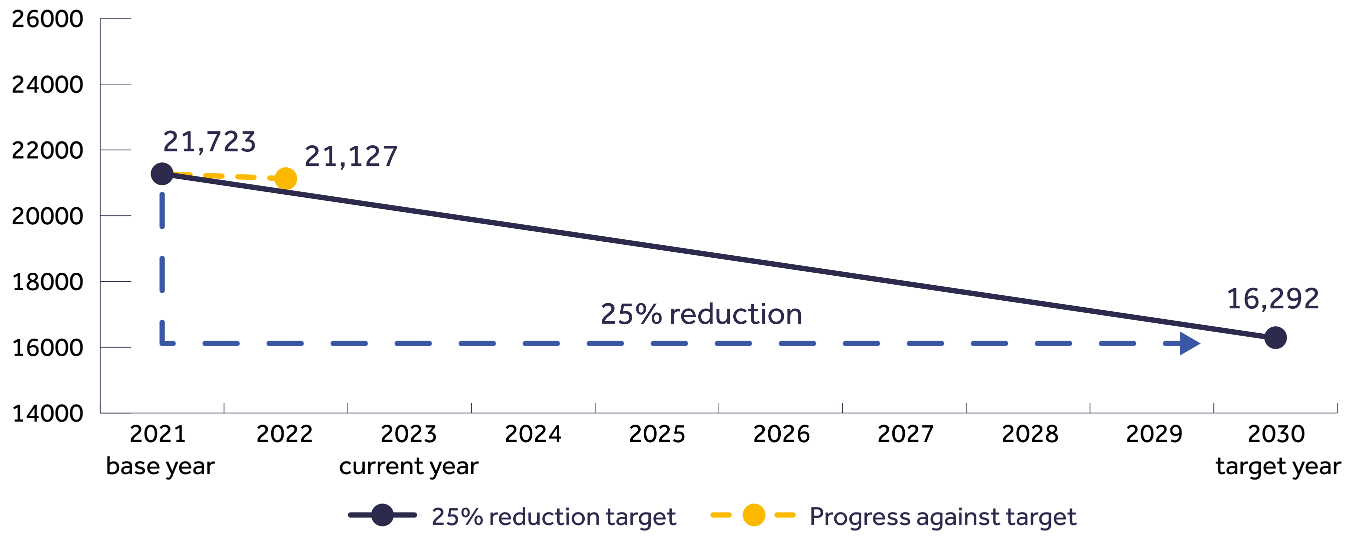
Reduce our absolute Scope 3 operational emissions (categories 1-14) by 25% by 2030, from a 2021 base year.

### Progress against our Scope 3 operational target

In 2022 (the most recent data point available), our operational emissions reduced 2.7% versus our 2021 base year to 21,127 tCo2e, which is marginally behind the required c2.8% p.a. SBTi reduction pathway. The reduction was predominantly driven by lower capital expenditure during 2022 and lower supplier emission factors due to inflation adjustments. Emissions from business travel increased 65% during 2022, due to growth in the number of colleagues and a return to pre-Covid pandemic working patterns.

**Summary of progress against our Scope 3 operational target**

| Scope 3 emissions Categories 1-14 | |
|---|---|
| Absolute emissions - 2021 Base Year (tCo2e) | 21,723 |
| Absolute emissions - 2022 (tCo2e) | 21,127 |
| **2022 % change vs base year** | **-2.7%** |
| **2022 target % reduction vs base year** | **-2.8%** |
| Status | Behind |




### Scope 3 operational emissions transition plan milestones, assumptions and dependencies

The key actions that will be required over the remainder of the next decade to achieve our near-term Scope 3 operational emissions reduction target by 2030 are summarised overleaf. We expect that emissions will continue to trend close to the target pathway in the coming years but many of the actions are outside our direct control and will require close collaboration from several stakeholders, including our suppliers, colleagues, and the Government. Progress will be heavily dependent on our ability to replace current average supplier emission factors with actual data and more of our suppliers setting and achieving their own reduction targets. Currently, 48% of our top 50 suppliers have either set or have committed to setting an SBTi near-term target but we expect this number to increase as focus on climate ambitions increases.

### Scope 3 operational emissions reduction plan, assumptions and dependencies

**Control:** ● = Low ● = Medium ● = High ● = Complete **Confidence:** ◆ = Low ◆ = Medium ◆ = High

2021
Base year

2030
Target year

2021 2022 2023 2024 2025 2026 2027 2028 2029 2030

**2022**
C Measured and baselined our Scope 3 emissions.

**2023**
C Engaged with top 50 suppliers and enhanced calculation of emissions for business travel and commuting.

**2024-2025**
M M Enhance calculation of emissions and data quality for suppliers and mortgage brokers.
H H Engagement with colleagues to educate and encourage green choices.

**2024-2030**
L M Continue engagement with suppliers leading to top 50 setting and achieving verified near term SBTi targets by 2030.
M M Reduce operational waste (including paper, rubbish and IT consumables) by 2% p.a.
M H Downstream leased assets decarbonise in line with our branch refurbishment programme.
M M Petrol / diesel cars replaced by electric vehicles for 50% of existing business travel car journeys.

## Section 4.1.4 - Scope 3 category 15: residential mortgages

Using the methodology prescribed by Partnership for Carbon Accounting Financials (PCAF), the Society has calculated the Scope 3 category 15 emissions from the UK residential mortgaged properties that we financed at 31 December 2022.

### PCAF methodology for calculating financed emissions

**Financed emissions** = ∑ **Attribution factor** X **building emissions**

Emissions attributed to the Society based on:

$$\frac{\textbf{outstanding loan amount}}{\textbf{property value at origination}}$$

Property emissions calculated based on:

**energy consumption X**
**emissions factor (EF)**

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

- All UK residential mortgages on the Society's balance sheet as at the reference date of 31 December 2022 have been included in the calculation.
- The outstanding loan balance as at the reference date has been used, including the balance of any further advances on these properties, divided by the original property valuation.
- Property level EPC reports have been used to estimate energy consumption for properties and therefore our calculation excludes unregulated emissions (for example, emissions linked to the charging of an electric vehicle). We believe that this approach gives a more accurate view of the emissions directly associated with the properties that we are financing.
- Where an EPC report is not available or is more than 10 years old and no longer valid (40% of the Society's properties), a proxy for estimated emissions has been applied using the average of the Society's actual EPC data (as at 31 December 2022).
- Point in time emission factors for gas and electricity have been used (2012, based on the current EPC SAP methodology).

Using the PCAF standard, a data score of 3.54 (2021: 3.56) has been attributed to our Scope 3 financed emissions, reflective of the high proportion of estimated data used in the emissions calculation. This is an industry-wide issue, but we expect the score to improve over time as data availability continues to mature.

### Scope 3 category 15 ambition

We recognise that emissions from the residential mortgages that we finance are significant and make up the largest proportion of our total emissions footprint. As part of our overall strategic aim to support an orderly and equitable transition to net zero by 2050 we have agreed an ambition to align our category 15 emissions with a near term science-based reduction pathway over the next decade. In line with the SBTi's current requirements for financial institutions, a Sectoral Decarbonisation Approach (SDA) well-below 2°C scenario (IEA ETP B2DS) would require us to reduce the physical intensity of our attributed residential mortgage emissions 45% by 2030 from a 2021 base year (equivalent to a reduction in absolute attributed emissions of 33%).

**45% by 2030**

Ambition to reduce the intensity of our Scope 3 financed emissions (category 15) from our residential mortgage book 45% by 2030 from a 2021 base year.

Achieving our ambition will be extremely challenging and we won't be able to do it alone. There continues to be a number of key gaps in Government policy required to deliver low-carbon greener homes in an equitable way ensuring nobody is unfairly disadvantaged or left behind. As a mutual, our aim is to avoid, where possible, taking any actions that may compromise a fair and orderly net zero transition, including setting targets that may lead to restrictions on finance for less energy efficient homes where it is not practical, cost-effective, or affordable for borrowers to meet net zero standards.

Our focus in the coming years will be on developing our green financial products and partnerships to support members in decarbonising their home, enhancing our measurement and reporting of category 15 emissions as data processes mature, and engaging with Government and industry bodies to ensure remaining net zero policy gaps are addressed.

## Progress against our Scope 3 category 15 ambition

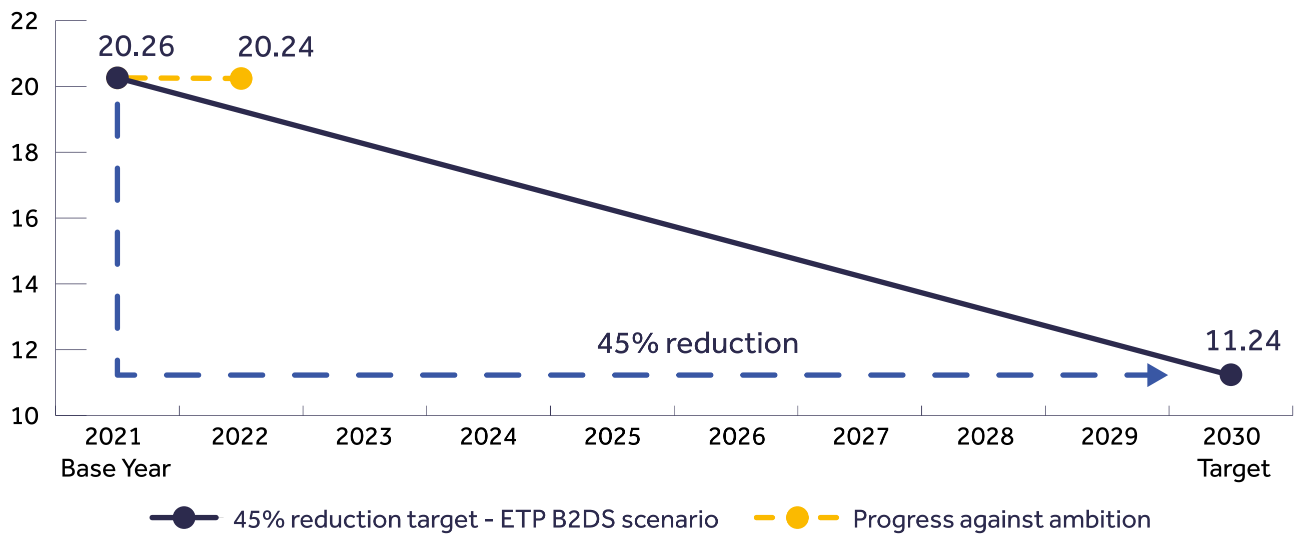
In 2022 (the most recent data point available), our financed emissions from residential mortgages reduced 0.1% versus our 2021 base year to 20.24 kgCO2e/m2/year, predominantly driven by lower average LTV of lending in 2022 and an improvement in the proportion of more energy efficient properties on the book (52.8% with an EPC rating of A-C versus 52.3% in 2021). This is behind the required emissions reduction of approximately 5% in 2022 to align with an SBTi pathway. We expect that these emissions will continue to trend above this pathway in the coming years until current barriers to greening the UK house stock are resolved.

**Scope 3 financed emissions for our mortgage portfolio[11] at 31 December 2022**

| Scope 3 category 15 emissions | Current position | Base year |
|---|---|---|
| | 31 December 2022 | 31 December 2021 |
| Total mortgaged properties | 181,082 | 168,731 |
| Total mortgage lending | £20.45 bn | £18.43 bn |
| % of properties with a valid EPC | 61% | 62% |
| PCAF data score | 3.54 | 3.56 |
| **Absolute financed emissions (tCO2e/year)** | **311,031** | **290,493** |
| **Physical emissions intensity (kgCO2e/m2/year)** | **20.24** | **20.26** |
| **Economic emissions intensity (tCO2e/£M lent/year)** | **15.21** | **15.76** |

**Progress against our 45% Scope 3 category 15 ambition**

| Scope 3 category 15 Emissions | |
|---|---|
| Physical emissions intensity - 2021 base year (kgCO2e/m2/year) | 20.26 |
| Physical emissions intensity - 2022 (kgCO2e/m2/year) | 20.24 |
| **2022 % change vs base year** | **-0.1%** |
| **2022 ambition % reduction vs base year** | **-5.0%** |
| Status | Behind |




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

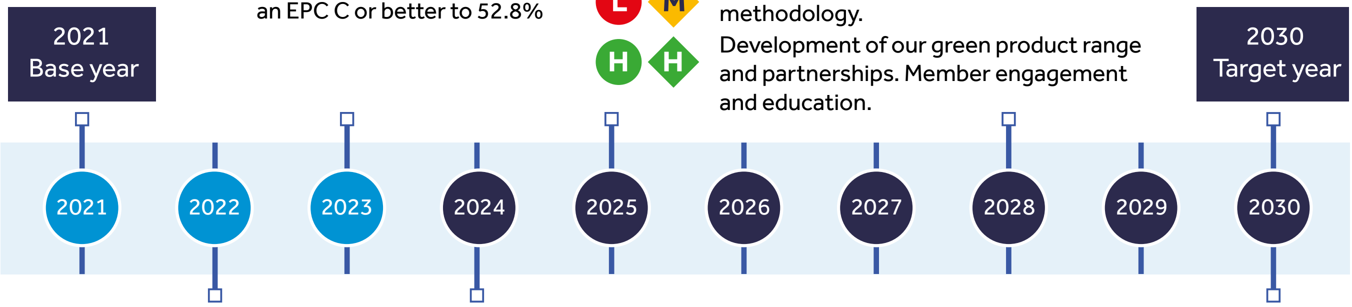
## Scope 3 category 15 transition plan milestones, assumptions and dependencies

The key actions that will be required over the remainder of the next decade to achieve our near-term Scope 3 category 15 ambition by 2030 are summarised below.

**Control:** ● = Low ● = Medium ● = High ● = Complete **Confidence:** ◆ = Low ◆ = Medium ◆ = High

**2023**
C Reduced emissions 0.1% and increased proportion of mortgaged properties with an EPC C or better to 52.8%

**2024-2025**
- L M Implementation of the Government's Future Homes Standard.
- L M Government reform of the EPC process and methodology.
- H H Development of our green product range and partnerships. Member engagement and education.




**2022**
C Measured and baselined our Scope 3 emissions.

**2024-2030**
- L L 300,000 net-zero ready new homes built every year in the UK from 2025 to 2030.
- L L All BTL properties in the UK reach an EPC rating of A-C by 2028 (where practical / feasible).
- M M 60% of owner-occupied homes in the UK reach an EPC rating of A-C by 2030. 20k properties complete green retrofit financed by LBS.
- L M Heat pumps replace gas central heating in 2.7 million UK homes by 2030.
- L M UK electricity National Grid decarbonises 80% between 2024 and 2030.

## Section 4.2 – climate risk metrics

### Physical risk

As at 30 June 2023, the Society's UK mortgage portfolio[12] demonstrated a low current and future risk posture for flooding, ground hazards and coastal erosion, under a range of stress scenarios.

**Summary of physical risk metrics as at 30 June 2023**

| | Present day | | | Low emissions scenario (2050s) | | | High emissions scenario (2090s) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Properties | Exposure (£M) | % of book | Properties | Exposure (£M) | % of book | Properties | Exposure (£M) | % of book |
| **Flood risk** | | | | | | | | | |
| **Negligible** | 149,385 | 16,622.9 | 81.2% | 149,717 | 16,660.8 | 84.2% | 149,411 | 16,626.5 | 84.1% |
| **Very Low** | 14,047 | 1,548.6 | 7.6% | 12,833 | 1,435.2 | 7.2% | 11,572 | 1,301.6 | 6.5% |
| **Low** | 3,478 | 403.6 | 1.9% | 3,884 | 435.3 | 2.2% | 3,994 | 435.3 | 2.2% |
| **Moderate** | 2,971 | 325.5 | 1.6% | 3,451 | 371.6 | 1.9% | 3,818 | 410.2 | 2.1% |
| **High** | 4,940 | 545.0 | 2.7% | 4,775 | 528.4 | 2.7% | 5,083 | 559.9 | 2.9% |
| **Very High** | 2,908 | 291.4 | 1.6% | 3,069 | 305.8 | 1.7% | 3,851 | 384.9 | 2.2% |
| **Unmatched** | 6,210 | 780.5 | 3.4% | 6,210 | 780.5 | 3.4% | 6,210 | 780.5 | 3.4% |
| **Coastal erosion** | | | | | | | | | |
| **Negligible** | 171,521 | 19,306.8 | 93.2% | 171,502 | 19,303.4 | 93.2% | 171,435 | 19,295.7 | 93.2% |
| **Low** | 7 | 1.1 | 0.0% | 5 | 0.8 | 0.0% | 3 | 0.4 | 0.0% |
| **Moderate** | 11 | 1.0 | 0.0% | 22 | 3.2 | 0.0% | 38 | 4.4 | 0.0% |
| **Very High** | 5 | 1.1 | 0.0% | 15 | 2.6 | 0.0% | 68 | 9.5 | 0.0% |
| **Unmatched** | 12,395 | 1,207.6 | 6.7% | 12,395 | 1,207.6 | 6.7% | 12,395 | 1,207.6 | 6.7% |
| **Subsidence risk** | | | | | | | | | |
| **Negligible** | 90,764 | 10,233.2 | 49.3% | 89,927 | 10,130.6 | 49.3% | 87,637 | 8,691.6 | 43.0% |
| **Very Low** | 41,994 | 4,693.4 | 22.8% | 38,359 | 4,222.9 | 20.9% | 39,997 | 5,526.6 | 26.2% |
| **Low** | 34,630 | 3,014.9 | 16.4% | 34,630 | 3,579.5 | 18.8% | 35,161 | 3,552.3 | 18.7% |
| **Moderate** | 8,534 | 1,363.7 | 4.6% | 8,584 | 1,370.8 | 4.7% | 8,695 | 1,526.4 | 5.3% |
| **High** | 16 | 2.2 | 0.0% | 16 | 2.2 | 0.0% | 16 | 2.2 | 0.0% |
| **Very High** | 18 | 2.5 | 0.0% | 28 | 4.1 | 0.0% | 38 | 11.0 | 0.0% |
| **Unmatched** | 12,395 | 1,207.6 | 6.7% | 12,395 | 1,207.6 | 6.7% | 12,395 | 1,207.6 | 6.7% |

Notes:

1. Unmatched refers to properties where we have been unable to source physical risk data.
2. Low emissions scenario equates to a 1.8°c increase in global temperatures by 2050s. High emissions scenario equates to a 3.3°c increase in temperatures by 2090s.

12 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.

## 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 report.

EPC ratings for our UK mortgage portfolio are monitored to provide an overall view of the energy efficiency (and potential emissions) of our mortgaged properties and transition risk impacts from potential future changes to Government policy. The table below presents the current and potential EPC profile of our UK residential mortgage portfolio as at 30 June 2023.

**Summary of EPC ratings for our mortgage portfolio as at 30 June 2023**

| | Current EPC rating | | | Potential EPC rating | | |
|---|---|---|---|---|---|---|
| EPC rating | Total mortgage book | Owner-occupied | Buy to let | Total mortgage book | Owner-occupied | Buy to let |
| A | 0.5% | 0.6% | 0.1% | 21.6% | 30.0% | 4.3% |
| B | 29.8% | 41.1% | 6.7% | 54.8% | 51.3% | 62.0% |
| C | 25.1% | 19.7% | 36.1% | 21.8% | 17.1% | 31.3% |
| D | 33.0% | 27.8% | 43.7% | 1.6% | 1.3% | 2.3% |
| E | 9.9% | 8.8% | 12.4% | 0.2% | 0.2% | 0.2% |
| F | 1.4% | 1.7% | 0.9% | 0.0% | 0.0% | 0.0% |
| G | 0.3% | 0.4% | 0.2% | 0.0% | 0.0% | 0.0% |
| Average | C | C | D | B | B | B |

Overall, 60% of the Society's total UK mortgage portfolio was matched with a valid EPC[13] (2022: 57%). Of those properties, 52.8% had a current EPC rating of A to C (2022: 52.3%). The average rating for the total portfolio with a valid and matched EPC was C (compared to a UK average of D[14]). Based on potential EPC ratings, 98% could reach C or better and the average for the total portfolio would increase to B.

## Other climate-related metrics

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

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

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

# Non-Financial and Sustainability Information Statement

## Year ended 31 December 2023

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

- Our business model is described on page 10 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 48 to 82. Further details of some of the actions already undertaken as part of our responsible business strategy are set out in our Purpose Impact Report.
- Our Colleague Policy is designed to ensure the fair, transparent and consistent treatment of colleagues in accordance with legislative and regulatory requirements. Further information on our strategy in relation to colleagues is detailed on pages 15 to 18.
- We have a zero tolerance approach to bribery and corruption, upholding ethical behaviours in our business activities at all times. The Prevention of Financial Crime Policy sets out the requirements of colleagues in this respect and all colleagues undertake regular mandatory training.
- Additionally, our Third Party Management Policy ensures that we only enter into third party arrangements with suppliers that have the policies and procedures in place to comply with all applicable anti-bribery and corruption laws, including the Bribery Act 2010 and the Modern Slavery Act.

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

### Approval of the Strategic Report

This Strategic Report (on pages 3 to 83) has been approved by the board of directors and is signed on behalf of the board.

**Andrew Conroy**
**Chief Financial Officer**

22 February 2024

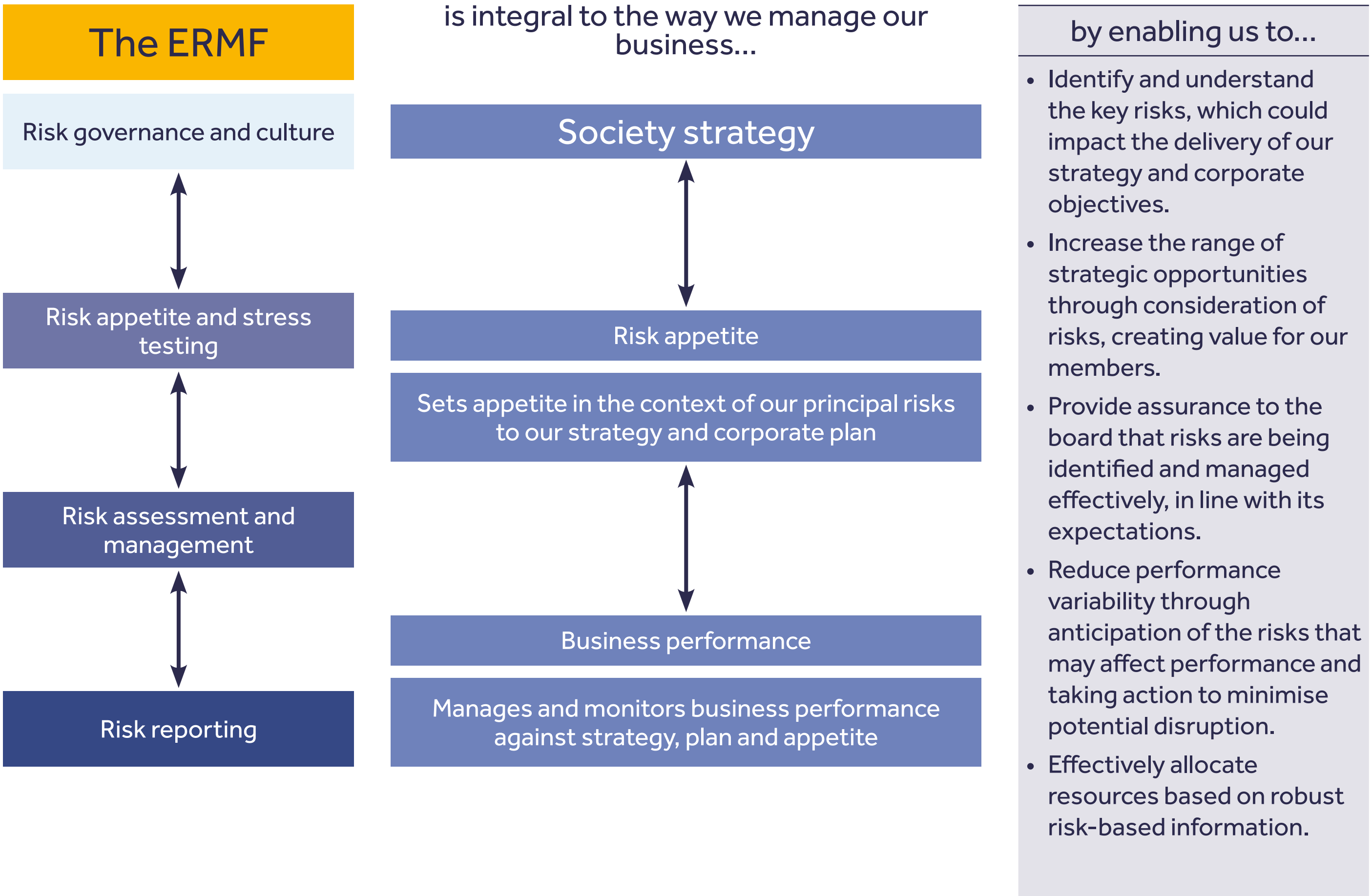
# Risk Management Report

# Approach to Risk Management

## Year ended 31 December 2023

### Approach to risk management

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




The main components of the ERMF are outlined below:

### Risk governance and culture

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

#### Committee structure

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

BRC provides independent oversight of the effective management of risks, on behalf of the board, which is supported by five Executive Risk Committees, each focusing on a particular risk discipline. These committees are decision making in nature and operate within delegated mandates and limits provided by the board / BRC. Our committee structure as at the year end is set out overleaf:

### Board

**Chair: Iain Cornish**

- Safeguarding members' interests.
- Ensures robust risk management systems and internal controls are in place.
- Setting risk appetite.
- Leading, developing and implementing the Society's culture.

#### Remuneration Committee

**Chair: Annette Barnes**

- Ensures remuneration policies, principles and practices support the long term interests of the Society.

#### Board Risk Committee

**Chair: Neil Fuller**

- Reviews the Society's risk exposures and oversees the ERMF.
- Reviews strategic risk appetite and the Society's ICAAP, ILAAP and RRP prior to board approval.

#### Audit Committee

**Chair: Gareth Hoskin**

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

#### Nominations Committee

**Chair: Iain Cornish**

- Reviews the structure, size, diversity and composition of the board.
- Oversees succession planning and identifies candidates to fill board vacancies.

#### Models and Rating System Committee

**Chair: Andrew Greenwood**

- Supports BRC in relation to model risk matters and maintenance of the IRB Rating System.

#### Assets and Liabilities Committee

**Chair: Andrew Conroy**

- Supports BRC in relation to balance sheet risk matters.

#### Credit Committee

**Chair: Andy Moody**

- Supports BRC in relation to lending related matters.

#### Conduct and Operational Risk Committee

**Chair: Parveen Kaur**

- Supports BRC in overseeing the implementation of Consumer Duty operational risk matters.

#### Operational Resilience Committee

**Chair: Rob Howse**

- Supports BRC in relation to operational resilience matters.

## Policies and delegated authorities

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

| Delegation route | Summary |
|---|---|
| **1. Corporate plan** | The board approves a corporate plan annually, subsequent to the setting of risk appetite, which provides the parameters within which management should operate. |
| **2. Policy framework** | We operate a tiered policy framework, through which mandates and limits are delegated to management. Our policies are reviewed on an annual basis (or as appropriate), by relevant committees. |
| **3. Delegated Authorities Manual** | The Delegated Authorities Manual is designed to facilitate the effective discharge of responsibilities and continuity of operations within a sound system of financial, operational and budgetary control. It is reviewed by the board annually. |

### Three lines of defence model and the risk division

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

| First line (business lines) | Second line (risk division) | Third line (Internal Audit) |
|---|---|---|
| • Executing strategy.<br>• Identifying and managing risks.<br>• Adhering to appetite, policies and standards.<br>• Implementing and maintaining regulatory compliance.<br>• Identifying emerging risks. | • Oversight of day to day activities of the first line.<br>• Maintenance of the ERMF.<br>• Coordination and oversight of the setting of risk appetite.<br>• Policy co–ordination.<br>• Identifying emerging risks.<br>• Enterprise risk reporting.<br>• Independent risk–based assurance plans. | • Independent risk–based assurance of the adequacy and effectiveness of first and second line risk management. |

The risk division is independent from the operational business divisions and ensures we follow a consistent approach to risk management. It is led by the CRO, who reports directly to the Deputy Chief Executive Officer (DCEO), with separate independent engagement with the Chair of the BRC. The risk division comprises specialist teams, aligned to key risk disciplines, which provide oversight and independent challenge of first line activities.

### Risk culture

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

- **Tone from the top and desired behaviours** – the board and senior leadership team are expected to demonstrate our behaviours to set the tone for all colleagues.
- **Accountability** – to support the delivery of our strategy and business objectives, individuals at all levels are held accountable for risk management.
- **Effective communication** – an environment of open and transparent communication is encouraged around all business processes and decision making.
- **Incentives and performance management** – appropriate incentive schemes and other HR frameworks are operated to promote and align with the desired risk culture.

## Risk appetite and stress testing

### Risk appetite framework

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

The board defines SRA across our eight principal risks and it is reviewed on an annual basis. Performance against appetite is monitored continually and we have developed appropriate early warning indicators and escalation procedures to anticipate and respond to risk profile changes. SRA metrics are used in corporate planning and stress testing to measure and validate our long-term viability, under both plausible and severe scenarios.

## Stress testing

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

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

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

Increasing severity

| Activity | Description |
|---|---|
| Corporate and operational resilience planning | Sensitivity analysis and a suite of alternative scenarios are used to assess the corporate plan under a range of plausible stresses. Operational resilience stressing is an embedded part of corporate planning. |
| Prudential risk assessments | ICAAP – an internal assessment of whether we have sufficient capital, given current risks, as well as future risks from our strategy, under conditions as set out by the board / PRA.<br>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 56 to 58 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. Using a combination of strategic and business process reporting to understand the current or potential risk profile of the business, which may impact the delivery of our strategy and corporate objectives. These reporting processes are conducted at an appropriate frequency and are co-ordinated by the risk division.

# Principal Risks

## Year ended 31 December 2023

## 1. Credit risk

### Definition

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

### Sources of credit risk

The Society's sources of credit risk arise from loans and advances to customers (retail credit risk) and through treasury activities from the investment of liquidity and use of derivatives to manage market risks (wholesale credit risk). The table below presents an overview of the Society's credit risk profile as at 31 December 2023:

| | Group 2023 £M | Group 2023 % | Group 2022 £M | Group 2022 % |
|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | **2,830.0** | **10.1** | 2,958.1 | 11.5 |
| Loans and advances to credit institutions | **213.7** | **0.8** | 235.9 | 0.9 |
| Investment securities | **2,515.6** | **9.0** | 1,386.7 | 5.4 |
| Derivative financial instruments | **443.6** | **1.6** | 679.9 | 2.6 |
| Loans and advances to customers | **21,941.2** | **78.5** | 20,493.2 | 79.6 |
| **Total** | **27,944.1** | **100.0** | 25,753.8 | 100.0 |

The Society has non-material legacy commercial (2023: £6.0 million; 2022: £8.6 million) and Spanish residential mortgage (2023: £45.3 million; 2022: £55.7 million) portfolios, which are closed portfolios in active run-off. On that basis, the following sections focus primarily upon UK residential and wholesale credit exposures and practices.

## 1.1 Retail credit risk

### Managing retail credit risk

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

- A board defined appetite is approved at least annually, supported by the Credit Risk policy, limit frameworks and management reporting.
- Performance is continually reviewed against appetite and adherence with policy limits.
- The Society's underwriting processes use a range of tools including credit scoring models, affordability stress testing, automated decisioning and suitably qualified underwriters in assessing mortgage applications. Underwriting processes are kept under close review to ensure they reflect risks in the prevailing environment.
- Independent appraisal of collateral is completed, such as valuations.
- A dedicated mortgage support function engages with members at an early stage to discuss financial difficulties.
- Oversight of the Society's lending portfolios is provided by a dedicated second line credit risk team.
- Stress testing is completed to assess vulnerabilities within credit portfolios and informs pre-emptive actions.
- Benchmarking of credit controls and performance is regularly completed.

### Monitoring retail credit risk

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

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

## Retail credit risk profile

The table below is a breakdown of the Society's retail credit portfolio as at 31 December 2023. The portfolio remains diversified across a number of segments with no significant change in the mix compared to the prior year.

| | **Group and Society 2023 £M** | Group and Society 2022 £M |
|---|---|---|
| Residential mortgages | | |
| Mainstream owner-occupied | **10,960.7** | 9,387.8 |
| Buy to let | **5,454.6** | 5,827.7 |
| Shared ownership | **2,964.0** | 2,509.5 |
| Other | **2,457.1** | 2,647.3 |
| Collateral loan which represents a pool of equity release mortgages | **153.9** | 155.4 |
| **Total gross exposure (contractual amounts)** | **21,990.3** | 20,527.7 |
| Impairment loss provisions | **(53.5)** | (48.0) |
| Fair value adjustments | **(0.3)** | 6.5 |
| **Total net exposure** | **21,936.5** | 20,486.2 |

## Geographic concentration

The table below provides a breakdown of the geographic concentration of the Society's retail credit portfolio as at 31 December 2023. The Society's mortgage portfolio remains well diversified, reflecting the national coverage of our distribution channels.

| | **Group and Society 2023 %** | Group and Society 2022 % |
|---|---|---|
| South East | **15.7** | 15.2 |
| Midlands | **15.0** | 14.7 |
| Greater London | **12.7** | 13.0 |
| East of England | **10.0** | 9.9 |
| South West | **9.9** | 10.0 |
| North West | **9.7** | 9.5 |
| Yorkshire and Humberside | **8.8** | 8.9 |
| Scotland | **7.8** | 8.1 |
| North East | **3.9** | 3.9 |
| Wales | **3.5** | 3.6 |
| Northern Ireland | **2.8** | 2.8 |
| Spain | **0.2** | 0.3 |
| Other | **–** | 0.1 |
| **Total net exposure** | **100.0** | 100.0 |

## Collateral

Retail mortgages are all fully secured on residential property. Collateral values are assessed at the point of origination and in line with the Society's lending policy. The Society requires collateral to be valued by an appropriately qualified method, independent of both the credit decisioning team and the customer, at the time of borrowing. This includes the selected use of automated valuation models. These are developed on market data and usage is subject to accuracy and criteria thresholds.

One of the key indicators of the credit risk associated with a mortgage book is the relationship between the amount of the loan and the value of the underlying security. 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 Society'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. Higher LTV lending is subject to enhanced underwriting criteria.

The indexed LTV analysis of the Society's retail mortgage portfolio as at 31 December 2023 is as follows:

| | **Group and Society 2023 £M** | **Group and Society 2023 %** | Group and Society 2022 £M | Group and Society 2022 % |
|---|---|---|---|---|
| Less than 10% | **218.4** | **1.0** | 225.0 | 1.1 |
| 10% to 20% | **1,016.6** | **4.7** | 1,042.9 | 5.1 |
| 20% to 30% | **2,264.2** | **10.4** | 2,240.3 | 11.0 |
| 30% to 40% | **3,379.9** | **15.5** | 3,498.4 | 17.2 |
| 40% to 50% | **4,104.2** | **18.8** | 4,147.6 | 20.2 |
| 50% to 60% | **3,460.4** | **15.8** | 3,395.8 | 16.7 |
| 60% to 70% | **2,993.1** | **13.7** | 2,701.3 | 13.3 |
| 70% to 80% | **2,138.8** | **9.8** | 1,705.6 | 8.4 |
| 80% to 90% | **1,820.2** | **8.3** | 1,220.2 | 6.0 |
| 90% to 100% | **437.7** | **2.0** | 191.5 | 0.9 |
| More than 100% | **2.9** | **–** | 3.7 | 0.1 |
| **Total** | **21,836.4** | **100.0** | 20,372.3 | 100.0 |

As at 31 December, the overall weighted average loan to value of the retail mortgage portfolio was 51.2% (2022: 48.8%). The weighted average loan to value of new lending in 2023 was 62.3% (2022: 65.1%).

## Retail credit performance

The following table sets out information about the credit quality of the Society's retail mortgages as at 31 December 2023[1]. Classification into low, medium or high risk bandings is based on internal rating grades, which approximately translate into the Internal Ratings Based (IRB) probabilities of default (PD) shown in the table. An explanation of the classification is detailed below, with further information provided in note 1(e) of the accounts.

- 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.
- 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.
- Stage 3 – assets where there is objective evidence of impairment, meaning they are considered to be in default or in the cure period following default.

Underlying retail credit performance has seen some level of deterioration with a small increase in Stage 2 balances reflecting the risk associated with increased cost of living pressures and the potential rate shock for borrowers reaching fixed term maturity. An increase in Stage 3 balances is a result of an increase in the level of customers falling into arrears. A post model adjustment has been applied to increase the level of provisions held to reflect the increased risks associated with cost of living pressures and rate shocks (see note 2(b) of the accounts).

| **Retail mortgages Group and Society 2023** | | **Stage 1 £M** | **Stage 2 £M** | **Stage 3 £M** | **Total £M** |
|---|---|---|---|---|---|
| Low | IRB PD <2.02% | **16,911.4** | **2,843.4** | **26.9** | **19,781.7** |
| Medium | IRB PD ≥2.02% and <25.97% | **735.7** | **870.1** | **28.0** | **1,633.8** |
| High | IRB PD ≥25.97% | **23.0** | **188.9** | **209.0** | **420.9** |
| Total gross exposure | | **17,670.1** | **3,902.4** | **263.9** | **21,836.4** |
| Impairment loss provision | | **(4.8)** | **(31.9)** | **(16.5)** | **(53.2)** |
| **Net exposure** | | **17,665.3** | **3,870.5** | **247.4** | **21,783.2** |

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

| **Loan commitments Group and Society 2023** | | **Stage 1 £M** | **Stage 2 £M** | **Stage 3 £M** | **Total £M** |
|---|---|---|---|---|---|
| Low | IRB PD <2.02% | **1,244.1** | **–** | **–** | **1,244.1** |
| Medium | IRB PD ≥2.02% and <25.97% | **20.4** | **–** | **–** | **20.4** |
| High | IRB PD ≥25.97% | **4.4** | **–** | **–** | **4.4** |
| Total gross exposure | | **1,268.9** | **–** | **–** | **1,268.9** |
| Impairment loss provision | | **(0.3)** | **–** | **–** | **(0.3)** |
| **Net exposure** | | **1,268.6** | **–** | **–** | **1,268.6** |

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

| Loan commitments Group and Society 2022 | | Stage 1 £M | Stage 2 £M | Stage 3 £M | Total £M |
|---|---|---|---|---|---|
| Low | IRB PD <2.02% | 1,010.6 | – | – | 1,010.6 |
| Medium | IRB PD ≥2.02% and <25.97% | 37.5 | – | – | 37.5 |
| High | IRB PD ≥25.97% | 3.6 | – | – | 3.6 |
| Total gross exposure | | 1,051.7 | – | – | 1,051.7 |
| Impairment loss provision | | (0.2) | – | – | (0.2) |
| Net exposure | | 1,051.5 | – | – | 1,051.5 |

The table below provides further information on the Society's retail mortgages by payment status as at 31 December 2023[2]. Overall, past due balances as a percentage of the portfolio have remained broadly stable, with modest increases in the level of balances in arrears evidenced as a result of continued cost of living challenges.

| | **Group and Society 2023 £M** | **Group and Society 2023 %** | Group and Society 2022 £M | Group and Society 2022 % |
|---|---|---|---|---|
| Not past due | **21,530.9** | **98.7** | 20,122.8 | 98.8 |
| Past due up to 3 months | **172.5** | **0.8** | 136.3 | 0.7 |
| Past due 3 to 6 months | **50.4** | **0.2** | 41.0 | 0.2 |
| Past due 6 to 12 months | **47.8** | **0.2** | 36.6 | 0.2 |
| Past due over 12 months | **25.3** | **0.1** | 29.8 | 0.1 |
| Possessions | **9.5** | **–** | 5.8 | – |
| **Total gross exposure** | **21,836.4** | **100.0** | 20,372.3 | 100.0 |

The table includes £9.5 million (2022: £6.6 million) of loans and advances secured on residential property in Spain that are past due. As at 31 December 2023 £0.8 million Spanish properties were in possession (2022: £0.0 million).

## Forbearance

The Society continues to invest in developing and enhancing its arrears management strategies to minimise credit risk losses, while ensuring that customers are treated fairly. The Society has a wide range of forbearance options, which can be offered to customers in financial distress. Forbearance is intended to support both the customer and the Society and the primary aim of forbearance is to enable a complete recovery of the mortgage through the full repayment of arrears (on sustainable terms) and to minimise the risk of the customer losing their property. Forbearance typically consists of modifications to previous conditions of a contract or a total or partial refinancing of debt, either of which would not have been required had the customer not been experiencing financial difficulties.

2 Excludes impairment loss provisions.

The table below provides further information on loans existing at 31 December 2023, 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.

The level of loans that are reported as in forbearance has seen an overall increase reflecting an increase in arrears balances in 2023. Increases in forbearance balances have largely been seen within 'Other payment arrangements' predominantly through appropriate rate reduction products where customers are experiencing hardship, as the Society continues to support customers through financial difficulties.

| **Group and Society 2023** | **Capitalisation £M** | **Transfer to interest only £M** | **Term extension £M** | **Other payment arrangements £M** | **Total forbearance £M** |
|---|---|---|---|---|---|
| Not past due | **6.3** | **11.4** | **26.8** | **18.1** | **62.6** |
| Past due up to 3 months | **4.2** | **4.3** | **3.5** | **6.7** | **18.7** |
| Past due over 3 months | **6.3** | **3.5** | **3.6** | **22.7** | **36.1** |
| **Total forbearance** | **16.8** | **19.2** | **33.9** | **47.5** | **117.4** |

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

### Retail credit risk outlook

Uncertain macroeconomic conditions and affordability challenges are expected to result in a heightened credit risk profile, due to an increasing number of borrowers in financial difficulty. Increases in arrears are currently well within previous forecasts.

Management will continue to closely monitor the performance of the Society's lending portfolios and the appropriateness of credit appetite and policies versus prevailing conditions.

## 1.2 Wholesale credit risk

Overall, the Society has a low appetite for wholesale credit risk, with exposures restricted to high quality counterparties with a low risk of failure.

### Managing wholesale credit risk

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

- A board defined appetite is approved, supported by the Wholesale Credit Policy, limit frameworks and management reporting.
- 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 continuously by a dedicated first line team, with oversight provided by the risk division.
- Daily exchange of collateral and other netting arrangements for derivative exposures.

### Monitoring wholesale credit risk

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

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

## Wholesale credit risk profile

### Credit ratings

The Society's liquidity portfolio is comprised of cash reserves at the Bank of England, loans and advances to credit institutions and debt securities. An assessment of the wholesale credit profile of the liquidity portfolio, based upon external credit ratings[3], is outlined in the table below. As at 31 December 2023, circa 100% of the portfolio was rated as A- or above (2022: 100%).

| Group 2023 | Aaa £M | Aa1–Aa3 £M | A1–A3 £M | Unrated £M | Total £M |
|---|---|---|---|---|---|
| Cash in hand and balances with the Bank of England | – | 2,830.0 | – | – | 2,830.0 |
| Loans and advances to credit institutions | – | 77.8 | 135.9 | – | 213.7 |
| Investment securities | | | | | |
| UK Government securities | – | 965.3 | – | – | 965.3 |
| Government agency debt | 82.0 | – | – | – | 82.0 |
| Supranational bonds | 180.6 | – | – | – | 180.6 |
| Covered bonds | 749.4 | – | – | – | 749.4 |
| Residential mortgage backed securities | 362.9 | – | – | – | 362.9 |
| Certificates of deposit | – | 24.9 | 150.5 | – | 175.4 |
| **Total liquid assets** | 1,374.9 | 3,898.0 | 286.4 | – | 5,559.3 |
| | 24.7% | 70.1% | 5.2% | – | 100.0% |

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

## Geographic concentration

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

| | Group 2023 £M | Group 2023 % | Group 2022 £M | Group 2022 % |
|---|---|---|---|---|
| United Kingdom | 5,020.9 | 90.4 | 4,221.2 | 92.3 |
| Canada | 161.7 | 2.9 | 79.1 | 1.7 |
| Australia | 99.3 | 1.9 | 25.0 | 0.5 |
| Germany | 47.1 | 0.8 | 104.4 | 2.3 |
| Finland | 24.9 | 0.4 | – | – |
| Netherlands | 24.8 | 0.4 | 25.0 | 0.5 |
| United States | 19.1 | 0.3 | – | – |
| Global Supranational | 131.8 | 2.4 | 90.4 | 2.0 |
| European Supranational | – | – | 6.8 | 0.1 |
| Asian Supranational | 29.7 | 0.5 | 28.8 | 0.6 |
| **Total liquid assets** | 5,559.3 | 100.0 | 4,580.7 | 100.0 |

3 The lower of either Fitch or Moody's.

## Wholesale credit impairments

The Society's accounting policy for the calculation of impairment on liquid assets is detailed in note 1(e). All liquid assets were classified as at Stage 1 throughout the reporting period, and as such, no impairment loss provision is considered necessary for these assets.

## Collateral

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

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

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

| Group 2023 | Gross amounts[4] £M | Master netting agreements £M | Cash collateral £M | Net amount £M |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments | **443.6** | **(200.7)** | **(267.7)** | **(24.8)** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **233.0** | **(200.7)** | **(32.7)** | **(0.4)** |

| Society 2023 | Gross amounts[4] £M | Master netting agreements £M | Cash collateral £M | Net amount £M |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments | **443.6** | **(200.7)** | **(267.7)** | **(24.8)** |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **232.8** | **(200.7)** | **(15.9)** | **16.2** |

| Group 2022 | Gross amounts[4] £M | Master netting agreements £M | Cash collateral £M | Net amount £M |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments | 679.9 | (199.8) | (493.6) | (13.5) |
| **Financial liabilities** | | | | |
| Derivative financial instruments | 251.9 | (199.8) | (26.9) | 25.2 |

| Society 2022 | Gross amounts[4] £M | Master netting agreements £M | Cash collateral £M | Net amount £M |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments | 679.5 | (199.8) | (493.6) | (13.9) |
| **Financial liabilities** | | | | |
| Derivative financial instruments | 237.2 | (199.8) | (26.9) | 10.5 |

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

4 As reported in the Statement of Financial Position on page 191.

### Wholesale credit risk outlook

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

## 2. Funding and liquidity risk

### Definition

The Society defines its funding and liquidity risks as follows:

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

### Sources of funding and liquidity risk

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

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

### Managing funding and liquidity risk

The key mitigants in relation to funding and liquidity risk are as follows:

- A board defined appetite is approved, supported by the Funding and Liquidity Policy, limit frameworks and management reporting.
- The Society's liquidity position is monitored on a daily basis by a dedicated first line team, with oversight provided by the risk division.
- An ILAAP assessment is conducted at least annually, to determine the level of liquidity resources required under stressed conditions.
- A portfolio of high quality liquid assets is maintained and regularly tested.
- Access to central bank funding is maintained and regularly tested, through prepositioned collateral.
- Performance versus appetite is reviewed at least weekly and more frequently during times of stress.
- Stress testing and sensitivity analysis is conducted frequently to understand the impact of severe, but plausible scenarios and to inform pre-emptive actions.
- A recovery plan, including a trigger and alert framework, is maintained to identify the emergence of a stress and actions to respond accordingly.

### Monitoring funding and liquidity risk

Our treasury function is responsible for monitoring potential liquidity or funding risks and performance against appetite / limits on a daily basis. Oversight and assurance of liquidity and funding risks is achieved through the three lines of defence model.

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

### 2023 liquidity position

The Society maintained a strong liquidity position throughout 2023. As at 31 December 2023, the Society's Liquidity Coverage Ratio was 227% (2022: 230%), which was considerably above minimum regulatory requirements (100%).

The table below provides an overview of the Society's liquidity portfolio. Our Liquidity Strategy and limit structure ensures that the liquidity portfolio remains appropriately diversified across various instruments and durations. As at 31 December 2023, the Society's liquidity portfolio mainly consisted of cash held at the Bank of England and other high quality assets. Levels of on balance sheet liquidity have increased during the year, providing protection and flexibility in light of the uncertain economic environment. The Society also continues to retain significant levels of off-balance sheet liquidity capacity.

| | **Group and Society 2023 £M** | Group and Society 2022 £M |
|---|---|---|
| Cash in hand and balances with the Bank of England | **2,830.0** | 2,958.1 |
| UK Government securities | **965.3** | 396.7 |
| Other qualifying securities | **1,157.7** | 712.2 |
| **High quality liquid assets** | **4,953.0** | 4,067.0 |
| Other on balance sheet securities | **606.2** | 513.7 |
| **Total** | **5,559.2** | 4,580.7 |

## 2023 funding risk position

As a mutual organisation the Society is predominately funded through retail funding which was 81.4% of the Society's SDLs (shares, deposits and liabilities).

