

Pillar 3 Disclosures

31 December 2022



Table of Contents

1. Overview	3
1.1 Introduction	3
1.2 Regulatory Framework for Disclosures	3
1.3 Basis of preparation	3
1.4 Frequency of disclosure	4
1.5 Regulatory changes	4
1.6 Verification	4
1.7 Summary of key Disclosures	5
1.8 Overview of Risk Weighted Exposure Amounts (RWEAs)	6
2. Risk Management Approach	11
2.1 Risk Statement	11
2.2 Declaration	11
2.3 Strategies and Processes to Manage Risks	11
2.3.1 Risk Management Framework	11
2.3.2 Strategies and processes to manage risks for each risk type	12
2.3.2.1 Credit risk	12
2.3.2.2 Loans fully secured on residential property	12
2.3.2.3 Wholesale credit risk	13
2.3.2.4 Interest Rate Risk in the Banking Book	13
2.3.2.5 Liquidity Risk	14
2.3.2.6 Funding Risk	14
2.3.2.7 Strategic and Capital Risk	14
2.3.2.8 Operational Risk	15
2.3.2.9 Conduct Risk	15
2.3.2.10 Pension Obligation Risk	16
3. Remuneration	17
3.1 Information relating to Remuneration Committee	17
3.1.1 Material risk takers (MRTs)	17
3.2 Information relating to the design and structure of the remuneration for identified staff	17
3.2.1 Overview of the key features and objectives of remuneration policy	17
3.2.2 Information on the criteria used for performance measurement	18

3.2.3	Information on how the institution ensures that staff in internal control functions are remunerated independently of the business they oversee	18
3.2.4	Policies and criteria applied for the award of guaranteed variable remuneration and severance payments	19
3.3	Description of the ways in which current and future risks are taken into account in the remuneration process	19
3.4	The ratios between fixed and variable remuneration set in accordance with Article 94(1) of CRD	19
3.5	Link between performance and levels of remuneration.....	19
	Attestation	22
	Contact.....	22
	Appendix 1 – Capital resources statement.....	23
	Appendix 2 – Reconciliation of accounting balance sheet assets to regulatory credit risk exposure	24
	Appendix 3 – Glossary of abbreviations and definitions.....	25

Leek Building Society is a trading name of Leek United Building Society, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority with firm reference number 100014. Our details can be found on the Financial Services Register at <https://register.fca.org.uk/s/>. Leek United Building Society's address for service is 50 St. Edward Street, Leek, Staffordshire ST13 5DL.

Established 1863
Registered Principal Office:
50 St. Edward Street, Leek, Staffs. ST13 5DL
Telephone: 01538 384151
Fax: 01538 399179
E-mail: finance@leekbs.co.uk
Internet: www.leekbs.co.uk
Registered Number 323B

1. Overview

1.1. Introduction

This document presents the Pillar 3 disclosures on capital and risk management of the Leek Building Society and its group of subsidiaries (the Society) for the year ended 31 December 2022.

The disclosure requirements in this document apply to Leek Building Society and its wholly-owned subsidiaries: Leek United Home Loans Ltd; Leek United Financial Services Ltd; and The Mortgage Outlet Ltd (dissolved during the year ended 31 December 2022).

1.2. Regulatory Framework for Disclosures

The Basel framework is structured around three pillars that govern minimum capital requirements, outline the supervisory review framework, and promote market discipline through disclosure requirements.

- **Pillar 1** sets out minimum capital requirements that firms must meet in relation to Credit, Operational and Market risk.
- **Pillar 2** supervisory review process requires firms and supervisors to form a view on whether a firm should hold additional capital against risks not taken into account or not fully covered in Pillar 1 (e.g. interest rate risk in the banking book and pension obligation risk) and factors external to the firm (e.g. economic cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms to maintain sound management and coverage of their risks, including maintenance of the prescribed capital.
- **Pillar 3** aims to complement the capital requirement and supervisory review process by encouraging market discipline through developing a set of disclosure requirements under the Capital Requirements Regulation (CRR) that allow market participants to assess the scope of application, risk exposures, risk assessment process and capital adequacy of firms. The Pillar 3 disclosures contained within this document have two principal purposes:
 - To meet the regulatory disclosure requirements under the Disclosure (CRR) Part of the PRA Rulebook (CRR) Instrument 2021, supplemented by any specific additional requirements of the Prudential Regulatory Authority (PRA); and
 - To provide transparency and further useful information on the capital and risk profile of the Group.

1.3. Basis of preparation

The Society meets the criteria for being a 'small and non-complex' institution as introduced in the CRR II and incorporated into the PRA Rulebook under Article 433b.

The Society's policy is to comply with all requirements of the derogation for small and non-complex institutions as per article 433b of the PRA Rulebook. These disclosures have therefore been prepared applying the concept of derogation for small and non-complex institutions.

There are no current or foreseen material practical or legal impediments to the transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries. All figures in tables are in thousands of pounds, unless stated otherwise.

The Society's financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) and International Accounting Standard 39 (IAS 39).

