



**YORKSHIRE  
BUILDING  
SOCIETY**

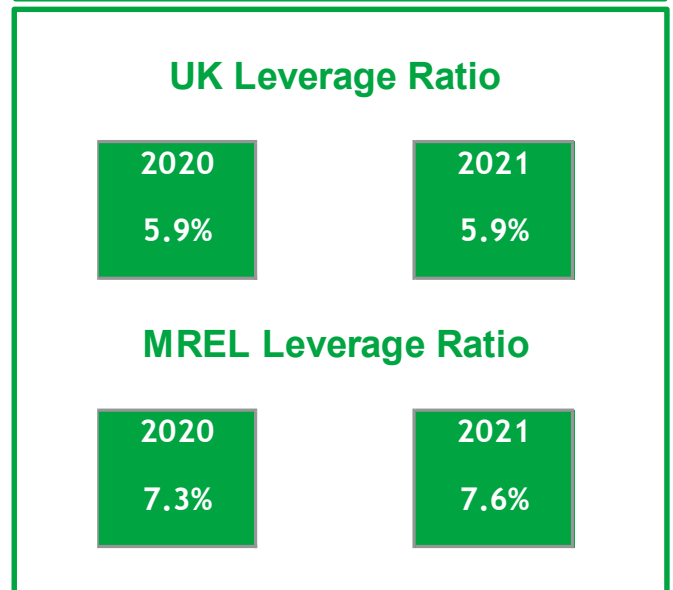
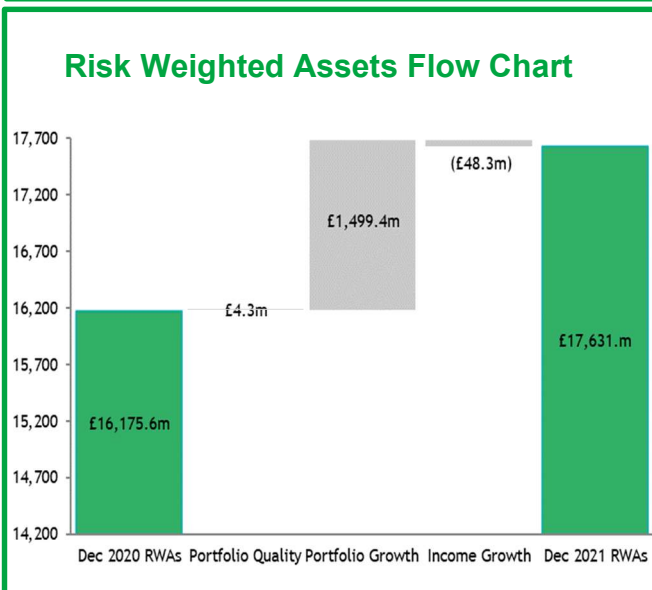
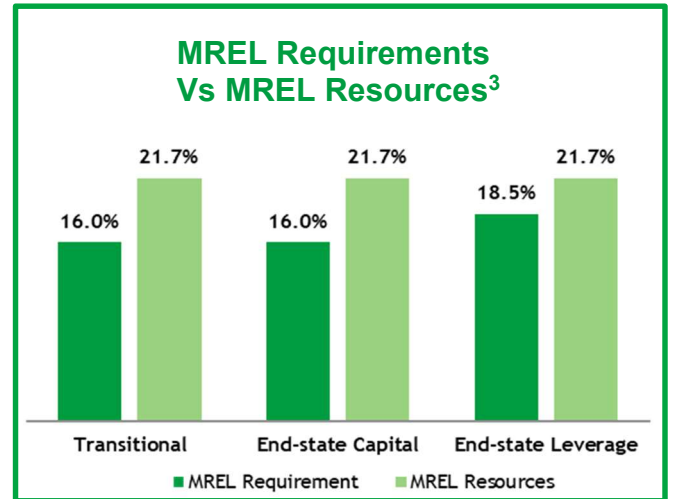
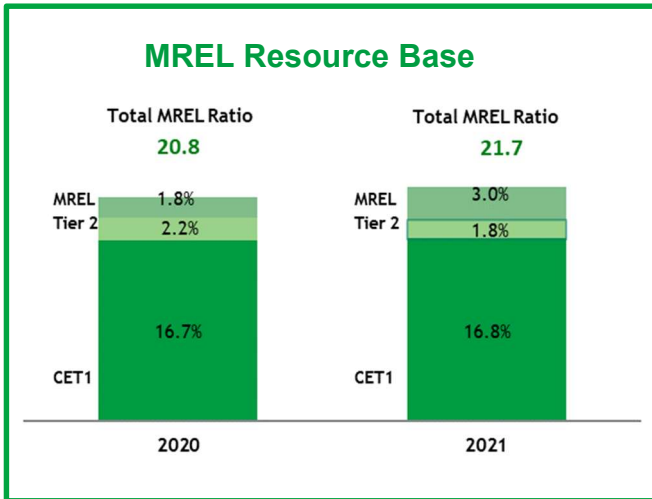
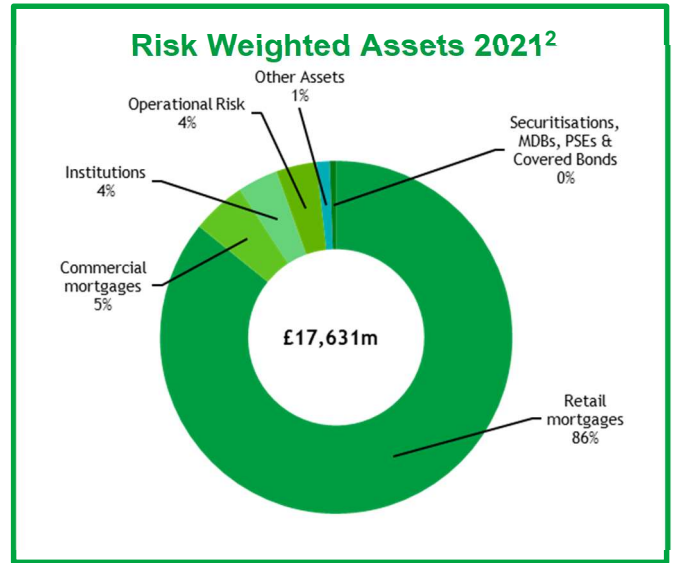
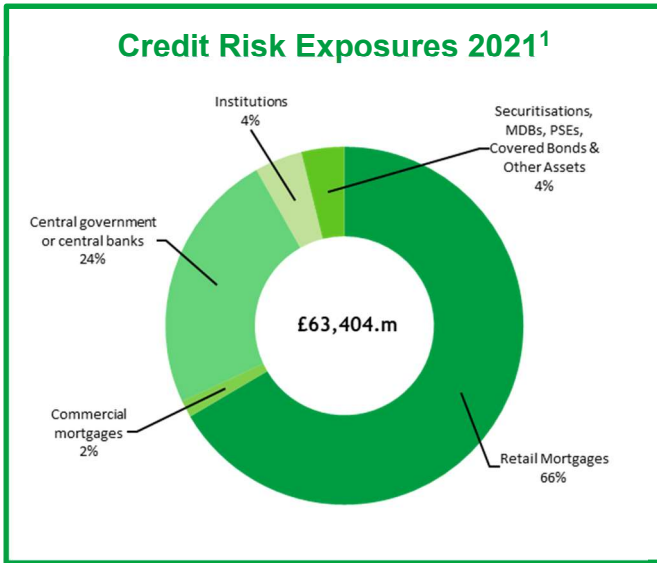
# **PILLAR 3 DISCLOSURES**

**2021**

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## Capital Position at a Glance



<sup>1</sup> Multilateral Development Banks (MDBs) equates to 1% of total exposure and Covered Bonds 1.5%. Public Sector Entities (PSEs), Other Assets and Securitisations each equate to < 1% of total exposure.

<sup>2</sup> Exposures to Central Governments or Central Banks, MDBs, PSEs, Covered Bonds and Securitisation exposures equate to a total of < 1% of risk weighted assets

<sup>3</sup> The Society received confirmation from the Bank of England that the lower of transitional or end-state rules will apply in 2021; the Society was therefore subject to the end state requirements (double pillar 1 and 2A) plus applicable buffers from 1 January 2021

## Key Metrics

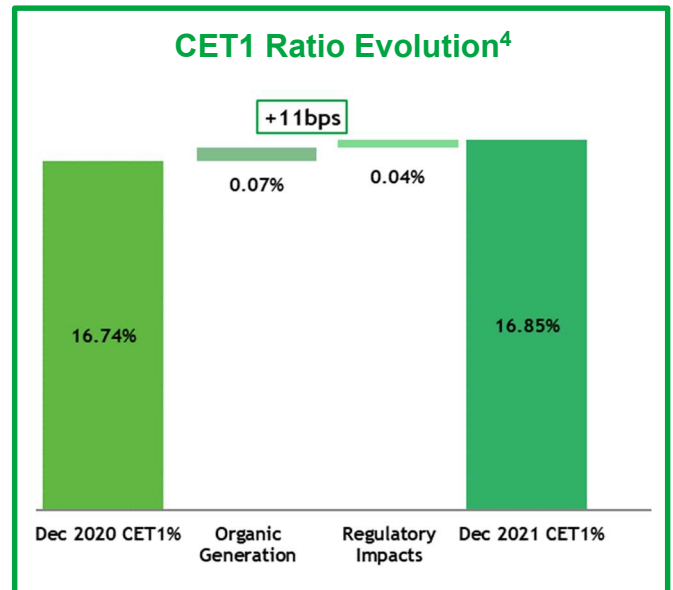
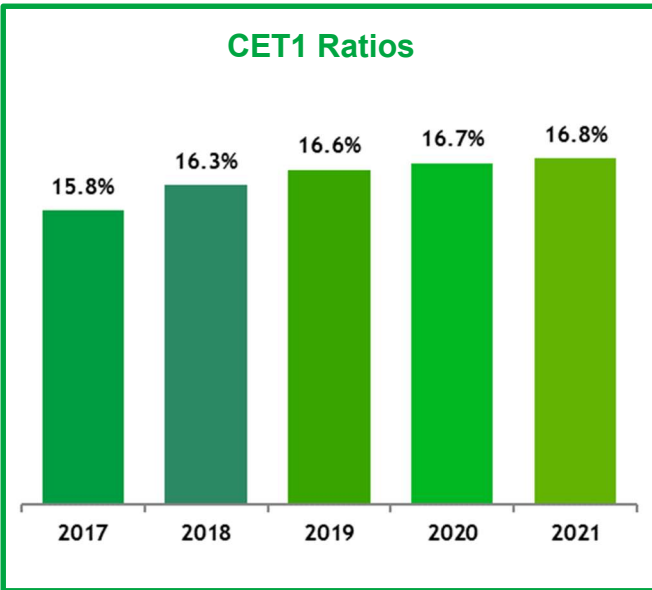


Table KM1 - Key Metrics		Group	Group
£m / %		2021	2020
<b>Available capital</b>			
Common Equity Tier 1 (CET1)		2,970.2	2,708.1
Tier 1 capital		2,970.2	2,708.1
Total capital		3,294.9	3,062.3
Total MREL		3,828.0	3,356.6
<b>Risk-weighted assets</b>			
Total risk-weighted assets (RWA)		17,631.0	16,175.6
<b>Risk-based capital ratios as a percentage of RWA</b>			
Common Equity Tier 1 (CET1) ratio		16.8%	16.7%
Tier 1 capital ratio		16.8%	16.7%
Total capital ratio		18.7%	18.9%
Total MREL ratio		21.7%	20.8%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>			
Capital conservation buffer requirement		2.5%	2.5%
Countercyclical buffer requirement		0.0%	0.0%
Total of bank CET1 specific buffer requirements		2.5%	2.5%
CET1 available after meeting the bank's minimum capital requirements		9.8%	9.7%
<b>Leverage ratio</b>			
CRR leverage ratio exposure measure		55,642.2	50,579.1
CRR leverage ratio		5.3%	5.4%
UK leverage exposure measure		50,266.4	46,254.2
UK leverage ratio		5.9%	5.9%
<b>Liquidity coverage ratio</b>			
LCR		198.9%	191.9%

<sup>4</sup> Regulatory impact refers to the impact of the CRR 'Quick Fix' and IFRS 9 add-back. Non deduction of software assets has increased CET1 capital resources by c.£7m. IFRS 9 add-back has not impacted CET1 capital resources. Combined both measures have led to an increase in CET1 ratio of 0.04% to 16.8%

# 1 Overview

## 1.1 Background, Purpose and Strategy

Yorkshire Building Society ("the Society") is the third largest UK Building Society with total assets of £52.7bn<sup>5</sup>. The Society is a mutual organisation owned by members. The Society operates under a dual-brand strategy consisting of direct lending via branches and the internet, and intermediary lending via Accord Mortgages.