The Society also raises funding via capital markets, through a well-established wholesale franchise, and through access to central bank funding facilities. Our funding strategy and limit structure ensure that the wholesale portfolio remains appropriately diversified across various instruments, currencies, duration and investor types.

The tables below detail the sources of the Society's wholesale funding and their currency. As at 31 December 2023, total wholesale funding stood at £4.7 billion (2022: £5.2 billion), representing 18.6% of total funding. During the year, the Society issued a £350 million securitisation to support our overall funding plan. We also started to repay drawings from the BoE's Term Funding Scheme with additional incentives for SMEs (TFSME).

| | **Group 2023 £M** | **Group 2023 %** | Group 2022 £M | Group 2022 % |
|---|---|---|---|---|
| Deposits from banks | **24.3** | **1%** | 28.4 | 1% |
| Amounts drawn under TFSME | **1,845.0** | **39%** | 2,240.0 | 43% |
| Other deposits and amounts owed to other customers | **169.9** | **4%** | 229.7 | 4% |
| Debt securities in issue: | | | | |
| Certificates of deposit | **–** | **–** | 5.0 | 0% |
| Senior unsecured debts | **315.9** | **7%** | 299.1 | 6% |
| Covered bonds | **2,037.3** | **42%** | 2,296.5 | 44% |
| Residential mortgage backed securities | **355.4** | **7%** | 110.4 | 2% |
| **Total** | **4,785.1** | **100%** | 5,209.1 | 100% |

As at 31 December 2023, 91% of the Society wholesale funding portfolio was denominated in sterling. All euro denominated issuances are converted to sterling using cross currency swaps.

| | **Group Sterling £M** | **Group Euro £M** | **Group Total £M** |
|---|---|---|---|
| Deposits from banks | **24.3** | **–** | **24.3** |
| Amounts drawn under TFSME | **1,845.0** | **–** | **1,845.0** |
| Other deposits and amounts owed to other customers | **169.9** | **–** | **169.9** |
| Debt securities in issue: | | | |
| Certificates of deposit | **–** | **–** | **–** |
| Senior unsecured debts | **315.9** | **–** | **315.9** |
| Covered bonds | **1,610.6** | **426.7** | **2,037.3** |
| Residential mortgage backed securities | **355.4** | **–** | **355.4** |
| **Total as at 31 December 2023** | **4,321.1** | **426.7** | **4,747.8** |
| Total as at 31 December 2022 | 4,785.1 | 424.0 | 5,209.1 |

The expected maturity profile of the Society's wholesale funding portfolio is outlined below, based on the earlier of the first call date or the contractual maturity date. The maturity profile of the portfolio is now concentrated between one and two years, reflective of the Society's outstanding TFSME drawings.

| | Group 2023 £M | Group 2023 % | Group 2022 £M | Group 2022 % |
|---|---|---|---|---|
| Less than one year | 1,009.5 | 21.3% | 507.7 | 9.8% |
| One to two years | 2,062.1 | 43.4% | 1,272.4 | 24.4% |
| Two to five years | 1,676.2 | 35.3% | 3,429.0 | 65.8% |
| More than five years | – | – | – | – |
| **Total** | 4,747.8 | 100.0% | 5,209.1 | 100.0% |

The stability of the Society's overall funding position is assessed through its Net Stable Funding Ratio (NSFR). As at 31 December 2023, the Society's NSFR ratio stood at 143.1% (2022: 139.9%), which is significantly above the regulatory minimum of 100%.

## Maturity profile of financial assets and liabilities

The table below analyses the financial assets and liabilities based on the remaining period between 2023 year end and the contractual maturity date. In practice, the contractual maturity can differ to actual repayments, whereby customer behaviours result in liabilities being held for longer than their contractual maturities and assets repaid earlier or vice versa.

During 2023, contractual liquidity gap mismatches have generally increased in line with balance sheet growth.

| Group 2023 | Repayable on demand £M | Less than 3 months £M | 3 to 12 months £M | 1 to 5 years £M | More than 5 years £M | Total £M |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash in hand and balances with the Bank of England | 2,830.0 | – | – | – | – | 2,830.0 |
| Loans and advances to credit institutions | 213.7 | – | – | – | – | 213.7 |
| Investment securities | – | 403.8 | 709.5 | 947.1 | 455.2 | 2,515.6 |
| Derivative financial instruments | – | 5.7 | 38.2 | 381.5 | 18.2 | 443.6 |
| Loans and advances to customers | | | | | | |
| Loans fully secured on residential property | 6.9 | 23.1 | 43.1 | 684.8 | 21,025.0 | 21,782.9 |
| Other loans | – | 0.5 | – | – | 157.8 | 158.3 |
| Fair value adjustments for hedged risk on loans and advances to customers | – | (0.1) | (0.3) | (4.2) | (127.7) | (132.3) |
| **Total financial assets** | 3,050.6 | 433.0 | 790.5 | 2,009.2 | 21,528.5 | 27,811.8 |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Shares | 5,390.8 | 1,785.2 | 6,694.2 | 6,913.9 | 8.9 | 20,793.0 |
| Fair value adjustment for hedged risk on shares | 8.3 | 2.7 | 10.3 | 10.6 | – | 31.9 |
| Derivative financial instruments | – | 4.0 | 27.5 | 158.9 | 42.6 | 233.0 |
| Amounts owed to credit institutions | – | 2.0 | 418.5 | 1,448.8 | – | 1,869.3 |
| Amounts owed to other customers | – | 119.7 | 42.6 | 7.6 | – | 169.9 |
| Debt securities in issue | – | – | 426.7 | 2,281.9 | – | 2,708.6 |
| Subordinated liabilities | – | – | – | 323.9 | – | 323.9 |
| Subscribed capital | – | – | – | – | 33.0 | 33.0 |
| **Total financial liabilities** | 5,399.1 | 1,913.6 | 7,619.8 | 11,145.6 | 84.5 | 26,162.6 |
| **Net liquidity gap** | (2,348.5) | (1,480.6) | (6,829.3) | (9,136.4) | 21,444.0 | 1,649.2 |

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

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

| **Group 2023** | **Repayable on demand £M** | **Less than 3 months £M** | **3 to 12 months £M** | **1 to 5 years £M** | **More than 5 years £M** | **Total £M** |
|---|---|---|---|---|---|---|
| Shares | **5,390.8** | **1,788.1** | **6,779.0** | **7,300.5** | **9.0** | **21,267.4** |
| Amounts owed to credit institutions | **–** | **2.1** | **436.9** | **1,562.0** | **–** | **2,001.0** |
| Amounts owed to other customers | **–** | **120.5** | **43.9** | **7.9** | **–** | **172.3** |
| Debt securities in issue | **–** | **-** | **428.2** | **2,476.4** | **–** | **2,904.6** |
| Subordinated liabilities | **–** | **2.6** | **2.6** | **337.1** | | **342.3** |
| Subscribed capital | **–** | **1.7** | **2.0** | **14.6** | **102.5** | **120.8** |
| **Total financial liabilities** | **5,390.8** | **1,915.0** | **7,692.6** | **11,698.5** | **111.5** | **26,808.4** |

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

The following table details the Society's contractual maturity for its derivative financial instruments. The table is based on the undiscounted net cash inflows/(outflows) on the derivative instruments, which 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.

| **Group 2023** | **Less than 3 months £M** | **3 to 12 months £M** | **1 to 5 years £M** | **More than 5 years £M** | **Total £M** |
|---|---|---|---|---|---|
| Swap contracts | **58.2** | **174.3** | **275.5** | **2.4** | **510.4** |

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

## Encumbrance

Asset encumbrance occurs where some of the Society's assets are used as collateral to support secured funding or central bank operations. The main sources of the Society's encumbered assets relate to mortgages used to collateralise our covered bond and securitisation programmes and participation in the BoE's central funding schemes. The Society has established an appropriate limit to ensure that collateral is available to support current and future funding requirements under normal and stressed conditions.

Asset encumbrance as at 31 December 2023 is set out in the table below:

| | **Encumbered £M** | **Unencumbered £M** | **Total £M** |
|---|---|---|---|
| Cash and balances with the Bank of England | **–** | **2,830.0** | **2,830.0** |
| Loans and advances to credit institutions | **77.8** | **135.9** | **213.7** |
| Investment securities | **189.8** | **2,325.8** | **2,515.6** |
| Loans and advances to customers | **6,739.4** | **15,201.8** | **21,941.2** |
| Derivative financial instruments | **–** | **443.6** | **443.6** |
| Other assets | **335.0** | **(133.2)** | **201.8** |
| **Total as at 31 December 2023** | **7,342.0** | **20,803.9** | **28,145.9** |
| Total as at 31 December 2022 | 7,453.0 | 18,060.9 | 25,513.9 |

## External credit ratings

During 2023, both Fitch and Moody's affirmed the Society's long and short term credit ratings as well as the outlook. The Society's credit ratings are as follows:

| | **Long term** | **Short term** | **Outlook** | **Date of last credit opinion** |
|---|---|---|---|---|
| Moody's | A3 | P-2 | Stable | June 2023 |
| Fitch | A- | F1 | Stable | October 2023 |

## Outlook

- Funding markets in 2024 present a heightened level of uncertainty due to the expected economic downturn, geopolitical risks and increased competition for retail savings as firms refinance TFSME drawings.
- The Society carries strong levels of on balance sheet liquidity into 2024 and remains well positioned to address any funding and liquidity uncertainty that may arise through a combination of its retail and wholesale franchises.

## 3. Market risk

### Definition

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

### Sources of market risk

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

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

### Managing market risk

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

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

### Monitoring market risk

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

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

### 2023 market risk position

Key developments in relation to market risk during 2023 were as follows:

- Throughout 2023, the Society continued to manage market risk in a structured and disciplined manner, to ensure exposures were identified, measured and managed within the boundaries of risk appetite set by the board.
- The Bank of England further increased interest rates during 2023 from 3.5% to 5.25% in order to address a period of heightened inflation within the UK. The future direction of interest rates and timing of changes remains uncertain.
- The failure of several US banks and Credit Suisse during the first half of 2023 resulted in a period of heightened financial market volatility following concerns of the wider financial stability of the global banking sector.
- In light of market conditions, the Society has retained close oversight of its market risk exposures and product offerings, making adjustments to the balance sheet structure in response to the evolving external environment. This has also been complemented by stress testing and sensitivity analysis to understand the impacts under various interest rate paths.

## Interest rate exposures

The following table provides a summary of the interest rate repricing profile of the Society's assets and liabilities as at 31 December 2023. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. The table takes account of derivative financial instruments whose effect is to alter the interest basis of Society assets and liabilities. The non-interest bearing balances have been included in a separate column.

| Group 2023 | Less than 3 months £M | 3 to 6 months £M | 6 to 12 months £M | 1 to 5 years £M | More than 5 years £M | No specific reprice date £M | Non-interest bearing £M | Total £M |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Liquid assets | 4,536.2 | 713.5 | – | 238.6 | 70.0 | – | 1.0 | 5,559.3 |
| Loans and advances to customers | 3,903.0 | 1,129.4 | 3,216.9 | 13,462.1 | 230.0 | – | (0.2) | 21,941.2 |
| **Total interest bearing assets** | 8,439.2 | 1,842.9 | 3,216.9 | 13,700.7 | 300.0 | – | 0.8 | 27,500.5 |
| Total non–interest bearing assets | – | – | – | – | – | – | 645.4 | 645.4 |
| **Total assets** | 8,439.2 | 1,842.9 | 3,216.9 | 13,700.7 | 300.0 | – | 646.2 | 28,145.9 |
| **Liabilities** | | | | | | | | |
| Shares | 7,176.0 | 1,866.5 | 4,827.7 | 6,913.9 | 8.9 | – | – | 20,793.0 |
| Wholesale funding | 3,528.9 | 43.5 | 466.9 | 707.4 | – | – | 1.1 | 4,747.8 |
| Subordinated liabilities | – | – | – | – | 349.9 | – | (26.0) | 323.9 |
| Subscribed capital | – | – | – | 9.0 | – | 25.0 | (1.0) | 33.0 |
| **Total interest bearing liabilities** | 10,704.9 | 1,910.0 | 5,294.6 | 7,630.3 | 358.8 | 25.0 | (25.9) | 25,897.7 |
| Total non–interest bearing liabilities and equity | – | – | – | – | – | – | 2,248.2 | 2,248.2 |
| **Total liabilities and equity** | 10,704.9 | 1,910.0 | 5,294.6 | 7,630.3 | 358.8 | 25.0 | 2,222.3 | 28,145.9 |
| Effect of derivatives | 2,988.9 | 1,804.8 | 2,066.2 | (6,319.0) | (540.9) | – | – | – |
| **Interest rate sensitivity gap** | 723.2 | 1,737.7 | (11.5) | (248.6) | (599.7) | (25.0) | (1,576.1) | – |

| Group 2022 | Less than 3 months £M | 3 to 6 months £M | 6 to 12 months £M | 1 to 5 years £M | More than 5 years £M | No specific reprice date £M | Non interest bearing £M | Total £M |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Liquid assets | 4,088.5 | 225.0 | 211.8 | 60.1 | – | – | (4.7) | 4,580.7 |
| Loans and advances to customers | 3,813.6 | 1,224.2 | 3,260.5 | 12,213.1 | (5.8) | – | (12.4) | 20,493.2 |
| **Total interest bearing assets** | 7,902.1 | 1,449.2 | 3,472.3 | 12,273.2 | (5.8) | – | (17.1) | 25,073.9 |
| Total non–interest bearing assets | – | – | – | – | – | – | 440.0 | 440.0 |
| Total assets | 7,902.1 | 1,449.2 | 3,472.3 | 12,273.2 | (5.8) | – | 422.9 | 25,513.9 |
| **Liabilities** | | | | | | | | |
| Shares | 5,276.1 | 1,241.3 | 3,982.4 | 6,970.4 | 50.2 | – | – | 17,520.4 |
| Wholesale funding | 4,020.7 | 45.3 | 44.5 | 1,143.7 | – | – | (45.1) | 5,209.1 |
| Subordinated liabilities | – | – | – | – | 349.4 | – | (40.3) | 309.1 |
| Subscribed capital | – | – | – | – | 200.0 | 25.0 | (27.4) | 197.6 |
| **Total interest bearing liabilities** | 9,296.8 | 1,286.6 | 4,026.9 | 8,114.1 | 599.6 | 25.0 | (112.8) | 23,236.2 |
| Total non–interest bearing liabilities and equity | – | – | – | – | – | – | 2,277.7 | 2,277.7 |
| **Total liabilities and equity** | 9,296.8 | 1,286.6 | 4,026.9 | 8,114.1 | 599.6 | 25.0 | 2,164.9 | 25,513.9 |
| Effect of derivatives | 2,717.9 | 453.6 | 469.4 | (3,318.9) | (322.0) | – | – | – |
| **Interest rate sensitivity gap** | 1,323.2 | 616.2 | (85.2) | 840.2 | (927.4) | (25.0) | (1,742.0) | – |

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

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

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

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

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

The following table outlines the impacts against a range of value and earnings-based assessments[5]. At the year end the Society's balance sheet remained positioned so that net interest income would benefit from rising interest rates.

| Group | **+200bps 2023 £M** | +200bps 2022 £M | **-200bps 2023 £M** | -200bps 2022 £M |
|---|---|---|---|---|
| Annual earnings impact | **7.5** | 21.3 | **(5.0)** | (20.8) |
| Market value economic value (including capital) | **30.1** | (27.7) | **(33.3)** | 26.7 |

### Foreign exchange exposures

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

| Group | **Assets 2023 £M** | Assets 2022 £M | **Liabilities 2023 £M** | Liabilities 2022 £M |
|---|---|---|---|---|
| Euro | **420.2** | 431.8 | **422.6** | 430.4 |

At the year end the Society had hedges in place to match 100% of its foreign currency exposures, via the use of cross currency swaps, which offset the impact of foreign exchange fluctuations. Therefore any movement in foreign currency through profit or loss and other equity are minimised. As at 31 December 2023, a 10% movement in the sterling: euro exchange rate would result in a movement of £0.2 million (2022: £1.3 million) in profit or loss or other equity.

## Outlook

- Financial markets are expected to remain volatile in 2024 reflective of the ongoing macroeconomic uncertainty, the forthcoming general election and wider geopolitical risks.
- Management will continue to monitor financial markets and changes in customer behaviour under the prevailing environment and proactively manage the Society's balance sheet to ensure that future earnings and value are protected.

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

## 4. Capital risk

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

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

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

- A board defined appetite is approved, supported by the capital policy and capital strategy, limit frameworks and management reporting.
- Monthly review of performance against appetite is completed.
- An Internal Capital Adequacy Assessment Process (ICAAP) is conducted at least annually, to assess the level of capital required to support current and future business activities.
- The Society's capital position is monitored by a dedicated first line team, with oversight provided by the risk division.
- Stress testing and sensitivity analysis is conducted to understand the impact on the Society's capital position, under a range of severe scenarios.
- A recovery plan is maintained, including actions to generate or preserve capital in response to a severe stress.

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

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

### 2023 performance
Key developments in relation to capital risk during 2023 were as follows:

- Similar to other UK IRB firms, the Society has redeveloped its mortgage IRB model suite to meet new requirements, which has been submitted for regulatory approval. To account for the potential increase in risk weighted assets from transitioning to a new model suite, the Society has applied a post model adjustment to its current IRB rating system. For further details, refer to the Society's 2023 Pillar 3 disclosure, located on our website. Notwithstanding this change, the Society is expected to retain significant headroom over minimum regulatory requirements.
- In July 2023, the Society became subject to MREL end state requirements, which are two times minimum regulatory requirements plus any regulatory buffers. The Society has capital resources in excess of both end-state and transitional requirements and continues to forecast significant headroom moving forward.
- In October 2023, the Society performed a capital optimisation exercise repurchasing £192 million of its outstanding subordinated notes.
- During the second half of 2023, the PRA provided further clarity regarding implementation of the final Basel 3.1 capital rules. The implementation date has been extended by six months to July 2025, with a reduced transition period of four and a half years to ensure full implementation by 1 January 2030. Finalised rules are expected to be published during the first half of 2024. Whilst the detailed impacts will be assessed during 2024, initial assessments suggest that the Society will continue to retain significant headroom over minimum capital requirements.

## Capital position

The following table provides a summary of the Group's capital position as at 31 December 2023. More detailed disclosures can be found in the Pillar 3 disclosures available on our website.

| Unaudited | 2023 £M | 2022 £M |
|---|---|---|
| **Capital resources** | | |
| Common Equity Tier 1 (CET1) capital | **1,508.9** | 1,388.3 |
| Additional Tier 1 capital | **–** | – |
| **Total Tier 1 capital** | **1,508.9** | 1,388.3 |
| Tier 2 capital | **42.9** | 234.6 |
| **Total regulatory capital resources** | **1,551.8** | 1,622.9 |
| Senior non preferred notes | **350.0** | 350.0 |
| **Total MREL eligible resources** | **1,901.8** | 1,972.9 |
| | | |
| **Risk–weighted assets (RWAs)** | **5,355.1** | 4,163.9 |
| | | |
| **CRD V capital ratios**[6] | **%** | % |
| CET1 ratio | **28.2** | 33.3 |
| Total capital ratio | **29.0** | 39.0 |
| Total MREL ratio | **35.5** | 47.4 |
| UK leverage ratio[7] | **6.0** | 6.2 |

During 2023, the Society maintained significant headroom above minimum regulatory requirements under the various requirements of the UK's capital regime. Movements in the Society's key capital ratios during the year are as follows:

- The Society's total capital ratio has reduced to 29.0% from 39.0% mainly due to the application of a post model adjustment to risk weighted assets, which reflects the latest regulatory expectations for IRB capital requirements and the impact of the capital optimisation exercise, as detailed on page 13.
- The leverage ratio has decreased to 6.0% from 6.2% as balance sheet growth outpaced the generation of capital resources.
- Similar to the total capital ratio, the Society's Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio has decreased during the year due to the impact of the post model adjustment to risk-weighted assets and the capital optimisation exercise (2023: 35.5%, 2022: 47.4%).

## Outlook

- The Society is awaiting feedback from the regulator regarding its IRB model submission. Overall, we expect the capital impact of the revised IRB model suite to be broadly in line with the temporary post model adjustment applied to the current IRB Rating System.
- The Society will continue to progress its response to the remaining Basel 3.1 reforms in 2024.
- A sustained period of heightened competition within the Society's key markets may result in reduced levels of net interest margin and capital generation. Management will continue to monitor developments closely and adapt the Society's capital strategy, as appropriate.

# 5. Model risk

## Definition

The risk of incorrect decision making from model errors or the inappropriate use of modelled outputs, leading to financial loss, deterioration in the Society's prudential position, non–compliance with relevant regulations or reputational damage.

6 The capital ratios are calculated as relevant capital divided by risk-weighted assets and the leverage ratio is calculated as Tier 1 capital divided by total exposure (total assets per the prudential group consolidated position subject to some regulatory adjustments).

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

## Sources of model risk

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

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

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

## Managing model risk

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

- Board defined appetite is approved, supported by a model risk policy and standards, which set the Society's minimum requirements in relation 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 on all models within the inventory. This defines the appropriate level of governance, dependent on model materiality rating.
- Model owner reviews are submitted through governance on a cyclical basis, in line with model materiality ratings.
- Models are validated independently prior to implementation and on a cyclical basis, in line with model validation standards and materiality ratings.
- Controls around post model adjustments are defined under the model risk management framework to ensure they are appropriately governed and transparent.
- Annual attestations are completed by model owners to confirm that they have complied with the requirements of the model risk policy.

## Monitoring model risk

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

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

## 2023 performance

Key developments in relation to model risk during 2023 were as follows:

- During 2023, the PRA published finalised policy rules (SS1/23 – model risk management principles for banks), which are designed to support firms in strengthening their policies, procedures and practices to identify, manage and control the risks associated with the use of models. Following publication, the Society conducted a self–assessment against the new rules, with the board approving a plan to effectively address gaps identified ahead of the implementation deadline in May 2024.
- To ensure there is appropriate accountability for model risk management within firms, the new regulations require the appointment of a relevant SMF. The board has appointed the CRO as the Society's SMF holder for model risk management.
- The Society has continued with the development and validation of its IRB rating systems during the year. As part of this process the Society has held regular engagement with the regulatory authorities to ensure its revised model suite is aligned with evolving expectations.
- The changes experienced in the UK economic environment during 2023, such as heightened levels of inflation, the speed and volume of interest rate rises and the implementation of the Mortgage Charter have impacted the performance of some of the Society's models. This has meant that the historical data upon which some models were built have become less representative under current conditions. This is being closely monitored through established governance, and where appropriate, affected models have been updated or a model adjustment applied in order to reflect the prevailing environment.

### Outlook
The Society will continue to enhance its policies and practices to ensure compliance with the finalised regulatory rules ahead of the May 2024 deadline.

We will continue to maintain close oversight of model inputs and outputs under the prevailing external environment to ensure they remain appropriate or are adjusted based on quantitative and qualitative considerations.

## 6. Operational risk

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

### Sources of operational risk
The main drivers of operational risk are classified as follows:

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

### Managing operational risk
The key mitigants for operational risk are as follows:

- A board defined appetite is approved, supported by an appropriate suite of operational risk related policies.
- Monthly review of performance against appetite is completed.
- An Operational Risk Management framework is maintained, 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.
- Oversight of operational risk, controls and incidents is provided by specialist teams within the risk division.
- An operational resilience framework and testing programme is maintained, incorporating business continuity, information technology risk, information security and third party management, to ensure the provision of resilient services to our members.
- A financial crime strategy and policy are maintained which are overseen by a dedicated financial crime prevention team. The financial crime risk and control environment is formally assessed through the annual MLRO report to BRC.
- Stress testing is used as part of the ICAAP to ensure the Society retains sufficient capital for extreme, but plausible, operational risk events.
- Deployment of control frameworks to support the appropriate implementation of Consumer Duty.

### Monitoring operational risk
Day to day operational risk is monitored by first line business functions, including regular critical control testing. Oversight of first line activity is provided by both the second and third lines of defence through monitoring and assurance activity.

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

## 2023 performance

### Operational resilience risk
Throughout 2023 we have continued to evolve the Society's response to the regulatory requirements for both operational resilience and outsourcing and third party management, enhancing the way we assess the resilience of our third party suppliers and ensuring that we can recover our important business services within a timescale which would not cause our members intolerable harm.

### IT risk
The Society continues to invest in its multi–year technology programme to enhance the resilience of systems and increase the ability to deliver better outcomes at a faster pace while being more responsive to external events. Technology improvements through 2023 have supported increases in capacity and tools to support members through our branch and call centre channels, continued to build more sustainable and responsive digital experiences, and enhanced operational efficiency.

### Information security risk
The Society continues to undertake threat assessments to ensure we address the most pertinent information security risks. Delivery of our multi–year security strategy is advancing and strengthening defences around our online and cloud services. This direction is the foundation on which our new systems and growth is being built. Our security focus remains aligned to protecting our information assets against key threats from data breaches through third parties and Ransomware.

### Data risk
Throughout 2023, the Society has continued its investments in the development of capabilities for understanding and managing data. New solutions have been introduced for storing and analysing data, improving resilience, and supporting member services. Development will continue into 2024.

### People risk
Attracting and retaining people with the right skills and capabilities remains a key area of focus to support the delivery of our purpose.

The cost of living crisis will inevitably impact colleagues differently and the Society is committed to providing support through a wide range of wellbeing resources and targeted benefits.

During 2023, the PRA published its expectations regarding inclusion and diversity in a consultation paper. Management has reviewed requirements versus our inclusion and diversity strategy and concluded we are relatively well placed to meet the proposals.

### Change risk
The Society continues to progress an ambitious change agenda for the benefit of its members. Management retains close oversight of our change portfolio through an Executive Transformation Committee and supporting governance and delivery structures, which ensure that change capacity and resources are appropriately prioritised against strategic goals, that risks to the Society from change activity are appropriately managed, and that the Society is able to flex the portfolio in response to external events. During 2023, the Society has appropriately adapted the change portfolio as the external environment has presented challenges and opportunities.

### Financial crime
The financial crime landscape remains challenging, with malicious actors adapting their strategies to identify and exploit vulnerabilities alongside evolving legal and regulatory requirements. Account Takeovers and Authorised Push Payment (APP) fraud remain a key threat to members, with increasingly complex and sophisticated social engineering techniques being employed. In response, the Society's financial crime strategy continues to focus on enhancing analytic and control capabilities, to enable a more responsive model. As well as adapting internal controls in response to the threats it faces, the Society continues to focus on providing customers and colleagues with educational information and training, helping them to better protect themselves against financial crime.

### Third party risk
The Society continues to increase the number of key third parties used to deliver elements of services to members. Material suppliers are identified, and appropriate due diligence is undertaken to gain assurance that they remain capable of maintaining their services to us even in a stressed environment. Additionally we also ensure we have appropriate strategies in place should unplanned events occur.

### Legal and regulatory risk
The Society has a robust process in place for ensuring new regulation is identified and implemented effectively. During 2023, the Society enhanced its processes in response to changes in regulations, including adapting to the new requirements under Consumer Duty and the Mortgage Charter to support better customer outcomes.

### Outlook
The uncertainty in the external political and economic environment experienced during 2023 is expected to continue in 2024. The Society will monitor developments to identify and respond to issues as they emerge and adapt resilience frameworks to ensure we can maintain our services to members. The Society is well placed to manage these changes effectively.

In addition, management will continue to progress the Society's multi-year technology programme, which includes progressing a plan to upgrade our banking platform.

## 7. Conduct risk

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

### Sources of conduct risk
Conduct risk can arise from how we behave and how we carry out our business and will ultimately impact the outcomes customers receive. This can manifest from a number of key areas, including:

- Product and services
- Price and value
- Customer communications and understanding
- Customer support

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

### Monitoring conduct risk
First line colleagues are responsible for managing potential conduct risks through their day to day activities. Oversight of first line activity is provided by both the second and third lines of defence through monitoring and assurance.

CORC and BRC monitor the delivery of good customer outcomes through management information, oversight updates and outputs from the product governance work.

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

- A board defined appetite is approved, supported by the conduct risk policy and frameworks. This is governed through CORC, including monitoring of MI. With the introduction of the Consumer Duty in 2023, the outcomes MI has been further developed and we anticipate this will continue to evolve over time.
- Oversight of first line activity is performed by the first line Quality Monitoring Team, as well as the second and third line of defence, through risk-based monitoring and assurance plans.
- A customer understanding framework is in place to ensure the Society's communications and product literature provide the right information and are clear, transparent and timely.
- A customer support framework ensures support is provided to meets customers' needs at the point of sale and throughout the life of the product, so that customers can use their products as reasonably anticipated and without unreasonable barriers to product changes, switching providers, or making a complaint. This is further supported by vulnerability standards, which outline how we support customers with vulnerability characteristics.
- Customer facing colleagues are suitably trained, with competency regularly assessed. Ongoing coaching and development are in place for all customer facing colleagues.

- All Society processes are written in accordance with regulatory expectations.
- The Society's complaints handling policy and supporting processes ensure complaints are addressed with empathy and sensitivity through a fair and transparent process.

### 2023 performance

In 2023, the Society continued to respond to changing market and customer dynamics, particularly in consideration of rising interest rates and the ongoing cost of living crisis:

- In preparation for its implementation in July 2023, the Society mobilised a project team to meet the FCA's Consumer Duty requirements. This included implementing the principle, rules and outcomes through policy and frameworks; reviews of communications and servicing; journey mapping of the top customer journeys; and enhancements to outcomes monitoring and reporting. Fair value assessments were also carried out on all on sale products, with a review of off-sale products underway in readiness for the FCA's July 2024 deadline.
- The Society signed up to the Mortgage Charter, supporting borrowers concerned by the cost of living and the impact of the higher interest rate environment. This allows them to temporarily switch to interest only repayments or extend their mortgage term, without a new affordability check or impacting their credit file.
- Alongside this, the Society continued its investment in people and systems in the Mortgage Support function, which deals with customers in financial difficulties. The Society also continued not to charge arrears fees throughout 2023.
- Mortgage lending criteria was reviewed regularly to ensure the Society continued to lend responsibly. Stress rates and affordability assessments were monitored and adjusted to support the Society's purposeful lending, whilst also responding to rising interest rates and the cost of living crisis.
- A range of savings products were launched through the year to support customers saving for a home deposit and shared ownership borrowers looking to build savings in order to staircase their mortgage.
- Complaints data published by the FCA for the first half of 2023 ranked the Society fourth best in banking (retail savings products) and eleventh for home finance. Complaint results and root causes were reported to CORC, with an annual summary report to the board. Quality of complaint customer outcomes, as well as root cause analysis to prevent reoccurrence, remained a focus throughout the year and actions are in plan for 2024 to further refine complaints journeys.

### Outlook

- The Society will continue to monitor and respond to any further customer impacts from the cost of living crisis, paying particular attention to the impact on customers in, or facing, financial difficulty.
- Further embedding of the Consumer Duty will be a focus in 2024. This will include completion of the closed book fair value assessments, as well as further development of outcomes monitoring and testing, and supporting customers' needs, including those with vulnerabilities.
- System based changes will continue for savings and mortgages to improve customer outcomes and experience. This includes an ongoing multi–year project to replace our core banking platform.

## 8. Strategic / business risk

### Definition

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

### Sources of strategic / business risk

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

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

### Monitoring strategic / business risk

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

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

### Managing strategic / business risk

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

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

### 2023 performance

During 2023, the Society continued to respond to evolving market conditions and customer dynamics in the context of further interest rate rises and the cost of living crisis:

- Conditions within the Society's operating environment remain challenging, reflective of subdued economic activity, the impact of higher interest rates and the cost of living crisis. The combination of these factors has reduced customer affordability and as a consequence weakened housing market activity.
- Competition in the UK mortgage market gained momentum during the year as impacts of the 'mini budget' in the fourth quarter of 2022 dissipated and firms competed in a smaller mortgage market.
- From a savings perspective, price competition has further increased driven by savers looking to take advantage of the higher interest rate environment, a new generation of digital challenger banks and lenders starting to refinance TFSME drawings.
- In the context of heightened competition within our core markets, we have continued to carefully monitor the market positioning of our products and responded accordingly. Furthermore, the Society has launched a range of new initiatives / product offerings in order to deliver on our purpose e.g. Home Deposit Saver, Shared Ownership Saver, Experian Boost and Reach Mortgages.
- During the year, the Society continued to progress an ambitious change agenda to further support member experience and strengthen our operational resilience. As a consequence of this investment, and increased levels of competition, the Society's cost to income ratio increased from 37.4% in 2022 to 47.3%. Notwithstanding this increase, the Society maintains an efficient business model relative to peers.

### Outlook

- The Society expects more challenging conditions within its operating environment during 2024 against the backdrop of ongoing macroeconomic uncertainty, political risks and strong competition within both mortgage and savings markets.
- The Society will continue to closely monitor external developments and assess potential impacts under both central and stressed conditions.
- Progress with the Society's strategic change portfolio will also be closely monitored, to ensure that key transformational projects are appropriately prioritised and effectively delivered to support achievement of our strategic objectives.

# Governance

# The Board of Directors

## Year ended 31 December 2023

**The biographies of each member of the board are shown here and serve to demonstrate the reasons why the strengths and experience of each director contribute to our long term and sustainable success.**


### 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 and member of Remuneration Committee.

**Strengths and experience:** Iain has worked in the financial services industry for over 30 years. His previous roles include CEO of Yorkshire Building Society and Chair of the Building Societies Association. Iain has also held several non-executive posts, such as: Treasury Select Committee Special Advisor and Independent Director for the Prudential Regulation 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. Iain is also chair of governors at Leeds Beckett University.

*"As Chair, my role is to lead your board in overseeing the performance of the Society and the development and implementation of its strategy. Our purpose of putting home ownership within reach of more people, generation after generation, is true to our roots as a building society, and I firmly believe it is right for our members. Over the last year, the board's focus has been on furthering this purpose in a climate which has been difficult for our borrowers and our savers. We are not expecting any significant recovery in the economy in 2024, so my priority will be to make sure that the Society continues to offer sustainable good value to savers, and enables as many borrowers as possible to buy the homes they want. At the same time, I will be concentrating on ensuring that the Society remains financially secure for the future, and that the substantial investments which we are making to improve services to members are managed well, and that they deliver the benefits intended."*


### Chief Executive Officer

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

**Strengths and experience:** Richard started his career at Oliver Wyman & Company and spent ten years at Lloyds Banking Group in senior mortgage and savings roles. Richard has an excellent understanding of product development to meet customer needs, as well as strong strategic and commercial skills. As CEO, Richard's responsibilities include promoting the long-term success of the Society, and leading the development and implementation of the Society's strategy and purpose in the interest of its members and other stakeholders.

**Other roles:** Richard is a director of UK Finance Limited and is a member 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, as well as promoting and ensuring the delivery of good customer outcomes through a customer focused strategy and culture. Our purpose has supported us through the current economic climate and we continue to effectively serve members and uphold our purpose as a mutual building society. My role involves leading the management team so that we can operate in the best interests of our members."*


## Independent Non-Executive Director

**Appointed:** February 2019.

**Board committees:** Chair of Remuneration and member of Board Risk and Nominations committees.

**Strengths and experience:** Before joining the Society, Annette was CEO at Lloyds Bank Private Banking Ltd and Managing Director of Wealth & Mass Affluent for Lloyds Banking Group. Annette has over 35 years' experience in financial services. With her background in operations, technology and customer engagement, plus recent board and regulatory experience, Annette brings a wealth of knowledge to the board.

Annette is Chair of the Remuneration Committee and, as such, part of Annette's role is to make sure the Society has the right reward structures in place, to foster our mutual culture and to attract and retain the talent we need to deliver on our purpose.

**Other roles:** Annette is a non-executive director, Chair of Remuneration Committee and Senior Independent Director of GlobalData plc and a non-executive director, Chair of Remuneration and Nominations Committees of Stratos Markets Ltd.

*"My responsibility as a board member is to challenge and support management, so that collectively we can continue to meet the changing needs of members, colleagues and other stakeholders. In 2023, I was pleased to be appointed as the Society's Consumer Duty Champion and designated non-executive for colleague engagement. In undertaking these roles, I regularly meet with colleagues to discuss their experiences and understand any changes they'd like to see within the business to further support members and colleagues."*


## Independent Non-Executive Director

**Appointed:** April 2023.

**Board committees:** Member of the Audit and Board Risk committees.

**Strengths and experience:** Farah joined the board in 2023. Initially qualifying as a chartered accountant at Deloitte, Farah has had a successful executive career with a focus on private equity and corporate finance, most recently with Hermes GPE and Schroder Adveq. Farah has extensive exposure of board roles with a portfolio of non-executive positions, bringing deep experience in audit, investment, strategy, risk and ESG.

**Other roles*:** Farah holds non-executive positions with Aurora Investment Trust plc, Caledonia Investments plc and Apollo Syndicate Management Limited. Farah is also a non-executive director and Chair of Long Term Assets Limited.

*"Having worked in financial services for over 20 years, my extensive knowledge and experience, complements the other directors in our oversight of the Society. As a chartered accountant, I'm also able to bring relevant skills and insight to the Society."*

* As at 31 December 2023, the number of non-executive positions held were subject to a waiver issued by the Prudential Regulation Authority.


## Chief Financial Officer

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

**Strengths and experience:** Andrew has almost 20 years' experience in financial services, including a number of senior roles in both building societies and banking institutions.

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

Andrew is Chair of Assets and Liabilities Committee and Balance Sheet Optimisation Group. He was also the Chair of Cost Optimisation Group until December 2023, when responsibility transferred to Andrew Greenwood. He has responsibility for the Society's Finance, Treasury, Data 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.

*"UK economic uncertainty continued during 2023, with the rate of inflation in the first half of the year being particularly high. The Bank of England increased the base rate on five occasions during 2023 to rates similar to those in 2007. My focus during this time has been to make sure we support our members and colleagues by safeguarding the Society's financial position. This continues to be my priority, as I lead our finance division into 2024."*


## Non-independent Non-Executive Director

**Appointed:** March 2012.

**Board committees:** Member of Audit, Board Risk and Remuneration committees (as at 1 December 2023).

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

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

*"In order to ensure the Society can deliver its purpose over time, it needs to maintain its strength and stability and effectively manage its risks. My role as a member of the board 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. My ongoing priority is to ensure risks are being managed appropriately, and to provide an appropriate level of challenge to management, so we can remain secure."*


## Independent Non-Executive Director

**Appointed:** December 2020.

**Board committees:** Chair of Board Risk Committee and member of Audit and Remuneration committees.

**Strengths and experience:** Neil has over 39 years' experience in retail banking and financial services. Before joining the Society, Neil was the Chief Risk Officer and Executive Board Director at the Bank of Ireland UK plc and Chief Risk Officer at GE Capital Bank Ltd. Neil also previously held a variety of roles including Risk Director and Chief Risk Officer in the UK retail division of Royal Bank of Scotland and NatWest.

**Other roles:** Neil is a non-executive director of Cynergy Bank Limited.

*"I believe the experience I've gained as Chief Risk Officer at different organisations and my strong understanding of risk management and the principal risks facing the financial services sector, bring value and strengthen the board and support me in my role as Chair of Board Risk Committee. My key areas of focus are to make sure the Society remains resilient and manages risk appropriately, particularly in the current economic climate. The ethics of a mutual resonate strongly with me and I very much enjoy working with the Society."*


## Deputy Chief Executive Officer

**Appointed:** Deputy Chief Executive Officer in May 2021 and Executive Director in January 2015.

**Strengths and experience:** Andrew started his career as a solicitor in private practice and has worked for the Society since 1998, in a variety of roles including Chief Risk Officer from 2011 to 2022. Having worked for the Society for more than 25 years, Andrew has extensive experience of risk management, strategy and a strong knowledge of the organisation, its people and culture.

Andrew's main line management responsibilities are for the risk, and property and business services functions. Andrew is also Chair of our Inclusion and Diversity Steering Group, which supports the delivery of the Society's inclusion and diversity strategy and progressing our strategic objectives in this area.

**Other roles:** Andrew is a member of the UK Finance Sustainability Committee.

*"I am a member of a number of risk focused committees as well as Chair of the Models and Rating System Committee. This includes helping other directors understand the model framework, which underpins assumptions and decision making. As Deputy CEO, I am also responsible for managing climate-related risks. A key aspect of this is reducing our carbon footprint on a pathway to net zero and working with key stakeholders to help them to do the same."*


## Independent Non-Executive Director

**Appointed:** November 2015, Vice Chair and Senior Independent Director since January 2019.

**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. This included almost 20 years at Legal & General plc as a director and CEO of the international division, and before this was a chartered accountant at PricewaterhouseCoopers.

His responsibilities as Chair of the Audit Committee include safeguarding the independence of the Internal Audit function and acting as our whistleblowing champion.

**Other roles:** Gareth is a non-executive director and Chair of Audit Committee of Saga plc and a non-executive director and Chair of Acromas Insurance Company Ltd.

*"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. My other responsibilities include monitoring the integrity of external financial reporting, as well as safeguarding and assessing the effectiveness, performance and independence of the Internal Audit function and overseeing the tender and appointment of our new external auditor. Additionally, I act as our whistleblowing champion and ensure our culture welcomes open and transparent discussions."*


## Chief Operating Officer

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

**Strengths and experience:** Before joining Leeds Building Society, Rob spent over ten years in 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 and the Royal Navy, as well as McKinsey and Company where, Rob's role as associate partner allowed him to specialise in advising multinational clients on the design and execution of transformation programmes.

As Chief Operating Officer, Rob is the Chair of the Executive Transformation and the Operational Resilience Committees.

**Other roles:** Rob is Chair of the UK Finance Digital, Technology and Cyber Product and Service Board. Rob is also a governor, trustee and director of The Grammar School at Leeds.

*"My responsibilities include areas in technology, transformation and operational resilience, where I have extensive experience. This allows me to make sure that the Society continues to operate safely while still investing in our long-term future and improving the way that we work every day. I'll also be focusing on the successful delivery of the critical, multi-year core system migration programme."*


## Independent Non-Executive Director

**Appointed:** May 2023.

**Board committees:** Member of Board Risk, Nominations and Remuneration committees.

**Strengths and experience:** Pam is a chartered banker and has over 30 years' financial services experience. Her most recent executive role was Chief Operating Officer at Paragon Banking Group Plc. Prior to working at Paragon, Pam was Managing Director Change Delivery at Barclays UK Retail Bank and Chief Operating Officer at ING Direct. Pam has extensive experience in operations, people leadership and customer led and digital transformation programmes.

**Other roles:** Pam is a non-executive director of Saga Services Ltd.

*"My experience of financial services operations and transformation programmes, as well as in promoting a strong customer centric and people focussed culture, are very relevant to the progressive agenda at the Society. I was delighted to join the Society in 2023 and support it in its continuing success."*


## 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. Previously Anita has worked in transformation and Digital and Technology for Sky, British Gas and BT Business. During Anita's time at British Gas, she was responsible for the conduct team within customer operations which has enhanced her FCA regulatory knowledge. Anita also has an MBA from London Business School.

**Other roles:** Anita is a director of Tadayon Consulting Limited.

*"I have a strong track record in transformation, combining technology and change, and I am able to add value to the board discussions in this area. My knowledge and experience provide different insights and experience thereby bringing further strength and diversity to the board. I'm passionate about the values associated with mutuality and I'm delighted to be a member of the board."*

# The Executive Committee (ExCo)

## Year ended 31 December 2023

As executive directors of the board, Richard Fearon, Andrew Greenwood, Andrew Conroy and Rob Howse, whose biographies can be found on pages 113 to 117, are members of the ExCo. Details of the other members of the ExCo are set out below:


### Chief People Officer

Bernadette joined the Society in October 2023 and is responsible for the Society's People division. Bernadette has a breadth of experience, including roles in retail banking as well as HR. Her most recent role was at National Australia Bank, having previously worked at Aviva, Northern Rock and Barclays. Bernadette will support management in its focus on the Society's purpose of putting homeownership within reach of more people - generation after generation.


### Chief Internal Auditor

Caroline is a chartered accountant and was trained at KPMG, where she spent eight years delivering and managing external audits and other assurance work in the financial services sector. She joined the Society in May 2015 and since then has held several Internal Audit and Finance leadership roles. She was appointed Chief Internal Auditor and joined the ExCo on 1 November 2023. Caroline is responsible for leading an independent and effective Internal Audit function.


### Chief Customer Officer

Parveen joined the Society in October 2022 from Lloyds of London, where she was Head of Operations. Prior to Lloyds, Parveen enjoyed a long and successful career in financial services, having worked for Royal Bank of Scotland, ABN AMRO Bank and Bank of America. As an ExCo Member, Parveen leads the Customer Division that services our customers, through their channel of choice: branches, telephony and digital. Parveen is accountable for the customer strategy of the Society, ensuring it meets members needs now and in the future. Parveen is Chair of the Conduct and Operational Risk Committee.


### Chief Risk Officer

Andy has worked in financial services for over 25 years, with experience in a variety of senior roles in building societies, banking and consultancy. Andy worked in specialised treasury roles prior to risk management, Internal Audit and advisory roles. Andy's recent focus has been on developing the Risk function, as part of the risk strategy refresh and he joined the ExCo in March 2021, following his appointment as Risk Director and subsequently became Chief Risk Officer from 1st October 2022. Andy is Chair of Models and Ratings Committee.


### Chief Commercial Officer

Andy has extensive experience in financial services, having operated in various senior risk, commercial and consulting roles across PWC, Skipton Building Society, Northern Rock, National Australia Bank and Bradford & Bingley.

Andy joined the Society in 2012 and has held the roles of Director of Credit Risk, Deputy Chief Risk Officer and more recently, Chief Commercial Officer, in which he has responsibility for the development, management and distribution of our products, our digital channels and brand and marketing. Andy is Chair of the Credit Committee.


### 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 insights, and internal communications. Nick is also Chair of the Responsible Business Forum.

# Corporate Governance Report

Year ended 31 December 2023

## Chair's introduction

The last year continued to present challenges with rising inflation, interest rates and increased costs of living, all of which continue to have an impact on our members, colleagues and the wider community we serve. As a board, we have adapted and navigated through the challenges presented to us, with the primary purpose of supporting our members and colleagues and ensuring the stability and long-term success of the Society.

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 throughout the board's operations and ensure that we make balanced decisions in the interests of our stakeholders.

### Corporate Governance

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

Upholding high standards of governance is essential for the long-term sustainable success of the Society and is integral to the delivery of our strategy. We base our approach to governance on the principles and provisions of the UK Corporate Governance Code (the Code), published by the Financial Reporting Council, in so far as they are relevant to a building society (as set out in the Building Societies Association Guidance). I am pleased to confirm that our governance arrangements meet the relevant requirements of the Code. A copy of the 2018 Code is available on the Financial Reporting Council's website at www.frc.org.uk

The board remains fully committed to open and transparent reporting and will align to the outcomes from the Department for Business, Energy and Industrial Strategy (BEIS, now the Department for Business and Trade) consultation on 'Restoring trust in audit and corporate governance' and the proposed revisions to the Code. The board embraces emerging corporate governance best practices and regulatory developments and is willing to adopt changes voluntarily to achieve the best outcomes for the Society.

### People

In July, the board received a progress update on our inclusion and diversity strategy: 'Being You; Transforming Us'. This included an overview of how we plan to continue to embed inclusive practices into everything we do, creating a truly collaborative environment where diverse perspectives are sought to fuel innovation and deliver our purpose. Targets were also updated due to the positive progress we had already made towards the 2025 targets.

During the year, we made good progress towards the targets we had set for both gender and ethnicity at board level and the refreshed targets for senior leadership representation. We are delighted to report that we have exceeded our target for gender representation on the board, with a rate of 33% as of 31 December 2023, against a target of 30%. Our target for ethnic representation at board level has also been exceeded. As of 31 December 2023, two board members were from an ethnic minority background against a target of one or more.

Following on from this success, it was agreed to introduce new diversity targets for our senior leadership team and our approach continues to align with best practice / Women in Finance Charter and with recent proposals from our regulators. Our newly agreed targets are now set out to the year 2030, however we are already in line with our ambitions. For female senior leadership we have a trajectory target of 39% which has been achieved. For ethnic minority senior leadership representation, our trajectory target is 7.5% and we have achieved 8.5%. We are confident that this progress will support us in delivering our targets by 2030.

As part of the review, we discussed broadening our equality data and the measures which we monitor, to include areas such as socioeconomic factors and further protected characteristics. Our internal data campaign which encouraged our colleagues to voluntarily disclose equality related information about themselves has further supported our ambitions in this area and provided insight to help inform our priorities.