Row numbers in the below tables relate to the Prudential Regulation Authority (PRA) prescribed references within the standardised templates; where rows contain a nil value, these have been excluded in some circumstances for the purposes of enhancing the readability and understandability of these disclosures.

Disclosures have not been duplicated where items are available in the annual report, a copy of which is available at <https://www.leekbs.co.uk/>.

1.4. Frequency of disclosure

Pillar 3 disclosures are prepared annually to 31 December and are published on the Society's website at the same time as the Annual Report and Accounts in accordance with Article 433 of the CRR.

1.5. Regulation changes

The CRR and Capital Requirements Directive (CRD) amendments were published in the Official Journal of the European Union on 7 June 2019, including amendments due in June 2021. However, in a joint statement, published on 16 November 2020, Her Majesty's Treasury, the PRA, and the Financial Conduct Authority (FCA) confirmed a date of 1 January 2022 for implementing those Basel III reforms which make up the UK equivalent to the outstanding elements of the EU's 2nd CRR.

The Group of Central Bank Governors and Heads of Supervision (GHOS), announced in March 2020 that the implementation of the Basel 3.1 standards would be delayed by one year to 1 January 2023. In November 2022, the PRA confirmed their intention to make those rules applicable from 1 January 2025 for the larger UK firms, with a simplified regime available to firms qualifying for the strong and simple framework. A further framework will be published for those firms, who can follow the current rules as a temporary measure.

Following the UK's withdrawal from the EU and the ending of the transition period, any reference to EU regulations and directives (including regulatory and implementing technical standards) should be read as a reference to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended by Statutory Instruments, PRA Rulebook (CRR) Instrument 2021 and PRA Rulebook: CRR Leverage Instrument 2021.

1.6. Verification

The disclosures presented within this document are subject to the same level of internal verification as that applicable to the management report included in the institutions' financial statement disclosures.

Where appropriate the Pillar 3 disclosures are reconciled to and conform with the externally audited information in the Annual Financial Statements.

The information is prepared and checked by the first line of defence with oversight and challenge by the second and third line of defence as appropriate.

The Pillar 3 Disclosures document is reviewed by the Audit Committee for onward recommendation and approved by the Board alongside the Annual Report and Accounts.

1.7. Summary of key disclosures

The table below provides an overview of the Society's prudential regulatory metrics.

Table 1: UK M1 – Key Metrics

		2022	2021
		£'000	£'000
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	74,873	69,610
2	Tier 1 capital	74,873	69,610
3	Total capital	75,361	70,208
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	410,248	388,150
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	18.3%	17.9%
6	Tier 1 ratio (%)	18.3%	17.9%
7	Total capital ratio (%)	18.4%	18.1%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	1.1%	1.6%
UK 7b	Additional AT1 SREP requirements (%)	0.0%	0.0%
UK 7c	Additional T2 SREP requirements (%)	0.0%	0.0%
UK 7d	Total SREP own funds requirements (%)	9.1%	9.6%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	1.0%	0.0%
UK 9a	Systemic risk buffer (%)	0.0%	0.0%
11	Combined buffer requirement (%)	3.5%	2.5%
UK 11a	Overall capital requirements (%)	12.6%	12.1%
12	CET1 available after meeting the total SREP own funds requirement (%)	9.1%	8.3%
Leverage ratio			
13	Leverage ratio total exposure measure	1,099,674	1,192,876
14	Leverage ratio	6.8%	5.8%
Liquidity coverage ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	191,344	208,590
UK 16a	Cash outflows - total weighted value	82,321	72,954
UK 16b	Cash inflows - total weighted value	14,244	10,416
16	Total net cash outflows (adjusted value)	68,077	62,538
17	Liquidity coverage ratio (%)	284%	347%
Net stable funding ratio			
18	Total available stable funding	1,125,954	1,047,257
19	Total required stable funding	664,494	665,128
20	NSFR ratio %	169%	157%

1.8. Overview of Risk Weighted Exposure Amounts (RWEAs)

The RWEAs and credit risk exposures related to the standardised approach for the Society are as below.

Table 2: UK OV1 – Overview of risk weighted exposure amount

		RWEAs 2022 £'000	RWEAs 2021 £'000	Total own funds requirements 2022 £'000
1	Credit risk (excluding CCR)	376,309	356,144	30,105
2	Of which the standardised approach	376,309	356,144	30,105
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
UK 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk - CCR	4,440	7,723	355
7	Of which the standardised approach	2,062	3,938	165
8	Of which internal model method (IMM)	-	-	-
UK 8a	Of which exposures to a CCP	-	-	-
UK 8b	Of which credit valuation adjustment - CVA	2,378	3,785	190
9	Of which other CCR	-	-	-
UK 22a	Large exposures	-	-	-
23	Operational risk	29,499	24,283	2,360
UK 23a	Of which basic indicator approach	29,499	24,283	2,360
UK 23b	Of which standardised approach	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	-	-
29	Total	410,248	388,150	32,820

Standardised approach – Credit risk exposure and CRM effects

Standardised exposures in the table below are stated on two different bases (pre-CCF (credit conversion factor) and CRM (credit risk mitigation) and post-CRF and CRM). Note the exposures are also net of credit risk adjustment exposures.