The Society operates a traditional building society model with a predominantly retail balance sheet and operates under the highest regulatory status for both lending and treasury activities under SS20/15 adopting the 'Mitigated' and 'Comprehensive' approaches respectively.

The Society's strategy is built around our purpose of providing Real Help with Real Life, which as a building society means delivering on three central ambitions:

- Helping people to have a place to call home
- Helping people to build greater financial resilience
- Giving our members the best value we can

The Society continues to follow its Strategic Blueprint to ensure it meets its long term goals, which focus on the priorities and behaviours required to achieve its Real Help with Real Life purpose.

## 1.2 Basis, Policy and Frequency of Disclosures

This document is prepared under the Capital Requirements Regulation (CRR) and associated Prudential Regulation Authority (PRA) rules as implemented in UK regulation and in place on 31 December 2021.

The CRR sets regulatory capital rules aligned to the international Basel framework. Pillar 1 of the Basel standards sets out the minimum capital requirement firms are required to meet for credit, market and operational risk. Under Pillar 2, firms and supervisors take a view on whether a firm should hold additional capital against risks not covered in Pillar 1, assess the suitability of Pillar 1 capital requirements and demonstrate their ability to maintain an adequate capital position through a period of stress. Pillar 3 aims to improve market discipline by requiring firms to publish key details of their risks, capital and risk management.

This disclosure document has been prepared by the Society in accordance with the requirements of Pillar 3 set out in Articles 431-455 of the CRR. The Society has adopted the Pillar 1 standardised approach to credit risk, counterparty credit risk and operational risk and does not use any internal models or advanced methods. The Society is also subject to Pillars 2 and 3. The rules are enforced in the United Kingdom (UK) by the PRA.

This document is produced in accordance with the Society's Funding, Liquidity & Capital Risk Policy.

Unless otherwise stated, all figures are as at 31 December 2021, the Society's financial year-end and information is shown at a Group level. This document is produced annually and is published at the same time as the Group Annual Report and Accounts.

<sup>5</sup> Strategic Report: Our Financial Review, Group Annual Report and Accounts

### 1.3 Scope

Yorkshire Building Society is a parent institution that is regulated by the PRA and Financial Conduct Authority (FCA). CRR therefore applies to the Society and its subsidiary undertakings.

No disclosures have been omitted on the basis of being regarded as proprietary or confidential.

Consolidation of the Group position for regulatory capital purposes (the “Capital Group”) is similar to the statutory consolidated Group position produced for the Group Annual Report and Accounts but differs in the following respects:

- Two Group companies, Yorkshire Key Services Limited and Norwich and Peterborough Insurance Brokers Limited, are no longer trading and are outside of the scope of CRR and therefore not consolidated for capital purposes, but are fully consolidated in the Group Annual Report and Accounts. The Society’s investment in Yorkshire Key Services Limited and Norwich and Peterborough Insurance Brokers Limited are neither deducted nor consolidated on grounds of materiality but are risk weighted.
- Some definitions of assets and capital differ between the regulatory capital adequacy rules under CRR and the statutory accounting requirements under International Financial Reporting Standards (IFRS); Table 2 gives a detailed reconciliation of statutory accounting capital values to regulatory capital values. The Society applied IFRS 9 from 1 January 2018. Further details of this can be found in section 3.10 and in Note 1 to the Group Annual Report and Accounts.

There are no restrictions or impediments to the movement of capital between legal entities within the Capital Group, and there is no material capital surplus or deficit relating to Group legal entities that do not form part of the Capital Group.

Under CRR, Yorkshire Building Society as a legal entity must also meet an individual (Solo) consolidated capital requirement. In this area, the Society has made use of provisions laid down in CRR to provide capital resources and requirements to the PRA under an individual (solo) consolidated basis. Individual (solo) consolidation enables both the intra-group exposures and investments of the Society in its subsidiaries within the Solo-consolidated Group to be eliminated when calculating capital requirements and the reserves of such subsidiaries to be aggregated with the parent when calculating capital resources.

The entities included under Solo-consolidation in 2021 were:

- Yorkshire Building Society
- Accord Mortgages Limited
- Norwich & Peterborough (LBS) Limited

Further details of the Society’s principal subsidiary undertakings are included in Note 8 to the Group Annual Report and Accounts.

### 1.4 Capital Management Principles and Risk Appetite

The Society’s management of capital is based on a number of key principles:

- The Society will at all times ensure it holds sufficient capital, of the right quality and stability, to ensure financial sustainability and the security of members’ deposits, to support its strategic objectives, to retain the confidence of key external stakeholders and to fulfil its regulatory requirements to maintain a buffer to protect against unexpected losses.
- The Society will seek to utilise its capital resources in an appropriate manner to ensure that the risk / reward balance is optimised and that the Society obtains a suitable return where capital is utilised. This includes the development of sophisticated analytics and models that assign unexpected loss in a more accurate manner than standardised capital requirements.

- The Society will, as far as possible, seek to ensure an appropriate and efficient mix of capital is available, commensurate with its risk profile and strategic ambitions.

The Society considers both risk based capital requirements and non-risk based leverage requirements when determining the Society's capital strategy and has adopted a range of performance metrics over and above the regulatory minimum as the Society's risk appetite.

Summarised regulatory capital positions and forecasts (including forecasts under stress scenarios) are reported to the Board and to the Asset and Liability Committee (ALCO). Specific capital management reports are presented to the appropriate executive risk and management committees.

## 1.5 Location and Verification

These disclosures have been reviewed by the Society's Audit Committee and the Society's Board, and are published on the Society's website ([www.ybs.co.uk](http://www.ybs.co.uk)) at the same time as the Group Annual Report and Accounts. The disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group Annual Report and Accounts.

## 1.6 Impact of COVID-19

### Regulatory Developments

COVID-19 continued to dominate the economic landscape in 2021. In response to the pandemic, the UK Government, the Bank of England and European regulators announced a series of measures in 2020 to support jobs, wages and businesses impacted by the reduced activity. A number of the measures were introduced to support banks and building societies by strengthening firms' capital positions.

The measures that are still in place include:

- The Bank of England reduced the Counter Cyclical Buffer from 1% of RWA to zero during 2020, with this remaining at zero throughout 2021. This will return to 1% from December 2022.
- The PRA emphasised that payment deferrals should not automatically count as a default for IRB or IFRS 9.
- The European Union released a package of measures known as 'CRR Quick Fix' that made a number of amendments to the CRR including:
  - IFRS 9 expected credit loss provision transitional 'add-back' to Common Equity Tier 1 capital is revised, to allow 100% 'add-back' of the increase in provisions on non-impaired loans recognised in 2021. Software assets as part of intangibles are no longer fully deducted from CET1 capital resources, rather partially deducted on the basis of a regulatory mandated amortisation. While this approach was in force at December 2021, the PRA confirmed in PS17/21 *Implementation of Basel standards* it will be reversed from 1 January 2022 when all intangible assets will be deducted from CET1.

### Impact of CRR2 'Quick Fix' on Capital resources

- Non deduction of elements of software assets has increased CET1 capital resources by c.£7m.
- IFRS 9 add-back has had no impact on CET1 capital resources
- Measures have led to an increase in CET1 ratio of 0.04% to 16.8%.

The table below shows the reported capital ratios compared to a version without any IFRS 9 transitional adjustments (neither those introduced as part of the CRR2 quick fix or provisions in place before this change) or any CRR2 quick fix changes, notably intangibles. The impact on capital ratios is negligible.

Table 1a - Capital ratios as reported compared to without the CRR 'Quick Fix' and IFRS 9 add-back	As reported 2021	Without CRR 'Quick Fix' and IFRS 9 add-back 2021
Common Equity Tier 1 (CET1)	16.8%	16.8%
Tier 1 capital	16.8%	16.8%
Total capital	18.7%	18.6%
Total MREL	21.7%	21.7%

### Arrears

The credit quality of our mortgage book is monitored using a number of indicators on a regular monthly basis. An important indicator is the percentage of outstanding retail mortgage balances in arrears by three months or more (including possessions).

The quality of our loan book has remained strong; the value of loans meeting these criteria now stands at 0.36% (2020: 0.43%). The industry average for mortgage arrears is measured as the number of accounts which are more than three months in arrears (including possessions). At 0.50% (2020: 0.59%) our performance continues to remain better than the industry average of 0.79% (2020: 0.85%)<sup>6</sup>. More information on arrears can be found in the Group Annual Report and Accounts (*Directors' Report* and note 32 to the financial statements).

As at the end of December 2021, we had 50 retail mortgage properties in possession (2020: 26), however, these figures should be noted within the context of the repossession moratorium introduced by the Financial Conduct Authority in response to the COVID-19 pandemic which was in place between March 2020 and April 2021. The amount written off our loans and advances to customers in the period was £1.1m (2020: £2.7m). More information on write offs relating to arrears can be found in note 12 to the financial statements.

Mortgage payment deferrals were introduced in 2020; the deferrals came to an end in July 2021. We have observed that only 4% of total deferrals have resulted in deterioration of credit quality versus their previous position, with the remainder having resumed their regular payments.

<sup>6</sup> Latest available data: current year figure as at end September; comparative at end December.



The table below gives a summary by arrears status for retail and commercial mortgages.

Table 1b - Arrears Status	2021		2020	
	Retail	Commercial	Retail	Commercial
	%	%	%	%
No arrears	98.3%	98.1%	97.9%	98.1%
Less than three months	1.3%	1.9%	1.7%	1.5%
Equal to or more than t		-		0.3%
hree months, less than six months	0.2%		0.2%	
Equal to or more than six months, less than twelve months	0.1%	-	0.1%	0.1%
Twelve months or more	0.1%	-	0.1%	-
In possession / collections	-	-	-	-
<b>Total gross exposure (contractual amounts)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Number of properties in possession at year end</b>	<b>50</b>	<b>-</b>	<b>26</b>	<b>-</b>

## 1.7 Other Regulatory Developments

### Brexit

As the UK has left the European Union and the Financial Services Bill received Royal Assent in April 2021, thereby writing the Financial Services Act 2021 into law, this has given basis for UK regulators to adopt and implement regulations.

In October 2021 the PRA provided the final PRA rulebook instruments, statement of policy, supervisory statements and reporting templates and instructions. These were published in the PS22/21 Implementation of Basel standards: Final rules.

This policy statement contains the PRA final rules, replacing the elements of the Capital Requirements Regulation which were revoked by HM Treasury in the Financial Services Act 2021. These rules will apply from 1 January 2022 and therefore do not apply to the 31 December 2021 Pillar 3 Disclosures.

One of the changes from PS22/21 is the return to full deduction of intangible software assets. The impact of this change on the Society's capital position is negligible and is detailed in section 1.6 above. The remainder of changes to regulatory capital rules are expected to have an insignificant impact on the Society's capital position.

PS22/21 does materially amend the requirements for Pillar 3 disclosures, with more defined tables for disclosure which will be incorporated into the Society's 2022 Pillar 3 disclosures.

### Other Regulation

Further changes to the Basel rules (collectively known as Basel 3.1, or Basel IV) are due to be written into national law from 2023, although it is anticipated this could be further delayed and could impact the Society's capital requirements.

In October 2021 the PRA published PS21/21 The UK leverage ratio framework confirming the scope of application of the leverage ratio requirement. This confirmed a formal leverage requirement would apply only for firms meeting or exceeding the existing threshold of £50bn retail deposits, with an additional threshold of £10bn non-UK assets to apply from 1 January 2023. The Society would not have a formal requirement until this level is reached, after which there will be a three-year transitional period before it forms part of MREL requirements.

## 1.8 Other Developments

### IRB Application

In 2018, the Society applied for permission from the PRA to use the Internal Ratings Based (IRB) approach to calculating capital requirements. The Society is progressing through the modular application process and adapting its proposed models for recent changes to regulatory requirements for IRB models.