## Board effectiveness

To ensure success and sustainability, we recognise the importance of assessing our own performance on a regular basis and the need to continuously re-evaluate and improve.

In 2023, the approach to our effectiveness review comprised of an internal board effectiveness questionnaire; observations of the Remuneration Committee and individual assessments of board members, which were undertaken against our non-executive director competency framework. The board was found to be functioning effectively and there was significant alignment from the directors on what had gone well during the year.

More detailed information on the evaluation process is available to read on pages 132 to 133 of this report.

## Auditor appointment

As reported in 2022, a detailed tender process was undertaken in 2022 for the appointment of a new external auditor. The board agreed with the Audit Committee's recommendation; to appoint Ernst and Young LLP, who will formally be appointed and responsible for the delivery of the external audit for the year ending 31 December 2024, subject to member approval at the 2024 AGM. Deloitte LLP's appointment will cease at the end of the 2024 AGM. You can read more about the tender process in the Audit Committee report in our 2022 Annual Report and Accounts.

## Future outlook

In January 2024, I formally announced my intention to step down as Chair of Leeds Building Society in 2025. After more than 30 years of working in financial services, I now intend to spend more time on my other appointments and commitments. Recruitment for a successor is underway and I will remain in post until a candidate has been appointed. I look forward to continuing in my role as Chair until that time to progress the Society's purpose, ensuring a sustainable Society for both current and future members.

**Iain Cornish**
**Chair of the Board**

22 February 2024

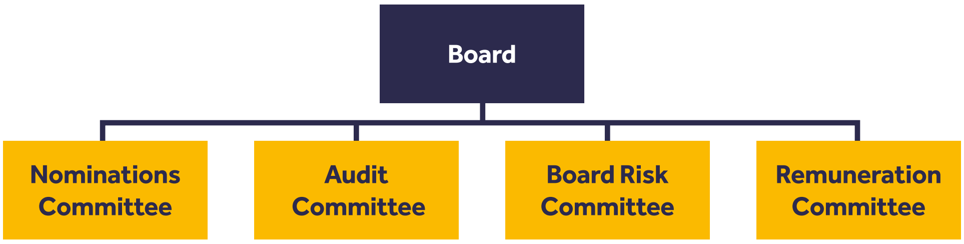
## Our approach to corporate governance

### The role and responsibilities of the board

The board's role is to lead the Society and to secure its long-term success by developing and implementing a strategy which delivers the Society's purpose for the benefit of our current and future members, colleagues, and the communities we serve. Creating mutual value for our stakeholders is a priority which the board ensures is integral when making decisions.

The board delegates certain duties to its dedicated board and management committees, each of which has a detailed terms of reference (ToR) which documents the level of delegated authority it has and its areas of focus. Copies of each board committee's ToR can be found on our website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees.

### Our governance structure




Our Executive Committee (ExCo) is chaired by the Chief Executive Officer and has the primary purpose of enabling the executive directors and chief officers to manage the Society in a co-ordinated way, taking a broad view of key issues and priorities. ExCo delegates some of its duties to, and is supported by, a number of management committees.

Oversight of matters delegated to board committees, is maintained through regular updates from the Chair of each committee at board meetings and through the individual updates from each executive director including the Chief Executive Officer. Members of the ExCo also attend board meetings when required to provide updates from each business area and to discuss any pertinent matters. This provides board members with close visibility of all areas of the business, as well as the external environment. Membership of each board committee is comprised of independent non-executive directors, most relevant to their skills and areas of expertise. The Chair of each committee is responsible for ensuring receipt of accurate, timely and clear information to assist with their deliberations and decision making.

Board committees have been established in line with the provisions of the Code and membership is limited to non-executive directors only, with other board members and senior leaders in attendance, as and when required. Details on each committee and their membership can be found in each committee's individual report from pages 140 to 157.

The board maintains a schedule of matters reserved for its own decision, which sets out material items that should be retained for its own approval. Examples of items which are within the board's remit are displayed overleaf. Full details of the board's role, responsibilities and matters reserved for its decision can be found within the Matters Reserved for the board and the board's ToR, which are available on our website: leedsbuildingsociety.co.uk/your-society/about-us/board-committees.

**Board responsibilities**

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

## Board meetings

The board is led by the Chair and operates through a series of scheduled meetings, as often as is necessary to discharge its obligations and to ensure the smooth running of the Society. The board generally holds at least ten meetings per year, with two additional meetings dedicated to planning and strategy.

In addition to the schedule of matters reserved for its decision, the board has formal terms of reference, which incorporate a clear set of roles and responsibilities. The terms of reference are used to plan the agenda for each meeting. This allows the Secretary the flexibility to allocate time to additional agenda items as matters arise that require discussion.

For each meeting, a comprehensive and timely set of papers is provided in advance. The board typically 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 meeting, an action schedule, schedule of key matters, business performance scorecard and updates on regulatory matters and business transformation. Agendas also regularly include an item to reflect on the quality of the discussions held, the content of papers and behaviours displayed. The purpose of this item is to drive efficiency and gain constructive feedback from board members on the content of papers, in real time and in an open and transparent manner.

Purpose, strategy, and stakeholder impact are central to the board's decision making process. The board has sought to increase engagement with stakeholders to gain more insight into their views and requirements, which aids effective board decision making. The principal way of doing this has been to hear directly from colleagues either in person or through in-video presentations at board meetings, whereby the board hears directly from colleagues on their views and any issues they may have within their business area. These 'voice of the colleague' sessions have proved to be very successful since their inception and now feature regularly on the board agenda. More information on the voice of the colleague presentations is included in the stakeholder section of this report.

Interactive presentations have also been another means of engagement with colleagues, which not only promotes engagement but encourages diversity of thought.

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

High quality report writing and board papers are vital for effective and informed decision making. The materials provided to the board are reviewed regularly to ensure the information provided is clear and concise, with sufficient detail to enable a decision to be made, but not too much so that it overcomplicates or dilutes the focus or the decision making process.

Examples of how stakeholders' interests were considered in some of the key decisions made during the year can be found within the Strategic Report on pages 29 and 30.

### Board and board committee meetings and attendance in 2023

In 2023, there were 12 scheduled meetings of the board. Attendance by executive and non-executive directors at all board and board sub-committee meetings of which they are members, along with the number of meetings held is set out below. In accordance with good practice, executive directors do not have membership rights at board committee meetings.

| | Board | Audit | Board Risk | Nominations | Remuneration |
|---|---|---|---|---|---|
| **Number of meetings held in 2023** | **12** | **6** | **8** | **6** | **5** |
| Annette Barnes | 12 | – | 8 | 6 | 5 |
| Farah Buckley | 9/9 | 4/4 | 6/6 | – | – |
| Andrew Conroy | 12 | – | – | – | – |
| Iain Cornish | 12 | – | – | 4/4 | 4/4 |
| Richard Fearon | 12 | – | – | – | – |
| David Fisher | 10 | 6 | 8 | – | 3 |
| Neil Fuller | 12 | 6 | 8 | – | 1/1 |
| Andrew Greenwood | 11 | – | – | – | – |
| Gareth Hoskin | 12 | 6 | 8 | 6 | 5 |
| Rob Howse | 12 | – | – | – | – |
| Pam Rowland | 9/9 | – | 5/5 | 3/3 | 1/1 |
| Anita Tadayon | 12 | – | 5 | – | – |

## Our culture

We are proud to have a strong and positive culture, which is highly regarded and respected as a source of sustainable competitive advantage. This culture has helped us to create a successful business, ensures our continued and long-term success and provides colleagues with an engaging and rewarding place of work. We continue to review and evaluate our culture and time was allocated during 2023 for discussions with the board to gain their input into the development of our culture and how to enable the shift from good to great.

The measurement of culture has matured with the introduction, in 2023, of the culture dashboard, which combines many of the factors that contribute to our culture and comprises measures of colleague advocacy, belief in our purpose, inclusion and customer empathy. The culture dashboard enables the Society to baseline our culture, benchmark against our sector and track progress. The dashboard approach reflects our belief that there is no single measure of culture.

A key input into this dashboard will continue to be colleague sentiment, which is measured through colleague engagement surveys. With the transition to a new provider in 2022, in 2023 we also took the opportunity to gain a better understanding of external benchmarks and what the biggest drivers of colleague engagement are, to ensure we are assessing a comprehensive view of engagement, comprising belief, advocacy, satisfaction and loyalty. Additionally, during 2023, we piloted a pulse survey to give us richer insight throughout the year and to take a more agile approach to colleague listening, with plans to further enhance our intelligent listening strategy during 2024.

The board understands and appreciates the importance of setting the cultural tone from the top and in doing so has role modelled the adoption of the Society's behaviours that form part of our purpose, an explanation of which is set out in the strategic report. Throughout the year board members have proactively focused on their behaviours, as demonstrated through the board effectiveness review and a facilitated session exploring each behaviour in the context of their role.

## Whistleblowing

Our whistleblowing policy, 'Speak Up' sets out the standards we expect of colleagues and those who work with us. Our Speak Up arrangements can be used to raise concerns if colleagues have any suspicions or knowledge of wrongdoing or misconduct. Colleagues are reminded that it is important to speak up to help prevent things going wrong and to protect the Society, our members and colleagues. We continue to reinforce the internal arrangements for raising concerns, through providing colleagues with ongoing communication, training and awareness by a variety of means including:

- Speak Up standard, procedure and manager's guidance on the Society's intranet.
- Mandatory Speak Up elearning is provided to all colleagues annually.
- 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 website, for access by third parties and colleagues.
- Our mandatory induction and new starter documentation contain information about Speak Up.
- Intranet articles about Speak Up arrangements are communicated to colleagues.

In our Speak Up standard, colleagues can find the procedure, frequently asked questions and guidance on how to report a concern. This includes information about how they can report a concern.

At least annually, the board reviews our Speak Up arrangements and any reports arising. The policy is reviewed annually by the Audit Committee, with final approval from the board. Our Speak Up standards were last approved by the board in October 2023, based on the recommendation of the Audit Committee. To verify that our Speak Up arrangements continue to be effective and to further inform our approach, specific anonymised colleague feedback / verbatims were shared with the Audit Committee and the board as part of the review and approval cycle. Gareth Hoskin, Non-Executive Director and Senior Independent Director, continues to be the Society's appointed whistleblowing champion.

In 2023, there were no instances of which we are aware, where events have occurred where a Speak Up could have been raised and was missed.

## Inclusion and diversity – 2023 activities

As referred to earlier in this report, the board has continued to place great importance on inclusion and diversity and this has been a priority when reviewing the composition of the board and succession planning. Included below are examples of the ways in which we have progressed and enhanced our inclusion and diversity activities over the last twelve months. We were very proud to be named as the first building society to achieve a gold level accreditation in the Inclusive Employers Standard accreditation, which independently reviewed our progress against our inclusion and diversity strategy since its launch.

- Launch of a Society-wide training programme 'Empowering Allyship' to provide colleagues with the tools to understand what it means to be an ally and the part they can play in making the Society inclusive by design.
- Delivery of an 'Inclusion Includes You' campaign which led to us obtaining enhanced equality data from our colleagues. This data will remain a key area of focus for us as we seek to further progress the diversity and inclusion agenda.
- Refreshed our mental health first aider offer and diversified our representation to be reflective of our colleague base.
- Signed up to the Open Doors with Business in the Community (BITC) which is focused on the promotion and adoption of inclusive recruitment practices. We also remain signatories of the Race at Work Charter with BITC and to the Women in Finance Charter.
- Sponsorship of Leeds Pride and the Leeds West Indian Carnival.
- Worked to ensure all of our talent development programmes were supporting the growth of diverse talent pipelines.

### Colleague forums

We have a number of colleague-led diversity forums which focus on how to increase colleague awareness and promote an inclusive culture where diversity is celebrated throughout. As mentioned above, we have sought to advance the activities undertaken by each forum this year, by encouraging more collaboration between the forums to align activities in an intersectional way.

All forums are represented at an inclusion and diversity Steering Committee, which is chaired by Andrew Greenwood, the Deputy Chief Executive Officer. This committee meets on a quarterly basis and, for the first time this year, has provided an opportunity for the forums to share the work they have undertaken, alongside any learnings.

## Division of responsibilities

There are clear divisions between the roles of the executive and non-executive members of the board. The roles of the Chair and CEO are held by separate individuals and each role has well defined responsibilities. The division of principal responsibilities of the Chair, CEO and Senior Independent Director is reviewed against their distinct job descriptions and is documented for review and approval by the board each year. The table below demonstrates how responsibilities are clearly defined for each of these roles, as well as those for the executive directors, non-executive directors and the Secretary.

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

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

| Role | Key accountabilities |
|---|---|
| Chair:<br>Iain Cornish | • The effective running of the board and guardian of the board's decision making processes.<br>• To support the Chief Executive Officer in the development of strategy and more broadly to provide oversight and advice.<br>• To ensure the board receives accurate, timely and clear information and considers feedback and views from stakeholders, including members and colleagues.<br>• To lead the development and monitoring of the Society's culture and behaviours in line with the purpose blueprint.<br>• 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.<br>• To ensure the effectiveness of the board, its committees and individual directors is formally and rigorously evaluated, at least once a year, (including an external evaluation at least every three years).<br>• To promote the highest standards of integrity, probity and corporate governance.<br>• To oversee the delivery of good customer outcomes, through a customer focused strategy and culture. |

| Role | Key accountabilities |
|---|---|
| Chief Executive Officer:<br>Richard Fearon | • To propose, develop and implement the Society's strategy, corporate priorities and purpose blueprint, having regard to promoting our success in the interest of our members and other stakeholders.<br>• To ensure we operate an adequate system of control through the application of a three lines of defence model.<br>• 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.<br>• To set the tone in respect of our culture to ensure appropriate behaviours are demonstrated in line with our purpose blueprint.<br>• 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.<br>• Responsible for all executive management matters affecting the Society.<br>• To promote and conduct the affairs of the Society with the highest standards of integrity, probity and corporate governance.<br>• 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.<br>• To promote and ensure the delivery of good customer outcomes through a customer focused strategy and culture. |
| Senior Independent Director / Vice Chair:<br>Gareth Hoskin | • To work closely with the Chair, acting as a sounding board and providing support.<br>• To act as an intermediary for other directors, as and when necessary.<br>• 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.<br>• To lead the performance evaluation of the Chair.<br>• To deputise for the Chair and chair meetings where the Chair is conflicted.<br>• To support the Chair in providing oversight of the delivery of good customer outcomes, through a customer focused strategy and culture. |
| Non-Executive Directors:<br>Annette Barnes<br>Farah Buckley<br>David Fisher<br>Neil Fuller<br>Pam Rowland<br>Anita Tadayon | • To help develop and constructively challenge proposals on strategy, ensuring a high level of conduct and positive outcomes.<br>• 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.<br>• To set our risk appetite and to ensure that the integrity of financial information and controls are robust and fit for purpose.<br>• To approve the corporate plan and monitor performance against agreed corporate priorities.<br>• To have oversight of the culture, reward and talent management strategies whilst ensuring management performance achieves the corporate goals.<br>• 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.<br>• To promote the fair treatment of all members / customers.<br>• 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.<br>• Oversee and promote the delivery of good customer outcomes through a customer focused strategy and culture. |

| Role | Key accountabilities |
|---|---|
| Executive directors:<br>Andrew Greenwood<br>Andrew Conroy<br>Rob Howse | • To be responsible for and have oversight of the day to day management of the Society.<br>• Escalate issues to the rest of the board on a timely basis.<br>• 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.<br>• To ensure that prudential, conduct and operational risks are adequately controlled.<br>• To ensure the Society operates within the agreed risk appetite and internal risk framework.<br>• Oversee and promote the delivery of good customer outcomes through a customer focused strategy and culture. |
| Secretary:<br>Katherine Tong | • To provide advice and updates to the board in respect of all governance related matters and best practice guidance.<br>• To provide support to the board to ensure that complete and timely papers are received in advance of all board and board committee meetings.<br>• To act as a point of contact for all board members and provide advice as required.<br>• To provide all necessary support to ensure the board can function effectively with the appropriate resources in place. |

## Composition, succession and evaluation

The code requires at least half of the board, excluding the Chair, to be made up of independent non-executive directors. As at 31 December 2023, the board comprised twelve directors: four executive directors and seven independent non-executive directors and one non-independent non-executive director. Succession plans are considered regularly by the Nominations Committee. Read more about this in the Nominations Committee report on pages 142 to 144.

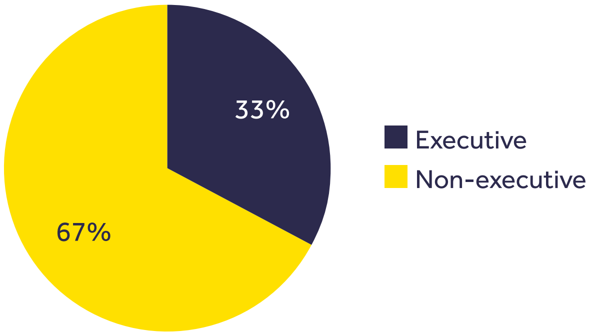
During 2023, two new independent non-executive directors were appointed to the board: Farah Buckley was appointed in April and Pam Rowland was appointed in May. Farah and Pam will seek election from our members, for the first time at the Society's AGM in 2024.

Lynn McManus stepped down in January 2023 to pursue an opportunity in an executive role, with another financial institution. Lynn's appointment ceased prior to the onset of any board or committee meetings in 2023.

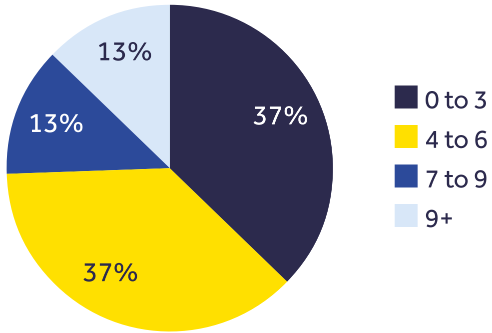
Having reached his nine year tenure in 2021, it had been planned for David Fisher to retire from the board at the end of 2022. However, following Lynn's departure, the board agreed to extend David Fisher's appointment into 2023 to provide continuity and support to the board while recruitment for Lynn's former role was underway. In November 2023, to further support the board in its succession planning, including that of the Chair, it was proposed that David's appointment would be extended for up to a further three years as a non-independent director. David continues to provide challenge, scrutiny and thoughtful discussion at both board and board committee meetings and his experience of the sector is considered invaluable. David's appointment will be subject to annual re-election by its members, at the Society's AGM.

Succession plans for the Chair are underway, however Iain Cornish has agreed that he will remain in the role until 2025 and will continue until a new candidate has been appointed. More information on succession planning for the Chair can be found within the Nominations Committee report on page 141.

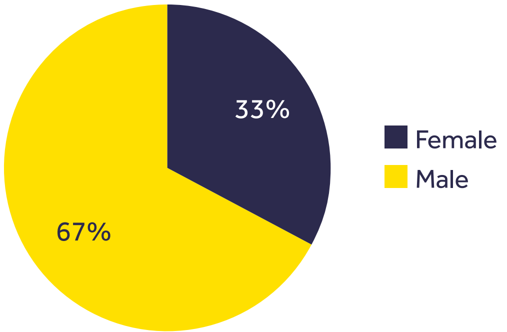
**Executive and non-executive composition (as at 31 December 2023)**




**Tenure of non-executive directors (years) (as at 31 December 2023)**




**Gender diversity of the board (as at 31 December 2023)**




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 pages 140 to 146.

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.

## Board conflicts of interest

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

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

## Time commitment

The expected time commitment of the non-executive directors, including the Chair, is set out in writing in their appointment letter and is usually a minimum of three days per month. Prior to their appointment, all new candidates are required to provide details of any other external appointments or positions they hold, to ensure they have sufficient capacity to undertake the role and to assess if there are any potential, perceived or actual conflicts of interest owing to their other appointments.

Before committing to an additional appointment, it should be referred to the board for consideration and, if appropriate, approval (in terms of any potential conflict of interest and time commitment). Directors are required to confirm if there are any potential or actual conflicts of interest, and that the role will not adversely impact on their ability to discharge their duties at the Society.

All directors are then asked, at least annually, to attest that the level of time commitment to their other roles and the Society's records of their external appointments remain correct.

On appointment, Farah Buckley held more than the prescribed number of directorships under Article 91 of the Capital Requirements Directive IV and SYSC 4.3A.6R/ GOR 5.5, which stipulates a maximum of four non-executive directorship roles can be held by a member of the management body. Owing to the very low time commitment of some of the roles held by Farah, the Society sought a waiver from the Regulator prior to her appointment. The PRA agreed to a modification (under Section 138A of the FSMA) up until 1 June 2024, at which point Farah Buckley's directorship position will be re-assessed.

During the year the following new appointments were taken on by members of the board:

| Name | Entity | Role | Time Commitment (per annum) |
|---|---|---|---|
| Iain Cornish | Leeds Beckett University | Chair of the Board of Governors | 30 days |
| Richard Fearon | UK Finance Ltd | Non-executive director | 3 days |
| Andrew Greenwood | UK Finance Ltd | Member of the UK Finance Sustainability Committee | 3 days |
| Annette Barnes | Stratos Markets Ltd (trading as FXCM UK) | Non-executive director | 24 days |
| Neil Fuller | Cynergy Bank Ltd | Non-executive director | 36-48 days |
| Rob Howse | Grammar School at Leeds | Director, trustee and governor | 50 hours |

The board approved each of these appointments and agreed that the time commitment would not impact the individual director's ability to commit to their role at the Society. A list of all external appointments held by board members is shown in the Annual Business Statement on page 247.

In 2023, the board considered that all members of the board had sufficient time to fulfil their role.

## Board independence

Independence of non-executive directors is an important aspect of board governance, and it plays a vital role in ensuring that the executive directors and management level are appropriately challenged and held to account against performance objectives.

The independence of our non-executive directors is considered annually by the Nominations Committee and is assessed against the criteria set out in the Code. Greater focus is applied to those with longer tenure and those who have passed their six year anniversary with the Society. In line with the criteria set out in the Code, the Nominations Committee and the board agreed that all non-executive directors, with the exception of David Fisher, were considered to remain independent in character and judgement and that there were no business or other circumstances which were likely to impair their independence.

Since David Fisher reached his nine year tenure in 2021, the board has been satisfied he has continued to meet the independence criteria and this has been demonstrated through his ongoing and effective challenge. However, on approval of his extended term into 2024, the board agreed that while David continued to adopt an independent mindset and rigorously challenge management, from a strict Code perspective, David would no longer be considered as independent. In accordance with the Code requirements regarding independence, from 1 December 2023 David became a member of the Society's board only and, while he will attend certain board committees, he will no longer be classed as a member.

## Board evaluation 2023

Our annual board evaluation provides the board and its committees with an opportunity to consider and reflect on the quality of its decision making and for each individual member to consider their own performance and performance of the board.

The annual board effectiveness review was conducted internally in 2023. The review comprised insight obtained from a board effectiveness questionnaire completed by all board members and a number of colleagues from the senior leadership team, the external auditor and the board technology advisor. Additionally, there was observation of a board committee meeting and individual assessment of members of the board against the agreed non-executive competency framework, all of which comprised the aggregate view of board and committee effectiveness.

The internal review concluded that the board, including its members, was operating effectively. The Code requires boards to undertake a formal and rigorous annual evaluation of its own performance and that the evaluation should be externally facilitated at least every three years. The board was last evaluated externally in November 2021 by Russell Reynolds, which concluded that the board was 'performing well – with no urgent action required'. The next externally facilitated evaluation will be scheduled for 2024 in accordance with the 2018 Code provision.

The overall actions arising out of the 2023 internal evaluation along with details of the progressed actions from the 2022 evaluation, are summarised below:

| Theme | Actions and progress from the 2022 & 2023 board review | Opportunities and actions |
|---|---|---|
| Board composition | • Continue to seek relevant external input - this was found to have augmented thinking, particularly on more technical areas such as innovation and data. This has been supported through the continued appointment of an independent board advisor (for the multi-year technology programme).<br>• Secure succession plans – solid progress was achieved on the diversity of the board through the appointment of two new non-executive directors in 2023.<br>• Board skills assessment – this was refreshed in April 2023 and included two new non-executive directors. | • Continue to seek external input where relevant and continue with the appointment of the independent board technical advisor, where appropriate.<br>• Proactively consider succession planning and how individual experience and expertise can be replaced.<br>• Prioritise clear talent and succession planning for the Executive Committee.<br>• Facilitate workshops on cognitive diversity. |
| Board leadership and society purpose | • Evident step-change in integrating the voice of colleague into the board room.<br>• Board appointments including Annette Barnes as designated colleague engagement representative and Consumer Duty champion.<br>• Maintain a focus on the right level of detail to be had as part of board discussions. | • Consider additional mechanisms for the board to hear directly from members.<br>• Continue to review and focus on the board agenda to ensure an appropriate balance.<br>• Introduce six month reflections review for newly appointed non-executives to gather insight. |
| Board governance and performance | • Governance structure agreed to be appropriate, with a strong sense that board governance has continued to mature.<br>• No material actions required as there was strong agreement that the governance process works well.<br>• Observations undertaken of board and committee meetings found meetings to be well run, productive challenge was made and clarification sought where required. | • Continued focus required on brevity and clarity of board papers to support effective decision making.<br>• Board members to provide real time reflection during meetings on the quality and content of supporting papers. |

All board committees also periodically evaluate their own performance and effectiveness, and that of the committee chairs, through a series of questions which are sent to all members and regular attendees of the committees. This process identifies any areas where members may require further training or development to discharge their duties effectively, or where the overall performance or approach of the committee or chair could be improved. The evaluation process followed in 2023 concluded that committees were, overall, meeting their ToR. In line with the introduction of the Consumer Duty in July 2023, the Conduct and Operational Risk Committee made some significant changes and so the effectiveness of this committee will have an interim assessment of effectiveness mid-2024.

### Directors' induction, development and individual performance evaluation

On appointment, all of our directors receive a comprehensive induction programme, which is tailored to their individual requirements and based on their own existing skills and expertise and the specific board and board committee roles they undertake.

The chair works closely with the people team to map the induction programme and has regular discussions with new directors on progress. The programme aims to support new directors and helps them understand their roles within the committee and governance structure.

As newly appointed directors, Farah and Pam met with the Chair on a regular basis to discuss a wide range of topics, including strategic items, market trends, corporate objectives and performance against these and expectations of the role. Linked to their board committee membership responsibilities, Farah and Pam also attended introductory meetings with the chairs of the relevant board committees and received detailed guidance on the board's Conflict of Interest Policy from the Society Secretary. They were also provided with various documents to familiarise themselves with, such as our directors' information manual, the Code and the Building Society Association's guidance on the Code.

## NED Induction Programme

### Farah Buckley – Non-Executive Director

Member of Audit and Board Risk committees

The board welcomed Farah in April. On joining the board she was provided with an extensive induction programme which covered a wide range of information from across the business. The documentation and supporting materials provided on appointment equipped Farah with a strong understanding of the business and supported the discussions held in the introductory meetings she had in the first weeks and months with other members of the board and the senior leadership team. As a member of the Audit and Board Risk committees, Farah's induction was tailored to include meetings with the chair of each committee, as well as appropriate members of the senior leadership team. She was provided with an understanding of the Society's current risks and the risk management framework in place, as well as an overview of the external auditor tender process, the Society's Internal Audit function and internal control processes.

### Pam Rowland – Non-Executive Director

Member of Remuneration, Board Risk and Nominations committees

Pam joined the board in May, and similarly to Farah, her induction plan was tailored to her existing experience and the committees to which she had been appointed as a member. Pam met with the chairs of each committee as well as having meetings with the other committee members and members of the senior leadership team.

When reflecting on the induction programme to date, Pam reported that she had found having regular sessions with the Chair, both pre and post board meetings, had provided her with a great deal of insight into the matters being discussed at board meetings and supported her in her understanding and ability to contribute and take part in board discussions from an early stage. Pam also reflected on the positive culture at the Society and how the open and transparent ways of working were evident when speaking to colleagues and had aided her fact-finding discussions.

As part of the detailed induction programme provided to both Farah and Pam, they also received a number of briefing updates from senior colleagues on topics pertinent to board discussions. These included themes such as cyber security and the Society's climate strategy.

## Individual director evaluation and appraisal
Individual director performance and contribution is assessed through regular dialogue with the Chair and an annual appraisal is held at the end of each calendar year. The appraisal process is led by the Chair and involves a discussion on each board member's personal development, any training requirements and their contribution to board discussions and any reflections they may have on pertinent matters. In addition, confirmation is sought that the individual director has sufficient time to discharge their fiduciary duties and that they are not conflicted in any way, which would mean they were unable to fully perform their role.

## Evaluation of the Chair's performance
The Chair's performance is evaluated by Gareth Hoskin as the Senior Independent Director, and incorporates feedback provided from both the non-executive and the executive directors, which is then discussed at the January board meeting. In 2023, the board, without the Chair being present, concluded, following discussion that the Chair's overall style is collegiate and engaging and he is a strong and effective chair.

## Board training and development
The board and each committee have an annual training plan, which sets out agreed areas of training to be delivered throughout the year. Members of the board are invited to suggest topics and themes where training and development is required, on an ongoing basis. In addition, board members are encouraged to engage with industry networks and attend externally facilitated events and seminars to maintain and develop knowledge and gain insight into matters which impact the Society.

In 2023, the board received training on several topics including:

| Month | Training |
|---|---|
| February 2023 | Training facilitated by Grant Thornton on industry developments. |
| April 2023 | Cloud and integration education session. |
| May 2023 | Training facilitated by Capital Economics on the economy and the UK housing market. |
| October 2023 | Training received on AVM's (Automated Valuation Models). This included an overview on AVM models including how the models are designed, how they perform and future model developments. This was complemented by training on the Society's valuation strategy and how AVM models are used and controlled. |
| November 2023 | Training received on the G4 IRB models that were submitted to the PRA for approval including a refresher of the core underlying concepts. |
| November 2023 | Board training on Artificial Intelligence (AI) / ChatGPT. |

## Board activities – areas of focus and strategic planning during 2023
Our purpose blueprint underpins our three to five year strategic plan and will continue to guide our thinking to future proof our Society for years to come. During 2023, we continued to push forward with its delivery and that means our 2023 priorities remained the same as the previous year, with the addition of consideration of how effective identification and management of the risks we face underpins our long-term success. Further information with regard to our corporate priorities is available on pages 13 to 15 in the Strategic Report.

In light of the continued uncertainty during 2023 there was a short-term need to dial up our efforts focused on building a 'more responsive model' so that as a Society we are best placed to respond to the changing conditions and the real and challenging impacts those have on our members. Therefore, the three key areas of focus for the board during 2023 were aligned to the Society's more responsive model strategic driver and comprised of the following:

- **Trading responsively:** We sought to balance risk and reward in our lending choices, deliver resilient profitability, as well as value to our members.
- **Being responsive to member needs:** We sought to be more accessible and provide support to our members when they need to talk to us; whether they're in financial difficulty or simply want to access a better savings rate.
- **Communicating and engaging with our colleagues and customers:** Communication in times of change and challenge is key. For colleagues and members, our activities were shaped by the need to maintain trust, confidence and satisfaction.

From a strategic planning perspective, each year the board holds two conferences, one for strategy in May and one for planning in October. Each conference has a detailed agenda and supporting information to provide the basis for a discussion on the strategic plans and objectives for the forthcoming 12 – 14 months. A number of items were discussed at this year's Board Strategy and Planning Conferences, a summary of which is included below:

| Item | Board discussion points |
| --- | --- |
| IT transformation | To outline how the multi-year technology programme both enables and constrains the delivery of our purpose over the next three to five years.<br><br>A shared understanding of how the multi-year technology transformation programme will constrain and enable our ability to change. |
| Strategic risks | To form a view of the key strategic risks the Society is facing and those which are currently being prioritised (i.e. within our control versus outside our control).<br><br>To agree the strategic risks and themes and raise any additional topics for management review through future governance forums. |
| Innovation | Alignment on the proposed areas of focus and ambition for how we innovate to accelerate delivery of our purpose.<br><br>A shared understanding of how our direct to customer proposition will be further developed through a number of cross cutting initiatives.<br><br>A shared understanding of the five-year view of the direct to customer market, the opportunities, threats and implications. |
| Savings channel insight | To receive an overview (to reach a shared understanding) of the key attributes of our savings members, show how the dynamics of our segment mix are changing over time versus our stated ambition and to signpost the potential considerations for our customers, funding and channel strategies. |
| Strategic cost and efficiency | To present an overview of the investment made into the business in recent years and how we intend to increase the focus on cost efficiency and the strategic approach to deliver productivity improvements.<br><br>Awareness of our current cost position and board alignment on how we will be measuring, tracking and influencing cost efficiency and what this means for the business. |
| Member value | Acknowledging the member value delivered following the inception of the Society's purpose blueprint and that a key area of focus will be how this value is to evolve over the next five years.<br><br>Debating whether the Society's future plans represent good value for our mortgage and savings members. |
| Forward planning | Do the Society's future plans set the right balance between pushing forward on purpose, optimising for commercial returns and effective risk management?<br><br>Have we made choices to effectively deploy our capital to further our purpose and de-risk the balance sheet? |
| Response to increased competition | Reflecting on the possible impacts due to the continued uncertainty within the market and in particular, interest rates.<br><br>The importance of agreeing on a view of the trajectory of new business spread and the proposed responses that seek to maintain long term financial stability, generation after generation. |
| Investment and costs | Ensuring agreement with the investment principles and the guardrails and the outcomes that these generate.<br><br>Developing an approach to tracking transformation spend and the approach to targeting productivity improvements over time. |
| Flexible plans | Continued flexibility can be achieved by the continued use of the agile trading principles and the methodology for defining the 2024 trading range.<br><br>Whether the activities in plan remain appropriate in light of the current uncertainty and the risk of downturn stress events. |

## Stakeholder engagement

The board recognises the diverse range of our stakeholders and the importance of assessing and understanding their needs. Established engagement channels are in place for each stakeholder group to ensure their views are considered in the overall decision-making process. The board receives insight from each stakeholder group through a combination of direct and indirect engagement and through the reports it receives at board or board committee level.

The diagram below displays who we consider as our key stakeholder groups and detailed insight is provided on how we actively engaged with our members and colleagues during 2023. Further details on our stakeholders and their importance to us can be found on pages 25 to 30 of the Strategic Report.

## Members

We regularly engage with our members to understand what is important to them and to gain insight on the products and services they'd like to receive, particularly in the current economic climate.

| Engagement channel | Activity |
|---|---|
| **TalkingPoint** | TalkingPoint is our online customer panel which we use to invite members to tell us what they think and to give feedback on a wide range of subjects, from the Society itself, to our new products and services.<br><br>As at the end of December 2023, the TalkingPoint panel had 3,384 members. Throughout the year, several research activities were undertaken, including for example where we asked members about the following topics:<br><br>• Branch Path to Purchase – research to understand the journey that an individual takes before opening a new savings account in a branch (with any provider), with particular focus on any online research they do prior to visiting a branch.<br>• Savings behaviour – to understand how changes in the Bank of England's base rate affect members savings behaviour.<br>• AGM – research to help to inform the planning of the 2024 AGM and member voting packs.<br>• ISA research - to understand members' views on Cash ISAs, such as how a rising interest rate environment has affected how members think about Cash ISAs and how much value is placed on the tax-free component of an ISA. |
| **Annual General Meeting (AGM)** | Our AGM is an important date in our calendar and our single biggest member engagement event. We are focussed on improving our AGM engagement activity and encouraging members to ask questions and take part by voting on our resolutions and in the elections and re-elections of our directors. Last year we were delighted that our voting turnout increased by 1.11% equating to an additional 10,769 votes.<br><br>The 2024 AGM will be held at the Leeds Marriott Hotel on 18th April, or any adjournment thereof. |

### Engagement in action – AGM 2023

The Society's AGM is the largest member engagement event in our calendar. For the Society it is a valued opportunity for us to engage with our members and encourage their participation both by voting and to inform us of their views.

During the 2023 voting period, and as part of our focus to enhance engagement, we encouraged members to send us their questions or attend the meeting and raise question in person. We were pleased to receive a high number of questions from members prior to the 2023 AGM and responded to all questions directly. The majority of questions were received by email and the main topics related to the diversity of the board and the steps being taken by the Society to enhance inclusion and diversity, corporate responsibility, director remuneration, member products and savings rates.

The board reviewed the level of queries received alongside the most common themes and used it as a means of monitoring member sentiment. The insight gained is also used in future years when preparing a list of frequently asked questions for members to review when voting in our AGM.

During 2023, another key area of focus for future AGMs has been to enhance the accessibility standards of our AGM documentation. The AGM Team has allocated dedicated resource to focus on this, working alongside our colleague-led disability forum, to enhance accessibility where possible.

## Colleagues

The board maintains a variety of both formal and informal channels by which it engages with and listens to colleagues, to identify any themes or concerns, and as a means of monitoring our culture.

| Engagement channel | Activity |
|---|---|
| Virtual updates are delivered to each colleague division from the relevant executive director or member or ExCo | Sessions are scheduled at regular intervals throughout the year and include an update on the Society's performance along with updates relevant to their division. Colleagues are also provided with the opportunity to raise questions they may have. An annual roadshow also takes place to provide colleagues with an update on the Society's annual financial results and future objectives. These were hosted in person by members of the executive team with the option to watch online as well. |
| Annual colleague engagement survey | A formal engagement survey is undertaken each year to provide insight on colleague views, themes, and any areas of concern. In 2023, an additional pulse survey was also undertaken in September as a means of monitoring culture. You can read more about the results of the surveys in the Strategic Report on page 16. |
| 'Voice of the Colleague' video presentations from colleagues delivered at board meetings, and in person meetings with colleagues | Continuing on from its success in 2021 and 2022, colleague views have been heard in the boardroom through a series of in-video presentations and in person presentations. In 2023, these have included sessions with insight from colleagues on our intermediaries, support provided to vulnerable customers, mortgage services as well as a session led by members of the Colleague Association. |
| Attendance by board members at colleague inclusion and diversity forums and colleague association meetings | Several non-executive and executive board members, including the Chair, attended colleague forum meetings to listen to the topics being discussed, gain insight into the activities undertaken by each forum as well as answering any questions on the Society's inclusion and diversity agenda. |
| Branch and departmental visits by non-executive directors | A number of non-executive directors have undertaken visits to branches and departmental visits throughout the year to meet with colleagues and discuss matters with them directly. |
| Attendance at meetings of the Colleague Association | The Colleague Association is made up of volunteer colleagues. It provides guidance, welfare support and legal assistance for its members and is a forum for colleagues to provide feedback to senior management. In 2023, the association met with the Chair, Iain Cornish, CEO, Richard Fearon, and Annette Barnes. The chair of the association and head of HR also attended a board meeting to provide an overview of colleague insight / views in relation to how they felt about working at the Society. |
| Designated non-executive for Colleague Engagement | Regular updates are provided to the board by the designated non-executive for colleague engagement regarding insights gained through colleague meetings, branch visits and attendance at the colleague forum meetings. More information is included on page 139 of this report. |

### Engagement in action – views from colleagues

Annette Barnes was appointed as the designated non-executive for colleague engagement in January 2023. Annette reports to the board regularly on her findings and agrees appropriate actions with management. Through regular meetings with the Colleague Association, colleagues in branches, in our Cobalt office, and departmental visits, Annette has gained valuable insight into colleague opinions and views from across the organisation. Annette provided an annual update to the board in September to share her findings and reflections, a summary of which is provided below:

- Colleagues are very appreciative of the significant changes that have been made to enhance salary and benefits.
- Colleagues recognise the changes to working patterns to further support hybrid working.
- Colleagues felt that the Society had progressed its inclusion and diversity agenda and felt that the right conversations were taking place.
- Talent development and colleague progression were noted as areas where colleagues would like further focus.
- Colleagues were reported to really enjoy how ‘purpose led’ the Society is and have a strong interest in ESG matters.
- Volunteering days, particularly as a team, were reported to be good networking opportunities and a valued benefit for all colleagues.

Approved by the board of directors and signed on behalf on the board.

**Iain Cornish**
**Chair**

22 February 2024

# Nominations Committee Report

## Year ended 31 December 2023

**Nominations Committee highlights from 2023**

- Two new non-executive directors appointed: Farah Buckley and Pam Rowland.
- Annette Barnes and Pam Rowland appointed as members of Nominations Committee.
- Positive progress towards board diversity targets.

**Committee membership during 2023**

- Iain Cornish (Chair) – since April 2021.
- Gareth Hoskin – since January 2019.
- Pam Rowland – since October 2023.
- Annette Barnes – since January 2023.
- Katherine Tong – Committee Secretary.

**Number of meetings and attendance**

- Four scheduled meetings with 100% attendance from committee members.
- Two additional meetings in October and November.
- The attendance records from each meeting in 2023 are included on page 125 of the Corporate Governance report.

### Introduction from the Chair

I am pleased to present our 2023 report on the Nominations Committee, which summarises our activities over the past year and the role and responsibilities of the committee.

#### Committee focus 2023

Key areas of focus for the committee in 2023 have included a focused review into board succession planning, board recruitment, progression of the 2022 external board evaluation actions, the 2023 internal board evaluation, as well as consideration of our inclusion and diversity statement, which outlines our intent.

Inclusion and diversity have continued to provide a central theme across all our meeting agendas, with detailed discussions taking place, alongside an in-depth review of progress towards our inclusion and diversity targets and ambitions. Our strategy is about embedding inclusive practices into everything we do, creating a truly collaborative environment where diverse perspectives are sought to fuel innovation and deliver our purpose. The committee recognises the lead role it plays in furthering this agenda and has actively sought to progress and agree actions throughout the year. I have attended each of our five colleague-led forums to hear about their activities and how they support the progression of the inclusion and diversity strategy. Their passion and commitment to further this agenda is impressive. Our Purpose Impact Report also includes further information on how our efforts support our communities and is available on the Society's website: leedsbuildingsociety.co.uk/press/financial-results.

The committee also continued to oversee the Society's governance arrangements to ensure we operate within a strong governance framework and in accordance with the recommendations of the UK Corporate Governance Code (the Code). This year, we have been mindful of the Financial Reporting Council (FRC)'s consultation and proposed revisions to the Code and the actions required to comply with any potential changes. However, following an announcement from the FRC that it was stopping the development of more than half of the proposals set out, we will be putting this on the agenda for 2024 to review in detail once the final revisions to the Code have been confirmed.

## Board appointments

Board composition featured regularly on the committee agenda this year and recruiting suitable candidates has been at the forefront of our discussions. We started the year recruiting for at least two new non-executive positions and focused our search on appointing the right people to meet the board's needs in terms of skills and experience. While also considering our diversity objectives, we were mindful to adopt a multi-year approach to ensure the appointed candidates would fill future skills gaps, as other existing board members reach the end of their tenures.

We were delighted to confirm the appointment of Farah Buckley and Pam Rowland to the board as independent non-executive directors in April and May respectively. Both candidates will stand for election for the first time at the 2024 AGM.

As reported last year, Lynn McManus stepped down from her position as a non-executive director in January 2023, to pursue an executive role with another financial institution. Consequently, the board agreed to extend David Fisher's appointment into 2023 to support succession planning. Since that time, in November, the board approved a proposal from the committee to extend his appointment for up to a further three years. However, given the length of David's tenure on the board, it was agreed that he would become a non-independent non-executive director from 1 December 2023. More information on board composition is included below and in the Corporate Governance Report on pages 127 to 129.

## Role and responsibilities

A summary of the committee's role and the activities undertaken by the committee in 2023 is detailed below.

### What is the Nominations Committee responsible for?

**Nominations Committee responsibilities:**

- Oversight of succession planning and pipeline development for directors and the senior leadership team, ensuring an appropriate focus on diversity.
- Succession planning for the board and its committees.
- Oversight of the appointment and induction process for board candidates.
- Agreeing the approach and coordination of the annual board evaluation review.
- Review of the board conflict of interest policy, including monitoring any potential or actual conflicts of interest.
- Ongoing assessment of the independence and time commitment of non-executive directors.
- Oversight of the Society's governance structure and practices to ensure compliance with the Code and best practice, in so far as it is possible for a building society.

| Board Composition | |
|---|---|
| Committee role | The committee is accountable to the board for ensuring the board and its committees consist of directors with the appropriate balance of skills, experience, background and opinions, to fully discharge their duties in a highly effective manner.<br><br>The committee is also responsible for setting and agreeing the diversity targets at board level and approving the board diversity statement on an annual basis. |
| Activities in 2023 | As noted in the introduction, two new board appointments were made in the first half of 2023 with the appointment of Farah Buckley and Pam Rowland in April and May respectively.<br><br>David Fisher reached his nine year tenure in March 2021 and has subsequently agreed to an extended term to support continuity and succession planning.<br><br>In January 2024, the Chair confirmed his intention to step down in 2025. Two additional meetings were held in October and November, without the Chair present, to discuss and agree a succession plan for his role. Discussions have included consideration as to the appointment of an external recruitment agency which will be engaged to recruit for the role and have a focus on inclusion and diversity as well as seeking candidates with the right skills and experience for the role. |

| Board composition | |
|---|---|
| Activities in 2023 | To support succession planning, including that of the Chair and Senior Independent Director, in November 2023, the committee proposed to the board to extend David's appointment for up to a further three years. David's experience and knowledge of the business continue to be extremely valuable to the board and it was agreed that his appointment would provide continuity and additional strength while succession plans for the Chair, are secured for the future. Although David continues to demonstrate diversity of thought and a strong level of scrutiny and challenge to board and committee discussions, due to the length of his tenure, it was agreed he would be considered as a non-independent board member from 1 December 2023. The committee was mindful that the board would still meet the Code requirements in this regard, at least half of the board, excluding the Chair, are required to be independent non-executives. The committee will continue to monitor this closely as the composition of the board evolves.<br><br>In 2023, the committee reviewed and approved the updates to the board inclusion and diversity statement and reviewed the progress realised towards our inclusion and diversity strategy. The Society's statement on inclusion and diversity is available on the Society's website at leedsbuildingsociety.co.uk/your-society/financial-information/diversity.<br><br>More information on the committee's activities in this area are included in the inclusion and diversity section of this report on pages 145 to 146. |

| Succession planning | |
|---|---|
| Committee role | The committee is responsible for the consideration of the succession planning for the board, including non-executive directors and executive directors. It also considers the membership of the board committees and makes recommendations to the board on all these matters, as well as providing oversight of succession plans for the senior leadership team. 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. The committee is required to review the leadership needs of the organisation at regular intervals and ensure the development of a diverse pipeline for succession to ensure the continued ability of the Society to operate effectively and ensure its long-term success. |
| Activities in 2023 | Throughout the year, the committee regularly reviewed the composition of the board and its supporting committees, to ensure they comprised a sufficient number of executive and non-executive directors, who meet the requirements as set out by the Code and the Senior Managers Regime (which sets out the expectations of the Society's regulators on accountability and governance). As part of this review, the current mix of directors' skills, experience, backgrounds and qualifications is reviewed through the completion of a skills matrix. This 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 tenure of each non-executive director who is nearing the end of their three, six or nine year term within the next 18 months is discussed at the relevant committee meeting, alongside the impact on succession plans and what skills would be required should a director leave at the end of their term. |

| Succession planning | |
|---|---|
| Activities in 2023 | Following the appointments of Farah and Pam in the first half of the year, consideration was given as to which committees suited their experience and knowledge alongside future succession plans for each committee. After consideration and approval from the board, it was agreed that Pam would join the Nominations and Remuneration committees and Farah would join the Audit Committee. Following the decision that David Fisher would remain on the board as a non independent non-executive director, it was agreed that he would step down as a member of the Board Risk, Audit and Remuneration committees and would be present as an attendee from 1 December 2023. Committee membership was considered carefully in 2022 and 2023 to ensure appropriate replacements were made for David Fisher. As part of this, it was agreed that Iain Cornish would be appointed as a member of the Remuneration Committee. As part of these discussions, it was noted that he wouldn't take part in any of the discussions relating to his own remuneration.<br><br>**The Leeds NED network**<br>The Leeds NED Network was set up by the Society in 2021, with the objective of establishing relationships with potential diverse candidates and to provide insight on the role of a non-executive and the skills and experience required, both at the Society and more generally across financial services. Several meetings have been held since its inception and the network was reinvigorated in 2023 with a number of high calibre individuals in attendance, with a wide range of topics discussed. The Chair and CEO attended the meetings and provided attendees with examples of topics discussed at the Society's board meetings. They shared examples of how challenge was presented and explained interactions between non-executive directors and management. The sessions sought to provide practical insight into what it means to be a non-executive and what the expectations are of the role.<br><br>**Board skills matrix**<br>The committee has a detailed skills matrix for the board, which indicates the level of skills and experience required to deliver our strategy and to effectively support the business over our strategy horizon. The range of skills within the matrix reflects the complexity of executive and non-executive director roles, as well as the responsibilities and governance requirements of the regulatory regime. The committee conducts a full review of the skills matrix each year, the outputs of which help to determine gaps and priorities for succession planning. In 2023, the committee concluded that the board had strengthened its transformation and IT / digital skill set through the appointments of Anita Tadayon and Rob Howse and the level of customer and ESG experience had been enhanced through the experience on the board collectively. The committee also noted that the skills matrix assessment would be complemented by the cognitive diversity assessment, which was completed as part of the board effectiveness review.<br><br>In 2023, the committee also completed a comprehensive review of the competency framework for the non-executive directors. This underpins the recruitment process, performance and coaching and appraisal activity. Updates were made to the non-executive competency framework to ensure it is future-focused, demonstrates resilience, adaptability and creativity in the face of the changing environment. It is also aligned to the Society's behavioural expectations, which will support the overall effectiveness of the board. In addition, the committee discussed how it would be necessary to ensure that the board induction and ongoing training actively enabled attainment of these competency expectations and that board succession planning and recruitment must also align accordingly. |

| Succession planning | |
|---|---|
| Activities in 2023 | **Board re-appointments**<br>The committee is responsible for reviewing the re-appointment of all non-executive directors at the end of each three year term. Non-executive directors are appointed for a period of three years and are usually expected to serve two terms. These terms are subject to ongoing performance evaluations and annual re-election by members at the AGM. Independent non-executive directors may also be proposed for a third term, up to a maximum of a further three years (nine years in total, or more in very limited circumstances), provided they are considered to remain independent from the Society. On re-appointment, a refresher training programme, informed by their performance evaluation and the future requirements of the non-executive role, is provided to each non-executive director as appropriate.<br><br>In July 2023, the committee proposed, and the board agreed, to extend Neil Fuller's term extension for a second three year term, subject to annual election at the AGM. It was also agreed that Gareth Hoskin's appointment would be extended into 2025 to provide oversight of the external audit transition. Gareth will reach his nine year tenure with the Society in November 2024. |

| Board effectiveness | |
|---|---|
| Committee role | To ensure the board evaluates its own performance and that of its members (at least annually). The actions arising from the reviews are overseen by the committee. At least once every three years, the committee is required to commission an external review of board effectiveness.<br><br>The committee is also responsible for the ongoing assessment of the independence and time commitment of non-executive directors to ensure everyone can fully discharge their duties to the board. |
| Activities in 2023 | **Board evaluation**<br>In 2023, the committee agreed the plans for the 2023 board evaluation process and received regular updates on actions from the 2022 review process. More information on the board evaluation is included in the Corporate Governance Report.<br><br>**Board appraisals**<br>In 2023, a review was conducted of the annual appraisal procedure for the non-executive directors and a more streamlined process has been adopted to reflect the revised non-executive competency framework.<br><br>**Review of independence and conflicts of interest**<br>During the year, the independence of all non-executive directors was assessed against the criteria set out in the Code and their length of service. The committee simultaneously considered potential conflicts of interest by undertaking a review of the Board Conflicts of Interest Register, alongside the external appointments and time commitments held by each director. Following his nine year tenure ending in 2021 and the previous approval to extend his appointment into 2023 and now up to a further three years, detailed discussions were held to assess David Fisher's independence. Due to the length of his tenure it was agreed in November that David Fisher would be considered as non-independent director from 1 December 2023. The committee concluded that all other directors remain independent and that all external appointments remained appropriate. Further details on the 2023 review process, conflicts of interest, external directorships and the associated time commitments are contained within the Corporate Governance Report. |

| Governance | |
|---|---|
| Committee role | The committee is responsible for ensuring the board meets the principles and provisions of the UK Corporate Governance Code (the Code) and regulatory sourcebooks relevant to the remit of the committee – specifically those regarding conduct, accountability, and management arrangements. |
| Activities in 2023 | In 2023, following a detailed review of compliance against the existing version of the Code, the committee received an update to confirm the Society complies with the Code, insofar as it is possible for a building society, with no further actions required.<br><br>In addition, the committee received an overview of the FRC's proposed revisions to the Code and a summary of potential actions which would be required to ensure compliance. Since then the FRC has announced that it won't be progressing more than half of the proposed revisions. The committee will review the updates to the Code further once these are published by the FRC in 2024.<br><br>Throughout the year, the committee also reviewed the division of responsibilities of the Chair, CEO and Senior Independent Director and agreed to update the document to include reference to the FCA's Consumer Duty requirements, the 2025 board calendar and the committee's ToR. |

## Inclusion and diversity

The committee is responsible for ensuring the composition of the board and the senior leadership team is inclusive and diverse and reflects the Society's strategic ambition, which is to be an organisation where we harness inclusive practices so that all colleagues are 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.