Table 3: UK CR4 – Standardised approach – Credit risk exposure and CRM effects 2022

Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
Central governments or central banks	173,010	-	173,010	-	-	0.0%
Regional government or local authorities	-	-	-	-	-	0.0%
Public sector entities	-	-	-	-	-	0.0%
Multilateral development banks	33,113	-	33,113	-	-	0.0%
International organisations	-	-	-	-	-	0.0%
Institutions	101,444	-	101,444	-	33,968	33.5%
Corporates	-	-	-	-	-	0.0%
Retail	11,471	2,848	11,471	570	9,031	0.0%
Secured by mortgages on immovable property	903,896	48,125	903,896	9,625	319,824	35.01%
Exposures in default	1,023	-	1,006	-	1,006	100.0%
Exposures associated with particularly high risk	-	-	-	-	-	0.0%
Covered bonds	-	-	-	-	-	0.0%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
Collective investment undertakings	-	-	-	-	-	0.0%
Equity	-	-	-	-	-	0.0%
Other items	13,157	-	13,157	-	12,480	94.9%
TOTAL	1,237,114	50,973	1,237,097	10,195	376,309	30.2%

Table 4: UK CR4 – Standardised approach – Credit risk exposure and CRM effects 2021

Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
Central governments or central banks	165,641	-	165,641	-	-	0.0%
Regional government or local authorities	-	-	-	-	-	0.0%
Public sector entities	-	-	-	-	-	0.0%
Multilateral development banks	28,192	-	28,192	-	-	0.0%
International organisations	-	-	-	-	-	0.0%
Institutions	103,268	-	103,268	-	40,173	38.9%
Corporates	-	-	-	-	-	0.0%
Retail	2,307	2,104	2,307	421	2,045	0.0%
Secured by mortgages on immovable property	870,603	35,022	870,603	7,004	307,255	35.01%
Exposures in default	1,849	-	1,843	-	1,843	100.0%
Exposures associated with particularly high risk	-	-	-	-	-	0.0%
Covered bonds	-	-	-	-	-	0.0%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.0%
Collective investment undertakings	-	-	-	-	-	0.0%
Equity	-	-	-	-	-	0.0%
Other items	5,468	-	5,468	-	4,828	88.3%
TOTAL	1,177,328	37,126	1,177,322	7,425	356,144	30.1%

Standardised approach – exposures by asset class

Exposures in the table below are presented on a post CRM (Credit Risk Mitigation) and post CCF (Credit Conversion Factor) basis applied in accordance with Part Three, Title II, Chapter 4 of the CRR. The Society makes limited use of External Credit Assessment Institutions (ECAIs) assessments for its Standardised exposures. Where a credit assessment is used this must be provided by an eligible ECAI from the PRA's approved list. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRD IV, based on the PRA's mapping of credit assessments to credit quality steps.

For the below disclosure, exposures are classed as 'rated' only where an ECAI rating has been used to derive the risk weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as 'unrated'. This also applies to central governments or central banks exposures within the UK and EEA that receive a zero per cent risk weight in line with regulatory permission.

Table 5: UK CR5 – Standardised approach – exposure by asset class 2022

Exposure classes	Risk weight													Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	Others		
1 Central governments or central banks	173,010	-	-	-	-	-	-	-	-	-	-	-	-	173,010	173,010
2 Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Multilateral development banks	33,113	-	-	-	-	-	-	-	-	-	-	-	-	33,113	-
5 International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 Institutions	-	-	-	-	55,848	-	45,596	-	-	-	-	-	-	101,444	-
7 Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8 Retail exposures	-	-	-	-	-	-	-	-	12,041	-	-	-	-	12,041	12,041
9 Exposures secured by mortgages on immovable property	-	-	-	-	-	913,362	-	-	-	159	-	-	-	913,521	913,521
10 Exposures in default	-	-	-	-	-	-	-	-	-	1,006	-	-	-	1,006	1,006
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16 Other items	673	-	-	-	-	-	-	-	-	12,484	-	-	-	13,157	13,157
17 TOTAL	206,796	-	-	-	55,848	913,362	45,596	-	12,041	13,649	-	-	-	1,247,292	1,112,735

Table 6: UK CR5 – Standardised approach – exposure by asset class 2021

Exposure classes	Risk weight														Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	Others			
1 Central governments or central banks	165,641	-	-	-	-	-	-	-	-	-	-	-	-	-	165,641	165,641
2 Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Multilateral development banks	28,192	-	-	-	-	-	-	-	-	-	-	-	-	-	28,192	-
5 International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 Institutions	-	-	-	-	38,204	-	65,064	-	-	-	-	-	-	-	103,268	-
7 Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8 Retail exposures	-	-	-	-	-	-	-	-	2,728	-	-	-	-	-	2,728	2,728
9 Exposures secured by mortgages on immovable property	-	-	-	-	-	877,447	-	-	-	160	-	-	-	877,607	877,607	
10 Exposures in default	-	-	-	-	-	-	-	-	-	1,843	-	-	-	1,843	1,843	
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16 Other items	639	-	-	-	-	-	-	-	-	4,829	-	-	-	5,468	5,468	
17 TOTAL	194,472	-	-	-	38,204	877,447	65,064	-	2,728	6,832	-	-	-	1,184,747	1,053,287	

2. Risk Management Approach

2.1. Risk Statement

As a mutual, Leek Building Society operates so that the Board and Management are custodians of the interests of our members. Therefore, we seek a prudent position in aggregate for our risk appetite acknowledging that the lower levels of risk will lead to lower levels of return. The suite of Risk Appetite Metrics quantifies this prudent approach across a range of risk categories with the aim to deliver sustainable member value for the Society.