The existing model suite has been revised by the Society to address feedback from the PRA's review and submitted to the PRA for review to ensure the models will be compliant with new regulatory requirements that will take effect from 2022. The third phase of the PRA's review is expected to commence following this activity.

### Minimum Requirement for Eligible Liabilities (MREL)

Due to receiving confirmation from the Bank of England that the lower of transitional or end-state rules would apply from 1 January 2020, the Society was subject to the end state requirements (double pillar 1 and 2A) plus applicable buffers throughout 2021.

The Society issued a further £250m of senior non-preferred notes in September 2021, this is MREL eligible but does not qualify as regulatory capital.

## 1.9 Changes From 2020 Pillar 3

There are no new tables in the 2021 Pillar 3 Disclosures compared to the previous year.

## 2 Capital Resources

### 2.1 Total Available Capital

As at 31 December 2021, and throughout the year, the Society complied with the capital requirements that were in force as set out by European Union and UK legislation. The following table shows the breakdown of the total available capital for the Capital Group and Solo-consolidated Group as at 31 December 2021. MREL resources such as Secondary Non-Preferential Liabilities (SNP) are not included as part of regulatory capital, but have been disclosed to show the impact on resources, these are included within the Non-Capital Loss Absorbing Capacity section of this table.

Table 2a - Capital Resources	Group	Group	Solo	Solo
	2021	2020	2021	2020
	£m	£m	£m	£m
<b>Common Equity Tier 1 (CET1)</b>				
General reserve	3,051.3	2,779.1	3,066.8	2,781.8
Fair value through other comprehensive income reserve	21.1	12.3	21.1	12.3
Cash flow hedge reserve	10.4	(0.1)	10.4	(0.1)
<b>CET1 Regulatory Adjustments</b>				
Prudent valuation adjustment	(4.8)	(3.8)	(4.7)	(3.6)
Pension scheme adjustment	(80.9)	(66.4)	(80.9)	(66.4)
Intangible fixed assets	(16.5)	(14.8)	(16.5)	(14.8)
Cash flow hedge reserve	(10.4)	0.1	(10.4)	0.1
IFRS 9 transitional arrangements	-	1.7	-	1.7
<b>Total CET1</b>	<b>2,970.2</b>	<b>2,708.1</b>	<b>2,985.8</b>	<b>2,711.0</b>
<b>Total Tier 1 Capital</b>	<b>2,970.2</b>	<b>2,708.1</b>	<b>2,985.8</b>	<b>2,711.0</b>
<b>Tier 2 Capital</b>				
Subordinated liabilities	324.7	350.7	324.7	350.7
General credit risk adjustments	-	3.5	-	3.5
<b>Total Tier 2 Capital</b>	<b>324.7</b>	<b>354.2</b>	<b>324.7</b>	<b>354.2</b>
<b>Total Regulatory Capital</b>	<b>3,294.9</b>	<b>3,062.3</b>	<b>3,310.5</b>	<b>3,065.2</b>
<b>Non-Capital Loss Absorbing Capacity</b>				
Secondary Non-Preferential Liabilities (SNP)	522.5	289.6	522.5	289.6
Tier 2 MREL Eligible	10.6	4.7	10.6	4.7
<b>Total Non-Capital Loss Absorbing Capacity</b>	<b>533.1</b>	<b>294.3</b>	<b>533.1</b>	<b>294.3</b>
<b>Total MREL Resources</b>	<b>3,828.0</b>	<b>3,356.6</b>	<b>3,843.6</b>	<b>3,359.5</b>

## 2.2 Tier 1 Capital

### 2.2.1 Common Equity Tier 1 Capital

CET1 capital resources comprises the general reserve, fair value through other comprehensive income reserve and adjustments for items reflected in the general reserve which are treated separately for capital adequacy purposes. The following items are fully deducted under CRR:

- A Prudent Valuation Adjustment (PVA) is applied to fair-valued positions and is deducted from CET1 capital as per CRR. As at 31 December 2021, the net impact of the PVA was a reduction in CET1 capital of £4.8m.
- Defined benefit pension fund assets are deducted from CET1 capital resources, net of any associated deferred tax liabilities. As at 31 December 2021, the net impact of the adjustment was a reduction in CET1 capital of £80.9m.
- An adjustment is also made in respect of intangible fixed assets. For accounting purposes, items including software development costs, other intangibles resulting from business combinations and goodwill are capitalised as intangible fixed assets where they meet certain criteria. Intangible fixed assets (excluding software assets as defined in the CRR 'Quick fix', which are partially deducted under this approach), net of any associated deferred tax liabilities, are deducted from CET1 under the regulatory rules. As at 31 December 2021, the deduction amounted to £16.5m.
- The cash flow hedge reserve, net of associated deferred tax, does not form part of regulatory capital.
- Following the implementation of IFRS 9, any increase in impairment provisions may be added back to CET1 capital resources on a reducing basis, over five years. For the year 2021, following the implementation of CRR 'Quick fix', 100% of the increase in provisions is added back to CET1. As at 31 December 2021 this was £0.0m.

Further details on IFRS 9 Transitional Arrangements can be found in Section 3.10.

### 2.2.2 Additional Tier 1 Capital

As at 31 December 2021 the Society does not have any Additional Tier 1 capital.

## 2.3 Tier 2 Capital

Tier 2 Capital comprises the Society's qualifying subordinated liabilities and general credit risk adjustments.

Subordinated notes are unsecured and rank behind the claims of all depositors, creditors and investing members of the Society. For regulatory capital purposes, the value of any subordinated liabilities is amortised in the last five years to maturity. More details of the subordinated liabilities are included in Note 25 to the Group Annual Report and Accounts and the final terms of the Society's subordinated liabilities can be found on the Society's website under the medium term notes section:

<https://www.ybs.co.uk/your-society/treasury/index.html#funding-programmes>

General credit risk adjustments are impairment provisions that may be added back to Tier 2 capital.

## 2.4 Non-Capital Loss Absorbing Capacity

Non-capital loss absorbing capacity comprises Secondary Non-Preferential liabilities and Tier 2 capital that is no longer eligible as regulatory capital due to prudential amortisations. Items in this category cannot be used to meet regulatory capital requirements but do contribute to meeting the Society's Minimum Requirement for Eligible Liabilities.

## 2.5 Reconciliation of Regulatory Capital to Balance Sheet Capital

The table below shows how the balance sheet capital values in the Group Annual Report and Accounts reconcile to the regulatory capital equivalent for the Society as at 31 December 2021.

Table 2b - Reconciliation of Accounting Capital to Regulatory Capital	Accounting	Adjustments to	Regulatory	Ref
	Balance Sheet Capital Value	Balance Sheet Capital Value	Capital Value	
	£m	£m	£m	
<b>CET1</b>				
Total equity attributable to members	3,088.6	-	-	1
<i>Less reserves not included in regulatory capital:</i>	-	-	-	
Non-consolidated subsidiaries	-	(5.6)	-	2
<b>Total adjustments to Common Equity Tier 1 resources</b>	<b>-</b>	<b>(5.6)</b>	<b>-</b>	
<b>CET1</b>	<b>3,088.6</b>	<b>(5.6)</b>	<b>3,083.0</b>	
<b>CET1 Regulatory Adjustments</b>				
Prudent Valuation Adjustment	-	(4.8)	-	3
Pension scheme adjustment	-	(80.9)	-	3
Intangible fixed assets	-	(16.5)	-	3
Cash flow hedge reserve	-	(10.4)	-	
IFRS 9 transitional arrangements	-	-	-	
Other capital adjustments	-	(0.2)	-	
<b>Total regulatory adjustments to Common Equity Tier 1 capital</b>	<b>-</b>	<b>(112.8)</b>	<b>-</b>	
<b>Total CET1</b>	<b>3,088.5</b>	<b>(118.3)</b>	<b>2,970.2</b>	
<b>Total Tier 1 capital after deductions</b>	<b>3,088.5</b>	<b>(118.3)</b>	<b>2,970.2</b>	
<b>Tier 2 capital</b>				
Subordinated liabilities	335.3	(10.6)	324.7	4
General credit risk adjustments	-	-	-	
<b>Tier 2 capital after deductions</b>	<b>335.3</b>	<b>(10.6)</b>	<b>324.7</b>	
<b>Total regulatory capital after deductions</b>	<b>3,423.7</b>	<b>(128.9)</b>	<b>3,294.9</b>	

<sup>1</sup> Statement of Changes in Members' Interest and Equity, Group Annual Report and Accounts

<sup>2</sup> See section 1.3 for further details

<sup>3</sup> Pillar 3 Disclosures, Table 2a

<sup>4</sup> Strategic Report: Our Financial Review, Group Annual Report and Accounts

## 2.6 Capital Flow Statement

The table below shows the flow of Group regulatory capital and associated deductions in 2021.

Table 3 - Regulatory Capital Flow Statement	2021	Ref
	£m	
<b>Total CET1 Capital</b>		
1 January 2021	2,708.1	
Total comprehensive income in 2021	291.6	1
Profits allocated to hedging reserve	(10.5)	2
Change in Prudent Valuation Adjustment	(1.1)	
Change in pension scheme adjustment	(14.4)	
Change in intangible fixed assets	(1.8)	
Change in IFRS 9 transitional arrangements	(1.7)	
<b>Total CET1 Capital as at 31 December 2021</b>	<b>2,970.2</b>	
<b>Total Tier 1 capital as at 31 December 2021</b>	<b>2,970.2</b>	
<b>Tier 2 Capital</b>		
1 January 2021	354.2	
Amortisation and other adjustments	(26.0)	
General credit risk adjustments	(3.5)	
<b>Tier 2 capital before deductions as at 31 December 2021</b>	<b>324.7</b>	
<b>Total capital available as at 31 December 2021</b>	<b>3,294.9</b>	

<sup>1</sup> Statement of Comprehensive Income, Group Annual Report and Accounts

<sup>2</sup> Statement of Changes in Member's Interest, Group Annual Report and Accounts

## 3 Capital Requirements

### 3.1 Overview

Regulatory capital covers the following risks across the Capital Group:

- Pillar 1 risks (i.e. credit risk (including counterparty credit risk) and operational risk). The minimum capital requirement is calculated using regulatory-prescribed risk weightings. The Society has adopted the standardised approach to both credit and operational risk in order to calculate the Pillar 1 minimum capital requirement.
- Pillar 2A risks (i.e. all other material risks which are not adequately captured or captured at all under Pillar 1). Each material risk that the Society has identified outside the scope of Pillar 1 (e.g. pension obligation risk, interest rate risk, concentration risk) has undergone considered and vigorous stress testing to calculate an economic value for each of the material risks across the Society where capital is an appropriate mitigant, and are documented in the Internal Capital Adequacy Assessment Process (ICAAP) document (see section 3.13 below). See section 3.6 below for the Society's total Pillar 1 and Pillar 2A capital requirements.
- Capital Conservation Buffer (CCB). The Society calculates a Capital Conservation Buffer as specified in CRR. This buffer is calculated as a percentage of RWAs, set at 2.5% throughout 2021.
- PRA Buffer. The Society may need to hold an additional capital requirement (in addition to the Pillar 1 and Pillar 2A amounts above) representing the amount by which the Society's capital surplus would reduce in a "severe but plausible" stress scenario over the Society's planning horizon – known as the Capital Planning Stress Test. This additional requirement is known as the PRA buffer and does not form part of the overall regulatory total capital requirement. This stress test is defined and articulated with the assistance of key business experts and is set at a severity level that is consistent with the PRA's "severe but plausible" requirement. The result of this stress test is compared to the CCB and an additional PRA Buffer held where the CCB is not considered sufficient to cover the risks in the scenario.

The PRA Buffer can, in times of stress, be utilised without breaching the regulatory minimum.

- Countercyclical Buffer (CCyB). The Society is required to hold a Countercyclical Buffer which was introduced to ensure financial institutions hold more capital in favourable economic conditions so it can be utilised in economic downturns. This buffer remained at 0% of RWAs throughout 2021, from December 2022 this will be changing back to 1%.

### 3.2 Pillar 1

The following tables show the credit and operational risk exposure, average risk weight and RWAs for each of the Society's exposure classes and the resultant Pillar 1 minimum capital requirements (being 8% of RWAs).