In 2023, the committee reviewed and approved the updates to the board inclusion and diversity statement and reviewed the progress towards the inclusion and diversity strategy. The Society's statement on inclusion and diversity is available on the Society's website at leedsbuildingsociety.co.uk/your-society/financial-information/diversity.

As part of our strategic review, we also took the opportunity to review our targets. Factors that influenced the review of our targets included benchmarking inside and outside the sector and we also reflected on what was the right approach for us given progress being made on our existing targets (as at the end of 2022 we had achieved most of our targets set out to 2025). This brings us more in line to other signatories of the Women in Finance Charter and also aligns to the current proposals within the FCA and PRA inclusion and diversity consultation papers.

To support us in setting stretching and credible targets we reviewed relevant and forecast data sets, such as attraction, attrition, promotional rates etc. This work aligns with our decision to voluntarily opt into the FCA's diversity expectations in regard to board representation with a 2030 target aspiration date.

The table below sets out the Society's progress against the 2030 targets for gender and ethnicity representation on the board and in the senior leadership team, as at 31 December 2023.

| Element | Proposed progress to target for 2023 | Actual position as at 31 Dec 2023 | Target for 2030 |
|---|---|---|---|
| Board gender diversity | 30% | 33% | Minimum of 30% |
| Board ethnic minority representation | One or more members | Two members | One or more members |
| Female representation at senior leadership level | 39% | 39% | 45% |
| Ethnic minority representation at senior leadership level | 7.5% | 8.5% | 10% |

We continue to make progress in being a Society where colleagues feel seen, valued and enabled to be at their best. 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. 57% of our workforce is female. Our gender pay gap is driven by the make-up of our workforce, as we have fewer women than men in more senior and, therefore, more highly paid roles. We remain confident our pay approaches are fair and gender neutral.

Further information can be found on our website and more information on the activities undertaken to promote wider diversity within the Society can be found in the Strategic Report on pages 9 to 30.

## Key areas of focus in 2024

Succession planning for the Chair, led by the Senior Independent Director, will be a key focus for the committee in 2024. In addition, the committee will continue to review the changes to the UK's corporate governance framework and make any changes to ensure alignment with best practice, as well as ensuring effective succession planning to support the long-term sustainability of the Society with inclusion and diversity always being at the forefront of our discussions in this area.

**Iain Cornish**
**Chair of Nominations Committee**

22 February 2024

# Audit Committee Report

## Year ended 31 December 2023

### Audit Committee highlights from 2023

- Annual Report and Accounts recommended to the board for approval.
- Integrated assurance continues to demonstrate our control environment is effective and proportionate.
- Provided oversight over the content / publication of the Purpose Impact Report.
- Received updates with respect to the Society's approach to regulatory reporting for discussion and decision.
- Ensured alignment with Financial Reporting Council's new Minimum Standard applicable to Audit Committees and the External Audit.
- Due to the Society's size, new Pillar 3 Large Institution Reporting became applicable.
- External Audit Transition Planning.
- Appointment of the new Chief Internal Auditor.

### Committee membership during 2023

- Gareth Hoskin (Chair) – member since January 2016.
- David Fisher – member since May 2017.
- Neil Fuller – member since January 2021.
- Farah Buckley – member since April 2023.

### 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 divisions and other relevant business areas, plus senior external audit personnel also in attendance.
- Two private meetings with the external auditor and two with the Chief Internal Auditor, not attended by management.

### Introduction from the Chair

I am pleased to present my report on the work of the Society's Audit Committee in relation to the financial year ended 31 December 2023.

The committee comprises solely of non-executive directors so that it is independent of executive management. The committee acts with authority delegated to it by the board and reports directly to the board. All members of the committee have recent and relevant financial services experience and competence in accounting, finance or risk management.

Our core responsibilities relate to the following four areas:

| | | | |
|---|---|---|---|
| Appropriateness and integrity of our **external financial reporting** | Adequacy and effectiveness of our **systems of internal control** and risk management | Effectiveness, performance and independence of the **Internal Audit** function | Independence, performance and objectivity of the **external auditor** |

In 2023, the difficult economic environment, with elevated levels of inflation and higher interest rates, and the knock on impacts to the mortgage and savings markets, have presented challenges to the Society which are reflected in the work of the committee.

In particular, the volatile economic environment means that greater reliance is placed on management judgement in certain areas of financial reporting and committee members have spent considerable time reviewing and challenging these judgements for both the Interim Financial Report and the Annual Report and Accounts.

It is vital that our internal control and risk management systems continue to operate effectively to protect the business and our members in these uncertain times, and all three lines of defence have focused on maintaining a strong control environment. I am pleased that the committee has been able to conclude that the control environment remains effective and proportionate to our operations.

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

In November 2023, Karen Bassett stood down as Chief Internal Auditor to pursue an external role. I would like to convey the committee's thanks to Karen for her significant contribution over the last nine years. I would also like to take this opportunity to welcome Caroline Dale, who has joined the Society's Executive Committee following her appointment as Chief Internal Auditor on 1 November 2023.

As a committee, we recognise the importance of strong corporate governance and the increasing regulatory expectations in the areas of internal controls and external audit. In May 2023 the Financial Reporting Council (FRC) published its minimum standard for audit committees. Although the standards are initially applicable to FTSE350 companies, they are considered to represent best practice for all businesses of our size and we will incorporate changes where appropriate.

**Gareth Hoskin**
**Chair of Audit Committee**

22 February 2024

## What the committee did during 2023

### External financial reporting

The committee reviewed the Society's Interim Financial Report, published in July, and its Annual Report and Accounts, on behalf of the board. Following detailed discussions and challenge of management, we were able to recommend these to the board for approval. All board members either attended the committee meetings where the final financial statements were reviewed or received an individual briefing from the Audit Committee Chair, so that all directors were aware of the matters discussed and the challenges raised with management.

The committee also provides oversight of the Society's regulatory reporting and our Pillar 3 Disclosures. We considered material overarching judgements applied by management in the preparation of these reports and approved the governance arrangements around their production, noting the assurance provided by the second line risk division.

Preparation of the financial statements requires management to adopt certain accounting policies as appropriate for our business and make judgements, estimates and assumptions. Further details of the work undertaken to examine and challenge the most significant areas are set out in the table overleaf, with additional information in note 2 of the accounts. Having considered and challenged management and the external auditor's reports on the approaches adopted, we were able to conclude that they were appropriate.

The board has also asked the committee to confirm that the Annual Report and Accounts, as a whole, presents a fair, balanced and understandable view of the Society's position and prospects. In assessing this, we considered the process for the production, review and challenge of the report and whether this would result in a balanced and consistent report.

We read the narrative sections of the report, considering whether the content was consistent with our knowledge and understanding of the business and the wider environment, as well as other information provided to the board throughout the year.

| Area of focus | How the committee responded |
|---|---|
| **Residential impairment loss provisions**<br><br>Under IFRS 9 – Financial Instruments, we are required to hold impairment loss provisions against our financial assets, calculated on an expected credit loss basis.<br><br>For residential mortgages, these provisions are calculated using complex statistical models which incorporate historical default and loss experience information.<br><br>Significant judgement and estimation is required in determining whether there has been a significant increase in credit risk, in setting forward looking economic scenarios and the probability weighting of those scenarios.<br><br>Management judgement is also required on the nature and size of post model adjustments where risks are identified that are not sufficiently covered by the modelled provisions and scenarios.<br><br>Further details of the estimates and judgements used are set out on pages 202 to 207. | Following substantial redevelopment of the models used for calculating residential impairment loss provisions in 2021, the first biennial review has taken place this year and any subsequent changes to the models have been minor.<br><br>We were supported in our assessment of residential impairment loss provisions by the Models and Rating System Committee (MRSC), which reviewed the model changes in October 2023, and Credit Committee, which approved the approach to the non UK loan portfolio and provided preliminary approval of the final provisions, including post model adjustments.<br><br>Despite evidence of economic resilience in 2023, the external environment remains extremely volatile, which has provided a challenge when selecting appropriate economic scenarios for provisioning. Management's proposed scenarios and weightings were initially reviewed and refined by the Balance Sheet Optimisation Group before being presented to the committee for feedback ahead of reporting dates.<br><br>To support the committee's review of the assumptions, management provided benchmarking information and comparison to external third party forecasts. We also noted the challenge to specific assumptions provided by the external auditor and management's response to this.<br><br>As in the previous year, the potential impacts of inflationary pressures on mortgage affordability have required additional consideration. This need has been heightened during 2023 by increases in base rate driving higher mortgage payments as customers reach the end of their fixed rate term.<br><br>In November, management provided us with details of the multiple considerations, including internal and external benchmarking, being used to assess the affordability impacts on provision levels. We provided feedback on management's approach to be incorporated into the final calculations.<br><br>In January 2024, management reported to us their final proposed provisions, including post model adjustments. These were supported by key metrics such as coverage rates and proportions of loans in Stages 2 and 3, benchmarking data and sensitivity analysis. The committee assessed the work performed and asked questions on the approach taken with the main focus on the range and sensitivities of the affordability post model adjustment due to the level of inherent uncertainty.<br><br>Having considered management's reports, the assurance from other committees and feedback from the external auditor, we concluded that the impairment models remain appropriate, the assumptions used are reasonable and that the post model adjustments at the 2023 year end are appropriate in the circumstances.<br><br>Therefore, the committee concluded that the level of impairment provisions at 31 December 2023 is reasonable. |

| Area of focus | How the committee responded |
|---|---|
| **Fair value of the collateral loan which represents a pool of equity release mortgages**<br><br>We hold a collateral loan to a third party which represents a pool of equity release mortgages acquired from that third party, which is measured at fair value through profit or loss.<br><br>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.<br><br>The key estimates and sensitivities are shown on pages 207 to 208. | The model used by management to calculate the fair value of the collateral loan underwent an in-depth review in 2022 and remains appropriate. The assumptions used in the model are primarily evidence based, using historic data on the performance of the underlying mortgages or external market data. However, a significant level of judgement is required in selecting the discount rate to be used and management refresh their calculation at the end of each reporting period so that the rate applied is aligned to the current interest rate and economic environment.<br><br>Management explained the assumptions used, the judgements applied in deriving these for the interim and year end accounts and the sensitivity of the model output to changes in these assumptions. We probed the approach taken and questioned management on the magnitude of the changes in assumptions.<br><br>We also asked management to set out the rationale to justify the overall movement in fair value for the year, noting the interaction with the fair values of the associated derivatives. We received and discussed this information at the January 2024 meeting.<br><br>Since there is no directly comparable market data available and a significant level of judgement is required in the valuation, a wide range of valuations could be considered reasonable.<br><br>Taking into consideration management's explanations, the sensitivity analysis provided and the views of the external auditor, the committee concluded that the fair value recorded in the financial statements for the collateral loan was within a reasonable range. |
| **Fair value of the RPI linked derivative hedging the collateral loan (equity release swap)**<br><br>We hold derivative financial instruments to mitigate risks from movements in market rates.<br><br>The valuation of the RPI linked derivative hedging the collateral loan requires management judgement in the modelling approach and assumptions used. | The RPI linked derivative is valued using a model developed in 2021. The model is governed by the Society's Model Risk policy.<br><br>The majority of the assumptions in the model are derived from market observable data, with the only significant unobservable input being the profile of the swap balance. Since this is a 'balance guaranteed' swap, this is assumed to match the modelled profile of the underlying equity release mortgages.<br><br>The external auditor has reported to us a simplification observed in the approach to modelling the contractual cap and floor for RPI. Since the approach is consistent with the approach to the valuation of the collateral loan and thus has an offsetting impact within the Income Statement, both management and the committee have concluded that the adopted approach is materially appropriate.<br><br>Having considered management's valuation, the rationale supporting this and the results of the external auditor's independent valuation, the committee concluded that the valuation of the derivative in the accounts is appropriate. |

| Area of focus | How the committee responded |
|---|---|
| **Hedge accounting**<br><br>Changes in the fair value of derivatives are recognised in the Income Statement immediately. However, if strict accounting criteria are met, these instruments may be designated in accounting hedge relationships. | Management continues to apply the hedge accounting rules of IAS 39 to certain of our derivative portfolios. The committee was provided with regular updates through the year on the hedge relationships in place and the results of effectiveness testing which showed all hedges remained effective throughout the year.<br><br>The nature of hedge accounting means that the external auditor performs detailed substantive testing of management's results, including reperformance of hedge effectiveness testing and derivative valuation. We noted the results of this testing which did not reveal any material errors.<br><br>The committee therefore satisfied itself that hedge accounting has been appropriately applied and that management's hedge effectiveness testing performed throughout the year was materially appropriate.<br><br>The committee concluded that amounts recognised in the financial statements are fairly stated and that appropriate disclosures have been made.<br><br>Management has chosen to apply the hedge accounting requirements of IFRS 9 for micro fair value hedges and the macro cash flow hedge from 1 January 2024. The committee was provided with the rationale for the transition from IAS 39 and was satisfied that the change in accounting policy was appropriate. |
| **Going concern assessment and Viability Statement**<br><br>The directors are required to prepare the financial statements on a going concern basis, unless they consider that it is inappropriate to presume that the Society will continue in business for the next 12 months.<br><br>The board is also required to provide a statement on the longer term viability of the Society.<br><br>These assessments have been delegated to the Audit Committee. | Management provided the committee with reports to support the going concern assumption for the Interim Financial Report and Annual Report and Accounts. Those reports drew on management information used by the business to forecast and monitor key factors including profitability, liquidity, capital and operations. No matters were identified that would indicate that the Society would not be able to continue to operate over the period of assessment, even in the event of an economic downturn or adverse stress.<br><br>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.<br><br>Having considered the outcome of this review and other evidence presented to the committee through the year in relation to our risk management processes, including the annual reports produced by the second and third lines of defence, the committee was also satisfied that the Viability Statement is appropriate. |

## Systems of internal control

Maintaining effective systems of internal control is crucial for the Society to be able to deliver our purpose and to safeguard our members' money and our own assets. We operate an Enterprise Risk Management Framework (ERMF), which is designed to encourage a culture of sound risk management and internal control. This is overseen by the Board Risk Committee and delivered through established governance mechanisms and a three lines of defence assurance model. Further details on the ERMF can be found on pages 42 to 44.

The Audit Committee is responsible for reviewing the adequacy and effectiveness of these controls and risk management systems and we are supported by all three lines of defence, as part of an integrated assurance model, in order to carry out our duties as set out below.

| First line management | Second line risk division | Third line Internal Audit |
| --- | --- | --- |
| • Responsible for design, documentation, operation and monitoring of internal controls.<br>• Six monthly assessment of design and effectiveness of controls through Risk Control Self Assessment (RCSA).<br>• Regular scheduled testing of critical controls.<br>• Report to the committee on request where specific matters of concern raised by second or third line. | • Risk-based reviews of specific processes and functions.<br>• Oversight and review of risk registers and RCSA process; report to Audit Committee on outcome of RCSA.<br>• Review results of management's critical control testing.<br>• Annual report to the committee on enterprise wide view of risks and controls. | • Independent, risk based assessments of effectiveness and adequacy of controls in specific areas of business.<br>• Report to the committee summarising findings from each review and tracking of actions.<br>• Annual summary to the committee of observations and themes in relation to control environment. |

The committee reviewed and approved the 2023 work plan for the second line prudential risk and compliance monitoring teams and the Internal Audit plan, which is refreshed on a quarterly basis to allow a focus on the most important areas at a particular time and takes into account reviews undertaken by the second line as part of an integrated assurance model.

The annual report from the risk division showed that our control environment is substantially effective and proportionate to our operations while our risk culture continues to mature. Identified control weaknesses are being adequately addressed by management, with ongoing remedial actions. A particular focus from risk during the year has been to challenge management on the impact on risks and controls arising from continued uncertainty in the economic environment and ensuring that change supports the delivery of our purpose.

Internal Audit's work during 2023 has been aligned to the Society's purpose to focus on corporate priorities as well as key areas of the control environment. Internal Audit concluded that the Society's risk and control framework is mostly designed appropriately and operating effectively, with some areas for improvement. Overall, it did not find any control weaknesses likely to be material to the financial statements based on the assurance work delivered.

The external auditor also assesses the design and effectiveness of certain financial reporting, operational and IT controls as part of its procedures to reach an audit opinion on the Annual Report and Accounts. The auditor reported its findings to the committee and no material issues were raised in this report.

Overall, based on this year's review and the evidence provided by all three lines of defence, the committee concluded that the Society has adequate and effective systems of control and risk management framework in place, which has allowed risks to be appropriately identified and managed. Further enhancements to discrete elements of the framework have been identified to increase risk maturity over the next twelve months as part of a process of continuous improvement, which are encapsulated within the Society's corporate objectives and risk strategy.

## Internal Audit

Internal Audit plays a vital role in the ERMF because it acts independently of the rest of the business to provide a reliable third line of defence. The board has delegated the role of overseeing the effectiveness, performance and independence of the Internal Audit function to the Audit Committee. The Chief Internal Auditor reports directly to the Chair of the Audit Committee to maintain their independence from executive management. The committee approved the Internal Audit charter and ToR which detail the scope, purpose, authority and responsibilities of the function, noting that these reflect industry best practice. The chair also reviewed the Chief Internal Auditor's objectives for the year. Following a recruitment process, including external benchmarking and interviews with members of the Audit Committee and the CEO, a new Chief Internal Auditor was appointed in November 2023 and the committee reviewed the handover activities. Internal Audit provides an annual declaration of independence, which confirmed that there was no impairment of its independence. Further, since the new Chief Internal Auditor was previously the Director of Finance Operations for the Society, the Committee has reviewed and noted the additional independence safeguards put in place by Internal Audit.

Internal Audit provides regular reports to the committee setting out progress against the plan of work and the latest plan for upcoming reviews, together with updates on resourcing and performance metrics. We assessed the coverage provided by the audit plan and the effectiveness of delivery and debated any challenges arising with the Chief Internal Auditor. We probed on the coverage of Consumer Duty within the Internal Audit plan, and discussed plans to supplement available resources with external expertise to ensure industry wide views are taken into account when assessing this new area. We also received regular updates on coverage of the Society's multi-year technology transformation programme and challenged to ensure that any implications of observations arising from wider audit work are taken into account in the assurance work on this programme. Where high priority observations were made by Internal Audit during the year we requested further clarity on the approach to following up these items.

Following the introduction of Internal Audit's 'roadmap' for continuous improvement over the next three to five years, we have received half-yearly updates on Internal Audit's progress with delivery of these improvements.

During the year, Internal Audit engaged a third party to undertake an External Quality Assessment (EQA), providing an assessment of Internal Audit against the 'International Standards for the Professional Practice of Internal Auditing' (IIA Standards) and the CIIA 'Guidance for Internal Audit within the Financial Services Sector' (FS Code), together with benchmarking of Internal Audit's position compared to peers. The committee noted that Internal Audit generally conforms with the IIA Standards and has largely adopted and addressed the recommendations of the FS Code. It was also noted that Internal Audit compares well against peers with a number of areas of leading or good practice. The committee reviewed Internal Audit's plan of actions to address observations made in the EQA review which Internal Audit has confirmed will be added to the continuous improvement roadmap.

Based on work throughout the year, the Audit Committee is satisfied that Internal Audit had sufficient resources with the appropriate skills, competencies and qualifications to deliver appropriate coverage of the Society's risk areas. We are pleased to note that the Internal Audit function is independent, effective and compliant with applicable standards.

## External auditor

The committee is responsible for overseeing the Society's relationship with the external auditor so that the auditor remains independent and effective.

Deloitte LLP's current tenure as external auditor is 19 years, having first been appointed in 2005 and then re-appointed following a competitive tender process in 2016. The maximum auditor tenure allowed by regulation is 20 years. The current audit engagement partner is Matthew Bainbridge, who was appointed in 2022.

Audit partner and firm rotation are important tools for maintaining objectivity and during 2022 the committee ran a tender for the Society's next external auditor. Further details relating to the tender can be found within the Society's Annual Report and Accounts for the year ending 31 December 2022, a copy of which is available on the Society's website. Two very strong candidate firms were recommended to the board, who agreed with the committee's preference to appoint Ernst & Young LLP. They will take over as our auditor for the financial year ending 31 December 2024, subject to approval from our members at the 2024 AGM.

During the 2023 financial year, 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 judgement and risks. We also reviewed and approved the auditor's engagement letter and fees.

The external auditor provided us with regular reports on the progress of its work throughout the audit cycle and the areas in which it has challenged management. We discussed these reports during committee meetings with management present and in private sessions with the external auditor. We challenged them on the timing of certain aspects of their work so that potential issues in complex areas of accounting could be identified early and resolved well ahead of the accounts signing.

To support the committee's view of audit quality, the auditor also provided us with an overview of how the firm had responded to the FRC's Audit Quality Review report on the firm for 2022 / 23 (published in July 2023).

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 2023, including one-off items, represented 15% of the audit fees for the year.

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

## Other matters

### Whistleblowing

The Society's whistleblowing policy is known internally as the Speak Up Standard. Although whistleblowing is a matter reserved for the board, the Chair of the Audit Committee is the Society's Whistleblowers' Champion and the committee reviews our policy on behalf of the board and recommends it for approval.

The committee received an annual report from management on the number and nature of reports submitted and the extent of training and communication to colleagues. The report noted that our approach is fully compliant with regulatory requirements and that there is good awareness amongst colleagues, supported by positive responses to internal colleague survey questions. We have a strong culture where the majority of colleagues feel comfortable to speak up and where survey results identify this is not the case, action is taken to understand why.

### Taxation

The committee reviewed and approved our tax strategy and tax risk management policy. As part of the approval of the tax policy, management confirmed to us that the policy had been complied with throughout the year.

## Audit Committee effectiveness

Each committee meeting concludes with a review of whether the meeting has been effective and conducted in line with the Society's behaviours. This review includes commentary from independent observers wherever possible.

The committee also undertakes an annual self-assessment of its effectiveness, via anonymous questionnaires to all members and regular attendees at meetings. The results of the review were very positive, with anonymised verbatims commenting on the high quality of the reports / papers submitted to the committee, and concluded that the committee had functioned well. The review also concluded that the Chair continues to be effective, actively encouraging debate and seeking input from all committee members and attendees.

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 2023 and are published on our website.

All committee members are required to keep their knowledge and awareness both recent and relevant. The committee is kept up to date with changes to accounting standards and regulatory focus areas for financial reporting through reports and training from management and the external auditor. Separate training materials are also provided where particular topics of relevance are identified by members or attendees. During 2023, additional training topics included: economic / accounting updates together with credit risk / market risk insights to inform the annual and interim approvals of the Society's financial statements; IFRS 9 hedge accounting; and regulatory reporting.

### The year ahead

In support of ongoing open and transparent reporting, the committee welcomed the outcomes from the Department for Business, Energy and Industrial Strategy (BEIS, now the Department for Business and Trade) consultation on 'Restoring Trust in Audit and Corporate Governance' and the proposed revisions to the UK Corporate Governance Code. The committee embraces emerging best practices and regulatory developments and intends to adopt changes voluntarily to achieve the best outcomes for the Society.

A key focus for 2024 will be to work collaboratively with Ernst & Young LLP, our new external auditor, to ensure the Society's external audit process continues to deliver value for money. We are also looking forward to working with our new Chief Internal Auditor as she embarks on their first full annual reporting cycle.

# Board Risk Committee Report

## Year ended 31 December 2023

### Board Risk Committee highlights from 2023

- Appointment of two new committee members.
- Oversight of the implementation of the new Consumer Duty regulation.
- Close monitoring of external developments and market volatility to assess and manage the impacts on the Society's principal and emerging risk profile.

### Committee membership during 2023

- Neil Fuller (Chair) – Chair since January 2022.
- David Fisher[1] – member since March 2014.
- Gareth Hoskin – member since November 2015.
- Annette Barnes – member since February 2019.
- Anita Tadayon – member since October 2021.
- Farah Buckley – member since April 2023.
- Pam Rowland – member since May 2023.

### Number of meetings and attendance

- Eight meetings held during the year.
- 94% attendance from committee members (the attendance record of committee members is set out on page 125).

### Introduction from the Chair

I am pleased to present the Board Risk Committee's report for the year ended 31 December 2023.

This report outlines the operations of the committee and how it has fulfilled its role overseeing and advising the board in relation to current and potential future risk exposures and overseeing the effectiveness of risk management frameworks.

During the year, the committee considered the current and emerging risk profile of the Society against a backdrop of heightened geopolitical, economic and financial market uncertainty. In particular, focus has been given to monitoring the potential affordability impacts of higher interest rates on borrowers, along with understanding the potential impact mitigations for emerging risks.

The committee has monitored the Society's implementation of the FCA's Consumer Duty regulation. This has included ensuring that policies and supporting frameworks are fit for purpose and support the delivery of good customer outcomes. Fully embedding revised Consumer Duty focussed governance, processes and procedures across the Society is a key focus area for 2024.

In January 2023, Lynn McManus stood down from the committee to pursue an external role. I would like to convey the committee's thanks to Lynn for her contribution over the last five years. I would also like to take this opportunity to welcome Farah Buckley and Pam Rowland to the committee, both of whom joined during the first half of 2023. Farah and Pam have significant depth and breadth of experience within financial services.

#### Committee operations

During 2023, the committee consisted of seven members, all of whom were independent non-executive directors. From 1 December 2023 David Fisher was reclassified as a non-independent non-executive director due to the length of his tenure. On this basis, David will no longer be a member of the committee in 2024 but an attendee.

1 On 1 of December 2023 David Fisher was reclassified as a non-independent non-executive director. As a consequence, David will become an attendee of the committee for meetings in 2024 onwards.

Full biographies and experience of committee members are set out on pages 113 to 120 within the Governance Report.

At the invitation of the committee, meetings held in 2023 were also attended by the Chair of the Board and relevant members of the executive and senior leadership team, ensuring that the three lines of defence were represented.

The key purpose of the committee is to assist the board in understanding and managing risk related matters. The committee is responsible for:

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

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

During the year the committee held eight meetings. Details of the number of meetings held, membership and attendance can be found on page 125. At the beginning of each meeting the Chief Risk Officer, provided an update to the committee regarding the Society's current and emerging risk profile. A summary of the supporting Executive Risk Committees was also provided by their respective Chairs to ensure effective oversight of their activities.

To support the committee's oversight of key and emerging risks, the committee receives training from internal and external subject matter experts on a regular basis. During 2023, the committee received training on property collateral risk, IRB modelling and regulatory reporting.

The committee is required to conduct a self-assessment of its effectiveness on an annual basis. The 2023 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, with a small number of minor development areas identified, which will be addressed in 2024.

## Matters considered by the committee in 2023

The committee had a balanced agenda in 2023, combining oversight of our current risk profile with emerging risks and requirements. A summary of the key matters considered by the committee during 2023 are set out below.

### Enterprise risk (including strategic / business risk)

- **Risk appetite** – the committee reviewed the Society's risk appetite statements and metrics to set the context of the 2024 corporate plan, to ensure they remain fit for purpose and reflective of prevailing operating conditions.
- **Enterprise Risk Management Framework (ERMF)** – the committee approved recommended changes to the ERMF to ensure that the Society's risk management practices remain appropriate.
- **Climate risk** – the committee received an updated assessment regarding the impacts of risks associated with climate change.
- **Emerging external risks** – the committee received regular updates regarding the Society's evolving operating environment and associated management response plans.
- **Remuneration** – the committee considered potential risk adjustment to senior management variable remuneration, with recommendations provided to the Remuneration Committee.

### Prudential risk (credit, funding and liquidity, market, capital and model risks)

- **Credit risk** – during the year the committee has closely monitored the performance of the Society's lending portfolio, given the heightened level of macroeconomic uncertainty from a prolonged period of higher inflation and substantial increases in interest rates. Alongside this, the committee has kept appetite and policies under continuous review to ensure that they remain appropriate for the prevailing operating environment.

- **Financial** – the management of other emerging prudential risks (including interest rate risk, funding and liquidity risk and wholesale credit risk) has been another area of focus, driven by volatility in the macroeconomic environment and financial markets and uncertainty within the banking sector following the collapse of several US banking institutions. In addition, the committee also carefully considered the risks associated with the Tier 2 capital tender exercise, prior to execution.
- **Prudential assessments** – the committee conducted an annual review of the Society's ICAAP, ILAAP, resolvability assessment framework and recovery plan prior to approval by the board.
- **Financial risk policies** – the committee reviewed several key internal policies that govern our management of financial risk, including lending, funding and liquidity, market and wholesale credit risk.
- **Model risk** – the committee received periodic updates during the year regarding progress with the development of the Society's revised IRB model suite. In addition, the committee also reviewed the outputs of a self-assessment against the PRA's new supervisory statement for model risk management and the associated response plan, prior to board approval.

## Operational and conduct risk

- **Operational resilience impact tolerances** – the committee reviewed and reaffirmed the Society's operational resilience impact tolerances for key business services.
- **Cyber risk** – the committee reviewed periodic updates on material cyber risks and received a progress update on the Society's cyber strategy.
- **Financial crime** – the committee received the annual MLRO report and other financial crime updates on a periodic basis.
- **Data protection** – the committee received the annual Data Protection Officer's Report.
- **Outsourcing** – the committee received updates on emerging third-party outsourcing risks and reviewed risk assessment outputs for several new material suppliers.
- **Change risk** – the committee reviewed the risk profile associated with the discovery phase of our multi-year technology programme. In addition, the committee reviewed a proposed assurance approach for the next phase of the project.
- **Consumer Duty** – the committee has closely overseen the Society's implementation of the FCA's Consumer Duty regulation.
- **Members in financial difficulty** – the committee received regular updates on progress with the Society's Mortgage Support transformation programme.

## Outlook

Over the next twelve months, the committee will continue to concentrate its attention on the potential impacts of the uncertain economic environment as they emerge across our risk universe. Key points of focus for the Committee in 2024 include:

- Assessment of the potential business model impacts from ongoing uncertainties in the external operating environment and oversight of management response plans.
- Overseeing the embedding of Consumer Duty regulation across the Society.
- Close monitoring of customer outcomes across the business.
- Overseeing the risks and mitigants associated with the next phase of our multi-year technology programme.
- Overseeing the closure of identified gaps against the finalised policy statement in relation to model risk management.

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

**Neil Fuller**
**Chair of Board Risk Committee**

22 February 2024

# Directors' Remuneration Report

## Year ended 31 December 2023

### Remuneration Committee highlights from 2023

- Agreed company objectives for 2023 and individual performance objectives for the senior team for 2023.
- Provided oversight of reward for the broader colleague population.
- Reviewed the impact of Consumer Duty in respect of remuneration arrangements and governance.
- Assessed continued compliance with the Remuneration Code.
- Reviewed the current remuneration structure.
- Reviewed and approved the remuneration policy.
- Reviewed and agreed the approach for variable remuneration schemes in readiness for 2024.
- Reviewed 2023 performance against the agreed objectives, clearly linking to strategy and purpose.

### Committee membership during 2023

In 2023 the committee comprised of six non-executive directors:

- Annette Barnes (Chair) – member since March 2021.
- David Fisher[1] – member since May 2012.
- Gareth Hoskin – member since January 2018.
- Iain Cornish – member since September 2023.
- Neil Fuller – member since November 2023.
- Pam Rowland – member since November 2023.

### Number of meetings and attendance

- Five meetings were held during the year.
- 100% attendance from committee members, with the exception of David Fisher who missed two meetings.
- Leeds Building Society Chair, Chief Executive Officer, Deputy Chief Executive Officer, Chief People Officer, and Reward Lead are regular attendees at the meetings.

### Introduction from the Chair

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

The focus of the committee is to set our Remuneration Policy, including base pay, variable remuneration and other benefits for executive directors and material risk takers. The committee also has oversight of reward for the broader colleague population.

Our members will have the opportunity to vote, on an advisory basis, on the remuneration policy and 2023 Directors' Remuneration Report, at the AGM. There have been no changes to the Policy since the last member vote at the AGM held in 2022.

The Remuneration Policy is consistent with and promotes sound and effective risk management and ensures processes and practices do not introduce any risk of detriment to consumers.

The key features of the Remuneration Policy, are set out in full on pages 160 to 162.

As a mutual, purpose-led business, and as reported last year, we took steps to support our colleagues throughout the cost of living crisis by electing to move our 2023 pay review for all colleagues forward from April 2023 to January 2023.

In 2023, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) removed the limit on the ratio of variable to fixed pay ('the bonus cap') which prevented firms from paying variable pay in excess of 100% (or 200% with shareholder / stakeholder approval). In response to these changes and aligned to our mutual culture, approach to recruitment and retention, and to support the long term aims of the Society, we have chosen to maintain the 100% variable to fixed pay limit and make no change to our annual bonus scheme.

1 On 1 of December 2023 David Fisher was reclassified as a non-independent non-executive director. As a consequence, David will become an attendee of the committee for meetings in 2024 onwards.

As reported in 2022, the Remuneration Committee approved a retention award, specifically in relation to the successful delivery of the critical, multi-year technology transformation programme for the Chief Operating Officer, Rob Howse. The first instalment of the retention award was paid in 2023. You can find further details relating to this award on page 163.

## Performance and awards 2023

Earlier sections of the Annual Report and Accounts have set out how we have made strong progress across all of our key metrics which determine our variable pay outturn.

After careful consideration, annual bonuses of between 16.7% and 18.09% (2022: 17% and 18.68%) have been awarded for 2023 to the executive directors, which represents between 83.5% and 90.4% (2022: 85% and 93.42%) of the maximum award available.

In arriving at the decision to award variable remuneration, a full risk assessment process was undertaken, during which the committee considered a range of factors and received input from the Board Risk Committee. Following full consideration, no adjustment to variable remuneration was deemed necessary.

The remuneration policy has operated as intended during the year.

## 2023 remuneration changes

In January 2023, all colleagues, including the executive directors, received a base pay increase.

As reported last year, having conducted a thorough external benchmarking exercise and having reviewed the performance of the Society under the Chief Executive Officer's leadership, the Remuneration Committee agreed a 15% base pay increase for the Chief Executive Officer, with effect from January 2023.

In January 2023, the base pay increases for colleagues ranged from 6% to 25% with an average of 9.34% and the base pay of all other executive directors increased by 6%. In addition, following an external benchmarking assessment undertaken during the second quarter of 2023, from the 1 June 2023, the Chief Financial Officer received a base pay increase of 10.3% and the Deputy Chief Executive Officer received a base pay increase of 5.8%.

The Chair's and non-executive director's basic fees, also increased by 6% for 2023, in line with the minimum increase received by our colleague population. Following a market review, in line with other committee chair roles and external benchmarking, the Remuneration Committee Chair fee increased by 24.4% along with the introduction of an added fee for the additional responsibility for the colleague engagement and Consumer Duty of £3,000. All of these changes were reported last year, and no individual was present when their own remuneration was under discussion.

## Looking ahead

Looking ahead to 2024, the committee will continue to ensure that we have the right reward structures in place, to foster our mutual culture and to attract and retain the talent we will need to deliver on our purpose.

I trust this report is helpful and informative. The Remuneration Committee recommends that members vote in favour of the 2023 Directors' Remuneration Report and Remuneration Policy.

**Annette Barnes**
**Chair of the Remuneration Committee**

22 February 2024

## Our remuneration policy and principles

The remuneration policy is designed to support members by:

- Being clearly linked to business objectives.
- Driving behaviours consistent with our purpose, culture, values and strategy.
- Being structured to attract and retain appropriately skilled colleagues to support the Society's long term interests and to promote a healthy culture.

All our remuneration decisions are based on:

- Objectives which are linked to our purpose, business strategy, values and long term interests, environmental, social and governance (ESG) related objectives and the security of the Society and our members.
- Procedures and practices that are consistent with, and promote, sound and effective risk management. They balance fixed and variable remuneration, to create an acceptable relationship between risk and reward, whilst not encouraging risk taking that exceeds the level tolerated by the Society.
- Basic salary and total remuneration which are set at a competitive level to attract, retain and motivate colleagues of the required calibre.

## Components of remuneration structure

### Executive directors

The following table summarises the principal components of the executive directors' total remuneration and the way they operate. Details which are commercially sensitive have not been provided.

| | Remuneration element | Summary |
|---|---|---|
| **Fixed remuneration** | **Basic salary** | Provides ability to attract and retain executives through market competitive rates of pay.<br>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.<br>The only exception is if there is a material increase in scope or responsibility to the executive director's role or, as for any other colleague, where external benchmarking identifies a market adjustment is required. |
| | **Pension** | Based on membership of the Society's defined contribution section of the pension scheme. In appropriate circumstances, for example, where contributions exceed the annual allowance, there is an option to receive a monthly cash allowance in lieu of pension contributions.<br>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.<br>Executive directors appointed on or after 1 April 2019 receive a maximum contribution, fully aligned with the colleague population who joined after 1 April 2019, of 10% of basic salary. |
| | **Benefits** | The principal benefits executive directors receive are:<br>• Life assurance (up to 4x basic salary).<br>• Private medical insurance.<br>• Group income protection.<br>• Health screening.<br>• Cash health plan.<br>Other benefits may be provided based on individual circumstances, for example, relocation. |

| | Remuneration element | Summary |
|---|---|---|
| **Variable remuneration** | **Annual bonus scheme** | The 20% maximum is split between:<br>Society performance – 10%.<br>Personal performance – 10%.<br>Society performance objectives are agreed by the Remuneration Committee at the start of each year and reflect business priorities.<br>Personal performance objectives, appropriate to the responsibilities of the director, are set at the start of each year and agreed by the Remuneration Committee. 30% of the personal performance award is allocated to the demonstration of behaviours.<br>The 20% maximum for the executive director in a control function is based on a range of personal objectives only, with 30% of the award allocated to the demonstration of behaviours.<br>Robust risk evaluation measures are independently assessed by the Board Risk Committee, with measures for the Deputy Chief Executive Officer assessed by the Chief Executive Officer.<br>For executive directors designated as 'senior managers' under the senior manager regime and over the de-minimis (1), 60% of the bonus will be deferred, over a period of seven years with no vesting until three years after the award is made. 50% of variable remuneration will be delivered in a share-like instrument (2). |
| | **Retention awards** | Such awards will only be made in exceptional circumstances. The monetary value of the award will be defined at grant, and vesting of awards will be tied to the completion of a defined period of service and the satisfactory completion of a specific project or other multi task deliverable.<br>Retention awards can be made up to a maximum of 100% of fixed pay. All retention bonuses, for material risk takers, are subject to the approval of the Remuneration Committee.<br>Retention awards are part of variable pay and may be subject to malus and clawback, deferral and delivery in instruments, as determined by the Remuneration Committee. |

Notes

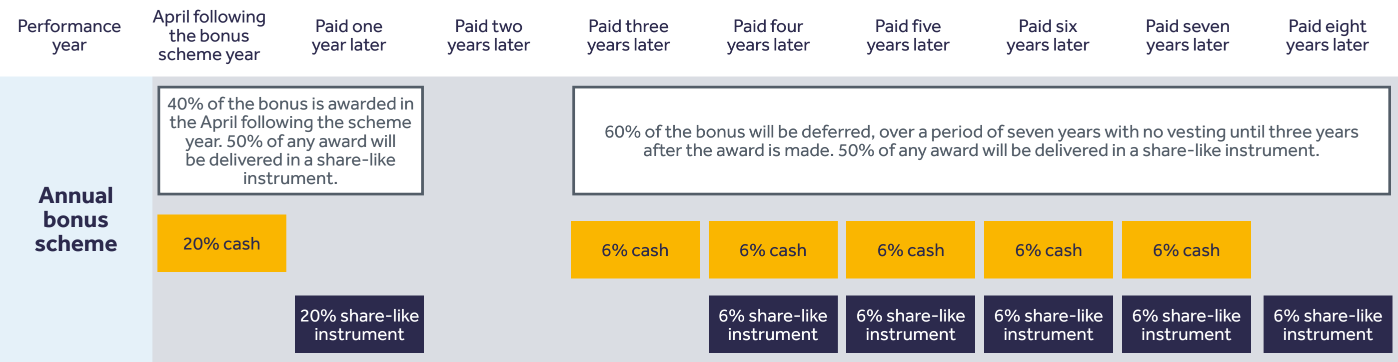
1. The de-minimis limit level is set by regulation, in relation to the level of bonus deferral applied, and impacts colleagues whose variable remuneration is greater than £44,000 per annum or where variable remuneration is more than 33% of their total remuneration.
2. Where remuneration exceeds the de-minimis, 50% of the variable remuneration award will be paid in an instrument and 50% will be paid in cash. As a mutual organisation, this means that 50% of the award payable in each year will be held and retained for a further 12 months and which can be written down in value if agreed capital levels are not maintained. The instrument cannot increase in value or attract interest payments during the deferral and retention periods.

The Remuneration Committee may apply discretion to reduce bonus awards in whole or part using either malus or clawback. Malus is a reduction factor which is applied to bonus payments which have not yet vested and clawback is applied to seek recovery of bonus payments already paid.

## Bonus deferral and share-like instrument

For executive directors designated as 'senior managers' under the senior manager regime and over the de-minimis limit, 60% of the bonus will be deferred over a period of seven years with no vesting until three years after the award is made. 50% of variable remuneration will be delivered in a share-like instrument.

The table below illustrates how the 2023 bonus for the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer and Chief Operating Officer will be delivered:




## Non-executive directors

Non-executive directors receive fees which reflect the level of responsibilities and time commitment required for board and board committee meetings. Non-executive directors receive a basic fee and an additional fee for chairing a committee.

Fees are reviewed annually with recommendations made to the board by the Executive Committee. The Chair's fee is reviewed by the Remuneration Committee. Fee levels are benchmarked against other financial services organisations.

Non-executive directors are reimbursed for travel expenses for attending meetings and, where tax liability arises for these travel expenses, this will be covered by the Society.

# Report on remuneration 2023

## Executive director remuneration summary for 2023

The total remuneration received by executive directors for 2023 is detailed below, compared with 2022. The total remuneration for executive directors equates to 1.41% of Group profit before tax (2022:0.96%). This information has been audited and shows remuneration for the years ending 31 December 2022 and 31 December 2023, as required to be reported under the Building Societies (Accounts and Related Provisions) Regulations 1998. The awards made in respect of performance in 2023 are in line with the 2023 Remuneration Policy, with a maximum annual bonus 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.

### 2023 audited

| Executive directors | Salary | Annual bonus | Retention award (3) | Pension | Loss of office | Total fixed remuneration | Total variable remuneration | Total remuneration |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| R G Fearon | 665 | 123 | – | 74(1) | – | 739 | 123 | 862 |
| A P Conroy | 404 | 71 | – | 40(1) | – | 444 | 71 | 515 |
| A J Greenwood | 415 | 71 | – | 71(1) | – | 486 | 71 | 557 |
| R J Howse | 392 | 68 | 118 | 39(1) | – | 431 | 186 | 617 |
| **Total remuneration (2)** | **1,876** | **333** | **118** | **224** | **–** | **2,100** | **451** | **2,551** |

Notes

(1) These directors elected to receive part or all of the Society's pension contribution as a cash allowance.

(2) No director received other taxable benefits of £1,000 or above.

(3) The Remuneration Committee approved a retention award, specifically in relation to the successful delivery of the critical, multi-year technology transformation programme for RJ Howse.

## 2022 audited

| Executive directors | Salary | Annual bonus | Pension | Loss of office | Total fixed remuneration | Total variable remuneration | Total remuneration |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| R G Fearon | 578 | 110 | 64(1) | – | 642 | 110 | 752 |
| A P Conroy | 355 | 64 | 35(1) | – | 390 | 64 | 454 |
| A J Greenwood | 375 | 64 | 52(1) | – | 427 | 64 | 491 |
| R J Howse | 363 | 66 | 36(1) | – | 399 | 66 | 465 |
| **Total remuneration (2)** | **1,671** | **304** | **187** | **–** | **1,858** | **304** | **2,162** |

Notes

(1) These directors elected to receive part or all of the Society's pension contribution as a cash allowance.

(2) No director received other taxable benefits of £1,000 or above.

## Annual incentive

For 2023, corporate performance incentive opportunities were based on the performance measures in the following table.