The Board is committed to the traditional values of a mutual organisation. Central to these are requirements to deliver the right outcomes for customers based on their needs. These core values also determine the Society's prudent approach to its business and its markets.

The Society has elected to omit disclosing key ratios and figures relating to its risk appetite, as they are proprietary information as per CRR Article 432.

2.2. Declaration

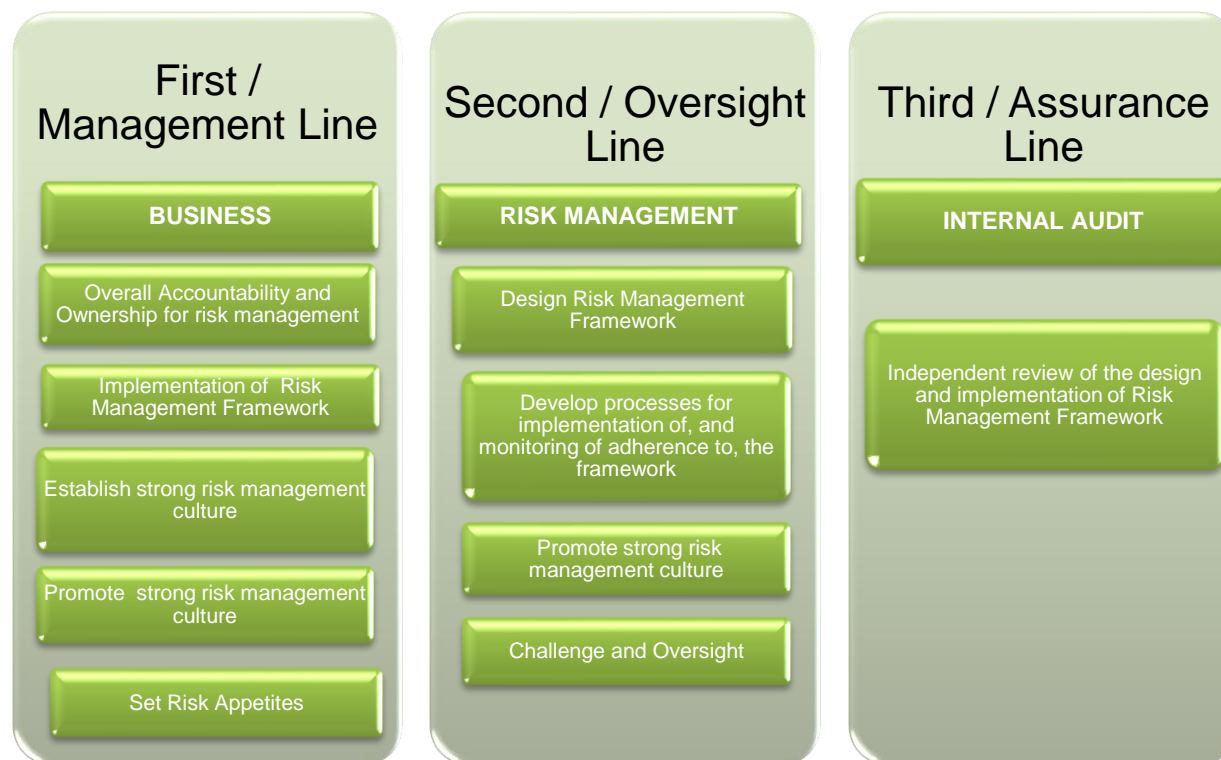
In accordance with the requirements of CRR Article 435I, the Society's Board are satisfied that the risk arrangements in place at the Society are adequate with regard to the Society's profile and strategy.

2.3. Strategies and Processes to Manage Risks

2.3.1 Risk Management Framework

The Society uses the best practice three lines of Defence approach, ensuring that risks are managed in the areas they are best understood (i.e., the business). A second line of defence risk team ensures consistency through the use of frameworks, tools and policies and provides independent oversight to the Board through risk reporting. The third line of defence, the internal audit function which is outsourced to Deloitte LLP, provides independent assurance over all elements of the Society and helps ensure appropriate risk capabilities and approaches.

The three lines of defence model is summarised in the following table:



2.3.2 Strategies and processes to manage risks for each risk type

2.3.2.1 Credit Risk

The Society is primarily exposed to credit risk in respect of mortgage customers or Treasury counterparties being unable to meet their obligations as they become due.

2.3.2.2 Loans fully secured on residential property

The Society operates within appropriate policies and risk appetites and performance is monitored closely. Our prudent lending policy means our mortgage book is of high quality. Each application is individually underwritten to ensure that loans are affordable. This is evidenced by our low level of arrears.