- The exposure is based on the definitions for regulatory capital purposes, before impairment provision and credit risk mitigation (CRM) such as collateral held and government guarantees.
- Credit Valuation Adjustment (CVA) RWAs are included in the Financial Institutions line, increasing the average risk weight.
- Capital requirements and RWAs for operational risk are shown; however, as they do not relate to asset exposures they do not have an exposure value.

Table 4a - EU OV1 - Overview of RWAs - Group	RWAs		Minimum Capital Requirements	
	2021 £m	2020 £m	2021 £m	2020 £m
<b>Credit risk (excluding CCR)</b>	<b>16,730.5</b>	<b>15,138.2</b>	<b>1,338.4</b>	<b>1,211.1</b>
Of which the standardised approach	16,730.5	15,138.2	1,338.4	1,211.1
<b>Counterparty credit risk (CCR)</b>	<b>236.6</b>	<b>312.6</b>	<b>19.0</b>	<b>24.9</b>
Of which mark to market	92.0	153.2	7.4	12.2
Of which CVA	144.6	159.4	11.6	12.7
<b>Securitisation exposures in the banking book (after the cap)</b>	<b>8.8</b>	<b>6.3</b>	<b>0.7</b>	<b>0.5</b>
Of which standardised approach	8.8	6.3	0.7	0.5
<b>Operational risk</b>	<b>655.0</b>	<b>703.3</b>	<b>52.4</b>	<b>56.3</b>
Of which standardised approach	655.0	703.3	52.4	56.3
<b>Amounts below the thresholds for deduction (subject to 250% risk weight)</b>	<b>0.1</b>	<b>15.2</b>	<b>0.0</b>	<b>1.2</b>
<b>Total</b>	<b>17,631.0</b>	<b>16,175.6</b>	<b>1,410.5</b>	<b>1,294.0</b>
<b>Pillar 2A capital requirement</b>			-	-
<b>Total capital requirement</b>			<b>1,410.5</b>	<b>1,294.0</b>

Table 4b - Pillar 1 Capital Requirement - Group 2021	Exposure (Pre-CRM) £m	RWAs £m	Capital Requirements £m	Average Risk Weight %
<b>Loans secured by mortgages on immovable property</b>				
Loans to individuals	42,033.6	14,994.9	1,199.6	35.7%
Commercial lending (excluding SME)	578.0	577.0	46.2	100.0%
Commercial lending (SME)	391.2	296.8	23.7	76.2%
Past due (three months or more)	146.3	136.5	10.9	100.1%
<b>Immovable property total</b>	<b>43,149.1</b>	<b>16,005.2</b>	<b>1,280.4</b>	<b>37.1%</b>
<b>Wholesale exposure classes</b>				
Securitisation positions	88.4	8.8	0.7	10.0%
Central governments or central banks	15,063.8	-	-	0.0%
Covered bonds	960.7	96.1	7.7	10.0%
Financial institutions	2,631.5	635.1	50.8	37.1%
Multilateral Development Banks	651.9	-	-	0.0%
Public Sector Entities	427.0	-	-	0.0%
Short term claims on financial institutions and corporates	99.3	19.9	1.6	20.0%
<b>Wholesale total</b>	<b>19,922.6</b>	<b>759.9</b>	<b>60.8</b>	<b>3.8%</b>
<b>Operational risk</b>	<b>n/a</b>	<b>655.0</b>	<b>52.4</b>	<b>n/a</b>
<b>Other assets</b>	<b>331.7</b>	<b>211.0</b>	<b>16.9</b>	<b>63.6%</b>
<b>Total</b>	<b>63,403.4</b>	<b>17,631.1</b>	<b>1,410.5</b>	<b>27.8%</b>



Table 4c - Pillar 1 Capital Requirement - Group 2020	Exposure (Pre-CRM)	RWAs	Capital Requirements	Average Risk Weight
	£m	£m	£m	%
<b>Loans secured by mortgages on immovable property</b>				
Loans to individuals	38,594.8	13,758.9	1,100.7	35.7%
Commercial lending (excluding SME)	193.1	190.7	15.2	100.0%
Commercial lending (SME)	303.7	229.5	18.4	76.2%
Past due (three months or more)	153.7	139.8	11.2	100.1%
<b>Immovable property total</b>	<b>39,245.3</b>	<b>14,318.9</b>	<b>1,145.5</b>	<b>36.5%</b>
<b>Wholesale exposure classes</b>				
Securitisation positions	62.8	6.3	0.5	10.0%
Central governments or central banks	13,579.5	-	-	0.0%
Covered bonds	787.5	78.7	6.3	10.0%
Financial Institutions	2,356.0	546.3	43.7	45.8%
Multilateral Development Banks	563.8	-	-	0.0%
Public Sector Entities	330.7	-	-	0.0%
Short term claims on financial institutions and corporates	140.7	28.1	2.3	20.0%
<b>Wholesale total</b>	<b>17,821.0</b>	<b>659.4</b>	<b>52.8</b>	<b>6.2%</b>
<b>Operational risk</b>	<b>n/a</b>	<b>703.3</b>	<b>56.3</b>	<b>n/a</b>
<b>Other assets</b>	<b>575.8</b>	<b>494.0</b>	<b>39.4</b>	<b>85.8%</b>
<b>Total</b>	<b>57,642.1</b>	<b>16,175.6</b>	<b>1,294.0</b>	<b>32.1%</b>

Table 4d - Pillar 1 Capital Requirement - Solo 2021	Exposure (Pre-CRM)	RWAs	Capital Requirements	Average Risk Weight
	£m	£m	£m	%
<b>Loans secured by mortgages on immovable property</b>				
Loans to individuals	42,033.6	14,994.9	1,199.6	35.7%
Commercial lending (including SME)	578.0	577.0	46.2	100.0%
Commercial lending (SME)	391.2	296.8	23.7	76.2%
Past due (three months or more)	146.3	136.5	10.9	100.1%
<b>Immovable property total</b>	<b>43,149.1</b>	<b>16,005.2</b>	<b>1,280.4</b>	<b>37.1%</b>
<b>Wholesale exposure classes</b>				
Securitisation positions	88.4	8.8	0.7	10.0%
Central governments or central banks	15,063.8	-	-	0.0%
Covered bonds	960.7	96.1	7.7	10.0%
Financial institutions	2,631.5	635.1	50.8	37.1%
Multilateral Development Banks	651.9	-	-	0.0%
Public Sector Entities	427.0	-	-	0.0%
Short term claims on financial institutions and corporates	99.1	19.8	1.6	20.0%
<b>Wholesale total</b>	<b>19,922.4</b>	<b>759.8</b>	<b>60.8</b>	<b>3.8%</b>
<b>Operational risk</b>	<b>n/a</b>	<b>669.4</b>	<b>53.6</b>	<b>n/a</b>
<b>Other assets</b>	<b>3,727.5</b>	<b>252.5</b>	<b>20.2</b>	<b>6.8%</b>
<b>Total</b>	<b>66,799.0</b>	<b>17,686.9</b>	<b>1,415.0</b>	<b>26.5%</b>

Table 4e - Pillar 1 Capital Requirement - Solo 2020	Exposure (Pre-CRM)	RWAs	Capital Requirements	Average Risk Weight
	£m	£m	£m	%
<b>Loans secured by mortgages on immovable property</b>				
Loans to individuals	38,594.8	13,758.9	1,100.7	35.7%
Commercial lending (excluding SME)	193.1	190.7	15.2	100.0%
Commercial lending (SME)	303.7	229.5	18.4	76.2%
Past due (three months or more)	153.7	139.8	11.2	100.1%
<b>Immovable property total</b>	<b>39,245.3</b>	<b>14,318.9</b>	<b>1,145.5</b>	<b>36.5%</b>
<b>Wholesale exposure classes</b>				
Securitisation positions	62.8	6.3	0.5	10.0%
Central governments or central banks	13,579.5	-	-	0.0%
Covered bonds	787.5	78.7	6.3	10.0%
Financial institutions	2,356.0	546.3	43.7	45.8%
Multilateral Development Banks	563.8	-	-	0.0%
Public Sector Entities	330.7	-	-	0.0%
Short term claims on financial institutions and corporates	140.5	28.1	2.3	20.0%
<b>Wholesale total</b>	<b>17,820.8</b>	<b>659.4</b>	<b>52.8</b>	<b>6.2%</b>
<b>Operational risk</b>	<b>n/a</b>	<b>692.1</b>	<b>55.4</b>	<b>n/a</b>
<b>Other assets</b>	<b>4,095.6</b>	<b>507.3</b>	<b>40.5</b>	<b>12.4%</b>
<b>Total</b>	<b>61,161.7</b>	<b>16,177.7</b>	<b>1,294.2</b>	<b>30.0%</b>

### 3.3 Capital Adequacy

The table below summarises the Society's capital adequacy position, using key figures from Tables 1, 4a, 9, 10 and 11a.

Table 5a - Capital Adequacy	Group 2021	Group 2020	Solo 2021	Solo 2020
	£m / %	£m / %	£m / %	£m / %
<b>Capital Excess</b>				
Total pillar 1 capital requirement	1,410.5	1,294.0	1,414.9	1,294.2
Total capital resources	3,294.9	3,062.3	3,310.5	3,065.2
<b>Excess of own funds over minimum pillar 1 requirement</b>	<b>1,884.4</b>	<b>1,768.3</b>	<b>1,895.6</b>	<b>1,771.0</b>
Total risk weighted assets	17,631.0	16,175.6	17,686.8	16,177.7
Common Equity Tier 1 capital resources	2,970.2	2,708.1	2,985.8	2,711.0
Tier 1 capital resources	2,970.2	2,708.1	2,985.8	2,711.0
<b>Total capital resources</b>	<b>3,294.9</b>	<b>3,062.3</b>	<b>3,310.5</b>	<b>3,065.2</b>
<b>Total MREL resources</b>	<b>3,828.0</b>	<b>3,356.6</b>	<b>3,843.6</b>	<b>3,359.5</b>
Common Equity Tier 1 capital ratio	16.8%	16.7%	16.9%	16.8%
Tier 1 capital ratio	16.8%	16.7%	16.9%	16.8%
Total capital ratio	18.7%	18.9%	18.7%	18.9%
Total MREL resources ratio	21.7%	20.8%	21.7%	20.8%
UK Leverage ratio	5.9%	5.9%	5.9%	5.9%
CRR Leverage ratio	5.3%	5.4%	5.4%	5.4%
MREL Leverage ratio	7.6%	7.3%	7.7%	7.3%

Sections 5 and 6 provide further detail on the significant risks captured under Pillar 1, i.e. credit risk and operational risk, including the nature of the exposures and the key risk management techniques. A summary of other significant risks captured under Pillar 2 is contained in section 7.

Given the total minimum capital requirements are not materially different on a Group or Solo consolidated basis, the disclosures in the remainder of this document are on a Group basis.

Table 5b below shows the regulatory requirements, capital resources and capital surplus.

<b>Table 5b - Regulatory requirements, Capital Resources and Capital Surplus</b>		
<b>£m / %</b>	<b>2021</b>	<b>2020</b>
<b>Regulatory requirements</b>		
Common Equity Tier 1 (CET1)	1,234.2	1,132.3
Tier 1 capital	1,498.6	1,374.9
Total capital	1,851.3	1,698.4
Total MREL	3,261.7	2,992.5
<b>Capital resources</b>		
Common Equity Tier 1 (CET1)	2,970.2	2,708.1
Tier 1 capital	2,970.2	2,708.1
Total capital	3,294.9	3,062.3
Total MREL	3,828.0	3,356.6
<b>Capital surplus over regulatory requirement</b>		
Common Equity Tier 1 (CET1)	1,736.0	1,575.8
Tier 1 capital	1,471.6	1,333.2
Total capital	1,443.6	1,363.9
Total MREL	566.3	364.1
<b>Regulatory requirements</b>		
Common Equity Tier 1 (CET1)	7.0%	7.0%
Tier 1 capital	8.5%	8.5%
Total capital	10.5%	10.5%
Total MREL	18.5%	18.5%
<b>Capital resources</b>		
Common Equity Tier 1 (CET1) ratio	16.8%	16.7%
Tier 1 capital ratio	16.8%	16.7%
Total capital ratio	18.7%	18.9%
Total MREL ratio	21.7%	20.8%
<b>Capital surplus over regulatory requirement</b>		
Common Equity Tier 1 (CET1)	9.8%	9.7%
Tier 1 capital	8.3%	8.2%
Total capital	8.2%	8.4%
Total MREL	3.2%	2.3%

### 3.4 RWA Flow Statement

The table below shows the causes of movements in RWAs in the year at the Group level. In the table below, operational risk has been included to fully illustrate overall RWA movements. Changes in operational risk requirements reflect income growth within the regulatory prescribed income streams.