The table also illustrates performance against each of the measures.

| Blueprint performance measure | Weightings for maximum (as % of salary) | Pay out % |
|---|---|---|
| Trading responsibly | 3.34% | 3.06% |
| Being responsive to member needs | 3.33% | 2.77% |
| Communicating and engaging with our colleagues and customers | 3.33% | 3.33% |

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 based on a maximum of 20%.

Personal performance achievement for executive directors was in the range of 7.675% to 16.7% (16.7% in respect of the DCEO). Personal performance for executive directors in a non control function is based on a maximum of 10% and is assessed on personal objectives relating to each executive director specific role and behaviours.

## Retention award

As reported in 2022, the Remuneration Committee approved a retention award, specifically in relation to the successful delivery of the critical, multi-year technology transformation programme for the Chief Operating Officer, RJ Howse.

The first instalment of the retention award of £117,660 was made in July 2023, based on the successful delivery of specific project milestones and objectives.

The retention award is part of variable pay and is subject to malus and clawback, deferral and delivery in instruments, as determined by the Remuneration Committee.

## Risk assessment

The risk assessment process is independently managed by the Risk function. Following completion of the risk assessment process, the Chief Risk Officer provides an annual report on areas the Remuneration Committee should consider, in respect of whether performance or risk adjustment is necessary to remuneration outcomes. The report is initially reviewed by the Board Risk Committee, which then highlights any specific areas for further consideration to the Remuneration Committee. In addition, the risk 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 Chief Risk Officer includes an assessment of the current year's performance in the context of objectives for each prior year for which variable remuneration has been deferred.

The individual performance of material risk takers and their teams is risk assessed by reference to a range of dimensions including audit findings, compliance with regulatory policies, compliance with our risk appetite, and general control and governance matters.

The Remuneration Committee, after consultation with the Board Risk Committee and consideration of performance against risk appetites, did not make any risk adjustment for 2023.

### Unpaid deferred elements of the annual bonus scheme

| Executive directors | Performance year | Due 2024 £'000 | Due 2025 £'000 | Due 2026 £'000 | Due 2027 £'000 | Due 2028 £'000 | Due 2029 £'000 | Due 2030 £'000 | Due 2031 £'000 | Due 2032 £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| R G Fearon | 2019 | 20 | 20 | 20 | 20 | 11 | – | – | – | – | 91 |
| | 2020 | 3 | 14 | 23 | 23 | 23 | 20 | 8 | – | – | 114 |
| | 2021 | – | 6 | 12 | 12 | 12 | 12 | 7 | – | – | 61 |
| | 2022 | 22 | – | 7 | 13 | 13 | 13 | 13 | 7 | – | 88 |
| | 2023 | 24 | 24 | – | 7 | 15 | 15 | 15 | 15 | 8 | 123 |
| | **Total** | **69** | **64** | **62** | **75** | **74** | **60** | **43** | **22** | **8** | **477** |
| A P Conroy | 2020 | 16 | 12 | – | – | – | – | – | – | – | 28 |
| | 2021 | – | 4 | 7 | 7 | 7 | 7 | 4 | – | – | 36 |
| | 2022 | 13 | – | 3 | 8 | 8 | 8 | 8 | 3 | – | 51 |
| | 2023 | 14 | 14 | – | 5 | 8 | 8 | 8 | 8 | 5 | 70 |
| | **Total** | **43** | **30** | **10** | **20** | **23** | **23** | **20** | **11** | **5** | **185** |
| A J Greenwood | 2020 | 16 | 13 | – | – | – | – | – | – | – | 29 |
| | 2021 | – | 4 | 7 | 7 | 7 | 7 | 4 | – | – | 36 |
| | 2022 | 13 | – | 5 | 7 | 7 | 7 | 7 | 5 | – | 51 |
| | 2023 | 14 | 14 | – | 5 | 8 | 8 | 8 | 8 | 6 | 71 |
| | **Total** | **43** | **31** | **12** | **19** | **22** | **22** | **19** | **13** | **6** | **187** |
| R J Howse | 2021 | – | 4 | 7 | 7 | 7 | 7 | 5 | – | – | 37 |
| | 2022 | 13 | – | 4 | 8 | 8 | 8 | 8 | 4 | – | 53 |
| | 2023 | 14 | 14 | – | 4 | 8 | 8 | 8 | 8 | 4 | 68 |
| | **Total** | **27** | **18** | **11** | **19** | **23** | **23** | **21** | **12** | **4** | **158** |
| P A Hill | 2018 | 25 | 25 | 25 | 14 | – | – | – | – | – | 89 |
| | **Total** | **25** | **25** | **25** | **14** | **–** | **–** | **–** | **–** | **–** | **89** |
| R S P Litten | 2018 | 17 | 17 | 17 | 9 | – | – | – | – | – | 60 |
| | 2019 | 3 | 3 | 4 | 4 | 2 | – | – | – | – | 16 |
| | **Total** | **20** | **20** | **21** | **13** | **2** | **–** | **–** | **–** | **–** | **76** |
| **Total** | | **227** | **188** | **141** | **160** | **144** | **128** | **103** | **58** | **23** | **1,172** |

The table above is an illustration of the annual bonus scheme awards and does not include retention awards. The payment of deferred elements, for all variable remuneration (including retention awards) is subject to future performance, for example, the application of malus. Clawback will be applied as required by regulation.

## Pensions and other benefits

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

No executive director has the right or opportunity to receive enhanced benefits beyond those already disclosed, and the committee has not exercised its discretion during the year to enhance benefits.

Executive directors may be entitled to receive compensation for loss of office. Such payments will be based on the monthly salary and pension contributions that the 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 in 2023

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 2023, there were 39 material risk takers during the year.

Aggregate remuneration for material risk takers is reported in the table below.

| | Number of beneficiaries | | Fixed pay (1) | | Current year variable pay(2) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 £'000 | 2022 £'000 | 2023 £'000 | 2022 £'000 | 2023 £'000 | 2022 £'000 |
| Senior management | 39 | 32 | 7,480 | 6,500 | 1,137 | 1,299 | 8,617 | 7,799 |
| Other material risk takers | – | – | – | – | – | – | – | – |
| **Total remuneration (4)** | **39(3)** | **32 (3)** | **7,480** | **6,500** | **1,137** | **1,299(4)** | **8,617** | **7,799** |

Notes

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

(2) £1,246k of variable pay is deferred for five or seven years (2022: £843k).

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

(4) The 2022 variable pay includes elements of the award from 2020, that were deferred for an additional year, to allow the Remuneration Committee to fully take account of the longer term impact of Covid-19.

## Remuneration for non-executive directors

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

| Non-executive directors | Basic fees | | Benefits (1) | | Committee chair fees | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2023 £'000 | 2022 £'000 | 2023 £'000 | 2022 £'000 | 2023 £'000 | 2022 £'000 | 2023 £'000 | 2022 £'000 |
| I C A Cornish (Chair) | 169 | 158 | 6 | 6 | – | – | 175 | 164 |
| G J Hoskin (Vice Chair) | 56 | 52 | 5 | 3 | 24 | 24 | 85 | 79 |
| A M Barnes | 56 | 52 | 8 | 3 | 18 | – | 82 | 55 |
| D Fisher | 56 | 52 | – | – | – | – | 56 | 52 |
| N A Fuller | 56 | 52 | 5 | 4 | 18 | 18 | 79 | 74 |
| L R McManus (2) | 2 | 52 | 2 | 5 | – | 12 | 4 | 69 |
| A Tadayon | 56 | 52 | 10 | 5 | – | – | 66 | 57 |
| F Buckley (3) | 42 | – | 3 | – | – | – | 45 | – |
| P Rowland (4) | 37 | – | 3 | – | – | – | 40 | – |
| **Total** | **530** | **470** | **42** | **26** | **60** | **54** | **632** | **550** |

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 colleague left on 13 January 2023.

(3) This colleague joined on 1 April 2023.

(4) This colleague joined on 1 May 2023.

Non-executive directors (including the Chair) received an annual basic fee increase of 6% in January 2023, in line with the colleague population. Following a market review and external benchmarking, the Remuneration Committee Chair fee increased by 24.4% along with the introduction of an additional fee for the non-executive director with the responsibility for the Colleague Voice and Consumer Duty of £3,000.

From 1 April 2024, the non-executive directors fees will be as follows:

| Non-executive directors | Basic fees | Committee chair fees | Total |
|---|---|---|---|
| | 2024 £'000 | 2024 £'000 | 2024 £'000 |
| I C A Cornish (Chair) | 175 | – | 175 |
| G J Hoskin (Vice Chair) | 58 | 25 | 83 |
| A M Barnes | 58 | 18 | 76 |
| D Fisher | 58 | – | 58 |
| N A Fuller | 58 | 18 | 76 |
| A Tadayon | 58 | – | 58 |
| F Buckley | 58 | – | 58 |
| P Rowland | 58 | – | 58 |
| **Total** | **581** | **61** | **642** |

## Payments to former directors
A payment of £25,307 has been made in 2023 to PA Hill, the former Chief Executive Officer, who retired on 30 June 2019. A payment of £18,662 has been made in 2023 to R S P Litten, the former Chief Financial Officer, who left the Society on 18 April 2019. A payment of £11,984 has been made in 2023 to K 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 Remuneration Committee determined no risk adjustment was required.

## Policy review
The remuneration policy is subject to an annual review of both its content and implementation and is approved by the Remuneration Committee. The Board Risk Committee also contributes to the policy review, to ensure it takes sufficient account of risk considerations.

Remuneration arrangements meet regulatory requirements, including the FCA Dual Regulated Firms Remuneration Code, PRA Rulebook and good corporate governance practice.

## Vote
Members are asked to vote on the remuneration policy at least every three years, or earlier if the policy changes. The current remuneration policy took effect from the date of the 2022 AGM.

### Annual General Meeting 2023 results – directors' remuneration report

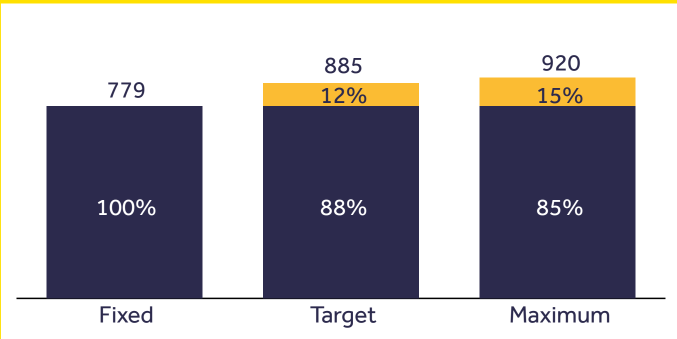
| Resolution | % votes for | % votes against |
|---|---|---|
| Directors' remuneration report | 92.39% | 7.61% |

### Annual General Meeting 2022 results – directors' remuneration policy

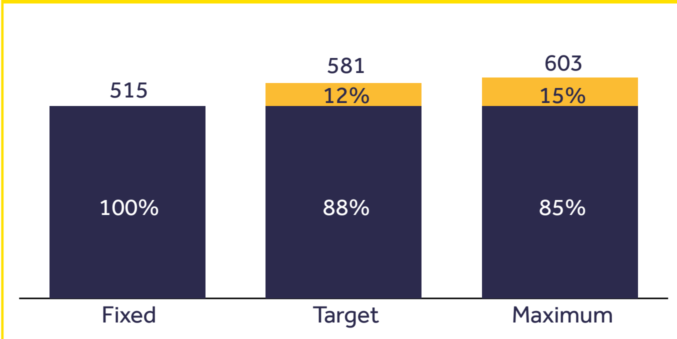
| Resolution | % votes for | % votes against |
|---|---|---|
| Directors' remuneration policy | 92.24% | 7.76% |

## Awards under different scenarios
The charts below show the awards split between fixed pay and variable pay, under the variable pay arrangements, for each current executive director under different scenarios:

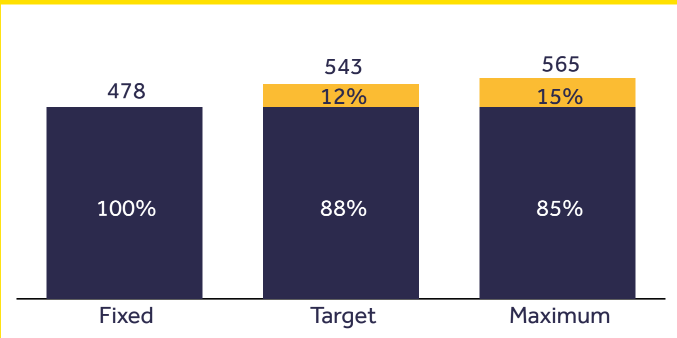
**Chief Executive Officer (£)**



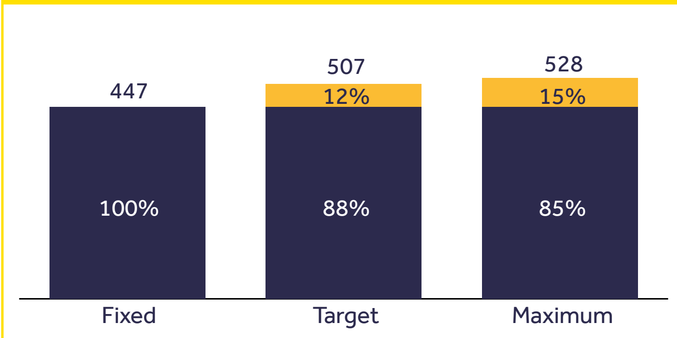

**Deputy Chief Executive Officer (£)**




**Chief Financial Officer (£)**




**Chief Operating Officer (£)**



| | | | | |
|---|---|---|---|---|
| **Fixed** | Consists of basic salary and pension<br>Basic salary is as at 1 April 2024 | | | |
| | **Executive director** | **Basic salary** | **Pension** | **Total fixed** |
| | Chief Executive Officer | £702,250 | £77,247 | £779,497 |
| | Deputy Chief Executive Officer | £439,880 | £74,780 | £514,660 |
| | Chief Financial Officer | £434,700 | £43,470 | £478,170 |
| | Chief Operating Officer | £405,930 | £40,593 | £446,523 |
| **Target** | Based on what an executive director would receive if the target level of performance was achieved, based on a 20% variable remuneration scheme:<br>annual variable element pays out at 75% (80% for Control functions) of the maximum available. | | | |
| **Maximum** | Based on what an executive director would receive if the maximum level of performance was achieved:<br>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 foregone. |
| | **Recruitment remuneration** | Any payments made to executive directors on joining the Society to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the PRA Rulebook and the FCA Dual-Regulated Firms Remuneration Code. |
| | **Retention awards** | Such awards will only be made in exceptional circumstances. The monetary value of the award will be defined at grant and vesting of awards will be tied to the completion of a defined period of service and the satisfactory completion of a specific project or other multi task deliverable.<br>Retention awards can be made up to a maximum of 100% of fixed pay. All retention bonuses, for material risk takers, are subject to the approval of the Remuneration Committee.<br>Retention awards are part of variable pay and may be subject to malus and clawback, deferral and delivery in instruments, as determined by the Remuneration Committee. |

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

None of the executive directors currently 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, while seeking to reflect the circumstances in place at the time. Accordingly, the committee retains overriding judgement to make loss of office payments appropriate to the circumstances and applying the overriding principle that there should be no element of reward for failure.

| | Remuneration element | Summary |
|---|---|---|
| **Fixed remuneration** | **Basic salary and benefits** | In the event of termination by the Society, there will be no compensation for loss of office due to misconduct or poor performance. In other circumstances, executive directors may be entitled to receive compensation for loss of office. Such payments will be based on the monthly salary and pension contributions that the executive would have received if still in employment with the Society. Executive directors are expected to mitigate compensation for loss of office, in appropriate circumstances. |
| **Variable remuneration** | **Annual bonus** | Where an executive director's employment is terminated during or after the end of a performance year, but before the payment is made, 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.<br><br>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.<br><br>The Remuneration Committee, in determining the final awards, may apply judgement to assess performance in the round. When assessing performance in the round, the Remuneration Committee may take into account (inter alia) wider market, regulatory and stakeholder considerations. |

### Statement of consideration of conditions elsewhere in the Society
The Remuneration Committee considers the increase in general basic salary for the wider colleague population when determining the annual salary increases for the executive directors.

The table below illustrates the comparison of average salary increases to be made in April 2024 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 2024 are as follows, compared with 1 January 2023:

| | 1 January 2023 | 1 January 2024 |
|---|---|---|
| R G Fearon | £678,500 | £678,500 |
| A J Greenwood | £401,775 | £425,000 |
| A P Conroy | £380,670 | £420,000 |
| R J Howse | £392,200 | £392,200 |

The annual pay review takes place in April, for all colleagues in the Society, including executive directors. From the 1 June 2023, following external benchmarking, the Chief Financial Officer received an increase of 10.3% and the Deputy Chief Executive Officer received an increase of 5.8%.

Following a market review and external benchmarking, salaries from 1 April 2024 will be as follows will be as follows:

| | 1 April 2024 | Increase |
|---|---|---|
| R G Fearon | £702,250 | 3.5% |
| A J Greenwood | £439,880 | 3.5% |
| A P Conroy | £434,700 | 3.5% |
| R J Howse | £405,930 | 3.5% |

## 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 |
|---|---|---|---|---|
| 2023 | Option A | 31:1 | 21:1 | 14:1 |
| 2022 | Option A | 30:1 | 20:1 | 13:1 |
| 2021 | Option A | 30:1 | 20:1 | 13:1 |
| 2020 | Option A | 32:1 | 21:1 | 14:1 |
| 2019 | Option A | 32:1 | 22:1 | 15:1 |

The remuneration below is calculated in respect of the year ended 31 December 2023:

| Remuneration element | 25th percentile (£) | Median (£) | 75th percentile (£) |
|---|---|---|---|
| Total pay and benefits | 27,803 | 41,850 | 62,468 |
| Salary | 24,405 | 36,000 | 55,650 |

## Directors' loans, transactions and related business activity

The aggregate amount outstanding at 31 December 2023 in respect of loans from the Society or a subsidiary undertaking to directors of the Society or persons associated with directors was nil (2022: nil), being nil mortgages (2022: nil) to directors and persons connected to directors. A register of loans and transactions with directors and their connected persons is maintained at the head office of the Society and may be inspected by members. There were no significant contracts between the Society or our subsidiaries and any director of the Society during the year.

## History of remuneration of Chief Executive Officer

The table below shows the total remuneration of the Chief Executive Officer over the last five years, together with the performance pay awarded as a percentage of the maximum possible.

| | Total remuneration £'000 | Performance pay as % of maximum |
|---|---|---|
| 2023 | 862 | 90.4 |
| 2022 | 752 | 93.4 |
| 2021 | 695 | 94.0 |
| 2020 | 684 | 82.9 |
| 2019 | 659 | 75.0 |

## Percentage change in salary for Chief Executive Officer

The basic salary of the Chief Executive Officer increased by 15% during 2023. An average annual increase of 9.34% 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 | 15.0% |
| Deputy Chief Executive Officer | 11.8% |
| Chief Financial Officer | 16.3% |
| Chief Operating Officer | 6.0% |
| Colleague average | 9.3% |
| Minimum salary | 14.6% |

## Relative importance of spend on pay

The following table sets out the percentage change in profit and overall spend on remuneration in the year ending 31 December 2023, compared to the previous year.

| | 2023 | 2022 | Percentage change |
|---|---|---|---|
| Group profit after tax | £133.9 million | £161.9 million | -17.3% |
| Colleague remuneration costs | £79.1 million | £64.8 million | 22.1% |
| Headcount | 1,788 | 1,538 | 16.3% |

## 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 2023 were PwC LLP. The appointment of advisers is carried out on a basis of careful evaluation of potential providers against agreed criteria. PwC LLP confirmed they do not have any conflict of interest in advising the Remuneration Committee.

# Directors' Report

## Year ended 31 December 2023

**The directors are pleased to present their Annual Report and Accounts and Annual Business Statement, for the year ended 31 December 2023.**

Our business model and purpose-led strategy are described in the business model and strategy section of the Strategic Report on pages 9 to 30, where key performance indicators are also presented.

### Profits and capital

Profit before tax for the year was £181.5 million (2022: £220.5 million). The profit after tax transferred to the general reserve was £133.9 million (2022: £161.9 million). Total equity attributable to members at 31 December 2023 was £1,643.4 million (2022: £1,506.8 million).

Gross capital at 31 December 2023 was £2,000.3 million (2022: £2,013.5 million) including £323.9 million (2022: £309.1 million) of subordinated liabilities and £33.0 million (2022: £197.6 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings was 7.83% at 31 December 2023 (2022: 8.86%) and the free capital ratio was 7.46% (2022: 8.47%). Further explanation of these ratios is provided in the Annual Business Statement on page 246.

### Mortgage arrears

At 31 December 2023, there were 320 (2022: 349) mortgage accounts 12 months or more in arrears. The total mortgage arrears, for these cases, was £4.3 million (2022: £4.0 million) and the total principal balance outstanding was £32.8 million (2022: £34.2 million).

### Charitable and political donations

In 2023, the Society made donations of £301,670 (2022: £190,200) to the Leeds Building Society Charitable Foundation. Our other donations to charities and good causes (including colleague match funding) during the year amounted to £582,077 (2022: £545,700).

The Caring Saver and Your Interest in Theirs scheme provided further donations of £13,170 (2022: £13,200) and £84,874 (2022: £79,600) respectively to specified charities. Additionally, the Society has a number of savings products which support Dementia UK, resulting in a donation of £82,082 (2022: £29,100).

Other charitable donations from colleagues and members totalled £112,256 (2022: £116,200) taking total donations to charities and good causes to £1,176,129 (2022: £974,000).

No political donations were made during the year (2022: none).

### Principal risks and uncertainties

Our approach to managing risks and the principal risks and uncertainties we face are set out in the Risk Management Report on pages 84 to 111, which also contains information on our financial risks and the approach to management of those risks.

### Colleagues

Information on key colleague policies and associated key performance indicators, including processes for communicating and consulting with colleagues, are included in the Strategic Report on pages 3 to 83 and the Corporate Governance Report on pages 121 to 139.

We are committed to ensuring every colleague feels valued and included for who they are and the unique perspectives they bring. We are a Disability Confident accredited employer and give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Where a colleague becomes disabled during the course of their employment, every effort is made to continue their employment, making reasonable and proportionate adjustments as necessary.

### Business relationships

We are committed to developing strong business relationships with our partners, notably our mortgage brokers, suppliers and investors. Further details of how the board has regard to the interests of these and other stakeholders can be found on pages 25 to 30.

### 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 15 days at 31 December 2023 (2022: 27 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 continued to enhance our understanding of the risks and opportunities for the business from climate change and agree targets to reduce our environmental impact. In this Annual Report we have included disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures and these can be found on pages 47 to 82 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 121 to 139.

## Directors' responsibilities in respect of the preparation of the Annual Accounts
This statement is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report. It should be read in conjunction with the statements on the respective responsibilities of directors and the auditor on page 185.

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 UK 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 41 to 44.

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 45 to 46 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 2023, their roles and membership of board committees are detailed on pages 113 to 118.

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 Ernst & Young LLP's appointment as auditor will be proposed at the AGM. Details of the tender process undertaken during 2022 for the Society's next auditor, to be proposed for appointment in 2024, are given in the Audit Committee Report on pages 147 to 154.

## 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**

22 February 2024

# Financial Statements

# Independent Auditor's Report to the Members of Leeds Building Society

Year ended 31 December 2023

## 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 2023 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.
- 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.
- The related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom international accounting standards.

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and the Society for the year are disclosed in note 6 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>• IFRS 9 Financial instruments – UK Residential expected credit loss (ECL) provisioning.<br>• Hedge accounting.<br>• Fair value of collateral loan.<br>• Fair value of complex derivative instruments.<br>Within this report, key audit matters are identified as follows:<br>Similar level of risk. |
| **Materiality** | The materiality that we used for the Group financial statements was £8.2 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 an appropriate lower level component materiality for the purpose of individual entity reporting. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team. |
| **Significant changes in our approach** | Our risk assessment process has resulted in the key audit matters reported upon remaining broadly consistent with the previous year. |

## 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of relevant controls around management's going concern assessment.
- Assessing the Group's and Society's compliance with regulations, including capital and liquidity requirements.
- Involving prudential risk specialists in assessing the information supporting the liquidity and capital forecasts, including the stress testing and reverse stress testing performed by management.
- Assessing the assumptions such as cashflows, capital and liquidity, used in the forecasts.
- Assessing historical accuracy of forecasts prepared by management.
- Assessing the appropriateness of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

# Year ended 31 December 2023

## 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.

### 5.1. IFRS 9 Financial Instruments – UK Residential Expected Credit Loss (ECL) provisioning

| | |
|---|---|
| **Key audit matter description** | In accordance with IFRS 9, expected credit losses are recognised for all UK residential mortgages that are held at amortised cost. Estimating these expected losses requires the use of complex models and application of judgement and estimation to assumptions based on: how macroeconomic variables have impacted the performance of loans with similar credit risk characteristics historically; projected house prices; and historical experience of forced sale discounts. These assumptions are informed using historical behaviour and experience through different economic cycles as well as credit bureau data.<br><br>The Group applies four macroeconomic scenarios when determining the ECL calculation: a central outlook, a downside, an alternative downside scenario, and a growth scenario. The selection and probability weighting of relevant macroeconomic scenarios is judgemental and has a significant impact on the ECL calculation.<br><br>The Group held £44.5 million (2022: £41.8 million) of UK residential impairment provisions at year-end, in accordance with IFRS 9. In the current year, as shown in Note 2(b), the directors recognised post model adjustments (PMAs) of £20.8 million (2022: £24.0 million) due to the potential increased risk of default arising from the challenges facing borrowers in the current economic environment.<br><br>Our key audit matter on ECL provisioning relates specifically to:<br><br>• The completeness and accuracy of PMAs to account for model limitations. Management has applied overlays to mitigate the risk associated with customer affordability, inadequate cladding, transaction bias and climate risk.<br><br>• The economic forecasts selected, and the weightings applied, which are based on a range of forecasts that take account of current and historic macroeconomic conditions. Judgement is involved in selecting key assumptions and weightings.<br><br>The Group's loan loss provision balances are detailed within note 8. The Group's associated accounting policies are detailed on pages 196 to 197 with detail about judgements in applying accounting policies and key sources of estimation uncertainty on pages 202 to 207. The directors' consideration of the effect of the future economic environment is disclosed on pages 202 to 205. The Audit Committee's consideration of the matter is described on page 149. |

| | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | We gained an understanding of the relevant controls over the loan loss provisioning process. This included assessment of the level of challenge at key management review forums that formed part of these controls.<br><br>With the involvement of our credit risk specialists, we assessed the compliance of the modelling approach and methodology with the requirements of IFRS 9 *Financial instruments* including updates to the models that were made during the year. With the involvement of our credit risk specialists, we assessed whether the documented modelled approach was compliant with IFRS 9 and implemented in practice.<br><br>We challenged the directors' consideration of the future economic environment by engaging our economic specialists to review the directors' approach as well as comparing modelled assumptions to publicly available data from peer organisations, regulators, and economic commentators.<br><br>We evaluated the completeness and accuracy of post model adjustments considering relevant macroeconomic factors, to assess whether all relevant risks were represented by these adjustments. We did this through involvement of economic and modelling specialists, and benchmarking against peer entities.<br><br>We reconciled the loan book to the general ledger and substantively tested a sample of loans to assess the completeness and accuracy of the data used in the provision calculation. |
| **Key observations** | Based on our audit procedures above, we concluded that the Group's provision applied to the UK residential mortgage book is reasonably stated. |

# Year ended 31 December 2023

## 5.2. Hedge accounting

| | |
|---|---|
| **Key audit matter description** | The Group has designated a number of fair value macro hedges 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.<br><br>The Group has taken the IFRS 9 accounting policy choice to continue to apply IAS 39 accounting with respect to all designated hedge relationships. We have identified a key audit matter around the appropriateness of fair value adjustments for items designated and de-designated in the hedging relationship, including the subsequent amortisation of the adjustments.<br><br>Management's chosen accounting policies are detailed on page 196. The Audit Committee's consideration of this risk is included on page 151. The hedged items adjustments are contained within the fair value adjustment for hedged risk on loans and advances to customers of £132.3 and fair value adjustment for hedged risk on shares of £31.9m.<br><br>In line with the requirements of IAS 39 management carries out prospective and retrospective effectiveness testing monthly. |
| **How the scope of our audit responded to the key audit matter** | We have obtained an understanding of and tested the relevant controls over the hedge accounting process, including the Group's controls over the identification, and recording of the designation and de-designation adjustments.<br><br>We have independently assessed the manual adjustments made by management on designation and de-designation fair value adjustments to the hedged items and hedging instruments.<br><br>We have reviewed the designation and classification of newly constructed hedges and involved our financial instrument specialists to review and challenge the macro fair value.<br><br>We have performed independent valuations over a sample of hedged items and hedge instruments as part of our hedge effectiveness testing and re-performed hedge effectiveness testing in order to test management's hedge ineffectiveness reporting in a timely manner.<br><br>We assessed the appropriateness of management's disclosure related to hedge accounting. |
| **Key observations** | Based on our audit procedures above, we concluded that the overall hedge accounting treatment and valuations were appropriate. |

## 5.3. Fair value of collateral loan

| | |
|---|---|
| **Key audit matter description** | The Group holds a collateral loan to a third party secured on a portfolio of equity release mortgages.<br><br>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 240 for a definition of level 3 measurements). The collateral loan had a carrying value at 31 December 2023 of £153.6 million (2022: £161.9 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.<br><br>Our key audit matter relates to the risk of management bias in determining the effective discount rate used within the fair value model. This rate is derived from the methodology shown on page 207 of the financial statements and has significant impact on the modelling of the value of the 'no negative equity guarantee' provided by the Society to the originator. This includes consideration of repayment profiles and the credit risk associated with the assets.<br><br>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 195 with detail about judgements in applying accounting policies and critical accounting estimates on pages 207 and 208. The Audit Committee's consideration of the matter is described on page 150. |
| **How the scope of our audit responded to the key audit matter** | We obtained an understanding of the relevant controls over the fair valuation of the collateral loan.<br><br>With assistance from our valuation specialists, we challenged the appropriateness of directors' valuation methodology over the fair valuation of the collateral loan.<br><br>With support from our valuation specialists, we have performed an independent re-calculation of the discount rate to determine whether the discount rate for the overall valuation was acceptable.<br><br>We have challenged the assumptions through recalculation, review of judgement papers, and comparison of internal data to third party evidence.<br><br>We reviewed model mechanics to test whether they are working appropriately and in line with contracts with the originator, with the help of our internal modelling specialists.<br><br>We performed testing over the appropriateness of the other elements inherent in the valuation of the underlying loan assets, such as the "no negative equity guarantee," and evaluated the appropriateness of the assumptions in light of the current economic environment.<br><br>We assessed the appropriateness of the disclosure related to the collateral loan. |
| **Key observations** | Based on our audit procedures above, we concluded that the Group's valuation of the collateral loan was reasonable. |

# Year ended 31 December 2023

## 5.4. Fair value of complex derivative instruments

| | |
|---|---|
| **Key audit matter description** | In addition to the collateral loan detailed in the key audit matter above, there are a number of other complex financial instruments held at fair value by the Group which are classified as level 3 within the fair value hierarchy due to unobservable prepayment assumptions used within the calculation methodology.<br><br>These financial instrument liabilities have a net carrying value of £31.2 million (2022: £32.2 million) which are detailed within note 32 and comprise the following:<br><br>• The Retail Prices Index (RPI) linked derivative hedging the equity release portfolio.<br>• The intragroup derivative hedging the Residential Mortgage-Backed Securities (RMBS) securitisation vehicle.<br><br>The following are the unobservable inputs:<br><br>• The mortality and prepayment rate assumptions applied to the RPI linked derivative.<br>• The prepayment rate of mortgages within the RMBS securitisation vehicle.<br><br>Our key audit matter relates to the risk of management bias in determining the assumptions applied to the Society's in-house valuation for the RPI derivative.<br><br>The directors' chosen accounting policies are detailed on page 196 with details about valuation techniques and key inputs on page 208. The Audit Committee's consideration of this risk is included on page 150. |
| **How the scope of our audit responded to the key audit matter** | We obtained an understanding of the relevant controls over the fair valuation of complex derivative instruments.<br><br>We have engaged our internal complex pricing specialists to independently value the complex derivatives, using our own independently developed models and considering the assumptions management obtained from the counterparties.<br><br>We have assessed the reasonableness of the assumptions applied in the RPI valuation by involving our specialists and reviewed the counterparty valuations received by management against in house model valuations.<br><br>We worked with our complex pricing specialists to challenge whether the assumptions used were within a reasonable range and consistent with those used in the valuation of the equity release mortgage portfolio. |
| **Key observations** | Based on our audit procedures above, we have concluded that the Group's valuation of complex derivative instruments was reasonable. |

## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Society financial statements |
|---|---|---|
| Materiality | £8.2 million (2022: £8.7 million) | £8.1 million (2022: £8.2 million) |
| Basis for determining materiality | 0.5% of net assets (2022: 0.5% of net assets excluding subscribed capital) | 0.5% of net assets capped at 99% of Group materiality (2022: 0.5% of net assets excluding subscribed capital capped at 95% of Group materiality) |
| Rationale for the benchmark applied | We have used 0.5% of net assets (2022: 0.5% of net assets excluding subscribed capital) as the benchmark for determining materiality. The change in the materiality benchmark used is driven by net assets being a more appropriate and reliable benchmark alongside aligning to market peers.<br>Net assets are an appropriate basis for materiality, due to the overall capital base being a key focus area for the Society's members, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). In addition, the Society's strategy is centered around maintaining a stable capital base. | |

### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

| | Group financial statements | Society financial statements |
|---|---|---|
| Performance materiality | 70% (2022: 70%) of Group materiality | 70% (2022: 70%) of Society materiality |
| Basis and rationale for determining performance materiality | In determining performance materiality, we considered the following factors:<br>a. The quality of the control environment and that we consider it appropriate to rely on controls over a number of business processes; and<br>b. The nature, volume and size of corrected and uncorrected misstatements identified in the previous audit. | |

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.4 million (2022: £0.4 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed an audit of the Society and its material subsidiaries (Leeds Building Society Covered Bonds LLP, Albion No.4 plc and Albion No.5 plc). 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 £4.5 million to £8.1 million (2022: 1.7 million to £8.20 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.

# Year ended 31 December 2023

## 7.2. Our consideration of the control environment

**Our approach in relation to the Group's IT systems**

We obtained an understanding of, tested and relied on controls over the following IT systems as being key to the financial reporting processes in the Group:

- Core mortgage system.
- Core savings system.
- Treasury system.
- Underlying servers and databases for the above systems where applicable.

Additionally, for systems managed or hosted by third party service organisations, we reviewed assurance reports over controls at those organisations.

**Our approach in relation to the Group's business cycles**

We tested and relied on controls over the following business cycles in the Group:

- Loans and advances to customers and associated interest income.
- Shares and amounts owed to other customers and associated interest expense.

## 7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of environmental, social and governance (ESG) related risks, including climate change, as outlined on pages 47 to 82. As a part of our audit, we have obtained management's climate-related risk assessment and held discussions with the Group Chief Risk Officer to understand the process of identifying climate-related risks, the determination of mitigating actions, and the impact on the Group's financial statements. We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement. We have considered whether information included in the climate related disclosures in the Annual Report is consistent with our understanding of the business and the financial statements.

## 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**We have nothing to report in this regard.**

## 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.
- Results of our enquiries of management, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector.
- 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.
  - 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 relevant internal specialists, including tax, financial instruments, pensions, IT, macroeconomic, credit risk, pricing, prudential risk and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

# Year ended 31 December 2023

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, fair value of complex derivatives and the fair value of the collateral loan. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included taxation legislation, the Building Society Act 1986 for the Society and the UK companies Act for the subsidiaries.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulations set by the FCA and the PRA, including those relating to regulatory capital and liquidity requirements.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified IFRS 9 Financial Instruments – UK residential expected credit loss provisioning, fair value of collateral loan and fair value of complex derivative instruments as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements.
- Enquiring of management, the Audit Committee, in house 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.
- 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.
- 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 248 in the financial statements for the financial year ended 31 December 2023 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 (set out on pages 172 to 174):

- The directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified.
- The directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate.
- The directors' statement on fair, balanced and understandable.
- The board's confirmation that it has carried out a robust assessment of the emerging and principal risks.
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems.
- The section describing the work of the Audit Committee.

## 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 19 years, covering the years ending 31 December 2005 to 31 December 2023. The year ended 31 December 2023 will be the final year of our appointment as auditor.

### 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) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

**Matthew Bainbridge (Senior statutory auditor)**
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

22 February 2024

# Income Statements

## For the year ended 31 December 2023

| | Notes | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|---|
| Interest receivable and similar income | 3 | **1,263.6** | 675.9 | **1,260.5** | 676.1 |
| Interest payable and similar charges | 4 | **(926.0)** | (316.3) | **(923.1)** | (316.7) |
| **Net interest receivable** | | **337.6** | 359.6 | **337.4** | 359.4 |
| Fees and commissions receivable | | **5.2** | 6.1 | **5.2** | 6.1 |
| Fees and commissions payable | | **(0.8)** | (0.7) | **(0.6)** | (0.5) |
| Fair value (losses) / gains from financial instruments | 5 | **(6.7)** | 14.7 | **(16.0)** | 8.1 |
| Other operating income / (expense) | | **22.2** | (3.0) | **22.5** | (4.0) |
| **Total income** | | **357.5** | 376.7 | **348.5** | 369.1 |
| Administrative expenses | 6 | **(159.9)** | (130.1) | **(159.9)** | (130.1) |
| Depreciation and amortisation | 16,17 | **(9.1)** | (10.9) | **(9.1)** | (10.9) |
| Impairment charge on loans and advances to customers | 8 | **(6.1)** | (11.9) | **(6.1)** | (11.9) |
| Impairment of property, plant and equipment and intangible assets | 16,17 | **(0.2)** | (3.8) | **(0.2)** | (3.8) |
| Provisions (charge) / release | 22 | **(0.7)** | 0.5 | **(0.7)** | 0.5 |
| **Operating profit and profit before tax** | | **181.5** | 220.5 | **172.5** | 212.9 |
| Tax expense | 9 | **(47.6)** | (58.6) | **(45.3)** | (57.3) |
| **Profit for the financial year** | | **133.9** | 161.9 | **127.2** | 155.6 |

All amounts relate to continuing operations.

The notes on pages 194 to 244 form part of these accounts.

# Statements of Comprehensive Income

## For the year ended 31 December 2023

| | Notes | **Group 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|---|
| Profit for the financial year | | **133.9** | 161.9 | **127.2** | 155.6 |
| **Items that may subsequently be reclassified to profit and loss:** | | | | | |
| Fair value gains recorded in cash flow hedge reserve | | **15.0** | 118.1 | **15.0** | 118.1 |
| Gains previously recorded in cash flow hedge reserve amortised through profit or loss | | **(26.7)** | (5.2) | **(26.7)** | (5.2) |
| Fair value gains / (losses) on investment securities measured at fair value through other comprehensive income | | **13.4** | (10.8) | **13.4** | (10.8) |
| Losses on investment securities measured through other comprehensive income reclassified to profit or loss on disposal | | **1.4** | 1.7 | **1.4** | 1.7 |
| Tax relating to items that may subsequently be reclassified | | **0.5** | (19.7) | **0.5** | (19.7) |
| Effect of change in corporation tax rate | | **0.1** | (9.4) | **0.1** | (9.4) |
| **Items that may not subsequently be reclassified to profit and loss:** | | | | | |
| Actuarial loss on retirement benefit surplus | 25 | **(0.9)** | (4.9) | **(0.9)** | (4.9) |
| Revaluation loss on properties | 17 | **–** | (1.9) | **–** | (1.9) |
| Tax relating to items that may not be reclassified | | **–** | 1.9 | **–** | 1.9 |
| Effect of change in corporation tax rate | | **(0.1)** | 0.5 | **(0.1)** | 0.5 |
| **Total comprehensive income for the year** | | **136.6** | 232.2 | **129.9** | 225.9 |

# Statements of Financial Position

## For the year ended 31 December 2023

| | Notes | **Group 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Liquid assets | | | | | |
| Cash in hand and balances with the Bank of England | 11 | **2,830.0** | 2,958.1 | **2,830.0** | 2,958.1 |
| Loans and advances to credit institutions | 11 | **213.7** | 235.9 | **109.2** | 83.3 |
| Investment securities | 12 | **2,515.6** | 1,386.7 | **2,515.6** | 1,452.8 |
| Derivative financial instruments | 31 | **443.6** | 679.9 | **443.6** | 679.5 |
| Loans and advances to customers | 13 | | | | |
| Loans fully secured on residential property | | **21,782.9** | 20,324.3 | **21,782.9** | 20,324.3 |
| Other loans | | **158.3** | 168.9 | **158.3** | 168.9 |
| Fair value adjustment for hedged risk on loans and advances to customers | | **(132.3)** | (585.9) | **(132.3)** | (585.9) |
| Other assets, prepayments and accrued income | 14 | **224.1** | 248.3 | **431.8** | 447.8 |
| Current tax assets | | **9.8** | 4.6 | **9.8** | 4.6 |
| Deferred tax assets | 26 | **3.0** | 0.3 | **3.0** | 0.3 |
| Intangible assets | 16 | **29.8** | 22.5 | **29.8** | 22.5 |
| Property, plant and equipment | 17 | **64.5** | 66.7 | **64.5** | 66.7 |
| Retirement benefit surplus | 25 | **2.9** | 3.6 | **2.9** | 3.6 |
| **Total assets** | | **28,145.9** | 25,513.9 | **28,249.1** | 25,626.5 |
| **Liabilities** | | | | | |
| Shares | 18 | **20,793.0** | 17,520.4 | **20,793.0** | 17,520.4 |
| Fair value adjustment for hedged risk on shares | | **31.9** | (100.7) | **31.9** | (100.7) |
| Derivative financial instruments | 31 | **233.0** | 251.9 | **232.8** | 237.2 |
| Amounts owed to credit institutions | | **1,869.3** | 2,268.4 | **1,869.3** | 2,268.4 |
| Amounts owed to other customers | 19 | **169.9** | 229.7 | **521.6** | 404.7 |
| Debt securities in issue | 20 | **2,708.6** | 2,711.0 | **2,361.0** | 2,620.2 |
| Other liabilities and accruals | 21 | **300.2** | 586.1 | **410.2** | 631.0 |
| Deferred tax liabilities | 26 | **38.4** | 33.0 | **35.3** | 32.1 |
| Provisions for liabilities and charges | 22 | **1.3** | 0.6 | **1.3** | 0.6 |
| Subordinated liabilities | 23 | **323.9** | 309.1 | **323.9** | 309.1 |
| Subscribed capital | 24 | **33.0** | 197.6 | **33.0** | 197.6 |
| **Total liabilities** | | **26,502.5** | 24,007.1 | **26,613.3** | 24,120.6 |
| General reserve | | **1,548.5** | 1,415.3 | **1,540.9** | 1,414.4 |
| Cash flow hedge reserve | | **74.3** | 81.3 | **74.3** | 81.3 |
| Fair value reserve | | **4.7** | (5.9) | **4.7** | (5.9) |
| Revaluation reserve | | **1.6** | 1.8 | **1.6** | 1.8 |
| Other reserve | | **14.3** | 14.3 | **14.3** | 14.3 |
| **Total liabilities and equity** | | **28,145.9** | 25,513.9 | **28,249.1** | 25,626.5 |

The accounts on pages 189 to 244 were approved by the board of directors on 22 February 2024.

Signed on behalf of the board of directors by:

**Iain Cornish**
Chair

**Richard Fearon**
Chief Executive Officer

**Andrew Conroy**
Chief Financial Officer

# Statements of Changes in Members' Interest

## For the year ended 31 December 2023

| **Group 2023** | **General reserve £M** | **Cash flow hedge reserve £M** | **Fair value reserve £M** | **Revaluation reserve £M** | **Other reserve £M** | **Total equity attributable to members £M** |
|---|---|---|---|---|---|---|
| At 1 January 2023 | **1,415.3** | **81.3** | **(5.9)** | **1.8** | **14.3** | **1,506.8** |
| Comprehensive income for the year | **133.2** | **(7.0)** | **10.6** | **(0.2)** | **–** | **136.6** |
| **At 31 December 2023** | **1,548.5** | **74.3** | **4.7** | **1.6** | **14.3** | **1,643.4** |

| Group 2022 | General reserve £M | Cash flow hedge reserve £M | Fair value reserve £M | Revaluation reserve £M | Other reserve £M | Total equity attributable to members £M |
|---|---|---|---|---|---|---|
| At 1 January 2022 | 1,251.3 | – | 0.7 | 8.3 | 14.3 | 1,274.6 |
| Comprehensive income for the year | 156.1 | 81.3 | (6.6) | 1.4 | – | 232.2 |
| Revaluation gains transferred on disposal of assets | 7.9 | – | – | (7.9) | – | – |
| At 31 December 2022 | 1,415.3 | 81.3 | (5.9) | 1.8 | 14.3 | 1,506.8 |

| **Society 2023** | **General reserve £M** | **Cash flow hedge reserve £M** | **Fair value reserve £M** | **Revaluation reserve £M** | **Other reserve £M** | **Total equity attributable to members £M** |
|---|---|---|---|---|---|---|
| At 1 January 2023 | **1,414.4** | **81.3** | **(5.9)** | **1.8** | **14.3** | **1,505.9** |
| Comprehensive income for the year | **126.5** | **(7.0)** | **10.6** | **(0.2)** | **–** | **129.9** |
| **At 31 December 2023** | **1,540.9** | **74.3** | **4.7** | **1.6** | **14.3** | **1,635.8** |

| Society 2022 | General reserve £M | Cash flow hedge reserve £M | Fair value reserve £M | Revaluation reserve £M | Other reserve £M | Total equity attributable to members £M |
|---|---|---|---|---|---|---|
| At 1 January 2022 | 1,256.7 | – | 0.7 | 8.3 | 14.3 | 1,280.0 |
| Comprehensive income for the year | 149.8 | 81.3 | (6.6) | 1.4 | – | 225.9 |
| Revaluation gains transferred on disposal of assets | 7.9 | – | – | (7.9) | – | – |
| At 31 December 2022 | 1,414.4 | 81.3 | (5.9) | 1.8 | 14.3 | 1,505.9 |

# Statements of Cash Flows

## For the year ended 31 December 2023

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| Profit before tax | **181.5** | 220.5 | **172.5** | 212.9 |
| Adjusted for: | | | | |
| Impairment charge | **6.1** | 11.9 | **6.1** | 11.9 |
| Provisions charge | **0.7** | (0.5) | **0.7** | (0.5) |
| Depreciation and amortisation | **9.1** | 10.9 | **9.1** | 10.9 |
| Impairment of property, plant and equipment and intangible assets | **0.2** | 3.8 | **0.2** | 3.8 |
| Fair value of collateral loan which represents a pool of equity release mortgages | **6.9** | 53.9 | **6.9** | 53.9 |
| Non-cash and other items | **(25.4)** | 25.9 | **(30.6)** | 27.0 |
| Cash generated from operations | **179.1** | 326.4 | **164.9** | 319.9 |
| Changes in operating assets and liabilities: | | | | |
| Derivative financial instruments | **(46.6)** | (7.4) | **(44.4)** | 21.8 |
| Loans and advances to customers | **(1,461.0)** | (2,031.8) | **(1,461.0)** | (2,031.8) |
| Loans and advances to credit institutions* | **(7.1)** | (8.6) | **(7.1)** | (8.6) |
| Other operating assets | **24.2** | (76.9) | **16.1** | (235.8) |
| Shares | **3,272.6** | 2,262.4 | **3,272.6** | 2,262.4 |
| Amounts owed to credit institutions and other customers | **(458.9)** | (58.3) | **(282.2)** | (126.7) |
| Other operating liabilities | **(284.5)** | 380.7 | **(219.4)** | 428.0 |
| Taxation paid | **(49.6)** | (56.0) | **(49.6)** | (56.0) |
| **Net cash flows from operating activities*** | **1,168.2** | 730.5 | **1,389.9** | 573.2 |
| Cash flows from investing activities | | | | |
| Purchase of investment securities | **(2,882.9)** | (1,292.5) | **(2,882.9)** | (1,292.5) |
| Proceeds from sale and redemption of investment securities | **1,774.0** | 847.9 | **1,840.2** | 873.0 |
| Purchase of intangible assets | **(12.5)** | (3.9) | **(12.5)** | (3.9) |
| Purchase of property, plant and equipment | **(1.9)** | (3.7) | **(1.9)** | (3.7) |
| Proceeds from sale of property, plant and equipment | **–** | 8.9 | **–** | 8.9 |
| **Net cash flows from investing activities** | **(1,123.3)** | (443.3) | **(1,057.1)** | (418.2) |
| Cash flows from financing activities | | | | |
| Net proceeds from issue of debt securities | **350.2** | 665.1 | **0.4** | 665.1 |
| Repayments of debt securities in issue | **(379.9)** | (463.0) | **(269.9)** | (420.9) |
| Repayments of subscribed capital | **(171.2)** | – | **(171.2)** | – |
| Principal lease payments | **(1.4)** | (1.6) | **(1.4)** | (1.6) |
| **Net cash flows from financing activities** | **(202.3)** | 200.5 | **(442.1)** | 242.6 |
| **Net increase in cash and cash equivalents*** | **(157.4)** | 487.7 | **(109.3)** | 397.6 |
| Cash and cash equivalents at the beginning of the year* | **3,123.3** | 2,635.6 | **2,970.7** | 2,573.1 |
| **Cash and cash equivalents at the end of the year*** | **2,965.9** | 3,123.3 | **2,861.4** | 2,970.7 |

* The 2022 Statements of Cash Flows have been restated to exclude the mandatory reserve deposit of £70.7 million which is not available for use in the Group's day to day operations. See note 11 for further details.