Exposure to retail credit risk is primarily limited to the provision of loans secured on property within the UK. All mortgage loan applications are reviewed by an individual underwriter supported by the use of application scorecards and are assessed with reference to the Society's retail credit risk appetite statement, which is approved by the Board Risk Committee. Exposure to retail credit risk is carefully monitored by the Credit Risk Forum, which reports to the Board Risk Committee.

Our risk appetite is as follows:

"We adopt a prudent approach to our mortgage lending so that default rates are low and do not adversely impact earnings or capital."

Where an advance exceeds 80% LTV of the purchase price or valuation of the property, whichever is the lower, Mortgage Indemnity Guarantee Insurance (MIG) will be arranged. This partially indemnifies the Society, for a period of 7 years against loss incurred as a consequence of exceeding normal lending limits. Prior to 1 December 2017, the threshold was set at borrowing exceeding 75% of the value of the property, for a minimum period of 10 years.

The Society's lending is restricted to properties situated in England or Wales (including the Isle of Wight). The geographical distribution of the entire mortgage book is relatively well diversified, although the Society's main business areas of West Midlands, the North West and East Midlands do represent a significant proportion of assets.

2.3.2.3 Wholesale credit risk

The Society's exposure to wholesale credit risk results from investments in financial instruments used to manage its liquidity portfolio, and from transactions to hedge its interest rate risk.

The Society's Treasury Policy Statement and operational limits set out the criteria and boundaries within which wholesale lending can be undertaken. Each counterparty is required to meet strict external ratings thresholds as well as satisfying internal assessments that consider balance sheet strength, reputational issues and the results of regulatory stress tests.

The risk from hedging transactions is mitigated by the placing and receiving of cash collateral equal to the exposure.

The primary source for obtaining information on wholesale asset counterparties' creditworthiness is External Credit Assessment Institutions (ECAIs). The Society uses ratings provided by Fitch.

The ALCO is responsible for approving credit limits on Treasury counterparties within the parameters set out in the Treasury Operating Limits document which is reviewed annually.

2.3.2.4 Interest Rate Risk in the Banking Book

IRRBB reflects the current or prospective risk to both the earnings and economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap (repricing), basis risk and option risk.

The main exposure for the Society is interest rate risk resulting from funding fixed rate mortgages with variable rate savings products. Additionally, the Society is exposed to basis risk whereby the interest rate on assets and liabilities with similar repricing periods move by varying degrees, eg assets linked to industry benchmarks funded by variable savings products.

The Society has limited appetite for market risk but acknowledges that, as a mortgage lender, it is not possible or practical to eliminate all risk. To restrict market risk as much as possible the Society has set clearly defined limits within which risk must be managed. These are closely monitored and reported to ALCO and the Board on a monthly basis.

Interest rate risk is managed by utilising natural hedging opportunities that occur within the balance sheet or entering hedging transactions with external counterparties.

2.3.2.5 Liquidity Risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, is unable to support normal business activity and fails to meet regulatory liquidity requirements.

The Society's Board has set strict limits in respect of liquidity, which are more conservative than regulatory requirements. These, along with key early warning indicators, are monitored on a daily basis in order to highlight potential issues and allow timely management action.

Stress testing of severe, but plausible, scenarios is undertaken on a regular basis. This ensures that we remain prepared and have appropriate contingency measures in place.

The risk is managed principally by holding cash and other easily realisable liquid assets (high quality liquid assets) and managing funding maturities to avoid bunching, as well as ensuring availability to wholesale funding if required.

2.3.2.6 Funding Risk

Funding Risk is the risk that the Society does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, such as payments or collateral calls, as they fall due, either at all or only at excessive cost. The Society's savings balances are higher than its mortgage balances reflecting deposit inflow during recent years in excess of lending. Excluding Term Funding Scheme with additional incentives for SMEs (TFSME) funding, it has a relatively low level of wholesale funding compared to many of its peers. Its deposits to loans ratio (the ratio of deposits from retail and SME customers to mortgage lending) was 113.9% at 31 December 2022 (2021: 113.9%). All £109 million of its wholesale funding was sourced through the Bank of England. Wholesale funding levels (other than TFSME which is due for repayment in 2025) are not forecast to change across the next 5 years and consequently, the Society's dependence upon the financial markets for funding is currently limited.

2.3.2.7 Strategic and Capital Risk

Strategic and Capital risk is the risk that the strategic direction of the Society and decisions made result in financial loss and have a detrimental impact on capital resources. The Society has an established corporate planning process, which is subject to rigorous challenge and sets the overall direction for the Society.

This is supported by regular stress testing and by conducting an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess the Society's current and projected capital requirements. This demonstrates to the Board and regulators that the Society has sufficient capital for its business plans and the level of risk being taken.

The Non-Executive Directors provide a robust level of challenge over Executive proposals.

2.3.2.8 Operational Risk

Operational risk is the risk of a loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events. The Operational Risk Policy sets out the Society's approach to the management of operational risk.