Table 6 - RWA Flow Statement	2020 RWAs	Portfolio Quality	Portfolio Growth	Income Growth	2021 RWAs
	£m	£m	£m	£m	£m
Loans secured on immovable property	14,318.9	8.1	1,678.1	-	16,005.2
Wholesale credit risk	659.5	(3.8)	104.2	-	759.9
Other credit risk	493.9	-	(282.9)	-	211.0
Operational risk	703.3	-	-	(48.3)	655.0
<b>Total risk weighted assets</b>	<b>16,175.6</b>	<b>4.3</b>	<b>1,499.4</b>	<b>(48.3)</b>	<b>17,631.0</b>

### 3.5 Pillar 2A

The Society's Pillar 2A requirement was set to zero throughout 2021.

### 3.6 Total Capital Requirement

The Society's Total Capital Requirement (Pillar 1 + Pillar 2A) as at 31 December 2021 is £1,413.2m which is equivalent to 8.0% of RWAs.

The table below details the Society's Pillar 1 and Pillar 2A requirement.

Table 7 - Total Capital Requirement	2021		2020	
	£m	% of RWAs	£m	% of RWAs
Pillar 1 requirement	1,410.5	8.0%	1,294.0	8.0%
Pillar 2A requirement	-	0.0%	-	0.0%
<b>Total Capital Requirement (TCR)</b>	<b>1,410.5</b>	<b>8.0%</b>	<b>1,294.0</b>	<b>8.0%</b>

### 3.7 Regulatory Capital Buffers

The table below details the regulatory capital buffers applicable to the Society. It does not include the PRA buffer which is a firm specific buffer set by the PRA; the PRA requires that this buffer is not publicly disclosed.

Table 8 - Regulatory Capital Buffers	2021		2020	
	£m	% of RWAs	£m	% of RWAs
Capital Conservation Buffer (CCB)	440.8	2.5%	404.4	2.5%
Countercyclical Capital Buffer (CCyb)	-	0.0%	-	0.0%
<b>Total Regulatory Buffer requirement</b>	<b>440.8</b>	<b>2.5%</b>	<b>404.4</b>	<b>2.5%</b>

### 3.8 Leverage Ratio

This is a non-risk based requirement that measures the relationship between capital resources and an adjusted measure of total on and off-balance sheet assets. This requirement only applies to financial institutions with greater than £50bn of deposits; the Society is currently not captured under this approach, though is required to report its leverage position.

The UK leverage ratio is calculated as:

$$\frac{\text{Tier 1 Capital}}{\text{Total on and off-balance sheet assets (applying regulatory adjustments)}}$$

The table below shows the leverage ratio calculation with balance sheet assets excluding assets constituting as claims on central banks.

Table 9 - UK Leverage Ratio	2021	2020
	£m / %	£m / %
Tier 1 Resources	2,970.2	2,708.1
Leverage Exposure	50,266.4	46,254.2
<b>Leverage Ratio %</b>	<b>5.9%</b>	<b>5.9%</b>

The table below shows the leverage ratio calculation as per the CRR.

Table 10 - CRR Leverage Ratio	2021	2020
	£m / %	£m / %
<b>Balance Sheet Assets</b>	<b>52,718.2</b>	<b>47,925.3</b>
<b>Regulatory Adjustments</b>		
Mortgage pipeline	513.3	513.3
Other committed facilities	31.0	45.9
Repurchase agreements	2,739.4	2,240.9
Netted derivatives adjustment	(246.9)	(63.1)
Tier 1 deductions	(112.8)	(83.2)
<b>Leverage Ratio Assets</b>	<b>55,642.2</b>	<b>50,579.1</b>
<b>Tier 1 Capital Resources</b>	<b>2,970.2</b>	<b>2,708.1</b>
<b>Leverage Ratio %</b>	<b>5.3%</b>	<b>5.4%</b>

### 3.9 Minimum Requirement for Eligible Liabilities (MREL)

The table below shows the Society's progress in meeting MREL requirements on both a transitional and end-state basis prior to the addition of applicable buffers. Following confirmation from the Bank of England that the lower of transitional or end-state rules would apply from 1 January 2020, the Society was subject to the end state requirements (double pillar 1 and 2A) plus applicable buffers throughout 2021. Table 11b demonstrates the lower end-state capital requirements compared to transitional requirements.

Table 11a - Total MREL Resources				
	2021		2020	
	£m	% of RWAs	£m	% of RWAs
CET1 capital	2,970.2	16.8%	2,708.1	16.7%
Tier 2 capital	324.7	1.8%	354.2	2.2%
Secondary Non-Preferential liabilities (SNP)	522.5	3.0%	289.6	1.8%
Tier 2 MREL Eligible	10.6	0.1%	4.7	0.0%
<b>Total MREL Resources</b>	<b>3,828.0</b>	<b>21.7%</b>	<b>3,356.6</b>	<b>20.8%</b>

Table 11b - The Society's Progress to Meeting MREL Requirements						
	2021			2020		
	£m	% of RWAs	% of Leverage Exposure	£m	% of RWAs	% of Leverage Exposure
Transitional Requirements <sup>1</sup>	3,173.6	18.0%	6.3%	2,911.6	18.0%	6.3%
End-state Capital Requirements <sup>2</sup>	2,821.0	16.0%	5.6%	2,588.1	16.0%	5.6%
End-state Leverage Requirements <sup>3</sup>	3,267.3	18.5%	6.5%	3,006.5	18.6%	6.5%
<b>Total MREL Resources</b>	<b>3,828.0</b>	<b>21.7%</b>	<b>7.6%</b>	<b>3,356.6</b>	<b>20.8%</b>	<b>7.3%</b>

<sup>1</sup> The transitional requirement is 18% of RWAs

<sup>2</sup> The End-state capital requirement is equal to Pillar 1 plus Pillar 2A doubled

<sup>3</sup> The End-state leverage requirement is equal to the minimum leverage requirement doubled (calculated as per PS21/17) and would apply only if the Society was subject to a formal leverage requirement.

Table 11c - MREL - Total liabilities and Own Funds		
	2021	2020
	%	%
MREL Resources / (Total Liabilities plus Own Funds)	7.3%	7.0%
End-state Capital Requirements/ (Total Liabilities plus Own Funds)	5.4%	5.4%
End-state Leverage Requirements / (Total Liabilities plus Own Funds)	6.2%	6.3%

### 3.10 IFRS 9 – Impact of Transitional Arrangements

Under EU Regulation 2018/2395, the Society is permitted to apply transitional arrangements, which allows relief to capital ratios to reduce the impact of the implementation of IFRS 9.

The below table shows the impact of IFRS 9 transitional arrangements as at 31 December 2021.

Table 12 - Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs	2021	2020
	£m	£m
<b>Available Capital (amounts)</b>		
Common Equity Tier 1 (CET1) capital	2,971.2	2,708.1
Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	2,971.2	2,706.4
Tier 1 capital	2,971.2	2,708.1
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	2,971.2	2,706.4
Total capital	3,310.9	3,062.3
Total capital as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	3,310.9	3,060.6
<b>Risk-weighted assets</b>		
Total Risk-weighted assets	17,665.2	16,175.6
Total Risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	17,665.2	16,173.2
<b>Capital Ratios</b>		
Common Equity Tier 1 (as percentage of risk exposure amount)	16.8%	16.7%
Common Equity Tier 1 (as percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	16.8%	16.7%
Tier 1 (as percentage of risk exposure amount)	16.8%	16.7%
Tier 1 (as percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	16.8%	16.7%
Total Capital (as percentage of risk exposure amount)	18.7%	18.9%
Total Capital (as percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	18.7%	18.9%
<b>UK Leverage ratio</b>		
Leverage ratio total exposure measure	50,280.1	46,254.2
Leverage ratio total exposure measure as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	50,280.1	46,254.2
Leverage ratio	5.9%	5.9%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	5.9%	5.9%
<b>CRR Leverage ratio</b>		
Leverage ratio total exposure measure	55,655.9	50,579.1
Leverage ratio total exposure measure as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	55,655.9	50,579.1
Leverage ratio	5.3%	5.4%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangement had not been applied	5.3%	5.4%

Further details of the impact of IFRS 9 can be found in the Group Annual Report and Accounts, included in Note 1.

### 3.11 Stress Testing Results

Stress Testing is fundamental to the Society's risk management framework and is used to quantify and understand immediate risks and identify emerging risks on an ongoing basis. The Society performs stress testing on a regular and frequent basis which captures idiosyncratic, market wide and combined stress scenarios. Scenarios are guided and approved by senior management at the Asset & Liability Committee & Board with results discussed at all levels including Group Risk Committee & Board.

The Society does not participate in the Bank of England's Concurrent Stress Testing regime (CST); however the Society has sufficient risk management capability to capture all material risks outlined in the Bank of England's Annual Cyclical Scenario (ACS). For that reason, the Society has modelled the 2021 ACS, through its stress testing framework, as a worst-case severe but plausible scenario.

Amongst other severely adverse economics, the stress features a severe path for the economy in 2021–25 on top of the economic shock associated with the Covid pandemic that occurred in 2020. When combined with the economic shocks already seen in 2020 it implies a cumulative three-year loss (with respect to the pre-Covid baseline) of 37% of 2019 UK GDP. On a start-to-trough basis, UK residential property prices fall by 33% in the stress scenario and UK unemployment rises by 5.6% to peak at 11.9%.

At all times throughout the stress, the Society's capital ratios remain within risk appetite and minimum regulatory requirements. No strategic management actions are required and no conversion triggers are reached on capital instruments.

Results of the 2021 ACS are presented in table 13a.

Table 13a - Standardised ACS Ratios	Start Point	Worst Point
	%	%
<b>IFRS 9 Transitional</b>		
CET1 Ratio	16.7%	14.4%
Tier 1 Ratio	16.7%	14.4%
Total Capital Ratio <sup>1</sup>	18.9%	16.2%
Leverage Ratio (UK)	5.9%	5.9%
<b>IFRS 9 Non-Transitional</b>		
CET1 Ratio	16.7%	14.3%
Tier 1 Ratio	16.7%	14.3%
Total Capital Ratio	18.9%	16.1%
Leverage Ratio (UK)	5.9%	5.9%

### 3.12 CRR Transitional Elements

This section is intended to assist in understanding how the phase out of remaining transitional elements under CRR will affect the Society's capital position. The table below shows the capital position under CRR rules at the balance sheet date, and on a final rules basis (applying the final CRD IV rules without transitional elements, as the rules will stand in 2022). All figures are as at 31 December 2021. Please note that these figures do not incorporate any elements of 'CRR2' or the UK equivalent implementation including the new Standardised Approach to Counterparty Credit Risk (SA-CCR). This shows any remaining transitional elements that were in place under the CRR at the point the UK exited the European Union. As the



remaining transition elements relate to grandfathering of capital instruments that are non-compliant with CRR, and the Society did not have any such instruments outstanding in 2021, there is no impact on the reported figures.