# Notes to the Accounts

## Year ended 31 December 2023

### 1. Accounting policies

#### (a) Basis of preparation

The Group and Society financial statements are prepared in accordance with International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) that are applicable. The Group and Society financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom.

The Group prepares its accounts under the historical cost convention, except for the valuation of financial assets and liabilities held at fair value through other comprehensive income or fair value through profit or loss including all derivative financial instruments, and certain freehold and long leasehold properties. As stated in the Directors' Report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The particular accounting policies adopted are described below and the policies, presentation and methods of computation are consistent with those applied by the Group in the prior year, except where otherwise indicated.

These financial statements are presented in sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds.

#### (b) Future accounting developments

**(i) Taxation**

The Group is within the scope of the Organisation for Economic Co-operations and Development (OECD) Pillar 2 model rules. Pillar 2 legislation was enacted in the United Kingdom, the jurisdiction in which the company is incorporated, and will come into effect from 1 January 2024. Since the Pillar 2 legislation was not effective at the 31 December 2023, the Group has no related current tax exposure. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes, as provided in the amendments to IAS 12 issued in May 2023.

Where the legislation applies, a group is liable to pay a top-up tax for the difference between its Global Anti-Base Erosion effective tax rate (GloBE ETR) per jurisdiction and the 15% minimum rate. Based on an assessment of historical periods, all entities within the Group are expected to have an ETR that exceeds 15%. Therefore there is not expected to be a material impact on the Group where the legislation does apply, though the Group will continue to review this position as additional legislation and HMRC guidance is issued on the application of these rules.

**(ii) Hedge accounting**

When initially applying IFRS 9, the Group chose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 which was permitted by IFRS 9. The Group has now chosen to apply the hedge accounting requirements of IFRS 9 for micro fair value hedges and the macro cash flow hedge from 1 January 2024. Macro fair value hedges will continue to be accounted for in accordance with IAS 39 as permitted by IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. In accordance with IFRS 9, the new hedge accounting requirements will be applied prospectively from the initial application date and there is no impact on the Group's reserves as at 1 January 2024.

The Group has performed a detailed assessment of the impact of applying the hedge accounting requirements of IFRS 9 to financial instruments held at 31 December 2023 and does not expect the impact to be material. The hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the Group's risk management objectives and strategy.

#### (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:

# 1. Accounting policies (continued)

## (d) Financial instruments (continued)

**(i) Classification and measurement (continued)**

- **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.

- **At fair value through other comprehensive income (FVOCI)**
  These are categories of assets for which the business model is to hold the asset and collect the contractual cash flows or to sell the assets. The contractual cash flows must be solely payments of principal and interest. The Group holds investment securities in order to meet current and future liquidity requirements, and these are considered to meet the definition of the hold or sell business model. They are therefore classified as 'at FVOCI', apart from those assets for which the cash flows are not solely payments of principal and interest, as noted below.

  These assets are initially recognised at fair value adjusted for any attributable costs. Subsequent changes in fair value are recognised in other comprehensive income, except for impairment losses which are recognised in profit or loss. Upon derecognition, any accumulated movements in fair value previously recognised in equity are reclassified to profit or loss in the Income Statement.

  Premia and discounts arising on the purchase of assets held at FVOCI are spread over the life of the asset using the effective interest rate method.

- **At fair value through profit or loss (FVTPL)**
  Assets for which the business model is neither to hold nor to hold or sell, or those for which contractual cash flows are not solely payments of principal and interest, are classified as 'at FVTPL'. The Group has classified the collateral loan which represents a pool of equity release mortgages as 'at FVTPL' since the underlying contract with the customer contains a 'no negative equity guarantee' that any shortfall arising on the sale of the property securing the mortgage will not be pursued.

  Certain investment securities may also be classified as 'at FVTPL', either because interest can be foregone or because their credit risk is higher than the average credit risk of the underlying collateral. At 31 December 2023 the Group did not have any investment securities which met this classification (2022: none).

  In addition, IFRS 9 mandates that derivative financial instruments are classified as 'at FVTPL'.

  Instruments classified as 'at FVTPL' are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement. The exception to this is for those derivative financial instruments designated in cash flow hedge accounting relationships, where the effective portion of any changes in fair value is recognised in other comprehensive income (see note 1(d)(iv)).

**Financial liabilities**

All financial liabilities are classified as 'at amortised cost', with the exception of derivative financial instruments which under IFRS 9 are mandatorily classified as 'at FVTPL'.

Financial liabilities are initially recorded at their fair value, and those to be measured at amortised cost are subsequently measured using the effective interest rate method. The premia and discounts, together with commissions and other costs incurred in the raising of wholesale funds and subordinated liabilities, are amortised over the period to maturity using the effective interest rate method. Those liabilities measured 'at FVTPL' are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement apart from for those instruments designated in cash flow hedge accounting relationships, as above.

**(ii) Sale and repurchase agreements**

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the Statement of Financial Position when substantially all of the risks and rewards of ownership remain within the Group, and the counterparty liability is included separately on the Statement of Financial Position as appropriate. Where applicable, the difference between sale and repurchase price is accrued over the life of the agreement using the effective interest rate method.

# Year ended 31 December 2023

## 1. Accounting policies (continued)

### (d) Financial instruments (continued)

**(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 the issue of debt securities as substantially all the risks and rewards are retained by the Society and the Society retains control of the assets.

Financial liabilities are only derecognised when the obligation is discharged, cancelled or has expired.

**(iv) Derivative financial instruments and hedge accounting**
During the financial year the Group continued to apply the IAS 39 hedge accounting standards, as permitted by IFRS 9.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured monthly at their fair value. The need for credit valuation adjustments is considered in the determination of the fair value of derivatives. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

All derivatives are entered into by the Group for the purpose of providing an economic hedge; however certain criteria must be met before the instruments can be allocated to accounting hedge relationships. The Group makes use of accounting hedges to reduce volatility in the Income Statement. If derivatives are not designated in accounting hedges, then changes in fair values are recognised immediately in the Income Statement.

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages and savings products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the relationship is de-designated and the adjustment to the carrying amount of the hedged item is amortised to the Income Statement over the period to maturity.

For the purposes of the fair value liability hedge, the Group includes fixed rate Individual Savings Accounts in the population of products eligible for inclusion in the hedge as permitted under the 'carve out' applied when IAS 39 was adopted for use in the European Union and subsequently transposed into IFRS as adopted by the United Kingdom.

The Group applies macro cash flow hedge accounting to a portion of its floating rate financial liabilities which are designated in the hedge alongside interest rate swaps that have been transacted to economically hedge mortgage applications, prior to completion of the mortgage. Where a derivative financial instrument is designated in a macro cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and recycled to the Income Statement over the life of the forecast transaction. The effective portion recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis. Any ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss immediately.

To the extent that the hedge is effective, unrealised fair value gains and losses on cash flow hedging derivatives are recognised in the cash flow hedging reserve.

If the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is then recognised immediately in the Income Statement.

**(v) Offsetting**
Financial assets and financial liabilities are offset, and the net amount presented within the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group has entered into International Swaps and Derivatives Association (ISDA) master netting agreements for its derivatives. The ISDA master netting agreements grant a legal right of offset for transactions with the same counterparty but this does not necessarily result in an offset of financial assets and liabilities within the Statement of Financial Position, as transactions can be settled on a gross basis.

### (e) Impairment of financial assets
Impairment losses are calculated for all financial assets held at amortised cost or at FVOCI. Loss provisions are also held against undrawn loan commitments, where a loan offer has been issued to a customer and remains unexpired, but the loan has not yet completed and so has not yet been recognised in the Statement of Financial Position.

## 1. Accounting policies (continued)

### (e) Impairment of financial assets (continued)

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.

**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 out of Stage 3 if the loan exits default and remains not in default for more than 12 months or, for loans subject to forbearance, if 12 consecutive full payments are made after the forbearance activity has completed. The Group’s definition of default aligns to the regulatory definition under the Internal Ratings Based (IRB) approach for capital requirements.

ECL is calculated by multiplying loss given default (LGD), probability of default (PD) and exposure at default (EAD). Each element of the calculation is modelled at individual account level on a monthly basis over the remaining contractual term of the loan, with the first 12 months totalled to obtain the 12 month ECL and the lifetime ECL obtained by totalling the above over the full contractual life of the loan. Modelling assumptions are based on historical data analysis of the impact of economic variables on loan behaviour. These assumptions are then applied to the forecast economic scenarios to predict future loan behaviour.

The overall ECL recorded in the financial statements is calculated as the probability weighted ECL over a range of possible forecasted macroeconomic scenarios.

The Group utilises a wide range of forbearance strategies to support customers in financial difficulty, working with customers on a case by case basis to determine the most suitable approach. The implementation of a forbearance strategy does not give rise to the derecognition of the loan.

**Post model adjustments:** Post model adjustments (PMAs) are applied to modify the level of impairment loss provisions from that calculated by the detailed models used to determine ECL. They are used where there is a material risk that is not adequately captured within modelled ECL as a result of a lack of historical data with which to model or due to ongoing uncertainty. Judgement is required in determining whether a PMA should be used and the appropriate quantum of the adjustment. All PMAs are subject to approval by Credit Committee and must be reviewed and reapproved at least annually.

At 31 December 2023, the total of the material PMAs used by the Group was £20.8 million (2022: £25.1 million). Further details are provided in note 2(b)(i).

# Year ended 31 December 2023

## 1. Accounting policies (continued)

### (e) Impairment of financial assets (continued)

**(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 with a fixed interest rate period, the effect of this policy is to spread the impact of cashbacks, arrangement and valuation fees, early redemption charges and costs directly attributable and incremental to setting up the loan over the fixed term (or shorter period, if deemed appropriate). Expected lives of mortgage assets 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'.

### (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 reporting date.

### (h) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised to the extent it is probable that expected future economic benefits will flow from it and the costs can be measured reliably. Intangible assets primarily arise from IT development activity and the cost of the asset includes both external costs, such as software licences and IT development services, and the costs of Group colleagues directly involved in the development of the asset.

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once it is brought into use. Useful lives of intangible assets are assessed on an individual asset basis and are reviewed at each Statement of Financial Position date. Upon initial recognition, the Group generally applies the following useful lives:

New core systems – 10 years
System enhancements or non-core additions – 5 years

Intangible assets are reviewed for impairment at each Statement of Financial Position date or when there is an indication of impairment. Impairment occurs when the economic benefits arising from the asset are lower than its carrying amount. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of fair value less costs of disposal and value in use, calculated using the discounted cash flow method. Any impairment in the value of these assets is recognised immediately as an expense in the Income Statement.

## 1. Accounting policies (continued)

### (i) Property, plant and equipment

Freehold and long leasehold properties are revalued every three years by an independent firm of valuers. The fair value of the properties is determined from market based evidence reflecting the property's highest and best use. Any increase in value is recognised through other comprehensive income in the revaluation reserve, unless the increase represents the reversal of a previous impairment, in which case it is recognised through the Income Statement. Any reduction in value is recognised through other comprehensive income as the reversal of previous revaluation gains or as an impairment through the Income Statement if no such gains exist.

No provision is made for depreciation of freehold and long leasehold properties as in the opinion of the board, their residual value will not be materially different to their carrying value.

All other items of property, plant and equipment are initially recognised at cost and then depreciated. Depreciation is calculated on a straight line basis, to write down the cost of such assets to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Short leasehold properties | Unexpired lease term |
| Improvements to properties | 8 to 10 years |
| Office and computer equipment | 3 to 5 years |

Property, plant and equipment are reviewed annually for indications of impairment. Impairment losses are recognised immediately as an expense in the Income Statement.

### (j) Leases

The Group classifies all contracts which give the right to control the use of an identified asset for a period of time in exchange for a consideration as leases. If the supplier of the asset has a substitution right then this is not classified as an asset and the contract is not classified as a lease.

#### (i) Lessee

At the commencement of a lease, the Group recognises a right-of-use asset within 'property, plant and equipment' and a lease liability within 'other liabilities and accruals' in the Statement of Financial Position. The lease liability is initially measured at the present value of all contractual payments that are unpaid at the commencement date, discounted using the Group's cost of borrowing at the date of inception of the lease. The calculation of the lease liability reflects the Group's judgement as to whether it will exercise a purchase, extension or termination option. For leases of land and buildings, the Group has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component

Interest is charged on the lease liability at the Group's cost of wholesale borrowing at the date of inception of the lease and recorded in 'interest payable and similar charges' within the Income Statement.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at an amount equal to the lease liability. It is subsequently depreciated using the straight line method from the commencement date to the end of the lease term (or the end of the estimated useful life for the equivalent item of property, plant and equipment if shorter). Right-of-use assets are reviewed annually for indications of impairment. Impairment losses are recognised immediately as an expense in the Income Statement.

No right-of-use asset or lease liability is recognised for leases with a lease term of less than 12 months and leases of low value items. Lease payments associated with these leases are recognised within administrative expenses on a straight line basis over the lease term.

#### (ii) Lessor

All of the Group's leases where the Group acts as a lessor are classified as operating leases. The Group recognises lease payments received under operating leases in line with receipt of payments, within 'other operating income'.

### (k) Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit method, with valuations updated at each year end. Actuarial gains and losses are recognised in full in the Statement of Comprehensive Income, in the period in which they occur.

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.

# Year ended 31 December 2023

## 1. Accounting policies (continued)

### (l) Tax
Tax on the profits for the period comprises current tax and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the Statement of Financial Position date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised where there is a temporary difference between the carrying amount of assets and liabilities in the Statement of Financial Position and the amounts used for the calculation of corporation tax payments. Deferred tax liabilities are generally recognised for all taxable temporary differences apart from those arising on investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the Statement of Financial Position date.

### (m) Foreign currency
Assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the Statement of Financial Position date and exchange differences are included in the Income Statement. All foreign currency income and expense is translated into sterling at the rate of exchange on the day of receipt or payment.

### (n) Segmental reporting
The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews the Group's internal reporting and is responsible for all significant decisions. The Group has determined that it has one reportable segment under IFRS 8 – Operating Segments as the Chief Executive Officer reviews performance and makes decisions on the Group as a whole. Therefore, no separate segmental reporting note has been provided.

## 2. Critical accounting estimates and judgements

The preparation of these financial statements involves making judgements in the application of accounting policies which affect the amounts recognised in the financial statements. In addition, the Group makes estimates and assumptions which could affect the reported amounts of assets and liabilities in the next financial year and beyond.

The Group reviews all critical judgements and estimates on a regular basis, including approval by the Audit Committee as explained on pages 148 to 151, to ensure that these remain appropriate. The critical judgements and estimates which have a significant impact on the financial statements of the Group are described below.

### (a) Critical judgements

#### (i) Classification of financial assets
Management judgement is applied in the classification of financial assets in determining the business model for managing the assets and in determining whether the contractual cash flows are solely payments of principal and interest. For retail mortgages, it has been determined that term extensions and forbearance activity are not contractual so do not impact on the assessment and such assets remain held at amortised cost.

In the case of the collateral loan which represents a pool of equity release mortgages, the existence of the no negative equity guarantee, which means that certain receipts would be foregone in the event of a shortfall on sale, is judged not to be consistent with payments being solely principal and interest. The 'no negative equity' feature of the equity release mortgages could be considered to represent an insurance contract but the accounting standards permit the continued application of IFRS 9 to this loan following the adoption of IFRS 17. The collateral loan is therefore classified under IFRS 9 as a financial instrument measured 'at FVTPL'.

## 2. Critical accounting estimates and judgements (continued)

### (a) Critical judgements (continued)

**(ii) Impairment of loans and advances to customers**
**Significant increase in credit risk**
As described in note 1(e)(i), a test-based approach is used to determine the thresholds, expressed as a percentage increase, over which an increase in lifetime probability of default (PD) compared to the lifetime PD calculated on initial recognition represents a significant increase in credit risk. Management judgement is applied to determine the appropriate tests required to derive the thresholds. The tests, which have been applied consistently with the previous year, aim to move loans through the stages in a timely manner, so that loans move to Stage 2 in advance of falling into arrears and to Stage 3 in advance of default, thus minimising the reliance on the 30 days past due and 90 days past due backstops respectively.

Judgement is also applied in determining the qualitative criteria used to move loans to Stage 2. In particular, at 31 December 2023, loans which could be at risk of having a monthly shortfall, identified through the calculation of the affordability post model adjustment, have been deemed to have had a significant increase in credit risk and thus have moved to Stage 2 or 3.

If all loans were assessed as having experienced a significant increase in credit risk and therefore provisions were recognised to cover lifetime ECL (i.e. all loans currently classified as Stage 1 were moved to Stage 2), impairment loss provisions at 31 December 2023 would increase modelled ECL by £14.9 million (2022: £8.6 million).

**Definition of default**
The definition of default is given in note 1(e)(i). Management has judged that the definition of default for impairment loss calculations should be aligned to the IRB regulatory definition of default. Further it is management's judgement that 12 months is the appropriate cure period for recovery from default.

**Climate-related risks**
Management have considered and reflected on the potential impact of climate-related risks on the Group's financial position and performance. This involved undertaking an assessment over the Group's loan portfolio and evaluating whether the potential effects of physical and transitional risk of climate change would have a material impact on the Group's financial position as at 31 December 2023. This resulted in the recognition of a post model adjustment of £0.6 million which reflects the additional ECL that could potentially be incurred due to the physical risk of flooding or coastal erosion. The transitional risk element of climate change has been explored, however as there are no future changes to UK Government policies in relation to EPC requirements it was concluded that there is limited information available to quantify the impact on impairment loss provisions.

**(iii) Intangible assets**
The Group applies judgement as to whether IT development activity results in an asset that qualifies for recognition as an intangible asset. For an asset to be recognised under IAS 38 it must be probable that future economic benefits will flow from the asset and the cost of the asset must be able to be measured reliably. For each significant project undertaken by the Group, an assessment is performed by the relevant business area of whether a separately identifiable asset is being developed and the level of future benefits flowing from the asset.

Intangible assets are reviewed annually for indications of impairment, which includes the application of judgement as to whether it is probable that future economic benefits will be realised from the asset, and whether the value in use of the asset is in excess of the carrying value (see note 16 for further information).

**(iv) Property, plant and equipment**
Freehold and long leasehold premises are revalued every three years by an independent firm of valuers, with the most recent valuation taking place at 31 December 2022.

It is management's judgement that the 'highest and best use' valuation of its head office property should reflect the long term occupation of the property by Leeds Building Society and therefore the valuation has been undertaken as if the property were an investment property with a long term (15 year) lease and a covenant equivalent to that of the Group, with no break clauses. This valuation is higher than if the property were valued on an open market basis. The Group's branches continue to be valued on an open market basis.

It is management's judgement that the valuations obtained at 31 December 2022 appropriately reflect the fair value of these properties as at the date of the Statement of Financial Position.

**(v) Leases**
The application of the requirements of IFRS 16 – Leases for leased assets requires the application of judgement as to whether a contract contains a lease. The Group has a multi-year service contract with a third party for the provision and maintenance of its IT infrastructure. It is management's judgement that this contract does not provide the Group with the right to control the use of an identified asset and therefore does not meet the definition of a lease under IFRS 16.

# Year ended 31 December 2023

## 2. Critical accounting estimates and judgements (continued)

### (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 (2022: 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 that, despite evidence of recent economic resilience, there is still downside risk due to the impact from higher interest rates, elevated levels of inflation and the potential adverse impacts of tighter financial market conditions.

A summary of each of the four macroeconomic scenarios is as follows:

- Central scenario reflecting that the external environment remains extremely volatile. The scenario anticipates that a combination of high inflation and high interest rates will drive a reduction in consumer spending in the earlier years of the forecast. The scenario shows a rise in unemployment as a decrease in gross domestic product during 2024 reduces demand for labour.
- Downside scenario as modelled in the Group's risk management process reflecting a '1 in 20' stress scenario, with weak consumer spending resulting in a reduction in GDP, a rise in unemployment and reductions in house prices as demand falls due to weaker affordability. The scenario assumes that base rate initially rises to help reduce entrenched levels of higher inflation, before being cut to tackle the effects of the recession on the UK economy.
- Alternative downside scenario representing a more severe downturn than in the downside scenario. This initially has very high levels of persistent inflation resulting in a period of higher bank base rate (BBR) to reduce demand, with the economy then subject to a further external shock resulting in sharp falls to consumer confidence, steep falls in demand, and falling growth. These conditions drive peak unemployment to 8.4%, with a fall in demand across the housing market, causing greater reductions in house prices in the earlier years of the forecast. As demand collapses, BBR is then reduced quickly to try and stimulate the economy.
- Growth scenario representing a more optimistic view of the current economic outlook than assumed in the central scenario, including higher gross domestic product growth as the economy continues to be resilient to the high interest rate environment and rates of inflation decline more markedly.

Scenarios are developed by the Group based on analysis of third party published economic data and forecasts. The relative weighting of the macroeconomic scenarios is derived by determining the point in the economic cycle at which the UK economy sits at the date of the Statement of Financial Position. This indicates a possible range of outcomes for each scenario based on defined boundaries. Management judgement is then applied to determine the appropriate point within the ranges, informed by current relevant market, macroeconomic and political factors and the degree of uncertainty inherent in the UK economy.

At 31 December 2023, the ongoing economic uncertainty has meant that management set the probability of the growth scenario towards the lower end of the established range and the downside and alternative downside towards the higher end of the range. The final weightings used are shown in the table below.

| | **2023** | 2022 |
|---|---|---|
| Central | **50%** | 55% |
| Downside | **25%** | 20% |
| Alternative downside | **20%** | 20% |
| Growth | **5%** | 5% |

The tables on pages 203 to 205 show the macroeconomic assumptions used in each scenario. The variables with the most significant impact on the calculated impairment loss provisions are house price inflation and unemployment rate. The tables show the full year rates for house price inflation and gross domestic product growth, together with the year end position for unemployment rate and base rate. Beyond the five year period shown, assumptions move towards historic long run averages over the following five years and then remain constant at these rates thereafter.

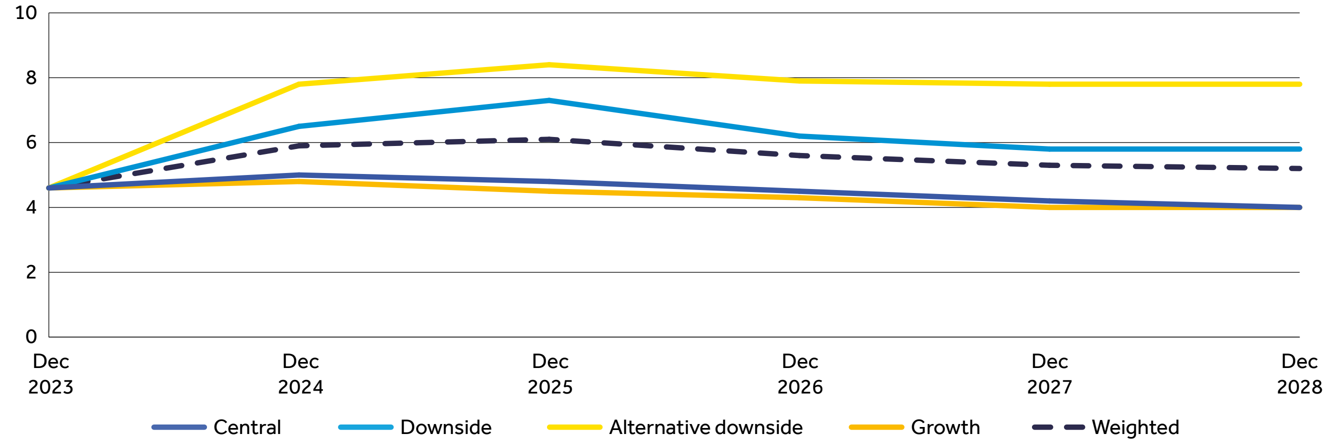
## 2. Critical accounting estimates and judgements (continued)

### (b) Significant accounting estimates and assumptions (continued)

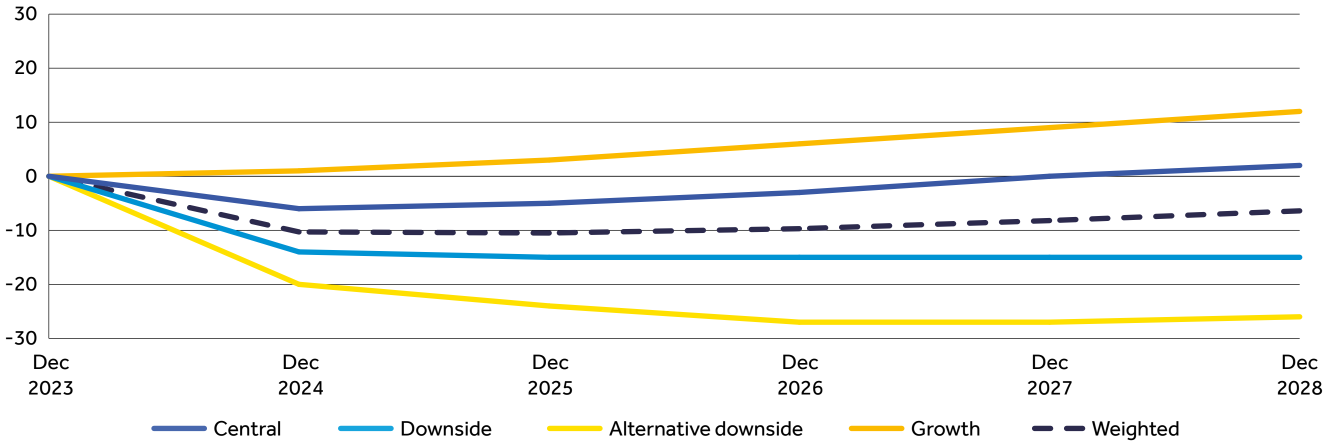
**(i) Impairment losses on loans and advances to customers (continued)**

The charts below illustrate the unemployment assumptions and the cumulative impact of the annual house price inflation assumptions across all four scenarios.

**Unemployment rate (%)**




**House prices (December 2023 = 0)**




**Central scenario**

| | **31 December 2023** | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** |
| House price inflation | **(6.50%)** | **1.50%** | **2.50%** | **2.50%** | **2.50%** |
| Unemployment rate (31 December) | **5.00%** | **4.75%** | **4.50%** | **4.20%** | **4.00%** |
| Gross domestic product growth | **(0.25%)** | **0.75%** | **1.00%** | **1.50%** | **1.50%** |
| Base rate (31 December) | **4.75%** | **4.25%** | **4.25%** | **4.00%** | **4.00%** |

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| House price inflation | (10.00%) | 0.00% | 1.00% | 1.50% | 1.50% |
| Unemployment rate (31 December) | 4.50% | 5.20% | 5.50% | 5.50% | 5.20% |
| Gross domestic product growth | (1.50%) | 0.00% | 0.50% | 1.00% | 1.00% |
| Base rate (31 December) | 4.00% | 3.00% | 2.25% | 2.25% | 2.25% |

# Year ended 31 December 2023

## 2. Critical accounting estimates and judgements (continued)

### (b) Significant accounting estimates and assumptions (continued)

**(i) Impairment losses on loans and advances to customers (continued)**

**Downside scenario**

| | 31 December 2023 | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** |
| House price inflation | **(13.70%)** | **(2.00%)** | **0.00%** | **0.00%** | **1.00%** |
| Unemployment rate (31 December) | **6.50%** | **7.30%** | **6.20%** | **5.80%** | **5.80%** |
| Gross domestic product growth | **(0.70%)** | **(1.30%)** | **1.00%** | **1.00%** | **1.00%** |
| Base rate (31 December) | **6.00%** | **3.00%** | **0.75%** | **0.25%** | **0.25%** |

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| House price inflation | (13.70%) | (2.00%) | 0.00% | 0.00% | 1.00% |
| Unemployment rate (31 December) | 7.30% | 6.50% | 6.20% | 5.80% | 5.80% |
| Gross domestic product growth | (2.00%) | 0.00% | 1.00% | 1.00% | 1.00% |
| Base rate (31 December) | 3.25% | 0.10% | 0.10% | 0.10% | 0.10% |

**Alternative scenario**

| | 31 December 2023 | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** |
| House price inflation | **(20.00%)** | **(5.00%)** | **(4.00%)** | **0.00%** | **1.00%** |
| Unemployment rate (31 December) | **7.80%** | **8.40%** | **7.90%** | **7.80%** | **7.80%** |
| Gross domestic product growth | **(0.20%)** | **(4.20%)** | **2.10%** | **1.50%** | **1.50%** |
| Base rate (31 December) | **6.50%** | **4.50%** | **1.00%** | **0.10%** | **0.10%** |

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| House price inflation | (20.00%) | (5.00%) | (4.00%) | 0.00% | 1.00% |
| Unemployment rate (31 December) | 8.40% | 7.80% | 7.90% | 7.50% | 7.00% |
| Gross domestic product growth | (0.20%) | (4.20%) | 2.10% | 1.50% | 1.50% |
| Base rate (31 December) | 3.00% | 0.00% | 0.00% | 0.10% | 0.10% |

**Growth scenario**

| | 31 December 2023 | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** |
| House price inflation | **1.00%** | **2.00%** | **2.70%** | **2.70%** | **2.70%** |
| Unemployment rate (31 December) | **4.80%** | **4.50%** | **4.30%** | **4.00%** | **4.00%** |
| Gross domestic product growth | **0.50%** | **1.10%** | **1.60%** | **2.10%** | **2.10%** |
| Base rate (31 December) | **5.00%** | **4.50%** | **4.00%** | **3.25%** | **3.25%** |

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| House price inflation | 7.00% | 2.00% | 2.00% | 3.00% | 3.00% |
| Unemployment rate (31 December) | 3.70% | 4.00% | 4.30% | 4.00% | 4.00% |
| Gross domestic product growth | 5.00% | 2.00% | 2.00% | 2.50% | 2.00% |
| Base rate (31 December) | 4.50% | 3.00% | 3.00% | 3.00% | 3.00% |

## 2. Critical accounting estimates and judgements (continued)

### (b) Significant accounting estimates and assumptions (continued)

**(i) Impairment losses on loans and advances to customers (continued)**

**Weighted scenario**

| | **31 December 2023** | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** |
| House price inflation | **(10.60)%** | **(0.70)%** | **0.60%** | **1.40%** | **1.80%** |
| Unemployment rate (31 December) | **5.90%** | **6.10%** | **5.60%** | **5.30%** | **5.20%** |
| Gross domestic product growth | **(0.30)%** | **(0.70)%** | **1.30%** | **1.40%** | **1.40%** |
| Base rate (31 December) | **5.40%** | **4.00%** | **2.70%** | **2.20%** | **2.20%** |

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| House price inflation | (11.90)% | (1.30)% | (0.20)% | 1.00% | 1.40% |
| Unemployment rate (31 December) | 5.80% | 5.90% | 6.10% | 5.90% | 5.60% |
| Gross domestic product growth | (1.00)% | (0.70)% | 1.00% | 1.20% | 1.20% |
| Base rate (31 December) | 3.70% | 1.80% | 1.40% | 1.40% | 1.40% |

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.

Modelled residential impairment loss provisions totalled £32.7 million at 31 December 2023 (2022: £22.9 million), with PMAs of £20.8 million (2022: £25.1 million) contributing to total provisions of £53.5 million (2022: £48.0 million). The increase in modelled loss provisions was driven by changes in the composition of the residential loan portfolio, model changes, an increase in arrears levels and updated macroeconomic scenarios.

The sensitivity of modelled impairment loss provisions at 31 December 2023 to changes in key individual macroeconomic variables, with all other assumptions held constant, is illustrated below. Note that due to the interaction between different economic variables within the impairment loss provision models, the impacts of such single variable sensitivities may be distorted and are not representative of realistic alternative scenarios.

The impact of changing the assumption for annual house price inflation in each of the first two years of the central scenario is as follows:

| | + 10.0 percentage points | + 5.0 percentage points | - 5.0 percentage points | - 10.0 percentage points |
|---|---|---|---|---|
| (Decrease) / increase in impairment loss provisions (£M) | (1.9) | (1.2) | 1.6 | 3.7 |

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) | 3.4 | 1.3 | (0.7) | (0.9) |

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%:

| | **2023 £M** | 2022 £M |
|---|---|---|
| (Decrease)/increase in impairment loss provisions if scenarios are weighted 100%: | | |
| Central | **(12.9)** | (8.9) |
| Downside | **1.9** | (0.8) |
| Alternative downside | **58.5** | 37.3 |
| Growth | **(14.8)** | (11.6) |

# Year ended 31 December 2023

## 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 total residential impairment loss provisions (including PMAs) if the central scenario was weighted 100% would be £40.6 million (2022: £39.1 million) compared to £53.5 million (2022: £48.0 million) when the scenarios are weighted. The increased sensitivity to 100% weighting of the alternative downside scenario in 2023 is due to changes in the composition of the portfolio, including evidence of deteriorating credit quality and an increase in arrears levels.

Changes to macroeconomic assumptions, as expectations change over time, are likely to lead to volatility in impairment loss provisions and may lead to pro-cyclicality in the recognition of impairment losses.

**Post model adjustments (judgemental adjustments)**

At 31 December 2023, the total of post model adjustments applied by the Group was £20.8 million (2022: £25.1 million). These adjustments were applied to cover the following:

- The potential impacts of inflationary pressures, the cost of living crisis and residential mortgage rate increases on customer affordability, although it is noted that the stressed affordability assessments performed when mortgages are originated provide assurance that the majority of customers can absorb some level of affordability stress.
- There continues to be uncertainty over the timing of remediation of cladding issues in high rise flats. This could result in lower valuations and challenges obtaining new mortgages on these properties, with the potential to impact on the value of the Group's collateral and thus calculated losses in the event of default.
- The risk of inherent bias in reported house prices towards properties which have recently sold, which may not be reflective of the composition of the Group's mortgage book.
- The consideration of climate risk, specifically the physical risk associated with flooding and coastal erosion, which could result in significantly lower property valuations.

The temporary post model adjustment of £1.1 million at 31 December 2022 relating to the additional risks associated with the underestimation of the probability of default associated with euro mortgages has been removed as this has now been incorporated into the ECL model.

**Affordability post model adjustment – £17.2 million (2022: £20.0 million)**

The potential impact of current high levels of inflation on mortgage affordability has been estimated by uplifting customers' recorded expenditure (having adjusted for wage inflation) to identify those accounts that could be at risk of having a shortfall against their monthly mortgage payments, depending on individual financial resilience levels. A forward-looking assessment has also identified those accounts at risk of a shortfall due to potential rate increases for those borrowers who are currently paying interest at the standard variable rate and those who have an upcoming fixed term maturity.

The PMA has been estimated as the additional impairment loss provisions required as loans migrate through impairment stages, based on weighted coverage rates by stage. For loans where the identified shortfall is sufficient to equate to three months' arrears over a period of 12 months, a proportion of accounts are assumed to migrate to Stage 3. For the remainder, migration from Stage 1 to Stage 2 or from Stage 2 to Stage 3, depending on their staging at 31 December 2023, is assumed.

At 31 December 2023 the affordability PMA calculation has been refreshed by using the latest underlying mortgage data and also by applying recent enhancements to mortgage affordability assessments. While some improvements in affordability have been experienced during the financial year, there is also some evidence of increased risk in the identified population.

While we continue to apply a broadly consistent methodology to the 2022 year end, we have updated the level of stage migration based on the latest arrears emergence data. It is expected that continued affordability pressures will result in further arrears emergence as interest rates remain higher for longer than previously anticipated and as such the upcoming fixed term maturity window has also been extended.

## 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 significant judgements underpinning the PMA calculation and the sensitivity of the PMA to these judgements are:

| Assumption | Sensitivity modelled for current assumption | (Decrease) / increase in post model adjustment (£M) |
|---|---|---|
| Number of borrowers that will migrate to Stage 3 due to risk of shortfall | Decrease / increase by 5 percentage points | (1.1) / 1.8 |
| £100 threshold above which shortfall against mortgage payment is 'unaffordable' and PMA is applied | Increase threshold to £200 / reduce threshold to 1p | (1.9) / 2.7 |
| Product interest rates available for switching product on maturity or for standard variable rate | Reduce / increase rates by 1 percentage point | (1.0) / 2.4 |

**Inadequate cladding post model adjustment - £1.9 million (2022: £2.9 million)**

Consistent with the prior year, this PMA has been estimated by identifying properties at the highest risk of cladding issues by matching the Group's portfolio to third party postcode data and applying a range of haircuts to property valuations and making an allowance for remediation costs. The latest data underpinning the calculation indicates a reduction in the number of properties potentially at risk and this resulted in a reduced PMA at 31 December 2023.

**Transaction bias post model adjustment - £1.1 million (2022: £1.1 million)**

The same methodology has been applied as previous reporting periods, by comparing the increases in indexed valuations on the Group's portfolio with alternative third party data and applying a haircut to collateral valuations.

**Climate risk post model adjustment - £0.6 million (2022: nil)**

As at 31 December 2023 the Group has recognised an additional PMA which reflects the consideration of climate risk, specifically the physical risk associated with flooding and coastal erosion. The methodology adopted to calculate the PMA is linked to the ICAAP approach and applies an assumed haircut to valuations for properties that were identified as being at risk.

**(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 rates) 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 mortgages adjusted for the specific profile of the Group's portfolio, also reflects liquidity term premium in current market funding costs |
| Property price volatility | Analysis of historic property price volatility and external research |
| Sales price haircut | Average actual discounts observed on the portfolio during the 2023 and 2022 financial years |

At 31 December 2023 the carrying value of the collateral loan was £153.6 million (2022: £161.9 million), with the reduction primarily driven by movements in underlying collateral valuations. The sensitivity of this value to the estimates shown above is as follows:

| Assumption | Sensitivity modelled for current assumption | (Decrease) / increase in fair value of collateral loan (£M) |
|---|---|---|
| Discount rate | + / - 1 percentage point (floored at the risk free rate) | (11.7) / 13.3 |
| Property price volatility | + / - 3 percentage points | (4.5) / 4.1 |
| Sales price haircut | + / - 5 percentage points | (3.8) / 3.3 |

The sensitivities shown reflect a range of alternative assumptions based on observed historic data.

# Year ended 31 December 2023

## 2. Critical accounting estimates and judgements (continued)

### (b) Significant accounting estimates and assumptions (continued)

**(ii) Fair value of the collateral loan (continued)**
The post model adjustment of £(6.4 million) at 31 December 2022 relating to the additional risks associated with future reductions in house prices has been removed as this risk has now been incorporated into the discount rate calculation.

**(iii) Fair value of the RPI-linked equity release swap**
One of the Group's equity release swaps is linked to the retail price index (RPI) and is valued using a discounted cash flow model which uses observable market data for RPI and the discount rate used to discount future cash flows and unobservable input assumptions for prepayment rates. Wherever possible these input assumptions are calculated with reference to actual historic experience and are aligned to those assumptions used in the valuation of the collateral loan. The variable which is considered to have the largest impact on the value of the swap is the prepayment rate.

A one percentage point increase in the assumed prepayment rate would reduce the value of the swap liability by £0.9 million, resulting in a corresponding fair value gain in the Income Statement. A one percentage point reduction in the assumed prepayment rate would increase the value of the swap liability by £1.0 million, resulting in a corresponding fair value loss in the Income Statement.

## 3. Interest receivable and similar income

| | **Group 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|
| Interest receivable calculated using the effective interest rate method: | | | | |
| On instruments held at amortised cost: | | | | |
| On loans fully secured on residential property | **693.3** | 512.7 | **693.3** | 512.7 |
| On other loans and advances to customers | **0.5** | 0.8 | **0.5** | 0.8 |
| On liquid assets | **159.7** | 42.0 | **154.1** | 42.0 |
| Total interest receivable on instruments held at amortised cost | **853.5** | 555.5 | **847.9** | 555.5 |
| On instruments held at fair value through other comprehensive income: | | | | |
| On investment securities | **93.8** | 19.1 | **98.8** | 21.1 |
| **Total interest receivable calculated using the effective interest rate method** | **947.3** | 574.6 | **946.7** | 576.6 |
| Similar income / (expense) on instruments held at fair value through profit or loss: | | | | |
| On other loans and advances to customers | **12.0** | 11.4 | **12.0** | 11.4 |
| Net income on derivatives that hedge financial assets and are designated in accounting hedge relationships | **298.6** | 96.9 | **298.6** | 96.9 |
| Net income / (expense) on derivatives that hedge financial assets and are not designated in accounting hedge relationships | **5.7** | (7.0) | **3.2** | (8.8) |
| **Total similar income on instruments held at fair value through profit or loss** | **316.3** | 101.3 | **313.8** | 99.5 |
| **Total interest receivable and similar income** | **1,263.6** | 675.9 | **1,260.5** | 676.1 |
| **Included in the above is:** | | | | |
| Interest receivable on impaired financial assets | **13.3** | 8.3 | **13.3** | 8.3 |

## 4. Interest payable and similar charges

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| Interest payable on instruments held at amortised cost: | | | | |
| On shares held by individuals | **551.7** | 175.3 | **551.7** | 175.3 |
| On deposits and other borrowings: | | | | |
| Wholesale and other funding | **233.7** | 90.4 | **223.8** | 90.6 |
| Lease liabilities | **0.2** | 0.3 | **0.2** | 0.3 |
| On subordinated liabilities | **6.3** | 5.8 | **6.3** | 5.8 |
| On subscribed capital | **9.2** | 10.8 | **9.2** | 10.8 |
| **Total interest payable on instruments held at amortised cost** | **801.1** | 282.6 | **791.2** | 282.8 |
| Similar charges on instruments held at fair value through profit or loss: | | | | |
| Net charges on derivatives which hedge financial liabilities and are designated in accounting hedge relationships | **101.9** | 24.3 | **104.1** | 26.4 |
| Net charges on derivatives which hedge financial liabilities and are not designated in accounting hedge relationships | **23.0** | 9.4 | **27.8** | 7.5 |
| **Total similar charges on instruments held at fair value through profit or loss** | **124.9** | 33.7 | **131.9** | 33.9 |
| **Total interest payable and similar charges** | **926.0** | 316.3 | **923.1** | 316.7 |

## 5. Fair value (losses) / gains from financial instruments

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| Fair value hedge relationships | | | | |
| Derivatives designated in fair value hedge relationships | **(281.5)** | 254.5 | **(293.3)** | 281.5 |
| Fair value adjustment for hedged risk of hedged items | **252.5** | (254.8) | **264.3** | (281.9) |
| Cash flow hedge relationships | | | | |
| Derivatives designated in cash flow hedge relationships | **26.9** | 5.4 | **26.9** | 5.4 |
| Derivatives not designated in accounting hedge relationships | | | | |
| Equity release swaps | **0.7** | 61.4 | **0.7** | 61.4 |
| Cross currency swaps net of retranslation on matched Euro liabilities | **1.6** | 2.1 | **0.2** | – |
| Other derivatives | **–** | – | **(7.9)** | (4.4) |
| Other financial instruments measured at fair value through profit or loss | | | | |
| Collateral loan which represents a pool of equity release mortgages | **(6.9)** | (53.9) | **(6.9)** | (53.9) |
| **Total fair value (losses) / gains from financial instruments** | **(6.7)** | 14.7 | **(16.0)** | 8.1 |

Fair value gains and losses arise due to accounting ineffectiveness on designated hedges, or because hedge accounting could not be applied to certain items. Volatility also arises from the collateral loan which represents a pool of equity release mortgages which is measured at FVTPL. For further information refer to notes 31 and 32.

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.

# Year ended 31 December 2023

## 6. Administrative expenses

| | **Group & Society 2023 £M** | Group & Society 2022 £M |
|---|---|---|
| Staff costs | | |
| Wages and salaries | **79.1** | 64.8 |
| Social security costs | **8.2** | 6.9 |
| Pension costs | **10.8** | 8.2 |
| Temporary staff | **9.0** | 5.1 |
| Other staff costs | **1.6** | 1.4 |
| Less capitalised staff costs | **(5.8)** | (2.6) |
| Remuneration of auditor (see below) | **1.1** | 1.0 |
| Other administrative expenses | | |
| Technology | **17.6** | 15.1 |
| Development activity | **8.9** | 5.9 |
| Property | **7.3** | 6.5 |
| Legal and professional fees | **3.5** | 3.8 |
| Marketing | **5.3** | 3.6 |
| Regulatory fees | **2.8** | 2.4 |
| Postage and stationery | **2.1** | 1.8 |
| Recruitment and training | **2.1** | 1.3 |
| Other | **6.3** | 4.9 |
| **Total administrative expenses** | **159.9** | 130.1 |

There are 39 directors, senior management and colleagues whose actions have a material impact on the risk profile of the Group, with fixed remuneration of £7.5 million and variable remuneration of £1.1 million (2022: 32 individuals, £6.5 million and £1.3 million). Further details of directors' remuneration can be found on pages 158 to 171 of the Directors' Remuneration Report.

Administrative expenses include £3.9 million of technology transformation spend in 2023.

Capitalised staff costs represent the costs of colleagues directly involved in the development of intangible assets. 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 2023 £'000** | Group & Society 2022 £'000 |
|---|---|---|
| Fee payable to the Society's auditor for the audit of the Society's annual accounts | **916.2** | 798.8 |
| Fees payable to the Society's auditor for the audit of the Society's subsidiaries | **28.2** | 41.6 |
| **Total audit fees** | **944.4** | 840.4 |
| Assurance services | **170.8** | 151.7 |
| **Total non-audit fees** | **170.8** | 151.7 |
| **Total auditor's remuneration** | **1,115.2** | 992.1 |
| Fees payable to the Society's auditor and its associates in respect of associated pension schemes | **20.7** | 11.6 |

The above figures relating to auditor's remuneration exclude value added tax.

## 7. Staff numbers

The average number of people employed during the year was as follows:

| | **Group & Society 2023 Number** | Group & Society 2022 Number |
|---|---|---|
| Central administration | **1,493** | 1,255 |
| Branches | **295** | 283 |
| **Total monthly average number of people employed** | **1,788** | 1,538 |
| **Total monthly average number of full time equivalent employees** | **1,662** | 1,466 |

At 31 December 2023, the total number of people employed by the Group and the Society was 1,813 (2022: 1,668).

## 8. Impairment on loans and advances to customers

| **Group & Society 2023** | **Loans fully secured on residential property £M** | **Loans fully secured on land £M** | **Other loans £M** | **Total £M** |
|---|---|---|---|---|
| **Impairment loss provision:** | | | | |
| At 1 January 2023 | **48.0** | **1.6** | **2.5** | **52.1** |
| Charge / (credit) for the year | **6.4** | **(0.2)** | **–** | **6.2** |
| Amounts written off during the year | **(0.7)** | **–** | **(2.5)** | **(3.2)** |
| Movement in foreign exchange rate | **(0.2)** | **–** | **–** | **(0.2)** |
| **At 31 December 2023** | **53.5** | **1.4** | **–** | **54.9** |
| **Income Statement** | | | | |
| Charge / (credit) for the year | **6.4** | **(0.2)** | **–** | **6.2** |
| Recoveries of amounts previously written off | **(0.1)** | **–** | **–** | **(0.1)** |
| **Total income statement charge / (credit)** | **6.3** | **(0.2)** | **–** | **6.1** |

| Group & Society 2022 | Loans fully secured on residential property £M | Loans fully secured on land £M | Other loans £M | Total £M |
|---|---|---|---|---|
| Impairment loss provision: | | | | |
| At 1 January 2022 | 37.3 | 1.7 | 2.5 | 41.5 |
| Charge / (credit) for the year | 12.1 | (0.1) | – | 12.0 |
| Amounts written off during the year | (1.7) | – | – | (1.7) |
| Movement in foreign exchange rate | 0.3 | – | – | 0.3 |
| At 31 December 2022 | 48.0 | 1.6 | 2.5 | 52.1 |
| Income Statement | | | | |
| Charge / (credit) for the year | 12.1 | (0.1) | – | 12.0 |
| Recoveries of amounts previously written off | (0.1) | – | – | (0.1) |
| Total income statement charge / (credit) | 12.0 | (0.1) | – | 11.9 |

The Group's policy for calculating impairment of loans and advances to customers (including retail mortgages and loan commitments) is detailed in note 1(e). Details of the significant accounting estimates and judgements required in the calculation of impairment loss provisions, including the incorporation of forward looking information, are provided in note 2.