Whilst line management is responsible for identifying and managing operational risks, this is carried out using an agreed framework and methodology and with the assistance of the Risk function.

The Society manages these risks as an integral part of its operations, utilising controls, such as the Risk & Control Self-Assessment tool and Risk Registers. Given the broad nature of operational risk, consideration has been given to each aspect of the risk and operational risk has been sub-divided into a number of secondary risk policies, all of which are managed with the same methodology as each of the principal risks.

The Society has disaster recovery and business continuity plans in place, that are also tested, to mitigate the impact of loss or damage to buildings, systems or staff caused by natural disaster or other events.

The Society maintains appropriate insurance cover which is reviewed on at least an annual basis.

The Society's operational risk capital charge is calculated using the 'basic indicator approach'.

2.3.2.9 Conduct Risk

Conduct Risk is the risk of financial loss or reputational damage from not putting the customer's interest at the very heart of the business resulting in poor outcomes or detriment for our members. This can manifest itself through confusing or misleading literature or unnecessarily restrictive or penal product terms and conditions.

The Society, being a member owned organisation, is committed to upholding the highest standards and treating all members & customers fairly. The Board has set out a clear set of values that drives a culture and behaviours that puts the customer first.

The Conduct & Product Forum oversees the design and delivery of products and services to ensure they meet the needs of the individual and result in good customer outcomes.

2.3.2.10 Pension Obligation Risk

The Society operates a defined benefit scheme, together with a defined contribution scheme.

Pension liability risk attaches to the defined benefit scheme and relates to the risk that the value of the assets in the Society's defined benefit scheme are insufficient to meet its long-term obligations. The possibility that the Society will have to pay more into the scheme due to changes in mortality rates, asset values and yield prices. The scheme is closed to new members and to future accrual. The Society works closely with the pension trustees to identify de-risking opportunities as conditions allow.

Following a stress test of the assumptions relating to the scheme, the Society holds an additional amount of capital under Pillar 2 in recognition of this risk.

Further information on pensions is available in the Annual Report.

3. Remuneration

3.1. Information relating to Remuneration Committee

3.1.1 Composition and mandate of Remuneration Committee

The Society's objectives in setting its remuneration policy are to ensure that it is aligned with the Society's corporate plan, the interests of the members and to enable recruitment and retention of the best people.

The Board has established a committee known as the Board Remuneration Committee to assist in fulfilling the oversight and governance responsibilities in connection with remuneration activities. The terms of reference of the Committee are available on the Society's website, www.leekbs.co.uk/corporate/terms-of-reference.

Remuneration committee membership comprises of three Non-Executive Directors, one of whom is the committee's Chair. . The Committee met 8 times during the financial year ended 31 December 2022.

3.1.2 Material risk takers (MRTs)

There are 32 individuals whose professional activities have a material impact on the Society's risk profile and have been classified as MRTs.

The categories of employees cover:

- All members of the Society's Board (the Non-Executive supervisory function including the Chair and the Executive management function).
- Employees with managerial responsibility for business units, control functions, and core business lines including those who could have a material impact on the company's risk profile. This cohort includes roles such as Head of Financial and Credit Risk and Head of Mortgage Operations.
- Those whose professional activities have a material impact on the company's risk profile such as the Product & Pricing Manager and Chief Underwriter.
- Those with authority to take, approve, or veto decisions on credit risk above a certain threshold such as the Head of Underwriting and Financial Support.

3.2. Information relating to the design and structure of the remuneration for identified staff

3.2.1 Overview of the key features and objectives of remuneration policy

The Society's approach to remuneration is designed to take into account the size, structure, nature of activity and the complexity of the activities performed by the Society. For the MRTs there is an alignment of remuneration to the risk profile of the Society, to guard against inappropriate remuneration structures contributing to excessive and imprudent risk taking. The Society's remuneration approach is underpinned by a genuine understanding of the need to promote sound and effective risk management and consider the long-term interest of the Society.

The Society is not a large organisation and therefore it is important to ensure the remuneration approach is simple to apply and administer. The Society only operates fixed remuneration providing a stable source of income. This is complemented with a benefits package which is designed to ensure the reward equation is balanced for all colleagues including those who are MRTs.

The Society's Board Remuneration Committee has a set of principles within the Remuneration Policy which act as a framework to assess existing reward arrangements, to assess the appropriateness of any proposed changes and provide a clear basis for employee communication about the reward and recognition strategy. This Policy is reviewed and approved annually by the Board.

Those principles are:

1. The Society is part of the Living Wage Foundation and commits to pay all staff the real living wage.
2. The Society will commit to externally reviewing salaries and benefits every three years to ensure that what the Society offers remains fair.
3. All pay and benefit awards have to be affordable and not compromise the future viability of the Society.
4. All recruitment exercises and salary realignments must include an element of benchmarking to ensure that what is offered is fair.
5. The Society will support staff with their mental and physical wellbeing by providing a comprehensive suite of resources and access to support.
6. For certain specialist roles, it is acknowledged that the Society will have to pay to acquire the right skills and knowledge.