Table 14 - CRD IV Capital Position	Transitional	Final Rules
	£m	£m
<b>Common Equity Tier 1 (CET1)</b>		
General reserve	3,051.3	3,051.3
<b>Regulatory adjustments:</b>		
Fair value through other comprehensive income reserve	21.1	21.1
Cash flow hedge reserve	10.4	10.4
Pension scheme adjustment	(80.9)	(80.9)
<b>CET1 deductions:</b>		
Prudent Valuation Adjustment	(4.8)	(4.8)
Intangible fixed assets	(16.5)	(16.5)
IFRS 9 transitional arrangements	-	-
Cash flow hedge reserve	(10.4)	(10.4)
<b>Total CET1 capital</b>	<b>2,970.2</b>	<b>2,970.2</b>
<b>Total Tier 1 capital</b>	<b>2,970.2</b>	<b>2,970.2</b>
<b>Tier 2 (T2) Capital</b>		
Subordinated liabilities	324.7	324.7
General credit risk adjustments	-	-
<b>Total Tier 2 capital</b>	<b>324.7</b>	<b>324.7</b>
<b>Total Regulatory Capital</b>	<b>3,294.9</b>	<b>3,294.9</b>
Secondary Non-Preferential liabilities (SNP) <sup>1</sup>	522.5	522.5
Tier 2 MREL Eligible	10.6	10.6
<b>Total MREL Resources</b>	<b>3,828.0</b>	<b>3,828.0</b>
<b>Total RWAs</b>	<b>17,631.0</b>	<b>17,631.0</b>
CET1 Ratio	16.8%	16.8%
Tier 1 Ratio	16.8%	16.8%
Total Capital Ratio	18.7%	0.0%
Total MREL Resources Ratio	21.7%	0.0%
Leverage Ratio (UK framework)	5.9%	5.9%
Leverage Ratio (CRR framework)	5.3%	5.3%
MREL Leverage Ratio	7.6%	7.6%

<sup>1</sup> SNP is not regulatory capital, it is an MREL resource used to meet MREL requirements

### 3.13 Internal Capital Adequacy Assessment Process (ICAAP)

The Society undertakes the ICAAP at least annually, which is an internal assessment of its capital requirement. In performing the ICAAP, the Society considers the key risks to which it is exposed, and the levels of capital and other financial resources that should be held to safeguard the interests of its members and depositors, particularly during times of stress.

This process includes:

- Identification by senior managers of the relevant risk categories for the Society.
- Establishment, under the sponsorship of senior management, of separate work streams to consider each risk category in detail.
- Analysis of the risks within each work stream, involving relevant personnel from across the business, with this being documented in individual risk assessment documents.
- Consideration of whether capital is an appropriate mitigant to the risk. Where this is deemed to be the case, capital requirements are calculated based on the results of stress testing for each risk category. Where capital is not deemed appropriate to mitigate a particular risk, alternative management actions are identified and described within the risk assessment. For certain risks where capital is not an appropriate mitigant, the holding of liquidity can be used to mitigate the risk. In these cases, the risk is considered in more depth as part of the Individual Liquidity Adequacy Assessment Process (ILAAP).
- Approval of individual risk assessment documents by the relevant sponsor.
- Calculation of an appropriate PRA Buffer to absorb a “severe but plausible” economic stress event over the Society’s planning horizon, should such a scenario materialise, thereby ensuring minimum capital requirements are maintained.
- Documentation of the overall process.
- The final assessment is presented to Asset and Liability Committee (ALCO) and Executive Risk Committee (ERC) before being presented to Group Risk Committee (GRC) and the Board (with whom ultimate responsibility lies) for challenge and approval.

Further information on the material risks identified as part of the ICAAP can be found in sections 5, 6 and 7 of this document.

## 4 Risk Management

The activities of financial institutions inevitably involve a degree of risk taking. The Society's ability to properly identify, measure, monitor and report risk is critical to its soundness and its ability to provide value and fair outcomes to its membership and customers. The Society's risk management framework and governance structures are intended to provide appropriate and comprehensive monitoring, control and ongoing management of the major risks to which the Society is exposed. These are fully set out in the Strategic Report and the Risk Management Report in the Group Annual Report and Accounts.

## 5 Credit Risk

### 5.1 Credit Risk Overview

Credit risk is the potential risk of financial loss arising from the failure of a customer or other counterparty to settle their financial and contractual obligations as they fall due.

For the purposes of Pillar 3 disclosures, credit risk is sub-divided into loans secured by mortgages on immovable property and wholesale (treasury). Details of the Society's risk management and governance practices can be found in the Risk Management Report in the Group Annual Report and Accounts, with further details of exposures included in Notes 31 and 32.

### 5.2 Credit Risk Exposures

The gross credit risk exposure (based on the definitions for regulatory capital purposes, before impairment provision and credit risk mitigation such as collateral held and government guarantees) and the average for the year is summarised as follows:

Table 15 - Credit Risk Exposure	Average during 2021	Dec 2021	Average during 2020	Dec 2020
	£m	£m	£m	£m
<b>Loans secured by mortgages on immovable property</b>				
Loans to individuals	40,762.2	42,179.5	37,865.2	38,744.9
Commercial lending (including SME)	725.1	969.6	502.3	500.4
<b>Total loans secured on immovable property exposure</b>	<b>41,487.3</b>	<b>43,149.1</b>	<b>38,367.5</b>	<b>39,245.3</b>
<b>Wholesale</b>				
Securitisation positions	85.3	88.4	58.3	62.8
Central governments or central banks	13,413.5	15,063.8	10,691.1	13,579.5
Covered bonds	945.0	960.7	816.2	787.5
Financial institutions	2,497.1	2,631.5	2,047.9	2,356.0
Multilateral Development Banks	712.0	651.9	457.4	563.8
Public Sector Entities	415.7	427.0	329.8	330.7
Short term claims on institutions and corporates	105.8	99.3	133.2	140.7
<b>Total wholesale exposure</b>	<b>18,174.4</b>	<b>19,922.6</b>	<b>14,533.9</b>	<b>17,821.0</b>
<b>Retail</b>				
Current accounts	-	-	-	-
Personal loans	-	-	-	-
<b>Total retail exposure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other assets exposure</b>	<b>386.1</b>	<b>331.7</b>	<b>511.7</b>	<b>575.8</b>
<b>Total credit risk exposure</b>	<b>60,047.8</b>	<b>63,403.4</b>	<b>53,413.1</b>	<b>57,642.1</b>

The section below gives a detailed breakdown of the material risk categories. A further geographical analysis of loans secured by mortgages on immovable property is disclosed in Note 32 to the Group Annual Report and Accounts.

The geographical distribution of the Society's exposures is as follows.

Table 16a - Credit Risk Exposure - Geographic Distribution	UK	Other European Countries	North America	Rest of the World	Total
2021	£m	£m	£m	£m	£m
<b>Loans secured by mortgages on immovable property</b>					
Loans to individuals	42,162.2	17.3	-	-	42,179.5
Commercial lending (including SME)	969.6	-	-	-	969.6
<b>Total loans secured on immovable property</b>	<b>43,131.8</b>	<b>17.3</b>	<b>-</b>	<b>-</b>	<b>43,149.1</b>
<b>Wholesale</b>					
Securitisation positions	88.4	-	-	-	88.4
Central governments or central banks	14,924.4	47.8	-	91.6	15,063.8
Covered bonds	960.7	-	-	-	960.7
Financial institutions	1,439.1	614.1	536.3	42.0	2,631.5
Multilateral Development Banks	-	246.8	-	405.1	651.9
Public sector entities	-	427.0	-	-	427.0
Short-term claims on institutions and corporates	95.5	-	3.8	-	99.3
<b>Total wholesale credit exposure</b>	<b>17,508.1</b>	<b>1,335.7</b>	<b>540.1</b>	<b>538.7</b>	<b>19,922.6</b>
<b>Total credit risk exposure (excl. other assets)</b>	<b>60,639.9</b>	<b>1,353.0</b>	<b>540.1</b>	<b>538.7</b>	<b>63,071.7</b>

Table 16b - Credit Risk Exposure - Geographic Distribution	UK	Other European Countries	North America	Rest of the World	Total
2020	£m	£m	£m	£m	£m
<b>Loans secured by mortgages on immovable property</b>					
Loans to individuals	38,723.1	21.8	-	-	38,744.9
Commercial lending (including SME)	500.4	-	-	-	500.4
<b>Total loans secured on immovable property</b>	<b>39,223.5</b>	<b>21.8</b>	<b>-</b>	<b>-</b>	<b>39,245.3</b>
<b>Wholesale</b>					
Securitisation positions	62.8	-	-	-	62.8
Central governments or central banks	13,579.5	-	-	-	13,579.5
Covered bonds	787.5	-	-	-	787.5
Financial institutions	1,509.6	357.0	489.4	-	2,356.0
Multilateral Development Banks	-	240.9	-	322.9	563.8
Public Sector Entities	-	330.7	-	-	330.7
Short-term claims on institutions and corporates	112.1	-	28.6	-	140.7
<b>Total wholesale credit exposure</b>	<b>16,051.5</b>	<b>928.6</b>	<b>518.0</b>	<b>322.9</b>	<b>17,821.0</b>
<b>Total credit risk exposure (excl. retail and other assets)</b>	<b>55,275.0</b>	<b>950.4</b>	<b>518.0</b>	<b>322.9</b>	<b>57,066.3</b>

The residual maturity of exposures is as follows.

Table 17a - Credit Risk Exposure - Residual Maturity 2021	Up to 12 months	1 to 5 years	5 to 10 years	> than 10 years	Total
	£m	£m	£m	£m	£m
<b>Loans secured by mortgages on immovable property</b>					
Loans to individuals	148.5	1,070.2	3,261.9	37,698.9	42,179.5
Commercial lending (including SME)	23.9	47.4	380.6	517.7	969.6
<b>Total loans secured on immovable property</b>	<b>172.4</b>	<b>1,117.6</b>	<b>3,642.5</b>	<b>38,216.6</b>	<b>43,149.1</b>
<b>Wholesale</b>					
Securitisation positions	-	-	-	88.4	88.4
Central governments or central banks	5,531.3	91.6	225.6	9,215.3	15,063.8
Covered bonds	36.1	702.1	222.5	-	960.7
Financial institutions	228.2	800.5	498.3	1,104.5	2,631.5
Multilateral Development Banks	-	446.0	205.9	-	651.9
Public Sector Entities	80.5	312.2	34.3	-	427.0
Short-term claims on institutions and corporates	99.3	-	-	-	99.3
<b>Total wholesale exposure</b>	<b>5,975.4</b>	<b>2,352.4</b>	<b>1,186.6</b>	<b>10,408.2</b>	<b>19,922.6</b>
<b>Total credit risk exposure (excl. other assets)</b>	<b>6,147.8</b>	<b>3,470.0</b>	<b>4,829.1</b>	<b>48,624.8</b>	<b>63,071.7</b>

Table 17b - Credit Risk Exposure - Residual Maturity 2020	Up to 12 months	1 to 5 years	5 to 10 years	> than 10 years	Total
	£m	£m	£m	£m	£m
<b>Loans secured by mortgages on immovable property</b>					
Loans to individuals	341.4	1,085.3	3,224.3	34,093.9	38,744.9
Commercial lending (including SME)	21.7	19.8	74.8	384.1	500.4
<b>Total loans secured on immovable property</b>	<b>363.1</b>	<b>1,105.1</b>	<b>3,299.1</b>	<b>34,478.0</b>	<b>39,245.3</b>
<b>Wholesale</b>					
Securitisation positions	-	-	-	62.8	62.8
Central governments or central banks	12,997.2	-	134.6	447.7	13,579.5
Covered bonds	89.2	581.1	117.2	-	787.5
Financial institutions	181.4	530.1	233.1	1,411.4	2,356.0
Multilateral Development Banks	45.3	275.7	242.8	-	563.8
Public Sector Entities	-	312.5	18.2	-	330.7
Short-term claims on institutions and corporates	140.7	-	-	-	140.7
<b>Total wholesale exposure</b>	<b>13,453.8</b>	<b>1,699.4</b>	<b>745.9</b>	<b>1,921.9</b>	<b>17,821.0</b>
<b>Total credit risk exposure (excl. retail and other assets)</b>	<b>13,816.9</b>	<b>2,804.5</b>	<b>4,045.0</b>	<b>36,399.9</b>	<b>57,066.3</b>

The maturity of exposures is shown on a contractual basis, and it does not take into account any instalments receivable over the life of the exposure.

The risk weighted distribution of exposures on a Group and Solo basis are shown in Table 18 below.