# Year ended 31 December 2023

## 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 1(e).

| | Group & Society 2023 | | | Group & Society 2022 | | |
|---|---|---|---|---|---|---|
| | Gross exposure £M | Impairment loss provision £M | Provision coverage % | Gross exposure £M | Impairment loss provision £M | Provision coverage % |
| **Retail mortgages** | | | | | | |
| Stage 1 | **17,670.1** | **4.8** | **0.03** | 16,965.3 | 5.1 | 0.03 |
| Stage 2 and <30 days past due | **3,791.4** | **29.0** | **0.76** | 3,088.3 | 30.0 | 0.97 |
| Stage 2 and 30+ days past due | **111.0** | **2.9** | **2.61** | 97.2 | 1.6 | 1.65 |
| Stage 3 and <90 days past due | **125.0** | **2.1** | **1.68** | 108.5 | 1.9 | 1.75 |
| Stage 3 and 90+ days past due | **138.9** | **14.4** | **10.37** | 113.0 | 9.2 | 8.14 |
| **Total retail mortgages** | **21,836.4** | **53.2** | **0.24** | 20,372.3 | 47.8 | 0.23 |
| **Loan commitments** | | | | | | |
| Stage 1 | **1,268.9** | **0.3** | **0.02** | 1,051.7 | 0.2 | 0.02 |
| **Total impairment loss provision** | **23,105.3** | **53.5** | **0.23** | 21,424.0 | 48.0 | 0.22 |

The tables below provide information on movements in the gross retail mortgage exposures and associated impairment loss provisions during the year:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Group & Society 2023** | Gross exposure £M | Provision 12m ECL £M | Gross exposure £M | Provision Lifetime ECL £M | Gross exposure £M | Provision Lifetime ECL £M | Gross exposure £M | Provision £M |
| At 1 January 2023 | **16,965.3** | **5.1** | **3,185.5** | **31.6** | **221.5** | **11.1** | **20,372.3** | **47.8** |
| Transfers resulting in increased impairment loss provision: | | | | | | | | |
| From Stage 1 to Stage 2 | **(1,837.6)** | **(0.4)** | **1,837.6** | **4.2** | **–** | **–** | **–** | **3.8** |
| From Stage 1 to Stage 3 | **(45.3)** | **–** | **–** | **–** | **45.3** | **0.9** | **–** | **0.9** |
| From Stage 2 to Stage 3 | **–** | **–** | **(68.1)** | **(0.7)** | **68.1** | **5.1** | **–** | **4.4** |
| Transfers resulting in reduced impairment loss provision: | | | | | | | | |
| From Stage 2 to Stage 1 | **926.2** | **0.3** | **(926.2)** | **(1.4)** | **–** | **–** | **–** | **(1.1)** |
| From Stage 3 to Stage 1 | **6.3** | **–** | **–** | **–** | **(6.3)** | **–** | **–** | **–** |
| From Stage 3 to Stage 2 | **–** | **–** | **30.6** | **0.2** | **(30.6)** | **(0.3)** | **–** | **(0.1)** |
| Change in impairment loss provision resulting from loan modifications | **–** | **–** | **–** | **–** | **–** | **0.3** | **–** | **0.3** |
| Other remeasurement of impairment loss provision (no movement in stage) | **–** | **(2.3)** | **–** | **(1.1)** | **–** | **2.4** | **–** | **(1.0)** |
| New advances | **5,311.8** | **2.9** | **–** | **–** | **–** | **–** | **5,311.8** | **2.9** |
| Redemptions and repayments | **(3,656.6)** | **(0.8)** | **(157.0)** | **(0.9)** | **(34.1)** | **(2.3)** | **(3,847.7)** | **(4.0)** |
| Write offs | **–** | **–** | **–** | **–** | **–** | **(0.7)** | **–** | **(0.7)** |
| **At 31 December 2023** | **17,670.1** | **4.8** | **3,902.4** | **31.9** | **263.9** | **16.5** | **21,836.4** | **53.2** |

## **8. Impairment on loans and advances to customers** (continued)

| Group & Society 2022 | Stage 1 Gross exposure £M | Stage 1 Provision 12m ECL £M | Stage 2 Gross exposure £M | Stage 2 Provision Lifetime ECL £M | Stage 3 Gross exposure £M | Stage 3 Provision Lifetime ECL £M | Total Gross exposure £M | Total Provision £M |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2022 | 16,208.6 | 9.3 | 1,903.3 | 11.6 | 228.4 | 16.1 | 18,340.3 | 37.0 |
| Transfers resulting in increased impairment loss provision: | | | | | | | | |
| From Stage 1 to Stage 2 | (1,847.5) | (0.7) | 1,847.5 | 16.5 | – | – | – | 15.8 |
| From Stage 1 to Stage 3 | (32.5) | – | – | – | 32.5 | 0.7 | – | 0.7 |
| From Stage 2 to Stage 3 | – | – | (42.3) | (1.1) | 42.3 | 1.7 | – | 0.6 |
| Transfers resulting in reduced impairment loss provision: | | | | | | | | |
| From Stage 2 to Stage 1 | 492.9 | 0.1 | (492.9) | (0.9) | – | – | – | (0.8) |
| From Stage 3 to Stage 1 | 10.4 | – | – | – | (10.4) | (0.1) | – | (0.1) |
| From Stage 3 to Stage 2 | – | – | 32.5 | 0.2 | (32.5) | (0.7) | – | (0.5) |
| Change in impairment loss provision resulting from loan modifications | – | 0.1 | – | – | – | (0.2) | – | (0.1) |
| Other remeasurement of impairment loss provision (no movement in stage) | – | (5.3) | – | 6.2 | – | (3.5) | – | (2.6) |
| New advances | 6,145.4 | 2.6 | – | – | – | – | 6,145.4 | 2.6 |
| Redemptions and repayments | (4,012.0) | (1.0) | (62.6) | (0.9) | (38.8) | (1.2) | (4,113.4) | (3.1) |
| Write offs | – | – | – | – | – | (1.7) | – | (1.7) |
| At 31 December 2022 | 16,965.3 | 5.1 | 3,185.5 | 31.6 | 221.5 | 11.1 | 20,372.3 | 47.8 |

In the above tables, the impact of changes to accounting estimates and judgements, including macroeconomic scenarios and probability weightings, is included within 'other remeasurement of impairment loss provision' unless the change results in the transfer of a loan between stages, in which case it is included in the relevant transfer row.

# Year ended 31 December 2023

## 9. Tax expense

| | **Group 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|
| **Analysis of charge in the year** | | | | |
| **Current tax** | | | | |
| UK corporation tax on profits for the year | **45.1** | 56.6 | **45.1** | 56.6 |
| Adjustments in respect of prior year | **(0.2)** | (1.8) | **(0.2)** | (1.8) |
| **Total current tax** | **44.9** | 54.8 | **44.9** | 54.8 |
| **Deferred tax** | | | | |
| Origination and reversal of timing differences | **2.6** | 1.9 | **0.3** | 0.6 |
| Adjustments in respect of prior year | **–** | 2.3 | **–** | 2.3 |
| Adjustments for changes in tax rates | **0.1** | (0.4) | **0.1** | (0.4) |
| **Total deferred tax** | **2.7** | 3.8 | **0.4** | 2.5 |
| **Tax on profit on ordinary activities** | **47.6** | 58.6 | **45.3** | 57.3 |
| **Factors affecting total tax charge for the year:** | | | | |
| Profit on ordinary activities before tax | **181.5** | 220.5 | **172.5** | 212.9 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.5% (2022: 19.0%) | **42.7** | 41.9 | **40.6** | 40.4 |
| Effects of: | | | | |
| Banking surcharge | **4.4** | 15.2 | **4.4** | 15.2 |
| Adjustments in respect of prior year (current tax) | **(0.2)** | (1.8) | **(0.2)** | (1.8) |
| Tax on profits of Leeds Building Society Covered Bonds LLP | **–** | – | **–** | 0.6 |
| Expenses not deductible for tax purposes | **0.3** | 1.0 | **0.3** | 1.0 |
| Other differences | **(2.3)** | (1.5) | **(0.2)** | (0.6) |
| **Total current tax** | **44.9** | 54.8 | **44.9** | 54.8 |
| Origination and reversal of timing differences | **2.6** | 1.9 | **0.3** | 0.6 |
| Adjustments in respect of prior year (deferred tax) | **–** | 2.3 | **–** | 2.3 |
| Adjustments for changes in tax rates (deferred tax) | **0.1** | (0.4) | **0.1** | (0.4) |
| **Tax on profit on ordinary activities** | **47.6** | 58.6 | **45.3** | 57.3 |

Adjustments in respect of prior year primarily relate to differences between the balances in prior year's Statements of Financial Position and the finalised balances upon completion of the prior year tax return.

On 1 April 2023 the UK corporation tax rate increased from 19% to 25%, giving an average corporation tax rate for the year of 23.5% (2022: 19%). This measure was substantively enacted on 23 May 2021 and deferred tax assets and liabilities at 31 December 2023 and at 31 December 2022 have been calculated based on the 25% rate.

On 1 April 2023 the banking surcharge decreased from 8% (on taxable profits in excess of £25 million) to 3% (on taxable profits in excess of £100 million). This change was substantively enacted on 2 February 2022. Deferred tax assets and liabilities at 31 December 2023 and at 31 December 2022 have been calculated based on the 3% rate.

Deferred tax balances have therefore been calculated at a total rate of 28% (2022: 28%), reflecting the increased corporation tax rate and the 3% banking surcharge effective from 1 April 2023.

## 10. Classification of financial assets and liabilities

The following tables summarise the classification and carrying value of the Group's and Society's financial assets and liabilities:

| **Group 2023** | **Amortised cost £M** | **FVOCI £M** | **FVTPL £M** | **Total £M** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash in hand and balances with the Bank of England | **2,830.0** | **–** | **–** | **2,830.0** |
| Loans and advances to credit institutions | **213.7** | **–** | **–** | **213.7** |
| Investment securities | **–** | **2,515.6** | **–** | **2,515.6** |
| Derivative financial instruments | **–** | **–** | **443.6** | **443.6** |
| Loans and advances to customers: | | | | |
| Loans fully secured on residential property | **21,782.9** | **–** | **–** | **21,782.9** |
| Other loans | **4.7** | **–** | **153.6** | **158.3** |
| Fair value adjustment for hedged risk on loans and advances to customers | **–** | **–** | **(132.3)** | **(132.3)** |
| **Total financial assets** | **24,831.3** | **2,515.6** | **464.9** | **27,811.8** |
| **Financial liabilities:** | | | | |
| Shares | **20,793.0** | **–** | **–** | **20,793.0** |
| Fair value adjustment for hedged risk on shares | **–** | **–** | **31.9** | **31.9** |
| Derivative financial instruments | **–** | **–** | **233.0** | **233.0** |
| Amounts owed to credit institutions | **1,869.3** | **–** | **–** | **1,869.3** |
| Amounts owed to other customers | **169.9** | **–** | **–** | **169.9** |
| Debt securities in issue | **2,750.1** | **–** | **(41.5)** | **2,708.6** |
| Subordinated liabilities | **349.9** | **–** | **(26.0)** | **323.9** |
| Subscribed capital | **33.0** | **–** | **–** | **33.0** |
| **Total financial liabilities** | **25,965.2** | **–** | **197.4** | **26,162.6** |

| Group 2022 | Amortised cost £M | FVOCI £M | FVTPL £M | Total £M |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash in hand and balances with the Bank of England | 2,958.1 | – | – | 2,958.1 |
| Loans and advances to credit institutions | 235.9 | – | – | 235.9 |
| Investment securities | – | 1,386.7 | – | 1,386.7 |
| Derivative financial instruments | – | – | 679.9 | 679.9 |
| Loans and advances to customers: | | | | |
| Loans fully secured on residential property | 20,324.3 | – | – | 20,324.3 |
| Other loans | 7.0 | – | 161.9 | 168.9 |
| Fair value adjustment for hedged risk on loans and advances to customers | – | – | (585.9) | (585.9) |
| Total financial assets | 23,525.3 | 1,386.7 | 255.9 | 25,167.9 |
| Financial liabilities: | | | | |
| Shares | 17,520.4 | – | – | 17,520.4 |
| Fair value adjustment for hedged risk on shares | – | – | (100.7) | (100.7) |
| Derivative financial instruments | – | – | 251.9 | 251.9 |
| Amounts owed to credit institutions | 2,268.4 | – | – | 2,268.4 |
| Amounts owed to other customers | 229.7 | – | – | 229.7 |
| Debt securities in issue | 2,711.0 | – | – | 2,711.0 |
| Subordinated liabilities | 309.1 | – | – | 309.1 |
| Subscribed capital | 197.6 | – | – | 197.6 |
| Total financial liabilities | 23,236.2 | – | 151.2 | 23,387.4 |

# Year ended 31 December 2023

## 10. Classification of financial assets and liabilities (continued)

| **Society 2023** | **Amortised cost £M** | **FVOCI £M** | **FVTPL £M** | **Total £M** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash in hand and balances with the Bank of England | **2,830.0** | **–** | **–** | **2,830.0** |
| Loans and advances to credit institutions | **109.2** | **–** | **–** | **109.2** |
| Investment securities | **–** | **2,515.6** | **–** | **2,515.6** |
| Derivative financial instruments | **–** | **–** | **443.6** | **443.6** |
| Loans and advances to customers: | | | | |
| Loans fully secured on residential property | **21,782.9** | **–** | **–** | **21,782.9** |
| Other loans | **4.7** | **–** | **153.6** | **158.3** |
| Fair value adjustment for hedged risk on loans and advances to customers | **–** | **–** | **(132.3)** | **(132.3)** |
| **Total financial assets** | **24,726.8** | **2,515.6** | **464.9** | **27,707.3** |
| **Financial liabilities:** | | | | |
| Shares | **20,793.0** | **–** | **–** | **20,793.0** |
| Fair value adjustment for hedged risk on shares | **–** | **–** | **31.9** | **31.9** |
| Derivative financial instruments | **–** | **–** | **232.8** | **232.8** |
| Amounts owed to credit institutions | **1,869.3** | **–** | **–** | **1,869.3** |
| Amounts owed to other customers | **521.6** | **–** | **–** | **521.6** |
| Debt securities in issue | **2,394.8** | **–** | **(33.8)** | **2,361.0** |
| Subordinated liabilities | **349.9** | **–** | **(26.0)** | **323.9** |
| Subscribed capital | **33.0** | **–** | **–** | **33.0** |
| **Total financial liabilities** | **25,961.6** | **–** | **204.9** | **26,166.5** |

| Society 2022 | Amortised cost £M | FVOCI £M | FVTPL £M | Total £M |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash in hand and balances with the Bank of England | 2,958.1 | – | – | 2,958.1 |
| Loans and advances to credit institutions | 83.3 | – | – | 83.3 |
| Investment securities | – | 1,452.8 | – | 1,452.8 |
| Derivative financial instruments | – | – | 679.5 | 679.5 |
| Loans and advances to customers: | | | | |
| Loans fully secured on residential property | 20,324.3 | – | – | 20,324.3 |
| Other loans | 7.0 | – | 161.9 | 168.9 |
| Fair value adjustment for hedged risk on loans and advances to customers | – | – | (585.9) | (585.9) |
| Total financial assets | 23,372.7 | 1,452.8 | 255.5 | 25,081.0 |
| Financial liabilities: | | | | |
| Shares | 17,520.4 | – | – | 17,520.4 |
| Fair value adjustment for hedged risk on shares | – | – | (100.7) | (100.7) |
| Derivative financial instruments | – | – | 237.2 | 237.2 |
| Amounts owed to credit institutions | 2,268.4 | – | – | 2,268.4 |
| Amounts owed to other customers | 404.7 | – | – | 404.7 |
| Debt securities in issue | 2,620.2 | – | – | 2,620.2 |
| Subordinated liabilities | 309.1 | – | – | 309.1 |
| Subscribed capital | 197.6 | – | – | 197.6 |
| Total financial liabilities | 23,320.4 | – | 136.5 | 23,456.9 |

## 11. 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 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|
| Cash in hand | **2.0** | 1.9 | **2.0** | 1.9 |
| Balances with the Bank of England | **2,828.0** | 2,956.2 | **2,828.0** | 2,956.2 |
| **Cash in hand and Balances with the Bank of England** | **2,830.0** | 2,958.1 | **2,830.0** | 2,958.1 |
| Loans and advances to credit institutions (excluding mandatory reserve deposits) | 135.9 | 165.2 | 31.4 | 12.6 |
| **Total cash and cash equivalents** | **2,965.9** | 3,123.3 | **2,861.4** | 2,970.7 |

The amount reported for loans and advances to credit institutions in the Statements of Financial Position includes mandatory reserve deposits of £77.8 million (2022: £70.7 million) which are not available for use in the Group's day to day operations.

Total cash and cash equivalents as reported in the 2022 Statements of Cash Flows has been restated to exclude these mandatory reserve deposits.

The Group's loans and advances to credit institutions includes £104.5 million (2022: £152.6 million) of balances belonging to the Society's securitisation programmes which are not available for general use by the Society.

## 12. Investment securities

All of the investment securities held by the Group and the Society are listed and at 31 December 2023 are of investment grade. The tables below show the changes in fair value during the year. No impairment loss provision is held against these assets since calculated ECL is immaterial (2022: no provision).

| | **Group 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|
| At 1 January | **1,386.7** | 949.1 | **1,452.8** | 1,040.4 |
| Additions | **2,882.9** | 1,292.5 | **2,882.9** | 1,292.5 |
| Disposals (sale and redemption) | **(1,774.0)** | (847.9) | **(1,840.2)** | (873.0) |
| Movement in fair value | **20.0** | (7.0) | **20.1** | (7.1) |
| **At 31 December** | **2,515.6** | 1,386.7 | **2,515.6** | 1,452.8 |

At 31 December 2023, no investment securities were pledged as collateral under sale and repurchase agreements (2022: none).

## 13. Loans and advances to customers

| **Group & Society 2023** | **Gross exposure £M** | **Impairment loss provision £M** | **Total £M** |
|---|---|---|---|
| Loans fully secured on residential property | **21,836.4** | **(53.5)** | **21,782.9** |
| Loans fully secured on land | **6.1** | **(1.4)** | **4.7** |
| Other loans | **153.6** | **–** | **153.6** |
| **Total loans and advances to customers** | **21,996.1** | **(54.9)** | **21,941.2** |

# Year ended 31 December 2023

## 13. Loans and advances to customers (continued)

| Group & Society 2022 | Gross exposure £M | Impairment loss provision £M | Total £M |
|---|---|---|---|
| Loans fully secured on residential property | 20,372.3 | (48.0) | 20,324.3 |
| Loans fully secured on land | 8.6 | (1.6) | 7.0 |
| Other loans | 164.4 | (2.5) | 161.9 |
| Total loans and advances to customers | 20,545.3 | (52.1) | 20,493.2 |

The Group has previously acquired a pool of equity release mortgages from a third party. The Group assumed certain, but not all, risks arising from these loans with the remainder retained by the third party, which also retained a proportion of the income from the underlying equity release mortgages. As a consequence, these mortgages have been recognised as a collateral loan to the third party within other loans in the table above. This loan is measured at fair value through profit or loss.

The net fair value movement on loans and advances to customers at fair value through profit or loss was a loss of £0.4 million (2022: £53.9 million loss) for both the Group and Society. The equity release mortgages are economically hedged using interest rate swaps and as a result the loss was offset by a net fair value gain on the swaps of £0.7 million (2022: £61.4 million gain).

Loans and advances to customers, for both the Group and Society, include £3,342.0 million (2022: £3,796.6 million) of loans which have been ringfenced from the Society for its associated secured funding vehicles.

| **2023** | **LBS Covered Bonds LLP £M** | **Albion No. 4 plc £M** | **Albion No. 5 plc £M** | **Total £M** |
|---|---|---|---|---|
| Loans and advances transferred from the Society to secured funding vehicles | **2,974.1** | **–** | **367.9** | **3,342.0** |
| Loan notes issued by the Society | **2,033.5** | **–** | **349.8** | **2,383.3** |

| 2022 | LBS Covered Bonds LLP £M | Albion No. 4 plc £M | Albion No. 5 plc £M | Total £M |
|---|---|---|---|---|
| Loans and advances transferred from the Society to secured funding vehicles | 3,588.8 | 207.8 | – | 3,796.6 |
| Loan notes issued by the Society | 2,308.6 | 219.8 | – | 2,528.4 |

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 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|
| Collateral | **208.2** | 239.9 | **208.2** | 239.9 |
| Prepayments | **9.8** | 5.7 | **9.8** | 5.7 |
| Other assets | **6.1** | 2.7 | **213.8** | 202.2 |
| **Total other assets, prepayments and accrued income** | **224.1** | 248.3 | **431.8** | 447.8 |

In the above table, collateral represents amounts owed by credit institutions on cash collateralisation of derivatives. The Society balance for other assets includes amounts owed by subsidiary undertakings, including collateral in relation to intragroup derivatives.

## 15. Investments in subsidiary undertakings

The Society holds the following interests in subsidiary undertakings at 31 December 2023, all of which are incorporated in the United Kingdom and registered in England. At 31 December 2023, the value of shares in subsidiaries was £1,040 (2022: £1,040).

| Name | Major Activities | Class of Shares held | Interest of Society | Address |
|---|---|---|---|---|
| Leeds Mortgage Funding Limited | Non-trading | Ordinary £1 shares | 100% | 26 Sovereign Street, Leeds, LS1 4BJ |
| Leeds Building Society Covered Bonds LLP | Provision of mortgage assets and guarantor of covered bonds | * | * | 26 Sovereign Street, Leeds, LS1 4BJ |
| Leeds Covered Bonds Designated Member (No. 1) Limited | First designated member of Leeds Building Society Covered Bonds LLP | * | * | 1 Bartholomew Lane, London, EC2N 2AX |
| Leeds Covered Bonds Designated Member (No. 2) Limited | Second designated member of Leeds Building Society Covered Bonds LLP | * | * | 1 Bartholomew Lane, London, EC2N 2AX |
| Leeds Covered Bonds Holdings Limited | Holding company to both Leeds Covered Bonds Designated Member (No. 1) & (No. 2) Limited | * | * | 1 Bartholomew Lane, London, EC2N 2AX |
| Albion No.4 plc | Provision of residential mortgage backed securities | * | * | 11th Floor, 200 Aldersgate Street, London, EC1A 4HD |
| Albion No.4 Holdings Limited | Holding company to Albion No. 4 plc | * | * | 11th Floor, 200 Aldersgate Street, London, EC1A 4HD |
| Albion No.5 plc | Provision of residential mortgage backed securities | * | * | 11th Floor, 200 Aldersgate Street, London, EC1A 4HD |
| Albion No.5 Holdings Limited | Holding company to Albion No. 5 plc | * | * | 11th Floor, 200 Aldersgate Street, London, EC1A 4HD |

* The Society's interest is equivalent to being a 100% owned subsidiary as these entities pass the test of control under IFRS 10 – Consolidated Financial Statements. Consequently, they have been consolidated in the Group accounts. Although the Society does not legally own these entities, it is deemed to control them, as it has power over the activities undertaken by the subsidiaries through the management and operational structures in place, and it has exposure to variable returns through the purchase of loan notes, deferred consideration and intragroup loans.

On 17 November 2023 the debt securities issued by Albion No.4 plc were repaid in full and the loans assigned to the company were returned. The process for liquidating both Albion No.4 plc and Albion No.4 Holdings Limited will begin in 2024.

In September 2023, the Group issued £350 million of RMBS Class A notes through a newly incorporated securitisation vehicle named Albion No.5 plc. The Group is applying an extended accounting period to Albion No.5 plc and as such will submit its first statutory accounts for the period ending ended 31 December 2024.

# Year ended 31 December 2023

## 16. Intangible assets

| Group & Society 2023 | New core systems £M | System enhancements £M | Total £M |
|---|---|---|---|
| **Cost** | | | |
| At 1 January | 16.1 | 18.2 | 34.3 |
| Additions | – | 12.5 | 12.5 |
| Disposals | – | – | – |
| **At 31 December** | 16.1 | 30.7 | 46.8 |
| **Amortisation and impairment** | | | |
| At 1 January | 3.7 | 8.1 | 11.8 |
| Amortisation charged in the year | 1.6 | 3.4 | 5.0 |
| Impairment charged in the year | – | 0.2 | 0.2 |
| **At 31 December** | 5.3 | 11.7 | 17.0 |
| **Net book value** | | | |
| **At 31 December** | 10.8 | 19.0 | 29.8 |

| Group & Society 2022 | New core systems £M | System enhancements £M | Total £M |
|---|---|---|---|
| Cost | | | |
| At 1 January | 16.1 | 21.5 | 37.6 |
| Additions | – | 3.9 | 3.9 |
| Disposals | – | (7.2) | (7.2) |
| At 31 December | 16.1 | 18.2 | 34.3 |
| Amortisation and impairment | | | |
| At 1 January | 2.1 | 10.5 | 12.6 |
| Amortisation charged in the year | 1.6 | 4.8 | 6.4 |
| Disposals | – | (7.2) | (7.2) |
| At 31 December | 3.7 | 8.1 | 11.8 |
| Net book value | | | |
| At 31 December | 12.4 | 10.1 | 22.5 |

During 2023 the Group continued its programme of works that met the definition of an intangible asset. This included software licences, IT development service costs and certain colleague costs. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once it is brought into use. The useful life of such assets is determined to be ten years for new core systems and five years for system enhancements as stated in note 1(h), with useful lives reviewed on an asset-by-asset basis each year.

The two most significant intangible assets are the Mortgage Hub mortgage application system, with a net book value of £10.8 million (2022: £12.4 million) and the system which is used to deliver our online digital experience with a net book value of £5.9 million (2022: £3.1 million).

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 2023 £0.2 million (2022: none) of impairment was recognised in profit or loss.

## 17. Property, plant and equipment

| **Group & Society 2023** | **Freehold premises £M** | **Long leasehold premises £M** | **Short leasehold premises £M** | **Office and computer equipment £M** | **Right-of-use assets £M** | **Total £M** |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January | **51.8** | **0.2** | **0.9** | **45.0** | **12.4** | **110.3** |
| Additions | **–** | **–** | **–** | **1.7** | **0.2** | **1.9** |
| **At 31 December** | **51.8** | **0.2** | **0.9** | **46.7** | **12.6** | **112.2** |
| **Depreciation and impairment** | | | | | | |
| At 1 January | **4.8** | **–** | **0.9** | **33.6** | **4.3** | **43.6** |
| Depreciation charged in the year | **–** | **–** | **–** | **2.9** | **1.2** | **4.1** |
| **At 31 December** | **4.8** | **–** | **0.9** | **36.5** | **5.5** | **47.7** |
| **Net book value** | | | | | | |
| **At 31 December** | **47.0** | **0.2** | **–** | **10.2** | **7.1** | **64.5** |

| Group & Society 2022 | Freehold premises £M | Long leasehold premises £M | Short leasehold premises £M | Office and computer equipment £M | Right-of-use assets £M | Total £M |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January | 61.4 | 0.2 | 0.9 | 44.1 | 13.6 | 120.2 |
| Additions | 1.2 | – | – | 2.5 | 1.0 | 4.7 |
| Disposals | (8.9) | – | – | (1.6) | (2.2) | (12.7) |
| Increase in value reported in Other Comprehensive Income | (1.9) | – | – | – | – | (1.9) |
| At 31 December | 51.8 | 0.2 | 0.9 | 45.0 | 12.4 | 110.3 |
| Depreciation and impairment | | | | | | |
| At 1 January | 1.0 | – | 0.9 | 31.8 | 4.1 | 37.8 |
| Disposals | – | – | – | (1.3) | (1.2) | (2.5) |
| Depreciation charged in the year | – | – | – | 3.1 | 1.4 | 4.5 |
| Impairment charged in the year | 3.8 | – | – | – | – | 3.8 |
| At 31 December | 4.8 | – | 0.9 | 33.6 | 4.3 | 43.6 |
| Net book value | | | | | | |
| At 31 December | 47.0 | 0.2 | – | 11.4 | 8.1 | 66.7 |

The Group's accounting policy is for all freehold and long leasehold premises to be revalued at least every three years, with the last full valuation undertaken as at 31 December 2022. In the periods between formal valuations, an assessment is made to ascertain whether there are indications of material changes in property values. Details of the judgements involved in this assessment can be found in note 2a(iv).

Where portions of freehold premises are leased out, these properties do not meet the definition of investment property under IAS 40 as the leased out portions could not be sold separately and the Group retains the use of a significant portion of the property.

## Year ended 31 December 2023

### 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 2023 £M | Group & Society 2022 £M |
|---|---|---|
| Freehold premises | **44.6** | 44.6 |
| Long leasehold premises | **0.2** | 0.2 |
| **At 31 December** | **44.8** | 44.8 |
| **The amount of land and buildings occupied by the Group and Society for its own activities is:** | | |
| **At 31 December** | **45.0** | 45.5 |

The average remaining lease term of right-of-use assets is 5.5 years (2022: 9.9 years).

### 18. Shares

| | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| Held by individuals | **20,789.2** | 17,515.2 |
| Other shares | **3.8** | 5.2 |
| **Total shares** | **20,793.0** | 17,520.4 |

### 19. Amounts owed to other customers

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| Amounts owed to subsidiary undertakings | **–** | – | **351.7** | 175.0 |
| Other deposits | **169.9** | 229.7 | **169.9** | 229.7 |
| **Total amounts owed to other customers** | **169.9** | 229.7 | **521.6** | 404.7 |

## 20. Debt securities in issue

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| Certificates of deposit | **–** | 5.0 | **–** | 5.0 |
| Senior unsecured debt | **315.9** | 299.1 | **315.9** | 299.1 |
| Covered bonds | **2,037.3** | 2,296.5 | **2,045.1** | 2,316.1 |
| Residential mortgage backed securities | **355.4** | 110.4 | **–** | – |
| **Total debt securities in issue** | **2,708.6** | 2,711.0 | **2,361.0** | 2,620.2 |

The underlying security for the covered bonds and residential mortgage backed securities (RMBS) is certain loans and advances to customers (see note 13 for further detail).

In September 2023, the Group issued £350 million of RMBS Class A from Albion No 5 plc, which are denominated in sterling and have a fixed interest rate of 1.9% payable quarterly to July 2066, with an optional call date in September 2028.

## 21. Other liabilities and accruals

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| Accruals | **18.6** | 20.6 | **18.6** | 20.6 |
| Lease liabilities | | | | |
| Current | **1.2** | 1.6 | **1.2** | 1.6 |
| Non-current | **6.5** | 7.1 | **6.5** | 7.1 |
| Other payables | **273.9** | 556.8 | **383.9** | 601.7 |
| **Total other liabilities and accruals** | **300.2** | 586.1 | **410.2** | 631.0 |

Other payables within Group and Society includes £267.7 million (2022: £493.6 million) owed to credit institutions on cash collateralisation of derivatives. The Society balance for other payables includes amounts owed to subsidiary undertakings, including collateral in relation to intragroup derivatives.

The maturity of lease liabilities is shown below.

| **Maturity analysis – contractual undiscounted cash flows** | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| Less than one year | **1.3** | 1.3 |
| One to five years | **4.5** | 4.7 |
| More than five years | **2.0** | 3.0 |
| **Total undiscounted cash flows at 31 December** | **7.8** | 9.0 |

At 31 December 2023, the Group and Society had less than £0.1 million of commitments under short term leases (2022: less than £0.1 million). Total lease commitments for low value assets were £0.1 million (2022: £0.1 million).

# Year ended 31 December 2023

## 21. Other liabilities and accruals (continued)

### Amounts recognised in Income Statement in respect of leases

| | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| Interest payable on lease liabilities | 0.2 | 0.3 |
| Depreciation of right-of-use assets | 1.2 | 1.4 |
| Expenses relating to short term leases | 0.1 | 0.1 |
| Expenses relating to leases of low value assets, excluding short term leases of low value assets | 0.1 | 0.1 |
| **Total recognised in Income Statement in the year** | **1.6** | 1.9 |

| | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| Total cash outflow for leases | 2.1 | 2.3 |

## 22. Provisions for liabilities and charges

| | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| At 1 January | 0.6 | 1.9 |
| Amounts paid during the year | – | (0.8) |
| Provision charge / (release) in the year | 0.7 | (0.5) |
| **At 31 December** | **1.3** | 0.6 |

Provisions for liabilities and charges at 31 December 2023 includes an estimate of redress payments to customers, including potential claims on payment protection insurance (PPI) sold by the Group. The deadline for such claims passed in August 2019, however, there remains the potential for claims to be received via legal cases through the courts and therefore this provision remains appropriate. The balance also includes a provision for potential litigation in respect of other redress claims.

## 23. Subordinated liabilities

Subordinated liabilities comprise £323.9 million (2022: £309.1 million) of senior non-preferred fixed rate reset notes which were issued during 2021 under the Group's £2 billion Euro Medium Term Note Programme. The notes are denominated in sterling and have a fixed interest rate of 1.5% payable semi-annually to 16 March 2026, followed by a further year at the benchmark gilt rate plus 1.3% until maturity on 16 March 2027.

The total amount reported in the Statements of Financial Position represents the nominal value of £350.0 million (2022: £350.0 million) 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 2023 £M | Group & Society 2022 £M |
|---|---|---|
| **13 3/8% permanent interest bearing shares** | **25.0** | 25.0 |
| **3 3/4% tier 2 capital** | **8.0** | 172.6 |
| **Total** | **33.0** | 197.6 |

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 13⅜% payable semi-annually for an indeterminate period.

In October 2023 the Society repurchased 96% of the issued tier 2 subordinated notes at a discounted rate of 89.2%. £8.0 million of notes remain outstanding at 31 December 2023 (2022: £200 million). The Society continues to meet its current and forecasted 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 (2022: one individual) in the UK, an employer funded retirement benefits scheme. The schemes have been accounted for under IAS 19 – Employee Benefits.

The defined benefit scheme provides benefits based on final salary for certain employees. The assets of the scheme are held in a separate trustee-administered fund. Contributions to the defined benefit section are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The defined benefit section was closed to new entrants from 1 January 2000, and closed to future benefit accrual from 31 December 2014. As at 31 December 2023 there were 287 deferred defined benefit members (2022: 287). The Society's unfunded liability is £0.6 million (2022: £0.6 million) 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 actuarial valuation as at 31 December 2023 is currently underway whereby the Society and the trustees will review the scheme's funding strategy. Going forward, the trustees will continue to make annual checks on the funding position of the scheme, to confirm whether or not the scheme is still on track to meet any funding targets agreed.

The average duration of the benefit obligation is estimated to be 13 years (2022: 15 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.

# Year ended 31 December 2023

## 25. Retirement benefit surplus (continued)

### (a) Overview of the Society's pension arrangements (continued)

The defined benefit obligation at 31 December 2023 can be approximately attributed to the scheme members as follows:

– Deferred members: 47% (2022: 46%)

– Pensioner members: 53% (2022: 54%)

### (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 because the discount rate is linked to corporate bond yields |
| 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):

| | 2023 | 2022 |
|---|---|---|
| Discount rate | **4.60%** | 4.85% |
| Price inflation | | |
| RPI | **3.05%** | 3.40% |
| CPI | **2.45%** | 2.80% |
| Future salary increases | **N/A** | N/A |
| Future pension increases | | |
| RPI max 5% | **2.85%** | 3.00% |
| RPI min 3% max 5% | **3.70%** | 3.85% |
| Cash commutation | **100% of members assumed to take 80% of maximum tax free cash** | 100% of members assumed to take 80% of maximum tax free cash |
| Mortality | | |
| Actuarial base table | **S2PMA / S2PFA tables** | S2PMA / S2PFA tables |
| Future improvements | **CMI_2022 with 1% p.a. long term trend, smoothing factor of 7, initial addition of 0, w2020 and w2021 parameters of 10% and w2022 parameter of 35%** | CMI_2021 with 1.25% p.a. long term trend, smoothing factor of 7, initial addition of 0, w2020 and w2021 parameters of 10% |
| Life expectancy | | |
| Male at age 63 | **22.4 years** | 23.0 years |
| Female at age 63 | **24.6 years** | 25.2 years |
| Male at age 63 (currently aged 43) | **23.4 years** | 24.4 years |
| Female at age 63 (current age 43) | **25.8 years** | 26.8 years |

The table above includes the life expectancy assumptions used in the accounting assessments. Pensioner life expectancies are for a member currently aged 63 retiring now. Non-pensioner life expectancies are for a member retiring at age 63 currently aged 43.

## 25. Retirement benefit surplus (continued)

### (d) Reconciliation of funded statement

| | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| Present value of funded obligations | **(70.2)** | (69.6) |
| Present value of unfunded obligations | **(0.6)** | (0.6) |
| Assets at fair value | **73.7** | 73.8 |
| **Surplus** | **2.9** | 3.6 |

Changes in the present value of the scheme's liabilities are as follows:

| | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| At 1 January | **70.2** | 112.9 |
| Interest cost | **3.3** | 2.0 |
| Actuarial gains arising from changes in demographic assumptions | **(1.4)** | (0.6) |
| Actuarial losses / (gains) arising from changes in financial assumptions | **0.7** | (44.6) |
| Actuarial losses on experience adjustment | **1.8** | 5.6 |
| Benefits paid | **(3.8)** | (5.1) |
| **At 31 December** | **70.8** | 70.2 |

Changes in the present value of the scheme's assets are as follows:

| | Group & Society 2023 £M | Group & Society 2022 £M |
|---|---|---|
| At 1 January | **73.8** | 121.2 |
| Interest income | **3.5** | 2.2 |
| Return on scheme assets excluding interest income | **0.2** | (44.5) |
| Contribution by employer | **0.4** | 0.4 |
| Contribution by scheme members | **–** | – |
| Administrative expenses | **(0.4)** | (0.4) |
| Benefits paid | **(3.8)** | (5.1) |
| **At 31 December** | **73.7** | 73.8 |

# Year ended 31 December 2023

## 25. Retirement benefit surplus (continued)

### (e) Scheme assets

The major categories of scheme assets are as follows:

| | **Group & Society 2023 £M** | Group & Society 2022 £M |
|---|---|---|
| Corporate bonds | **40.0** | 37.8 |
| Index-linked Government bonds | **13.5** | 8.4 |
| Absolute return bonds | **4.8** | 4.6 |
| Asset backed securities | **12.3** | – |
| Liability driven investments | **–** | 14.0 |
| Fixed-interest Government bonds | **0.4** | 0.3 |
| Cash and cash equivalents | **2.7** | 8.7 |
| **Total assets** | **73.7** | 73.8 |

All assets have quoted market prices in active markets. The pension scheme assets include no assets from the Society's own financial issuances (unchanged from 2022). The pension scheme assets include no property occupied by, or other assets used by the Society (unchanged from 2022).

### (f) Amounts recognised in the Income Statements

| | **Group & Society 2023 £M** | Group & Society 2022 £M |
|---|---|---|
| Administration expenses | **0.4** | 0.4 |
| Net interest on the defined benefit asset | **(0.2)** | (0.2) |
| **Total cost – defined benefit scheme** | **0.2** | 0.2 |

### (g) Amounts recognised in other comprehensive income

| | **Group & Society 2023 £M** | Group & Society 2022 £M |
|---|---|---|
| Actuarial losses on experience adjustment | **(1.8)** | (5.6) |
| Actuarial gains arising from changes in demographic assumptions | **1.4** | 0.6 |
| Actuarial (losses) / gains arising from changes in financial assumptions | **(0.7)** | 44.6 |
| *Percentage of scheme liabilities (%)* | **(1.6)%** | 56.4% |
| Return on scheme assets excluding interest income | **0.2** | (44.5) |
| *Percentage of scheme assets (%)* | **40.3%** | (60.3)% |
| **Total loss recognised in SOCI during the year** | **(0.9)** | (4.9) |

The cumulative amount of actuarial gains and losses recognised in other comprehensive income since the date of transition to IFRS is a net loss of £22.6 million (2022: £21.7 million loss).

## 25. Retirement benefit surplus (continued)

### (h) Sensitivity to changes in key assumptions

The table below gives a broad indication of the impact on the pension surplus of changes in assumptions and experience. All figures are before allowing for deferred tax. Although the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation of the sensitivity of the assumptions shown.

| Approximate impact on defined benefit surplus | Group & Society 2023 £M |
|---|---|
| Increase discount rate by 1.0% | **8.4** |
| Increase inflation assumption by 0.5% | **(3.1)** |
| Change long term trend of increases in mortality improvement to 1.25% | **(0.4)** |

### (i) Estimated contributions for 2024 financial year

| | Group & Society 2023 £M |
|---|---|
| Estimated employer normal contributions in financial year 2024 | **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.

### (j) Other considerations

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK, although is subject to possible appeal in 2024. The Group is aware of this legal ruling and is assessing whether there is any potential impact on the defined benefit scheme valuation. Currently no conclusion has been reached in this regard and as such no adjustment has been made to the valuation at 31 December 2023.

## 26. Deferred tax

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| **Deferred tax** | | | | |
| At 1 January | **(32.7)** | (1.7) | **(31.8)** | (2.1) |
| Adjustment in respect of prior years | **–** | (2.3) | **–** | (2.3) |
| Amount recognised directly in equity | **(0.1)** | (27.2) | **(0.1)** | (27.2) |
| Income and expenditure movement during the year | **(2.6)** | (1.5) | **(0.4)** | (0.2) |
| **At 31 December** | **(35.4)** | (32.7) | **(32.3)** | (31.8) |

| | Group 2023 £M | Group 2022 £M | Society 2023 £M | Society 2022 £M |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| IFRS9 transitional adjustments | **3.0** | 3.7 | **3.0** | 3.7 |
| Differences relating to fixed assets | **–** | (3.4) | **–** | (3.4) |
| **Total deferred tax assets** | **3.0** | 0.3 | **3.0** | 0.3 |
| **Deferred tax liabilities** | | | | |
| Cash flow hedge reserve | **28.3** | 31.6 | **28.3** | 31.6 |
| Differences relating to fixed assets | **4.0** | – | **4.0** | – |
| Revaluation reserve | **0.7** | 0.7 | **0.7** | 0.7 |
| Pensions | **0.8** | 2.5 | **0.8** | 2.5 |
| Temporary differences relating to trading items | **2.8** | (0.3) | **(0.3)** | (0.3) |
| Fair value reserve | **1.8** | (2.4) | **1.8** | (2.4) |
| Other temporary differences | **–** | 0.9 | **–** | – |
| **Total deferred tax liabilities** | **38.4** | 33.0 | **35.3** | 32.1 |

# Year ended 31 December 2023

## 27. Tax effects relating to each component of other comprehensive income

| | Group 2023 | | | Society 2023 | | |
|---|---|---|---|---|---|---|
| | **Before tax amount £M** | **Tax benefit/ (expense) £M** | **Net of tax amount £M** | **Before tax amount £M** | **Tax benefit/ (expense) £M** | **Net of tax amount £M** |
| Cash flow hedge reserve | **(11.7)** | **4.7** | **(7.0)** | **(11.7)** | **4.7** | **(7.0)** |
| Investment securities at FVOCI | **14.8** | **(4.2)** | **10.6** | **14.8** | **(4.2)** | **10.6** |
| Revaluation loss on properties | **–** | **(0.2)** | **(0.2)** | **–** | **(0.2)** | **(0.2)** |
| Actuarial (losses) on retirement benefit obligations | **(0.9)** | **0.3** | **(0.6)** | **(0.9)** | **0.3** | **(0.6)** |
| IFRS9 transitional adjustment | **–** | **(0.1)** | **(0.1)** | **–** | **(0.1)** | **(0.1)** |
| **Other comprehensive income** | **2.2** | **0.5** | **2.7** | **2.2** | **0.5** | **2.7** |

| | Group 2022 | | | Society 2022 | | |
|---|---|---|---|---|---|---|
| | Before tax amount £M | Tax benefit/ (expense) £M | Net of tax amount £M | Before tax amount £M | Tax benefit/ (expense) £M | Net of tax amount £M |
| Cash flow hedge reserves | 112.9 | (31.6) | 81.3 | 112.9 | (31.6) | 81.3 |
| Investment securities at FVOCI | (9.1) | 2.5 | (6.6) | (9.1) | 2.5 | (6.6) |
| Actuarial gains / (losses) on retirement benefit obligations | (1.9) | 3.3 | 1.4 | (1.9) | 3.3 | 1.4 |
| Revaluation loss on properties | (4.9) | 0.1 | (4.8) | (4.9) | 0.1 | (4.8) |
| IFRS9 transitional adjustment | – | (1.0) | (1.0) | – | (1.0) | (1.0) |
| Other comprehensive income | 97.0 | (26.7) | 70.3 | 97.0 | (26.7) | 70.3 |

## 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 2023 £M** | Group 2022 £M | **Society 2023 £M** | Society 2022 £M |
|---|---|---|---|---|
| At 1 January | **3,217.7** | 3,121.3 | **3,126.9** | 2,961.9 |
| Cash flows: | | | | |
| Net proceeds from issue of debt securities | **350.2** | 665.1 | **0.4** | 665.1 |
| Repayments of debt securities in issue | **(379.9)** | (463.0) | **(269.9)** | (420.9) |
| Repayments of subscribed capital | **(171.2)** | – | **(171.2)** | – |
| Non-cash flows: | | | | |
| Amortisation of discount on issue | **(19.6)** | 0.2 | **(19.6)** | 0.2 |
| Accrued interest movements | **8.7** | 4.8 | **3.5** | 4.5 |
| Foreign exchange movements | **(9.1)** | 23.2 | **(9.1)** | 23.2 |
| Movement in fair value | **68.7** | (133.9) | **56.9** | (107.1) |
| **At 31 December** | **3,065.5** | 3,217.7 | **2,717.9** | 3,126.9 |

## 29. Guarantees and other financial commitments

### (a) Financial Services Compensation Scheme
The Group has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided by the Financial Services and Markets Act 2000. The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due and is funded by contributions from the financial services industry.

### (b) Subsidiary undertakings
The Society is obliged under the Building Societies Act 1986 to discharge the liabilities of its subsidiary undertakings to the extent they were incurred before 11 June 1996 and in so far as those bodies are unable to discharge the liabilities out of their own assets.

### (c) Capital commitments
The Group has capital commitments contracted for but not accrued for under executory contracts of £3.8 million (2022: £4.8 million) relating to technology investment programmes (intangible assets and property, plant and equipment). This amount is inclusive of value added tax.

### (d) Other commitments
The Group is committed to multi-year service contracts for the provision and maintenance of its IT infrastructure. The remaining commitment at 31 December 2023 is £40.1 million (2022: £42.3 million). These service contracts do not meet the definition of a lease under IFRS 16 since they do not give the Group the right to control the assets used to provide the service.

## 30. Related party transactions

### Group
Key management personnel comprise the executive directors and non-executive directors, who are responsible for ensuring that the Society and its subsidiary undertakings meet their strategic and operational objectives. The Group enters into transactions in the ordinary course of business with directors of the Group and persons connected with the directors of the Group, on normal commercial terms.

### Society
Details of the Society's shares in group undertakings and subsidiaries are given in note 15. A number of transactions are entered into with these related parties in the normal course of business. These include loans, deposits and the payment and recharge of administrative expenses.

The value of related party transactions, outstanding balances at the year end, and the related income and expenses for the year are as follows:

| | Society subsidiaries | | Directors and connected persons | |
|---|---|---|---|---|
| | **2023 £M** | 2022 £M | **2023 £M** | 2022 £M |
| **Loans payable to the Society** | | | | |
| Loans outstanding at 1 January | **–** | 1.9 | **–** | – |
| Net movement during the year | **–** | (1.9) | **–** | – |
| **Loans outstanding at 31 December** | **–** | – | **–** | – |
| **Deposits payable by the Society** | | | | |
| Deposits outstanding at 1 January | 175.1 | 243.4 | **0.2** | 0.2 |
| Net movement during the year | 176.6 | (68.3) | **0.3** | – |
| **Deposits outstanding at 31 December** | 351.7 | 175.1 | **0.5** | 0.2 |

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 158 to 171. No directors are active members of the defined benefit section of the Leeds Building Society Pension Scheme (2022: none). Two directors were active members of the defined contribution section of the Leeds Building Society Pension Scheme during 2023 (2022: two).