The decision-making process used for determining the approach to remuneration and the role of the relevant stakeholders begins with the Remuneration Committee who are responsible for setting the Society's Remuneration Policy. This is supported by the Executive team and informed by the internal control and corporate functions to ensure there is an appropriate and fully informed professional approach.

3.2.2 Information on the criteria used for performance measurement

The Society has a formal framework in place to measure performance and it applies to every colleague and role within the Society. The overall setting and delivery of corporate objectives link closely to the corporate strategy which is determined annually by the Board. These form the high-level CEO objectives which are then cascaded through the business. The process is led by each member of the Executive team to ensure that their objectives are broken down into team and then individual objectives which are used to measure performance. Formal mid-year and end of year reviews take place, culminating in calibration of performance grades awarded.

3.2.3 Information on how the institution ensures that staff in internal control functions are remunerated independently of the business they oversee

The internal control functions are independent and have sufficient resource, knowledge, and experience to perform their tasks and cooperate actively and regularly with each other. The remuneration of colleagues within the independent control functions allows for the employment of qualified and experienced colleagues and the reward equation is entirely fixed to reflect the nature of responsibilities in these areas.

Colleagues in control functions are part of the same performance management process as all other colleagues. There is no variable pay and so the objectivity and independence of the internal control function is not compromised.

The salary of the Chief Risk Officer is agreed by the Board Remuneration Committee, following recommendation from the Chair of the Board Risk Committee.

3.2.4 Policies and criteria applied for the award of guaranteed variable remuneration and severance payments

There is no guaranteed variable remuneration and therefore there are no policies and criteria with respect to this.

In the event of any redundancies the Society would comply with any statutory requirements, and cases would be considered and approved by the Board Remuneration Committee.

3.3. Description of the ways in which current and future risks are taken into account in the remuneration processes

The Society risk register details the key risks which have been developed which are reported through both the All Risks Committee and the Board Risk Committee. Given the fixed nature of remuneration, the risks that would normally be associated with variable pay schemes are not relevant to the Society.

3.4. The ratios between fixed and variable remuneration set in accordance with Article 94(1) of CRD

100% of the remuneration is fixed as the Society does not offer variable remuneration.

3.5. Link between performance and levels of remuneration

Currently, the Society does not offer any aspect of performance related pay.

Template UK REM1 – Remuneration awarded for the financial year

Table 8: UK REM 1 – Remuneration awarded for the financial year

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Number of identified staff	7	6	13	6
2	Total fixed remuneration	216,312	830,470	868,261	246,957
3	Of which: cash-based	216,312	830,470	868,261	246,957
UK-4a	Fixed remuneration				
	Of which: shares or equivalent ownership interests	-	-	-	-
5	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x	Of which: other instruments	-	-	-	-
7	Of which: other forms	-	-	-	-
9	Number of identified staff	-	-	-	-
10	Total variable remuneration	-	-	-	-
11	Of which: cash-based	-	-	-	-
12	Of which: deferred	-	-	-	-
UK-13a	Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a	Of which: deferred	-	-	-	-
UK-13b	Variable remuneration				
	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b	Of which: deferred	-	-	-	-
UK-14x	Of which: other instruments	-	-	-	-
UK-14y	Of which: deferred	-	-	-	-
15	Of which: other forms	-	-	-	-
16	Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)	216,312	830,470	868,261	246,957

Template UK REM2 – Special payments to staff whose professional activities have a material impact on institutions’ risk profile (identified staff)

Table 8: UK REM 2 – Special payments to MRT staff

	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
Guaranteed variable remuneration awards -Total amount	-	-	-	-
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	-	-	-	-
Severance payments awarded during the financial year - Total amount	-	-	-	-
Of which paid during the financial year	-	-	-	-
Of which deferred	-	-	-	-
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Of which highest payment that has been awarded to a single person	-	-	-	-

Template UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions’ risk profile (identified staff)

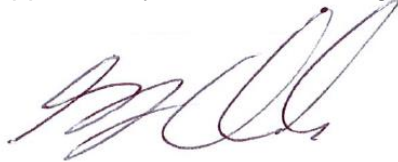
Table 8: UK REM 5 – Information on remuneration of staff whose professional activities have a material impact on institutions’ risk profile (identified staff)

	Management body remuneration			Business areas						Total
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	
1	Total number of identified staff									32
2	Of which: members of the MB	7	6	13						
3	Of which: other senior management				-	2	-	9	2	-
4	Of which: other identified staff				-	3	-	1	2	-
5	Total remuneration of identified staff	216,312	830,470	1,046,782	-	203,704	-	645,203	266,311	-
6	Of which: variable remuneration	-	-	-	-	-	-	-	-	-
7	Of which: fixed remuneration	216,312	830,470	1,046,782	-	203,704	-	645,203	266,311	-

Attestation

Each of the Directors listed below, confirms that to the best of their knowledge the disclosures provided according to Disclosure (CRR) Part of the PRA Rulebook (CRR) Instrument 2021 have been prepared in accordance with the internal control processes agreed upon at the management body level.

Approved by the Leek Building Society Board and signed by their order.