Table 18a - Credit Risk Exposure - Group													2021	
Risk Weight	0%	2%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted	Total	Of which unrated	
Exposure Class	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Central governments or central banks	15,063.8	-	-	-	-	-	-	-	-	-	-	15,063.8	-	
Public sector entities	427.0	-	-	-	-	-	-	-	-	-	-	427.0	-	
Multilateral development banks	651.9	-	-	-	-	-	-	-	-	-	-	651.9	-	
Institutions	-	661.1	-	699.3	-	1,271.1	-	-	-	-	-	2,631.5	-	
Covered bonds	-	-	960.7	-	-	-	-	-	-	-	-	960.7	-	
Secured by mortgages on immovable property	-	-	-	-	41,437.3	-	358.7	1,206.8	-	-	-	43,002.8	-	
Exposures in default	-	-	-	-	-	-	-	146.0	0.3	-	-	146.3	-	
Institutions and corporates with a short-term credit assessment	-	-	-	99.3	-	-	-	-	-	-	-	99.3	-	
Other items <sup>1</sup>	120.8	-	88.4	-	-	-	-	210.9	-	0.0	-	420.1	-	
<b>Total</b>	<b>16,263.5</b>	<b>661.1</b>	<b>1,049.1</b>	<b>798.6</b>	<b>41,437.3</b>	<b>1,271.1</b>	<b>358.7</b>	<b>1,563.7</b>	<b>0.3</b>	<b>0.0</b>	<b>-</b>	<b>63,403.4</b>	<b>-</b>	

<sup>1</sup>Other items include securitisation positions and other asset exposure

Table 18b - Credit Risk Exposure - Group													2020	
Risk Weight	0%	2%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted	Total	Of which unrated	
Exposure Class	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Central governments or central banks	13,579.5	-	-	-	-	-	-	-	-	-	-	13,579.5	-	
Public sector entities	330.7	-	-	-	-	-	-	-	-	-	-	330.7	-	
Multilateral development banks	563.8	-	-	-	-	-	-	-	-	-	-	563.8	-	
Institutions	-	682.1	-	608.0	-	1,065.9	-	-	-	-	-	2,356.0	-	
Covered bonds	-	-	787.5	-	-	-	-	-	-	-	-	787.5	-	
Secured by mortgages on immovable property	-	-	-	-	38,019.7	-	397.5	674.4	-	-	-	39,091.6	-	
Exposures in default	-	-	-	-	-	-	-	153.5	0.2	-	-	153.7	-	
Institutions and corporates with a short-term credit assessment	-	-	-	140.7	-	-	-	-	-	-	-	140.7	-	
Other items <sup>1</sup>	91.0	-	62.8	-	-	-	-	478.7	-	6.1	-	638.6	-	
<b>Total</b>	<b>14,565.0</b>	<b>682.1</b>	<b>850.3</b>	<b>748.7</b>	<b>38,019.7</b>	<b>1,065.9</b>	<b>397.5</b>	<b>1,306.6</b>	<b>0.2</b>	<b>6.1</b>	<b>-</b>	<b>57,642.1</b>	<b>-</b>	

<sup>1</sup> Other items include securitisation positions and other asset exposure



Table 18c - Credit Risk Exposure - Solo													2021	
Risk Weight	0%	2%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted	Total	Of which unrated	
Exposure Class	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Central governments or central banks	15,063.8	-	-	-	-	-	-	-	-	-	-	15,063.8	-	
Public sector entities	427.0	-	-	-	-	-	-	-	-	-	-	427.0	-	
Multilateral development banks	651.9	-	-	-	-	-	-	-	-	-	-	651.9	-	
Institutions	-	661.1	-	699.3	-	1,271.1	-	-	-	-	-	2,631.5	-	
Covered bonds	-	-	960.7	-	-	-	-	-	-	-	-	960.7	-	
Secured by mortgages on immovable property	-	-	-	-	41,437.3	-	358.7	1,206.8	-	-	-	43,002.8	-	
Exposures in default	-	-	-	-	-	-	-	146.0	0.3	-	-	146.3	-	
Institutions and corporates with a short-term credit assessment	-	-	-	99.1	-	-	-	-	-	-	-	99.1	-	
Other items <sup>1</sup>	3,475.0	-	88.4	-	-	-	-	252.4	-	0.0	-	3,815.8	-	
<b>Total</b>	<b>19,617.7</b>	<b>661.1</b>	<b>1,049.1</b>	<b>798.4</b>	<b>41,437.3</b>	<b>1,271.1</b>	<b>358.7</b>	<b>1,605.2</b>	<b>0.3</b>	<b>0.0</b>	<b>-</b>	<b>66,798.9</b>	<b>-</b>	

<sup>1</sup>Other items include securitisation positions and other asset exposure

Table 18d - Credit Risk Exposure - Solo													2020	
Risk Weight	0%	2%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted	Total	Of which unrated	
Exposure Class	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Central governments or central banks	13,579.5	-	-	-	-	-	-	-	-	-	-	3,579.5	-	
Public sector entities	330.7	-	-	-	-	-	-	-	-	-	-	330.7	-	
Multilateral development banks	563.8	-	-	-	-	-	-	-	-	-	-	563.8	-	
Institutions	-	682.1	-	608.0	-	1,065.9	-	-	-	-	-	2,356.0	-	
Covered bonds	-	-	787.5	-	-	-	-	-	-	-	-	787.5	-	
Secured by mortgages on immovable property	-	-	-	-	38,019.7	-	397.5	674.4	-	-	-	39,091.6	-	
Exposures in default	-	-	-	-	-	-	-	153.5	0.2	-	-	153.7	-	
Institutions and corporates with a short-term credit assessment	-	-	-	140.5	-	-	-	-	-	-	-	140.5	-	
Other items <sup>1</sup>	3,597.4	-	62.8	-	-	-	-	492.1	-	6.1	-	4,158.4	-	
<b>Total</b>	<b>18,071.4</b>	<b>682.1</b>	<b>850.3</b>	<b>748.5</b>	<b>38,019.7</b>	<b>1,065.9</b>	<b>397.5</b>	<b>1,320.0</b>	<b>0.2</b>	<b>6.1</b>	<b>-</b>	<b>61,161.7</b>	<b>-</b>	

<sup>1</sup>Other items include securitisation positions and other asset exposure

For the purposes of generating risk weightings for its wholesale and securitisation exposures, the Society uses Fitch and Moody's as External Credit Assessment Institutions (ECAIs), using a composite rating where a counterparty is rated by more than one agency. The following tables show the exposure values associated with each credit quality step for wholesale exposures under the standardised approach:

Table 19a - Sovereign Exposure Credit Quality Steps					2021	
Central Government, Central Banks, MDBs and PSEs						
Credit Quality Step	Risk Weight (< 3 months / > 3 months)	Fitch Rating	Moody's Rating	Exposure	Exposure after Mitigation <sup>1</sup>	
				£m	£m	
1	0%/0%	AAA to AA-	Aaa to Aa3	16,142.8	10,360.6	
<b>Total</b>				<b>16,142.8</b>	<b>10,360.6</b>	

Table 19b - Sovereign Exposure Credit Quality Steps					2020	
Central Government, Central Banks, MDBs and PSEs						
Credit Quality Step	Risk Weight (< 3 months / > 3 months)	Fitch Rating	Moody's Rating	Exposure	Exposure after Mitigation <sup>1</sup>	
				£m	£m	
1	0%/0%	AAA to AA-	Aaa to Aa3	14,474.0	8,502.9	
<b>Total</b>				<b>14,474.0</b>	<b>8,502.9</b>	

Table 20a - Wholesale Exposure Credit Quality Steps					2021	
Financial Institutions, Covered Bonds and Short-term claims						
Credit Quality Step	Risk Weight (< 3 months / > 3 months)	Fitch Rating	Moody's Rating	Exposure	Exposure after Mitigation <sup>1</sup>	
				£m	£m	
1	20%/20%	AAA to AA-	Aaa to Aa3	1,753.3	1,655.5	
2	20%/50%	A+ to A-	A1 to A3	1,881.7	1,058.8	
3	20%/50%	BBB+ to BBB-	Baa1 to Baa3	56.5	56.5	
<b>Total</b>				<b>3,691.5</b>	<b>2,770.8</b>	

Table 20b - Wholesale Exposure Credit Quality Steps					2020	
Financial Institutions, Covered Bonds and Short-term claims						
Credit Quality Step	Risk Weight (< 3 months / > 3 months)	Fitch Rating	Moody's Rating	Exposure	Exposure after Mitigation <sup>1</sup>	
				£m	£m	
1	20%/20%	AAA to AA-	Aaa to Aa3	1,500.7	1,046.6	
2	20%/50%	A+ to A-	A1 to A3	1,717.8	1,008.9	
3	20%/50%	BBB+ to BBB-	Baa1 to Baa3	65.7	65.7	
<b>Total</b>				<b>3,284.2</b>	<b>2,121.2</b>	

<sup>1</sup> Mitigation recognises the benefit of collateral held and government guarantees against these investments – see Section 5.6.2 Credit Risk Mitigation: Wholesale

Included within the 2021 exposures above, is approximately £384.3m (31 December 2020: £340.7m) of exposures after mitigation (rated at A+) that relate to centrally cleared counterparties. The exposures have been risk weighted at 2% as per CRR rules.

## 5.3 Securitisation Positions

### Issued Securitisations

The Society uses securitisation activities to raise wholesale funding directly and to create collateral which can be used to source additional funding. It has securitised certain mortgage loans by transferring the loans to special purpose entities (SPEs) under the 'Brass' and 'Tombac' securitisation programmes. The SPEs are fully consolidated into the Group accounts.

The transfer of the mortgage loans to the SPEs are not treated as sales by the Society and therefore no gains or losses are recognised, as these structures were not intended to achieve significant transfer of credit risk away from the Society. The Society continues to recognise the mortgage loans on its own balance sheet after the transfer because the risks relating to the underlying mortgage pools, and rewards through the receipt of substantially all of the profits or losses on the securitised loans, remain with the Society and are included in the 'secured by mortgages on immovable property' sections detailed in this document. These assets are held at amortised cost.

There are no specific capital requirements for the securitisation vehicles. As there has not been a transfer of significant credit risk, the Society does not calculate risk weighted asset amounts for any positions it holds in the securitisations and these continue to be calculated in line with capital requirements applied to the underlying mortgage assets. The risks relating to the underlying mortgage pools remain with the Society and are included in the residential mortgage tables detailed throughout this document. Note 28 to the Group Annual Report and Accounts provides more information on the securitisation programme.

The Society has also retained notes from its securitisation issues to be used as collateral for use in sale and repurchase agreements or central bank operations. Investments in self-issued notes and the equivalent 'deemed loan', together with the related income, expenditure and cash-flows are not recognised in the Group's consolidated accounts. This avoids the 'grossing-up' of the financial statements that would otherwise arise. Under the terms of the securitisation programmes, the debt securities in issue are redeemed accordant with the pledged mortgages.

To manage currency and interest rate risk the SPEs enter into derivative transactions. Treatment of derivatives relating to securitisations can be found in Note 1 to the Group Annual Report and Accounts. To manage market and credit risk, the securitisation management meeting undertakes monthly monitoring of the portfolio, including a review of statistics of the underlying asset pools and compliance with structural tests where applicable using the investor reports published for each of the securities.

The SPEs also represent a liquidity risk to the Society due to legal covenants which need to be fulfilled in the event of a downgrade of the Society's credit ratings. The cash flows resulting from these covenants are in respect of amounts required to collateralise derivatives, based on rating agency methodologies. In the event that the Society is downgraded, funds may need to be deposited externally with, or a guarantee obtained from, a suitably rated institution. The cash flows required in the event of downgrade are considered in the Society's ILAAP.

The Society, including any subsidiary, is under no obligation to support any losses that may be incurred by the securitisation programmes or holders of the notes issued, and does not intend to provide such support.

A total of £12.3bn (31 December 2020: £7.8bn) of mortgage loans are currently pledged to the Brass and Tombac securitisation programmes.

For mortgage loans securitised by the Society for the Brass and Tombac programmes as at 31 December 2021, 148 accounts were past due, with a balance of £24.8m. No loss was incurred in the securitisation programmes during the year.

As at 31 December 2021, the nominal value of outstanding debt securities issued through the securitisation programmes was £13.0bn sterling equivalent (2020: £8.5bn) of which £12.2bn (2020: £7.8bn) was retained by the Society. The listed notes issued by the securitisation programmes are rated by Moody's and Fitch as Aaa(sf)/AAA(sf) respectively.

## Purchased Securitisations

The Society's exposures listed below relate to purchased securitisation positions. As at December 2021 the Society has no exposure to purchased resecuritisations.