# Year ended 31 December 2023

## 31. 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<br>Cash flow hedge |
| Fixed rate asset investments | Sensitivity to changes in interest rates | Pay fixed interest rate swaps | Fair value hedge |
| Fixed rate savings products | Sensitivity to changes in interest rates | Receive fixed interest rate swaps | Fair value hedge |
| Fixed rate wholesale funding | Sensitivity to changes in interest rates | Receive fixed interest rate swaps | Fair value hedge |
| Equity release mortgages | Sensitivity to changes in interest rates | Pay fixed interest rate swaps | – |
| Investment and funding in foreign currency | Sensitivity to changes in foreign exchange rates | Cross currency interest rate swaps and foreign exchange contracts | – |

The Group manages risk within its risk tolerance, regardless of the accounting treatment. Derivatives are entered into only when the underlying position being hedged contains the same risk features. The derivative used will match the risks of the underlying asset or liability and therefore hedge the associated market risk.

All derivatives entered into by the Group are used for hedging purposes, however not all are designated as such for accounting purposes. Some derivatives are held as economic hedges to which hedge accounting does not need to be applied. In these cases a natural offset may be achieved; these types of hedge are only entered into where a high degree of effectiveness can be achieved.

Cross currency interest rate swaps are used to reduce both the interest rate risk and exchange rate risk exposures that come from funding in foreign currency.

The Group discounts its collateralised and un-collateralised positions based on overnight interest rate curves.

The table below shows the value of derivatives by type:

| | Group 2023 | | | Group 2022 | | |
|---|---|---|---|---|---|---|
| | **Contract or underlying principal amount £M** | **Positive fair value £M** | **Negative fair value £M** | Contract or underlying principal amount £M | Positive fair value £M | Negative fair value £M |
| Interest rate swaps available to designate in accounting hedges | **24,335.1** | **442.8** | **(208.7)** | 18,379.4 | 679.5 | (218.7) |
| **Derivatives not designated in accounting hedges:** | | | | | | |
| Equity release swaps | **61.5** | **–** | **(18.9)** | 65.5 | – | (30.6) |
| Interest rate swaps | **–** | **–** | **–** | – | – | – |
| Cross currency swaps | **494.3** | **0.8** | **(5.4)** | 502.5 | 0.4 | (2.6) |
| **Total derivatives held for hedging purposes** | **24,890.9** | **443.6** | **(233.0)** | 18,947.4 | 679.9 | (251.9) |

## 31. Derivative financial instruments and hedge accounting (continued)

### (a) Derivative financial instruments (continued)

| | Society 2023 Contract or underlying principal amount £M | Society 2023 Positive fair value £M | Society 2023 Negative fair value £M | Society 2022 Contract or underlying principal amount £M | Society 2022 Positive fair value £M | Society 2022 Negative fair value £M |
|---|---|---|---|---|---|---|
| Interest rate swaps available to designate in accounting hedges | **23,901.5** | **442.8** | **(197.6)** | 17,936.4 | 679.5 | (198.7) |
| **Derivatives not designated in accounting hedges:** | | | | | | |
| Equity release swaps | **61.5** | **–** | **(18.9)** | 65.5 | – | (30.6) |
| Interest rate swaps | **371.9** | **–** | **(16.3)** | 202.1 | – | (5.3) |
| Cross currency swaps | **53.8** | **0.8** | **–** | 62.0 | – | (2.6) |
| **Total derivatives held for hedging purposes** | **24,388.7** | **443.6** | **(232.8)** | 18,266.0 | 679.5 | (237.2) |

The following tables analyse derivatives by contractual maturity:

| | Group 2023 Notional principal amount £M | Group 2023 Replacement cost £M | Group 2022 Notional principal amount £M | Group 2022 Replacement cost £M |
|---|---|---|---|---|
| Less than 1 year | **8,428.9** | **43.9** | 6,612.1 | 51.1 |
| Between 1 and 5 years inclusive | **15,711.5** | **381.5** | 11,309.2 | 592.6 |
| More than 5 years | **750.5** | **18.2** | 1,026.1 | 36.2 |
| **Total derivatives** | **24,890.9** | **443.6** | 18,947.4 | 679.9 |

| | Society 2023 Notional principal amount £M | Society 2023 Replacement cost £M | Society 2022 Notional principal amount £M | Society 2022 Replacement cost £M |
|---|---|---|---|---|
| Less than 1 year | **7,554.8** | **43.9** | 6,612.1 | 51.1 |
| Between 1 and 5 years inclusive | **16,083.4** | **381.5** | 10,425.7 | 592.2 |
| More than 5 years | **750.5** | **18.2** | 1,228.2 | 36.2 |
| **Total derivatives** | **24,388.7** | **443.6** | 18,266.0 | 679.5 |

### (b) Hedge accounting

The Group holds a portfolio of fixed rate mortgages, savings and investments and is therefore exposed to changes in interest rate risk (see Risk Management Report, page 102 to 103). As shown in the table on page 232 the Group manages this risk by entering into interest rate swaps that either pay or receive a fixed rate.

By entering into these swaps the Group is hedging interest rate risk only. Other risks, such as credit risk, are managed but not hedged. These risks are managed by entering into swap contracts with high quality counterparties, requiring the posting of collateral and clearing swaps through central counterparties.

The interest rate risk that arises from fixed rate mortgages and savings is managed by entering into interest rate swaps. The exposure fluctuates due to new products being added, products maturing and early repayments in the case of mortgage products. For this reason the Group utilises a dynamic hedge accounting strategy (also known as macro hedging) to manage the exposure created by entering into swap contracts this way.

# Year ended 31 December 2023

## 31. Derivative financial instruments and hedge accounting (continued)

### (b) Hedge accounting (continued)

The notional value of interest rate swaps designated into accounting hedge relationships is as follows, analysed by maturity date:

| **Group 2023** | **Less than 3 months £M** | **3 to 12 months £M** | **1 to 5 years £M** | **More than 5 years £M** |
|---|---|---|---|---|
| **Macro fair value hedges of loans and advances to customers** | | | | |
| Swap notional | **10.0** | **1,030.2** | **9,979.2** | **669.8** |
| Average fixed rate | **1.1%** | **1.7%** | **2.6%** | **3.9%** |
| **Macro fair value hedges of shares** | | | | |
| Swap notional | **–** | **3,825.0** | **4,590.5** | **–** |
| Average fixed rate | **–** | **4.7%** | **4.7%** | **–** |
| **Micro fair value hedges of wholesale funding denominated in Sterling** | | | | |
| Swap notional | **–** | **–** | **700.0** | **–** |
| Average fixed rate | **–** | **–** | **1.4%** | **–** |
| **Micro fair value hedges of wholesale funding denominated in Euros** | | | | |
| Swap notional | **–** | **433.5** | **–** | **–** |
| Average fixed rate | **–** | **0.5%** | **–** | **–** |
| **Macro cash flow hedges** | | | | |
| Swap notional | **–** | **–** | **–** | **450.0** |
| Average fixed rate | **–** | **–** | **–** | **4.3%** |

| Group 2022 | Less than 3 months £M | 3 to 12 months £M | 1 to 5 years £M | More than 5 years £M |
|---|---|---|---|---|
| Macro fair value hedges of loans and advances to customers | | | | |
| Swap notional | 928.7 | 2,051.9 | 7,000.7 | 327.3 |
| Average fixed rate | 0.4% | 0.6% | 1.3% | 2.0% |
| Macro fair value hedges of shares | | | | |
| Swap notional | – | 3,074.5 | 2,415.0 | – |
| Average fixed rate | – | 1.9% | 3.5% | – |
| Micro fair value hedges of wholesale funding denominated in Sterling | | | | |
| Swap notional | – | – | 700.0 | 200.0 |
| Average fixed rate | – | – | 1.4% | 3.8% |
| Micro fair value hedges of wholesale funding denominated in Euros | | | | |
| Swap notional | – | – | 443.0 | – |
| Average fixed rate | – | – | 0.5% | – |
| Macro cash flow hedges | | | | |
| Swap notional | – | – | – | 400.0 |
| Average fixed rate | – | – | – | 4.2% |

## 31. Derivative financial instruments and hedge accounting (continued)

### (b) Hedge accounting (continued)

**(i) Fair value hedge accounting**

The Group uses macro fair value hedges to recognise the changes in fair value of the hedged items (mortgage and savings products) due to the changes in interest rates and therefore can mitigate the impact on profit and loss that would arise if only the changes in fair value from the interest rate swaps were recognised.

In addition to the macro fair value hedges used to manage the interest rate risk of mortgages and savings, the Group also uses one-to-one hedges, known as micro hedges, to manage the interest rate risk of fixed rate wholesale funding issuances. In this type of hedge a single swap is matched directly against a fixed rate bond and remains matched until maturity or a de-designation event (such as becoming ineffective). The changes in fair value are recognised in the same way as the macro hedge, with the change in the fair value of the bond and swap being offset to reduce volatility in the Income Statement.

The tables below provide analysis of the impacts of fair value hedge accounting on the Statement of Financial Position and the Income Statement:

| | **Interest rate swaps** | | | **Hedged items** | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Carrying amount (Note 1)** | | **Carrying amount** | | **Accumulated fair value adjustments** | | |
| **Group 2023** | **Notional amount £M** | **Assets £M** | **Liabilities £M** | **Assets £M** | **Liabilities £M** | **Assets £M** | **Liabilities £M** | **SOFP line item** |
| Hedge of loans and advances to customers | **11,689.2** | **362.5** | **(77.0)** | **12,085.1** | **–** | **78.4** | **(359.0)** | **Note 2** |
| Hedge of shares | **8,415.5** | **49.4** | **(16.6)** | **–** | **8,385.1** | **15.5** | **(57.6)** | **Note 3** |
| Hedge of wholesale funding denominated in Sterling | **700.0** | **–** | **(59.8)** | **–** | **700.0** | **59.8** | **–** | **Note 4** |
| Hedge of wholesale funding denominated in Euros | **433.5** | **–** | **(7.7)** | **–** | **433.5** | **7.7** | **–** | **Note 4** |

| | Interest rate swaps | | | Hedged items | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Carrying amount (Note 1) | | Carrying amount | | Accumulated fair value adjustments | | |
| Group 2022 | Notional amount £M | Assets £M | Liabilities £M | Assets £M | Liabilities £M | Assets £M | Liabilities £M | SOFP line item |
| Hedge of loans and advances to customers | 10,308.6 | 670.0 | - | 10,521.4 | – | – | (667.1) | Note 2 |
| Hedge of shares | 5,489.5 | 3.9 | (74.8) | – | 5,477.0 | 62.5 | (3.5) | Note 3 |
| Hedge of wholesale funding denominated in Sterling | 900.0 | – | (116.7) | – | 900.0 | 116.6 | – | Note 4 |
| Hedge of wholesale funding denominated in Euros | 443.0 | – | (20.0) | – | 443.0 | 19.6 | – | Note 4 |

Notes:

1. The Statement of Financial Position line that includes these items is 'Derivative financial instruments'.
2. The Statement of Financial Position line that includes these fair value adjustments on hedged items is 'Fair value adjustment for hedged risk on loans and advances to customers'.
3. The Statement of Financial Position line that includes these fair value adjustments on hedged items is 'Fair value adjustment for hedged risk on shares'.
4. The Statement of Financial Position lines that include these fair value adjustments on hedged items are 'Debt securities in issue' and 'Subordinated liabilities' and 'Subscribed capital'.

# Year ended 31 December 2023

## 31. Derivative financial instruments and hedge accounting (continued)

### (b) Hedge accounting (continued)

**(i) Fair value hedge accounting (continued)**

| **Group 2023** | **Change in fair value of hedging instrument (Note 1) £M** | **Change in fair value of hedged item (Note 1) £M** | **Total hedge ineffectiveness (Note 2) £M** | **Accumulated amount of fair value adjustments remaining in the SOFP £M** |
|---|---|---|---|---|
| Loans and advances to customers | **(366.9)** | **386.5** | **19.6** | **148.4** |
| Shares | **97.1** | **(101.1)** | **(4.0)** | **11.2** |
| Wholesale funding denominated in Sterling | **28.3** | **(29.8)** | **(1.5)** | **(0.6)** |
| Wholesale funding denominated in Euros | **11.5** | **(11.5)** | **–** | **(0.4)** |

| Group 2022 | Change in fair value of hedging instrument (Note 1) £M | Change in fair value of hedged item (Note 1) £M | Total hedge ineffectiveness (Note 2) £M | Accumulated amount of fair value adjustments remaining in the SOFP £M |
|---|---|---|---|---|
| Loans and advances to customers | 533.1 | (548.7) | (15.6) | 81.1 |
| Shares | (47.5) | 41.2 | (6.3) | 43.5 |
| Wholesale funding denominated in Sterling | (104.1) | 105.5 | 1.4 | (0.8) |
| Wholesale funding denominated in Euros | (28.4) | 28.4 | – | (1.1) |

Notes

1. The change in fair value during the period was used as the basis for calculating hedge ineffectiveness and was recognised in the 'Fair value (losses) / gains from financial instruments' line in the Income Statement.
2. The amount of hedge ineffectiveness during the period was recognised in the 'Fair value (losses) / gains from financial instruments' line in the Income Statement.

**(ii) Cash flow hedge accounting**

The Group applies macro cash flow hedge accounting to a portion of its floating rate financial liabilities which are matched (for the purposes of hedge accounting only) with pay fixed, receive floating rate interest rate swaps which have been transacted to economically hedge mortgage applications, prior to completion of the mortgage. Any movements in fair value of the swaps arising due to movements in interest rates are recognised in other comprehensive income to the extent that the hedge relationship is effective. The Group aims to maintain a position where the principal amount of the hedged items (floating rate financial liabilities) is greater than or equal to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reassessed on a monthly basis with the composition of hedging instruments and hedged items changing frequently in line with the underlying risk exposures.

The table below provides further detail on the Group's cash flow hedge accounting relationships.

| | **Interest rate swaps** | | | **Hedged items** | | |
|---|---|---|---|---|---|---|
| | | **Carrying amount (Note 1)** | | **Carrying amount** | | |
| **Group 2023** | **Notional amount £M** | **Assets £M** | **Liabilities £M** | **Assets £M** | **Liabilities £M** | **SOFP line item** |
| Floating rate liabilities | **450.0** | **–** | **(18.0)** | **–** | **(450.0)** | **Note 2** |

## 31. Derivative financial instruments and hedge accounting (continued)

### (b) Hedge accounting (continued)

#### (ii) Cash flow hedge accounting (continued)

| Group 2022 | Interest rate swaps Notional amount £M | Interest rate swaps Carrying amount (Note 1) Assets £M | Interest rate swaps Carrying amount (Note 1) Liabilities £M | Hedged items Carrying amount Assets £M | Hedged items Carrying amount Liabilities £M | Hedged items SOFP line item |
|---|---|---|---|---|---|---|
| Floating rate liabilities | 400.0 | 2.5 | (3.9) | – | (400.0) | Note 2 |

Notes:

1. The Statement of Financial Position line that includes these items is 'Derivative financial instruments'.
2. The Statement of Financial Position line that includes these hedged items at amortised cost is 'Debt securities in issue'.

| **Group 2023** | **Change in fair value of hedging instrument (Note 1) £M** | **Total hedge ineffectiveness (Note 2) £M** | **Accumulated amount of fair value adjustments remaining in OCI (Note3) £M** | **Gains reclassified from OCI to Income Statement (Note 4) £M** |
|---|---|---|---|---|
| Floating rate liabilities | **128.1** | **0.2** | **101.2** | **26.7** |

| Group 2022 | Change in fair value of hedging instrument (Note 1) £M | Total hedge ineffectiveness (Note 2) £M | Accumulated amount of fair value adjustments remaining in OCI (Note3) £M | Gains reclassified from OCI to Income Statement (Note 4) £M |
|---|---|---|---|---|
| Floating rate liabilities | 118.3 | 0.2 | 112.9 | 5.2 |

Notes:

1. The change in fair value during the period was used as the basis for calculating hedge ineffectiveness and was recognised in the 'Cash flow hedge reserve' line in the Statement of Financial Position.
2. The amount of hedge ineffectiveness during the period was recognised in the 'Fair value (losses) / gains from financial instruments' line in the Income Statement.
3. The accumulated amount of fair value adjustments remaining in OCI are reported in the 'Cash flow hedge reserve' line in the Statement of Financial Position.
4. The gains that were reclassified from OCI to the Income Statement during the period were recognised in the 'Fair value (losses) / gains from financial instruments' line in the Income Statement.

Macro cash flow hedge effectiveness is assessed by comparing the changes in the fair value of the hedging instruments with changes in the fair value of the hedged items attributable to the hedged risk, using the hypothetical derivative method.

Possible sources of ineffectiveness are as follows:

- Differences in timing of cash flows between the derivative and the hedged item.
- Differences between the expected and actual volume of prepayments where a portfolio is being hedged, as the hedging ratio is calculated with regard to expected repayment dates, taking account of expected prepayments based on past experience.
- Hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.

# Year ended 31 December 2023

## 32. 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.

| | | Fair value hierarchy level | Group 2023 Carrying value £M | Group 2023 Fair value £M | Society 2023 Carrying value £M | Society 2023 Fair value £M |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Cash in hand and balances with the Bank of England | | **Level 1** | **2,830.0** | **2,830.0** | **2,830.0** | **2,830.0** |
| Loans and advances to credit institutions | i) | **Level 2** | **213.7** | **213.7** | **109.2** | **109.2** |
| Loans and advances to customers | | | | | | |
| Loans fully secured on residential property | ii) | **Level 3** | **21,782.9** | **21,375.6** | **21,782.9** | **21,375.6** |
| Other loans | ii) | **Level 2** | **4.7** | **4.7** | **4.7** | **4.7** |
| **Financial liabilities:** | | | | | | |
| Shares | ii) | **Level 2** | **20,793.0** | **20,747.2** | **20,793.0** | **20,747.2** |
| Amounts owed to credit institutions | iii) | **Level 2** | **1,869.3** | **1,869.3** | **1,869.3** | **1,869.3** |
| Amounts owed to other customers | ii) | **Level 2** | **169.9** | **169.9** | **521.6** | **521.6** |
| Debt securities in issue | iv) | **Level 1** | **2,400.3** | **2,365.3** | **2,394.8** | **2,357.6** |
| Debt securities in issue | iv) | **Level 2** | **349.8** | **349.9** | **–** | **–** |
| Subordinated liabilities | v) | **Level 1** | **349.9** | **322.1** | **349.9** | **322.1** |
| Subscribed capital | v) | **Level 1** | **33.0** | **51.3** | **33.0** | **51.3** |

| | | Fair value hierarchy level | Group 2022 Carrying value £M | Group 2022 Fair value £M | Society 2022 Carrying value £M | Society 2022 Fair value £M |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| Cash in hand and balances with the Bank of England | | Level 1 | 2,958.1 | 2,958.1 | 2,958.1 | 2,958.1 |
| Loans and advances to credit institutions | i) | Level 2 | 235.9 | 235.9 | 83.3 | 83.3 |
| Loans and advances to customers | | | | | | |
| Loans fully secured on residential property | ii) | Level 3 | 20,324.3 | 19,734.9 | 20,324.3 | 19,734.9 |
| Other loans | ii) | Level 2 | 7.0 | 7.0 | 7.0 | 7.0 |
| Financial liabilities: | | | | | | |
| Shares | ii) | Level 2 | 17,520.4 | 17,635.6 | 17,520.4 | 17,635.6 |
| Amounts owed to credit institutions | iii) | Level 2 | 2,268.4 | 2,268.4 | 2,268.4 | 2,268.4 |
| Amounts owed to other customers | ii) | Level 2 | 229.7 | 229.7 | 404.7 | 404.7 |
| Debt securities in issue | iv) | Level 1 | 2,601.0 | 2,664.8 | 2,620.2 | 2,644.1 |
| Debt securities in issue | iv) | Level 2 | 110.0 | 110.2 | – | – |
| Subordinated liabilities | v) | Level 1 | 309.1 | 305.3 | 309.1 | 305.3 |
| Subscribed capital | v) | Level 1 | 197.6 | 245.6 | 197.6 | 245.6 |

## 32. Fair values (continued)

### (a) Carrying value and fair value of financial instruments not carried at fair value (continued)

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The following methods and assumptions have been applied in determining fair value:

i. The carrying amount of loans and advances to credit institutions, with a maturity of less than 12 months, is assumed to equate to their fair value.

ii. The fair value of loans and advances to customers, shares and amounts owed to other customers is calculated using the effective interest rate method on the discounted cash flow basis, which also includes an assessment of future credit loss where appropriate.

iii. The fair value of floating rate and overnight deposits is approximately equal to their carrying amount. The estimated fair value of fixed rate loans and deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

iv. Debt securities in issue are valued by reference to their market value where an active market exists. Where no active market exists, a discounted cash flow approach is used.

v. The fair value of subordinated liabilities and subscribed capital is obtained from market prices.

### (b) Fair value measurement basis for financial instruments carried at fair value

The table below classifies all assets and liabilities carried at fair value in the Statement of Financial Position according to the method used to establish their fair value.

| **Group 2023** | **Level 1 £M** | **Level 2 £M** | **Level 3 £M** | **Total £M** |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investment securities | **965.3** | **1,550.3** | **–** | **2,515.6** |
| Derivative financial instruments | **–** | **443.6** | **–** | **443.6** |
| Loans and advances to customers | **–** | **–** | **153.6** | **153.6** |
| Fair value adjustment for hedged risk on loans and advances to customers | **–** | **–** | **(132.3)** | **(132.3)** |
| **Total assets** | **965.3** | **1,993.9** | **21.3** | **2,980.5** |
| **Liabilities:** | | | | |
| Fair value adjustment for hedged risk on shares | **–** | **31.9** | **–** | **31.9** |
| Derivative financial instruments | **–** | **218.1** | **14.9** | **233.0** |
| Debt securities in issue | **–** | **(41.5)** | **–** | **(41.5)** |
| Subordinated liabilities | **–** | **(26.0)** | **–** | **(26.0)** |
| **Total liabilities** | **–** | **182.5** | **14.9** | **197.4** |

| Group 2022 | Level 1 £M | Level 2 £M | Level 3 £M | Total £M |
|---|---|---|---|---|
| Assets: | | | | |
| Investment securities | 396.7 | 990.0 | – | 1,386.7 |
| Derivative financial instruments | – | 679.9 | – | 679.9 |
| Loans and advances to customers | – | – | 161.9 | 161.9 |
| Fair value adjustment for hedged risk on loans and advances to customers | – | – | (585.9) | (585.9) |
| Total assets | 396.7 | 1,669.9 | (424.0) | 1,642.6 |
| Liabilities: | | | | |
| Fair value adjustment for hedged risk on shares | – | (100.7) | – | (100.7) |
| Derivative financial instruments | – | 225.0 | 26.9 | 251.9 |
| Total liabilities | – | 124.3 | 26.9 | 151.2 |

# Year ended 31 December 2023

## 32. Fair values (continued)

### (b) Fair value measurement basis for financial instruments carried at fair value (continued)

| **Society 2023** | **Level 1 £M** | **Level 2 £M** | **Level 3 £M** | **Total £M** |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investment securities | **965.3** | **1,550.3** | **–** | **2,515.6** |
| Derivative financial instruments | **–** | **443.6** | **–** | **443.6** |
| Loans and advances to customers | **–** | **–** | **153.6** | **153.6** |
| Fair value adjustment for hedged risk on loans and advances to customers | **–** | **–** | **(132.3)** | **(132.3)** |
| **Total assets** | **965.3** | **1,993.9** | **21.3** | **2,980.5** |
| **Liabilities:** | | | | |
| Fair value adjustment for hedged risk on shares | **–** | **31.9** | **–** | **31.9** |
| Derivative financial instruments | **–** | **201.6** | **31.2** | **232.8** |
| Debt securities in issue | **–** | **(33.8)** | **–** | **(33.8)** |
| Subordinated liabilities | **–** | **(26.0)** | **–** | **(26.0)** |
| **Total liabilities** | **–** | **173.7** | **31.2** | **204.9** |

| Society 2022 | Level 1 £M | Level 2 £M | Level 3 £M | Total £M |
|---|---|---|---|---|
| Assets: | | | | |
| Investment securities | 396.7 | 1,056.1 | – | 1,452.8 |
| Derivative financial instruments | – | 679.5 | – | 679.5 |
| Loans and advances to customers | – | – | 161.9 | 161.9 |
| Fair value adjustment for hedged risk on loans and advances to customers | – | – | (585.9) | (585.9) |
| Total assets | 396.7 | 1,735.6 | (424.0) | 1,708.3 |
| Liabilities: | | | | |
| Fair value adjustment for hedged risk on shares | – | (100.7) | – | (100.7) |
| Derivative financial instruments | – | 205.0 | 32.2 | 237.2 |
| Total liabilities | – | 104.3 | 32.2 | 136.5 |

Level 1: Relates to financial instruments where fair values are taken from quoted prices in active markets for identical assets or liabilities, without adjustment.

Level 2: Valuations of financial instruments for which significant inputs are taken from observable market data for the asset and liability. These include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets which are not active. These also include where valuation models are used to calculate the present values of expected future cash flows, using solely inputs (such as interest rate curves) from published market observable sources.

Level 3: The valuation of the asset or liability is not solely based on observable market data and includes unobservable inputs. Valuation techniques include net present value and discounted cash flow methods. The assumptions used in such models include risk-free benchmark interest rates, foreign currency exchange rates and expected price volatilities. The objective of the valuation techniques is to determine a fair value that reflects the price of the financial instrument that would have been used by two counterparties in an arm's length transaction.

## 32. Fair values (continued)

### (c) Reconciliation of level 3 fair value measurements of financial instruments

| **Group 2023** | **Derivative financial instruments £M** | **Loans and advances to customers £M** | **Fair value adjustment for hedged risk £M** | **Total £M** |
|---|---|---|---|---|
| At 1 January 2023 | **(26.9)** | **161.9** | **(585.9)** | **(450.9)** |
| Total gains / (losses) in the Income Statement | **1.4** | **(6.9)** | **–** | **(5.5)** |
| Movement in fair value adjustment for hedged risk on loans and advances to customers | **–** | **–** | **453.6** | **453.6** |
| Net repayment in the year | **10.6** | **(1.4)** | **–** | **9.2** |
| **At 31 December 2023** | **(14.9)** | **153.6** | **(132.3)** | **6.4** |

| Group 2022 | Derivative financial instruments £M | Loans and advances to customers £M | Fair value adjustment for hedged risk £M | Total £M |
|---|---|---|---|---|
| At 1 January 2022 | (77.6) | 215.5 | (169.1) | (31.2) |
| Total gains / (losses) in the Income Statement | 50.7 | (53.9) | – | (3.2) |
| Movement in fair value adjustment for hedged risk on loans and advances to customers | – | – | (416.8) | (416.8) |
| Net repayment in the year | – | 0.3 | – | 0.3 |
| At 31 December 2022 | (26.9) | 161.9 | (585.9) | (450.9) |

| **Society 2023** | **Derivative financial instruments £M** | **Loans and advances to customers £M** | **Fair value adjustment for hedged risk £M** | **Total £M** |
|---|---|---|---|---|
| At 1 January 2023 | **(32.2)** | **161.9** | **(585.9)** | **(456.2)** |
| Total losses in the Income Statement | **(6.5)** | **(6.9)** | **–** | **(13.4)** |
| Movement in fair value adjustment for hedged risk on loans and advances to customers | **–** | **–** | **453.6** | **453.6** |
| Net repayment in the year | **7.5** | **(1.4)** | **–** | **6.1** |
| **At 31 December 2023** | **(31.2)** | **153.6** | **(132.3)** | **(9.9)** |

| Society 2022 | Derivative financial instruments £M | Loans and advances to customers £M | Fair value adjustment for hedged risk £M | Total £M |
|---|---|---|---|---|
| At 1 January 2022 | (77.9) | 215.5 | (169.1) | (31.5) |
| Total gains / (losses) in the Income Statement | 45.7 | (53.9) | – | (8.2) |
| Movement in fair value adjustment for hedged risk on loans and advances to customers | – | – | (416.8) | (416.8) |
| Net repayment in the year | – | 0.3 | – | 0.3 |
| At 31 December 2022 | (32.2) | 161.9 | (585.9) | (456.2) |

Total gains / (losses) for the year are included in 'Fair value (losses) / gains from financial instruments' in the Income Statement.

# Year ended 31 December 2023

## 32. Fair values (continued)

### (d) Recurring fair value measurement

| Financial assets / financial liabilities | Fair value at 31 December 2023 | Fair value at 31 December 2022 | 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 - £965.3 million<br>**Society** Assets - £965.3 million | **Group** Assets - £396.7 million<br>**Society** Assets - £396.7 million | 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 - £1,550.3 million<br>**Society** Assets - £1,550.3 million | **Group** Assets - £990.0 million<br>**Society** Assets - £1,056.1 million | Level 2 | Valuations are sourced from third party data providers. The nature of these instruments means that while a market exists, pricing activity may be limited. | N/A | N/A |
| **Derivative financial instruments (interest rate swaps)** | **Group** Assets - £442.8 million and Liabilities - £208.7 million<br>**Society** Assets - £442.8 million and Liabilities - £197.6 million | **Group** Assets - £679.5 million and Liabilities - £218.7 million<br>**Society** Assets - £679.5 million and Liabilities - £198.7 million | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties. | N/A | N/A |
| **Derivative financial instruments (cross currency swaps)** | **Group** Assets - £0.8 million and Liabilities - £5.4 million<br>**Society** Assets - £0.8 million | **Group** Assets - £0.4 million and Liabilities - £2.6 million<br>**Society** Liabilities - £2.6 million | 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 - £4.0 million<br>**Society** Liabilities - £4.0 million | **Group** Liabilities - £3.7 million<br>**Society** Liabilities - £3.7 million | 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 |

## 32. Fair values (continued)

### (d) Recurring fair value measurement (continued)

| Financial assets / financial liabilities | Fair value at 31 December 2023 | Fair value at 31 December 2022 | 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 - £31.9 million **Society** Liabilities - £31.9 million | **Group** Liabilities - £(100.7 million) **Society** Liabilities - £(100.7 million) | 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 - £14.9 million **Society** Liabilities - £14.9 million | **Group** Liabilities - £26.9 million **Society** Liabilities - £26.9 million | 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 - £16.3 million | **Society** Liabilities - £5.3 million | Level 3 | Discounted cash flow. The valuations are based on a discounted cash flow model which uses a projection of interest rates, a discount rate to reflect the counterparty risk and assumptions for future prepayment. The notional profile of the swaps tracks the balance of a loan portfolio which is subject to assumptions about the rate of prepayment. | Assumptions on future notional balances related to mortgage prepayment rates. | An increase in prepayment rates will increase the fair value of the swaps. |
| **Loans and advances to customers (collateral loan)** | **Group** Assets - £153.6 million **Society** Assets - £153.6 million | **Group** Assets - £161.9 million **Society** Assets - £161.9 million | 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 - £(132.3 million) **Society** Assets - £(132.3 million) | **Group** Assets - £(585.9 million) **Society** Assets - £(585.9 million) | 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. |

## 32. 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 a combination of observable market interest rate data and unobservable assumptions about future mortgage prepayment. At 31 December 2023, a 10% proportionate increase in prepayments would lead to a decrease in the swap liability of £0.9 million. A 10% proportionate reduction in prepayments would increase the swap liability by £0.9 million. These sensitivities reflect the variability in prepayment rates observed historically.

The deal 3 equity release swap is linked to RPI and is valued using a discounted cash flow model which uses observable market data for RPI and the discount rate used to discount future cash flows and unobservable input assumptions for prepayment rates. Wherever possible these input assumptions are calculated with reference to actual historic experience. The variable which is considered to have the largest impact on the value of the swap is the prepayment rate. At 31 December 2023, a one percentage point increase in assumed prepayment rate would reduce the value of the swap liability by £0.9 million and a one percentage point decrease in assumed prepayment rates would increase the value of the swap liability by £1.0 million.

**(ii) Loans and advances to customers (collateral loan)**
The collateral loan which represents a pool of equity release mortgages is valued using a discounted cash flow model which uses unobservable input assumptions for property price volatility, sales price haircut, mortality, prepayment and the discount rate used to discount future cash flows. Wherever possible these input assumptions are calculated with reference to actual historic experience. The variables which are considered to have the largest impact on the value of the loan are discount rate, property price volatility and the sales price haircut. The sensitivities below reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

At 31 December 2023, a one percentage point increase in the discount rate would reduce the value of the collateral loan by £11.7 million and a one percentage point decrease in the discount rate would increase the value of the collateral loan by £13.3 million. A three percentage points increase in assumed property price volatility would reduce the value of the collateral loan by £4.5 million and a three percentage points decrease in assumed property price volatility would increase the value of the collateral loan by £4.1 million. A five percentage points increase in the sales price haircut would reduce the value of the collateral loan by £3.8 million and a five percentage points decrease in the sales price haircut would increase the value of the collateral loan by £3.3 million.

**(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 2023, a 20% proportionate increase in mortgage prepayments would lead to a reduction in the fair value of the mortgages in the hedge relationship of £2.3 million. A 20% proportionate decrease in mortgage prepayments would lead to an increase in the fair value of the mortgages of £3.1 million.

## 33. Events after the date of the Statement of Financial Position

There have been no subsequent events between 31 December 2023 and the date of approval of these Annual Report and Accounts by the board which would have had a material impact on the financial position of the Group or the Society.

# Other information

# Annual Business Statement

## Year ended 31 December 2023

### 1. Statutory percentages

| | 31 December 2023 | Statutory Limit |
|---|---|---|
| Lending limit | **3.2%** | 25% |
| Funding limit | **18.6%** | 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 2023 | 31 December 2022 |
|---|---|---|
| As a percentage of shares and borrowings: | | |
| Gross capital | **7.83%** | 8.86% |
| Free capital | **7.46%** | 8.47% |
| Liquid assets | **21.77%** | 20.15% |
| Profit for the financial year as a percentage of mean total assets | **0.50%** | 0.67% |
| Management expenses as a percentage of mean total assets | **0.63%** | 0.59% |

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, cash flow hedge reserve, fair value 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.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

# Year ended 31 December 2023

## 3. Information relating to the directors at 31 December 2023

| Name | Occupation | Date of Birth | Date first appointed | Other directorships |
|---|---|---|---|---|
| **Chair** | | | | |
| I C A Cornish<br>Chair from 3 April 2020 | Chair | 11.11.60 | 01.01.19 | Macmillan Cancer Support<br>Leeds Beckett University (Governor) |
| **Vice Chair** | | | | |
| G J Hoskin<br>Vice Chairman and Senior Independent Director from 1 January 2019 | Non-Executive Director | 18.09.60 | 16.11.15 | Saga plc<br>Acromas Insurance Company Ltd |
| **Chief Executive** | | | | |
| *R G Fearon<br>Chief Executive Officer from 27 February 2019 | Chief Executive Officer | 16.07.78 | 19.02.16 | UK Finance Ltd |
| **Deputy Chief Executive Officer** | | | | |
| *A J Greenwood | Deputy Chief Executive Officer | 11.12.69 | 08.01.15 | None |
| **Directors** | | | | |
| A M Barnes | Non-Executive Director | 10.11.68 | 01.02.19 | Globaldata plc<br>Stratos Markets Ltd (trading as FXCM UK) |
| ** F A Buckley | Non-Executive Director | 12.05.80 | 01.04.23 | Aurora Investment Trust plc<br>Caledonia Investments plc<br>Apollo Syndicate Management Ltd<br>Long Term Assets Ltd |
| *A P Conroy | Chief Financial Officer | 11.12.75 | 06.01.20 | Saltmine Trust (trustee)<br>Arkose Funding Ltd<br>****Leeds Mortgage Funding Ltd |
| ***D Fisher | Non-Executive Director | 02.08.58 | 27.03.12 | Tandem Bank Ltd<br>Tandem Money Ltd |
| N A Fuller | Non-Executive Director | 17.12.66 | 01.12.20 | Cynergy Bank Ltd |
| *R J Howse | Chief Operating Officer | 03.12.70 | 01.05.21 | The Grammar School at Leeds (Governor) |
| P E Rowland | Non-Executive Director | 22.12.61 | 01.05.23 | Saga Services Ltd |
| A Tadayon | Non-Executive Director | 10.06.66 | 22.10.21 | Tadayon Consulting Ltd |

*Executive directors.

** Under SYSC 4.3A.6R/ GOR 5.5, a member of the management body of a regulated firm may hold a maximum of four non-executive directorship roles. Owing to the non material nature of some of the roles held by Farah Buckley (very low time commitment), the Society sought a waiver from the PRA prior to her appointment. The PRA agreed to a modification (under Section 138A of the FSMA) up until 1 June 2024, at which point Farah Buckley's directorship position will be re-assessed.

***David Fisher is a non-independent non-executive director.

**** Society subsidiary.

The Society's executive director service contracts can be terminated on twelve months' notice by either the Society or the director.

Documents may be served on the above named directors at: c/o Deloitte LLP (Ref MB), 1 City Square, Leeds, LS1 2AL.

# Country by Country Reporting

## Year ended 31 December 2023

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 (2022: 50), total assets of £28.1 billion (2022: £25.5 billion) and 919,000 members (2022: 839,000). 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 219. The Society and its subsidiaries are all tax resident in the United Kingdom.

The Society has no physical presence or regulatory branch in Spain, with all mortgages administered from the UK. The results of the Society's activity in Spain are included in the results of Leeds Building Society and subject to taxation in the UK.

The Society has no permanent establishment in Gibraltar, with all mortgages administered from the UK. The results of the Society's activity in Gibraltar are included in the results of Leeds Building Society and subject to taxation in the UK.

### Results by country

The information for the year ended 31 December 2023 presented below is at a full Group level of consolidation, which has been prepared under IFRS.

Total income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable), fair value gains less losses from financial instruments, together with all other components of operating income. Total income, profit before tax and corporation tax charge are as disclosed in the Group's Income Statement on page 189.

Average monthly number of employees is shown on a full time equivalent basis. Colleague costs comprise wages and salaries, social security costs and pension costs as disclosed in note 6 on page 210.

Corporation tax paid represents the total payments as reported in the Statement of Cash Flows on page 193.

| 2023 | UK* | Spain | Total | *UK includes Gibraltar |
|---|---|---|---|---|
| Total income (£M) | 357.5 | 2.3 | 359.8 | 0.8 |
| Profit before tax (£M) | 181.5 | (1.0) | 180.5 | 0.1 |
| Total assets (£M) | 28,109.4 | 36.5 | 28,145.9 | 5.8 |
| Total assets less liabilities (£M) | 1,608.7 | 36.5 | 1,645.2 | 5.8 |
| Average number of FTEs | 1,662 | – | 1,662 | – |
| Staff costs (£M) | 108.7 | – | 108.7 | – |
| Corporation tax charge (£M) | 47.6 | – | 47.6 | – |
| Corporation tax paid (£M) | 49.6 | – | 49.6 | – |

### Return on assets

The return on assets, calculated as profit before tax divided by mean total assets, was 0.70% (2022: 0.92%) for the year ended 31 December 2023.

### Public subsidies received

The Group received no public subsidies in the year ended 31 December 2023.

# Glossary of Terms

## Year ended 31 December 2023

### Alternative Performance Measures

The table below sets out the Alternative Performance Measures (APM) used within the Annual Report and Accounts. These are financial measures of the Group's performance or position which are not defined or specified under IFRS but which are useful in understanding how the Group has performed. The measures used are common practice across the financial services industry and facilitate comparisons with other institutions.

The table explains how the APM is calculated and provides a reconciliation to the closest equivalent statutory measure, as defined or specified under IFRS.

| Measure | Definition and purpose | How the measure is calculated | Reconciliation to statutory measure under IFRS |
|---|---|---|---|
| Cost of risk | A measure of the level of impairment charges relative to the size of the asset. | Impairment losses on loans and advances to customers divided by mean gross balance of loans and advances to customers. | No equivalent statutory measure but is calculated using amounts disclosed in the Notes to the Accounts. |
| Cost to income ratio | A measure of the efficiency of the Group in generating its income by showing the level of costs incurred relative to the level of income generated. This measure is used by the Group to monitor and manage its cost base. | Management expenses (administrative expenses plus depreciation and amortisation) divided by total income, as recorded in the Income Statement. | No equivalent statutory measure but all elements of the calculation are separately disclosed in the Income Statement. |
| Cost to mean asset ratio | A measure of the efficiency of the Group in maintaining its asset base, showing the level of costs incurred relative to the size of the Group's balance sheet. This measure is used by the Group to monitor and manage its cost base. | Management expenses (administrative expenses plus depreciation and amortisation) for the period divided by the mean of the opening and closing total assets for the period, as recorded in the Statement of Financial Position. | No equivalent statutory measure, but all elements of the calculation are separately disclosed in the Income Statement or Statement of Financial Position. |
| Net interest margin | Net interest income (the difference between interest receivable and interest payable) is the primary source of income for the Group. This is a key measure for monitoring and managing the level of income generated by the Group's balance sheet. | Net interest receivable, as recorded in the Income Statement, divided by the mean of the opening and closing total assets for the period, as recorded in the Statement of Financial Position. | No equivalent statutory measure, but all elements of the calculation are separately disclosed in the Income Statement or Statement of Financial Position. |
| Net residential lending | The increase in the size of the Group's residential mortgage book during the year. Used by the Group to monitor and manage the growth of the business. | Gross residential lending less redemptions, contractual repayments and other capital repayments. | This is approximately equal to the difference between the opening and closing balance of loans and advances fully secured on residential property in the Statement of Financial Position, adjusted for movements in impairment loss provisions and other accounting adjustments. |
| New (gross) residential lending | The total amount of new loans and advances to customers secured on residential property advanced by the Group during the year. | No calculation required. | No equivalent statutory measure. |

# Year ended 31 December 2023

## Glossary

Set out below are the definitions of terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions.

**Arrears**
A mortgage customer is in arrears when they are behind in fulfilling their payment obligations with the result that an outstanding loan commitment is overdue. Such a customer can also be said to be in a state of delinquency.

**Basel 3**
Basel 3is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for banks and building societies. The framework has been embedded into UK law through the European Capital Requirements Directive V (CRD V).

**Basis point**
One hundredth of one per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

**Commercial loans**
Loans secured on commercial property.

**Common Equity Tier 1 (CET1) ratio**
This is a regulatory ratio, calculated as the total of CET1 capital divided by Risk Weighted Assets (RWAs). CET1 capital is the highest quality form of capital and comprises general reserves from retained profits, less the book values of any pension surplus, goodwill and intangible assets and other regulatory adjustments as defined under CRD V.

**Contractual maturity**
The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be repaid.

**Covered bonds**
Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The Group issues covered bonds as part of its funding activities.

**Credit risk**
This is the risk that a customer or counterparty is unable to pay the interest or to repay the capital on a loan when required.

**Debt securities in issue**
Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.

**Default**
An account is classified as in default for impairment provisioning Default occurs when a borrower is deemed unlikely to repay their loan or other amount due to the Group.

**Derivative financial instruments**
A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value is based on the underlying asset, index or reference rate to which it is linked. The Group uses derivative financial instruments to hedge its exposures to market risks, such as interest rate and foreign currency risk.

**Effective interest rate method (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.

**Forbearance strategies**
Strategies to assist borrowers in financial difficulty, such as agreeing a temporary reduction in payments, extending loan terms and temporarily converting loans to an interest only basis. Forbearance strategies aim to avoid repossession where it is in the interest of the borrower.

**Free capital**
The aggregate of gross capital less intangible assets and property, plant and equipment.

**Funding limit**
Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals.

### General reserves
The accumulation of the Group's profit after tax since inception. It is the Group's main component of Common Equity Tier 1 capital which is a measure of strength and stability.

### Gross capital
The aggregate of the general reserve, cash flow hedge reserve, fair value reserve, other reserve, revaluation reserve, subordinated liabilities and subscribed capital.

### Impaired loans
Loans where there is objective evidence that an impairment event has occurred, meaning that the Group does not expect to collect all the contractual cash flows or expect to collect them when they are contractually due.

### Internal Capital Adequacy Assessment Process (ICAAP)
The Group's own assessment, as part of CRD V requirements, of the levels of capital that it needs to hold in respect of regulatory capital requirements for risks it faces under a business as usual scenario and a number of stressed scenarios.

### Internal Liquidity Adequacy Assessment Process (ILAAP)
The Group's own internal assessment of the level of liquidity that it needs to hold in respect of regulatory liquidity requirements in relation to a number of stressed scenarios.

### Internal Ratings Based (IRB) Approach
An approach for measuring exposure to credit risk which is more sophisticated than the Standardised Approach, where an entity can calculate its own risk weights for certain assets. IRB approaches can only be used with the permission of the Prudential Regulation Authority.

### International Swaps and Derivatives Association (ISDA) master agreement
A standardised contract developed by ISDA and used to enter into bilateral derivative transactions granting legal rights of offsetting for derivative transactions with the same counterparty.

### Investment securities / debt securities
Assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

### Lending limit
Measures the proportion of business assets not in the form of loans fully secured on residential property.

### Leverage ratio
A regulatory ratio which measures the value of the Society's Tier 1 capital as a proportion of total relevant non-risk weighted assets. The CRR leverage ratio is defined by the EU's Capital Requirements Regulation, while the UK leverage ratio modifies this ratio to exclude central bank reserves. The UK regime does not apply to the Society due to its size (less than £50 billion of retail deposits).

### Liquid assets
Assets which are either in the form of cash or are readily convertible into cash. Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, and investment securities.

### Liquidity Coverage Ratio (LCR)
A regulatory standard ratio implemented by the Basel 3 Reforms. It is calculated as the stock of high quality liquid assets divided by the total net stressed cash outflows over the next 30 calendar days expressed as a percentage.

### Liquidity risk
The risk that the Group is not able to meet its financial obligations as they fall due, or will only be able to do so at an excessive cost. This risk arises from timing mismatches of cash inflows and outflows.

### Loan to value ratio (LTV)
A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index).

### Loans past due / past due loans
Loans are past due when a counterparty has failed to make a payment when contractually due.

### Loss given default (LGD)
A parameter used in relation to credit risk exposures modelled under IFRS 9; an estimate of the difference between the EAD and the net amount recovered, expressed as a percentage of the EAD.

### Management expenses
Management expenses represent the aggregate of administrative expenses, depreciation and amortisation as recorded in the Income Statement.

### Market risk
The risk that movements in market risk factors, including foreign exchange rates, interest rates and customer driven factors will create losses or decrease portfolio values.

### Mean total assets
Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

### Member
A person who has a share investment or a mortgage loan with the Society which satisfies the Society's rules for membership.

### Minimum Requirements for Own Funds and Eligible Liabilities (MREL)
The total loss absorbing capital a financial institution must hold to facilitate the recapitalisation of the institution in resolution.

### Net interest income
The difference between interest receivable and similar income and interest payable and similar charges. This is the same as net interest receivable in the Income Statement.

### Net Promoter Score®
The Net Promoter Score® (NPS) is a measure of satisfaction and loyalty to the Group based on survey responses. It measures the proportion of promoters (positive responses) less the proportion of detractors (negative responses). We use the NPS methodology to measure satisfaction among our broker partners.

## Year ended 31 December 2023

**Net Stable Funding Ratio (NSFR)**
A regulatory standard ratio implemented by the Basel 3 reforms which is the total amount of stable funding divided by the total amount of required stable funding, expressed as a percentage. The NSFR is currently an observable measure which became 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 / 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 while achieving business objectives.

**Risk-weighted assets (RWAs)**
A regulatory measure which adjusts the value of assets as recorded in the Statement of Financial Position to reflect the relative level of risk. This measure is used in calculating regulatory capital requirements.

**Securitisation**
The process by which a group of assets (usually loans) is aggregated into a pool which is used to back the issuance of new securities. A company transfers assets to a special purpose entity which issues securities backed by those assets. The Society has established securitisation structures (using residential mortgages) as part of its funding activities.

**Shares**
Money deposited by a person in a retail savings account with the Group. Such funds are recorded as liabilities for the Group.

**Shares and borrowings**
The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

**SONIA**
The Sterling Over Night Index Average rate. The risk free rate calculated as the weighted average overnight sterling deposit rate for each business day.

**Subordinated liabilities**
Debt securities issued by the Group which have certain terms and conditions attached relating to the payment of interest and principal such that they are ranked behind the claims of all other creditors and members of the Society, other than subscribed capital.

**Subscribed capital**
Debt securities issued by the Group which have certain terms and conditions attached relating to the payment of interest and principal such that they are treated as capital.

**Tier 1 capital**
A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital is defined above, while other Tier 1 capital includes qualifying capital instruments such as PIBS.

**Tier 2 capital**
A further component of regulatory and financial capital as defined by CRD V.

**Wholesale funding**
The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Leeds Building Society