Steven Clarke
Finance Director
29 March 2023



Keith Abercromby
Audit Committee Chair
29 March 2023

Contact

For further information please contact:

Steven Clarke

Finance Director

steven.clarke@leekbs.co.uk

Leek Building Society
50 St. Edward Street
Leek, ST13 5DL

Appendix 1 – Capital resources statement

Table 11: UK CC1 – Composition of regulatory own funds

Common Equity Tier 1 (CET1) capital: instruments and reserves		
2	Retained earnings	76,117
3	Accumulated other comprehensive income (and other reserves)	642
UK-3a	Funds for general banking risk	-
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	76,759
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(146)
8	Intangible assets (net of related tax liability) (negative amount)	(1,740)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-
12	Negative amounts resulting from the calculation of expected loss amounts	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15	Defined-benefit pension fund assets (negative amount)	-
25	of which: deferred tax assets arising from temporary differences	-
UK-25a	Losses for the current financial year (negative amount)	-
27a	Other regulatory adjustments to CET1 capital (<i>including IFRS 9 transitional adjustments when relevant</i>)	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(1,886)
29	Common Equity Tier 1 (CET1) capital	74,873
58	Tier 2 (T2) capital	488
59	Total capital (TC = T1 + T2)	75,361

Appendix 2 – Reconciliation of accounting balance sheet assets to regulatory credit risk exposure

Table 12: Year-end balance sheet assets reconciled to regulatory exposures

	Balance sheet assets	Assets deducted from own funds ^{1,2}	Provisions ³	Regulatory off-balance sheet items ⁴	Credit Risk exposure
Assets	£'000	£'000	£'000	£'000	£'000
Cash in hand and balances with the Bank of England	153,904	-	-	-	153,904
Loans and advances to credit institutions	10,403	-	-	-	10,403
Debt securities	143,544	-	-	-	143,544
Derivative financial instruments	35,306	(35,306)	-	-	-
Loans and advances to customers	-	-	-	-	-
Loans fully secured on residential property	888,085	27,801	488	10,195	926,569
Other loans	-	-	-	-	-
Investment in equity shares	-	-	-	-	-
Intangible assets	1,740	(1,740)	-	-	-
Tangible fixed assets	3,443	-	-	-	3,443
Investment properties	-	-	-	-	-
Other assets	74	7,505	-	-	7,579
Prepayments and accrued income	1,850	-	-	-	1,850
Total Assets	1,238,349	(1,740)	488	10,195	1,247,292

¹ Under PRA rules, intangible assets (including goodwill) must be deducted from regulatory capital)

² While adjustments to EIR and fair value are included in the relevant category within the balance sheet, they are treated as other assets for regulatory reporting

³ Provision as a credit risk mitigant

⁴ Regulatory exposure of off balance- sheet items relates to undrawn credit commitments for mortgages

Appendix 3 – Glossary of abbreviations and definitions

ALCO (Assets & Liabilities Committee)	A committee which oversees treasury policy, financial risk management, capital, wholesale funding and liquidity.
Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that the outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed
Basel II	Basel II is the second of the Basel Accords, issued by the Basel Committee on Banking Supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain sufficient capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA/FCA Handbook
Basel III	Basel III entered into force on 1 January 2014 and introduces more onerous capital requirements for credit institutions and amends the existing standards for Basel I and Basel II
Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV)	CRD IV is the European legislation which came into force from 1 January 2014 to implement Basel III. It has revised the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms. The Capital Requirements Regulation forms part of CRD IV
Common Equity Tier 1 Capital (CET1)	CET1 capital consists of general reserves and other reserves less intangible assets, prudent valuation adjustment and other regulatory deductions
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows
Credit Risk	This is the risk of losses arising from a debtor's failure to meet their legal and contractual obligations

External Credit Assessment Institution (ECAI)	An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events
Institutions	Financial institutions such as banks and building societies
IRRBB (Interest Rate Risk in the Banking Book)	IRRBB is the current or prospective risk to both earnings and economic value arising from movements in interest rates. The main sub-types of IRRBB include gap risk (or repricing risk), basis risk and customer optionality risk.
Leverage Ratio	Leverage Ratio is defined as Tier 1 Capital divided by the total exposures which includes on and off balance sheet items, with this ratio expressed as a percentage
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements
Operational Risk	The risk of a loss arising from inadequate or failed internal processes or systems, human error, key supplier failure or external events
Past Due Items	Loans which are overdue for payment (in arrears)
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK from the 1 April 2013. The PRA replaced the FSA (Financial Services Authority)
Retail lending	Residential mortgages including buy to let and secured lending to small businesses

Risk Appetite	The level of risk that the society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst achieving business objective.
Secured Residential Mortgages > 80% of indexed valuation	Residential mortgages where outstanding balance is greater than 80% of indexed valuation
Secured Residential Mortgages <= 80% of indexed valuation	Residential mortgages where outstanding balance is less than or equal to 80% of indexed valuation
Tier 1 Capital	A component of regulatory capital, it comprises CET1 and Additional Tier 1 capital
Tier 2 Capital	Comprises the collective mortgage allowance (for exposures treated on a Basel II standardised basis)
Wholesale	Lending to financial institutions