Table 21 - Securitisation Positions by Investment Type	Exposure Values	
	2021	2020
	£m	£m
UK Prime RMBS	88.4	62.8
<b>Total</b>	<b>88.4</b>	<b>62.8</b>

The following table shows the Society's aggregate exposure to purchased securitisations, split by their associated credit quality steps:

Table 22a - Securitised Positions Exposure Credit Quality Steps				2021
Credit Quality Step	Risk Weight	Fitch Rating	Moody's Rating	Exposure
				£m
1	10%	AAA to AA-	Aaa to Aa3	88.4
<b>Total</b>				<b>88.4</b>

Table 22b - Securitised Positions Exposure Credit Quality Steps				2020
Credit Quality Step	Risk Weight	Fitch Rating	Moody's Rating	Exposure
				£m
1	10%	AAA to AA-	Aaa to Aa3	62.8
<b>Total</b>				<b>62.8</b>

## 5.4 Impairment Provisions

### 5.4.1 Loans Secured by Mortgages on Immovable Property

Further details of the Society's accounting policy for impairment losses on loans and advances to customers is given in Note 1 to the Group Annual Report and Accounts.

Post model adjustments (PMA) have been applied where an increase in credit risk is identified that is not effectively captured in the core expected credit loss models. 2021 has seen a rapidly changing macro-economic environment and there has therefore been an increased focus on identifying and quantifying the resulting risks and exposures. There has also been a rigorous review of previously applied PMAs to determine whether the risks identified are still applicable. These PMA's have been included in the below figures and further details on the impact of COVID-19 can be found in Note 32 of the Annual Report & Accounts.

The following tables show the balances of loans secured on both residential (individuals) and commercial immovable property, and related impairment provision, fair value credit adjustments and PMA, as at 31 December 2021. It should be noted that the figures below show the balances used for provisioning as opposed to capital exposure values (which include potential exposure due to undrawn facilities and pipeline business that do not appear on balance sheet) and therefore do not match the totals in the capital exposure tables in previous sections.

Table 23a - Loans Secured on Immovable Property 2021	Stage 1	Stage 2	Of which < 30 DPD	Of which > 30 DPD	Stage 3	Stage 3 POCI	Total
Individuals	£m	£m	£m	£m	£m	£m	£m
Customer balance	36,765.3	3,776.5	3,685.9	90.6	359.7	425.6	41,327.1
Impairment provision	5.3	14.3	13.3	1.0	11.6	(7.4)	23.8
Fair value provision	-	1.7	1.6	0.1	3.5	22.7	27.9
<b>Carrying value</b>	<b>36,760.0</b>	<b>3,760.5</b>	<b>3,671.0</b>	<b>89.5</b>	<b>344.6</b>	<b>410.3</b>	<b>41,275.4</b>
<b>Coverage ratio</b>	<b>0.0%</b>	<b>0.4%</b>	<b>0.4%</b>	<b>1.2%</b>	<b>4.2%</b>	<b>3.6%</b>	<b>0.1%</b>

Table 23b - Loans Secured on Immovable Property 2021	Stage 1	Stage 2	Of which < 30 DPD	Of which > 30 DPD	Stage 3	Stage 3 POCI	Total
Commercial including SME	£m	£m	£m	£m	£m	£m	£m
Customer balance	839.5	23.9	23.3	0.6	6.5	14.5	884.4
Impairment provision	0.3	1.5	1.4	0.1	0.2	0.3	2.3
Fair value provision	-	-	-	-	0.1	0.4	0.5
<b>Carrying value</b>	<b>839.2</b>	<b>22.4</b>	<b>21.9</b>	<b>0.5</b>	<b>6.2</b>	<b>13.8</b>	<b>881.6</b>
<b>Coverage ratio</b>	<b>0.0%</b>	<b>6.3%</b>	<b>6.0%</b>	<b>10.9%</b>	<b>4.6%</b>	<b>4.8%</b>	<b>0.3%</b>

Table 23c - Loans secured on immovable property 2021	Stage 1	Stage 2	Of which < 30 DPD	Of which > 30 DPD	Stage 3	Stage 3 POCI	Total
Total	£m	£m	£m	£m	£m	£m	£m
Customer balance	37,604.8	3,800.4	3,709.2	91.2	366.2	440.1	42,211.5
Impairment provision	5.6	15.8	14.7	1.1	11.8	(7.1)	26.1
Fair value provision	-	1.7	1.6	0.1	3.6	23.1	28.4
Unstaged PMA	-	-	-	-	-	-	-
<b>Carrying value</b>	<b>37,599.2</b>	<b>3,782.9</b>	<b>3,692.9</b>	<b>90.0</b>	<b>350.8</b>	<b>424.1</b>	<b>42,157.0</b>
<b>Coverage ratio</b>	<b>0.0%</b>	<b>0.5%</b>	<b>0.4%</b>	<b>1.3%</b>	<b>4.2%</b>	<b>3.6%</b>	<b>0.1%</b>

Table 23d - Loans Secured on Immovable Property 2020	Stage 1	Stage 2	Of which < 30 DPD	Of which > 30 DPD	Stage 3	Stage 3 POCI	Total
Individuals	£m	£m	£m	£m	£m	£m	£m
Customer balance	34,126.1	2,494.7	2,373.2	121.5	301.4	495.8	37,418.0
Impairment provision	3.5	22.2	18.4	3.8	10.2	-	35.9
Fair value provision	-	1.1	1.0	0.1	4.7	25.5	31.3
<b>Carrying value</b>	<b>34,122.6</b>	<b>2,471.4</b>	<b>2,353.8</b>	<b>117.6</b>	<b>286.5</b>	<b>470.3</b>	<b>37,350.8</b>
<b>Coverage ratio</b>	<b>0.0%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>3.2%</b>	<b>4.9%</b>	<b>5.1%</b>	<b>0.2%</b>

Table 23e - Loans Secured on Immovable Property 2020	Stage 1	Stage 2	Of which < 30 DPD	Of which > 30 DPD	Stage 3	Stage 3 POCI	Total
	£m	£m	£m	£m	£m	£m	£m
Commercial including SME							
Customer balance	1,102.8	61.9	61.9	-	7.3	19.6	1,191.6
Impairment provision	0.5	3.9	3.9	-	0.3	0.3	5.0
Fair value provision	-	-	-	-	0.2	0.6	0.8
<b>Carrying value</b>	<b>1,102.3</b>	<b>58.0</b>	<b>58.0</b>	<b>-</b>	<b>6.8</b>	<b>18.7</b>	<b>1,185.8</b>
<b>Coverage ratio</b>	<b>0.0%</b>	<b>6.3%</b>	<b>6.3%</b>	<b>0.1%</b>	<b>6.8%</b>	<b>4.6%</b>	<b>0.5%</b>

Table 23f - Loans secured on immovable property 2020	Stage 1	Stage 2	Of which < 30 DPD	Of which > 30 DPD	Stage 3	Stage 3 POCI	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Total</b>							
Customer balance	35,228.9	2,556.6	2,435.1	121.5	308.7	515.4	38,609.6
Impairment provision	4.0	26.1	22.3	3.8	10.5	0.3	40.9
Fair value provision	-	1.1	1.0	0.1	4.9	26.1	32.1
Unstaged PMA	-	-	-	-	-	-	3.0
<b>Carrying value</b>	<b>35,224.9</b>	<b>2,529.4</b>	<b>2,411.8</b>	<b>117.6</b>	<b>293.3</b>	<b>489.0</b>	<b>38,533.6</b>
<b>Coverage ratio</b>	<b>0.0%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>3.2%</b>	<b>5.0%</b>	<b>5.1%</b>	<b>0.2%</b>

At each reporting date the Society assesses individual financial assets for impairment. Under IFRS 9, this assessment is based on a forward looking Expected Credit Loss (ECL) approach for financial assets classified at amortised cost and fair value through other comprehensive income.

At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is required for expected credit losses ('ECL') resulting from default events projected within the next 12 months ('12-month ECL'). Subsequently, financial assets are considered to be in 'stage 2' when they are deemed to have experienced a significant increase in credit risk (SICR) since initial recognition so it is appropriate to recognise lifetime ECL. The Society assesses a SICR to have occurred when the accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to initial recognition, and where the PD for retail mortgages is derived based on the customer's credit quality, including analysis of behaviour score and other account characteristics.

The threshold applied to assess whether a significant relative increase has occurred will depend on the credit quality at initial recognition, with a lower percentage change in PD being required for higher risk accounts. For non-retail portfolios, the Society assesses a significant increase in credit risk using a combination of individual and collective information, including monitoring through the watch list process.

Financial assets are included in 'stage 3' when there is objective evidence that the loan is credit impaired, with expected credit losses still calculated on a lifetime basis. The objective evidence that is used to determine whether a loan is impaired is whether they are more than 90 days past due (DPD), have been renegotiated for credit risk reasons, or otherwise considered to be in default (including possession, insolvency and assets beyond term expiry). The assets acquired during the mergers with Chelsea Building Society and N&P Building Society, in 2010 and 2011 respectively, were subject to adjustments to reflect their 'fair value' at the time of merger rather than the value at which they were initially recorded in Chelsea or N&P's own records. These adjustments included specific adjustments for assets that were credit impaired at the point of acquisition, referred to in the table above as Purchased or Originated Credit Impaired (POCI). To date, cumulative movements have reduced the expected losses on these POCI loans, generating a negative impairment provision for residential POCI mortgages under the requirements of IFRS 9.

The Society uses forbearance tools where they are deemed appropriate for an individual customer's circumstances, in line with industry guidance. Forbearance tools, which the Society may offer, include capitalisation, interest only concessions, arrears arrangements, direct debit suspension, and term extensions.

Further information on the following areas can be found in the Group Annual Report and Accounts.

Table 24 - For Information on:	Refer to:
Impairment Accounting Policy	Note 1
Summary of changes in provisions and impact on profit	Note 24
Credit Risk Adjustments and Provisions	Note 32
Geographic distribution of retail mortgage balances	Note 32
Accounts in Forbearance	Note 32

#### 5.4.2 Other

As at 31 December 2021, the Society had an impairment provision of £4.0m on joint venture investments, as shown in Note 34 to the Group Annual Report and Accounts.

### 5.5 Credit Risk Concentrations

As a UK residential mortgage lender, the Society is inevitably concentrated in this market. Within this overall concentration however, the Society has put in place controls to mitigate undue concentration risk. Further detail of concentrations can be found in Note 32 to the Group Annual Report and Accounts.

### 5.6 Credit Risk Mitigation

The Society uses a range of techniques to manage the credit risk of its retail, commercial and wholesale lending. The most critical of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. However, the risk is further mitigated by obtaining collateral for the funds advanced.

#### 5.6.1 Loans Secured by Mortgages on Immovable Property

##### Loans to Individuals

Residential property is the Society's main source of collateral and means of mitigating credit risk inherent in its residential mortgage portfolios. The initial value of the collateral is established by way of an internal physical inspection of the property and written report by a qualified Royal Institution of Chartered Surveyors (RICS) surveyor. An Automated Valuation Model (AVM) may be used for up to 80% loan to value owner-occupier re-mortgages or for house purchases (up to 75% loan to value) originated through the Society's intermediary subsidiary Accord's new sales platform.

All residential property must be insured to cover property risks.

##### Commercial Lending

The Society also currently lends to commercial parties through the YBS brand (with a backbook of commercial lending through the N&P brand). All commercial loans are secured by a first charge over a commercial or semi-commercial property and are valued by a panel approved valuer. The property must be insured in line with the amount recommended by the valuer. Where the Society lends to a limited company, a guarantee is obtained from the directors of that company.

The Society also lends to housing associations ('Registered Providers'). All of these loans are secured on a portfolio of completed residential properties and are valued by a panel valuer.



## 5.6.2 Wholesale

The Society, in managing its liquidity and wholesale funding, enters into derivative transactions for risk management purposes and sale and repurchase (repo) transactions, where highly rated assets (typically gilts) are sold with an agreement to repurchase at a specified later date. Daily collateralisation of repo transactions takes place in accordance with the Global Master Repurchase Agreements to mitigate net exposure arising from changes in market value. Similarly, derivatives have Credit Support Annexes (CSAs) in place to ensure they are collateralised to mitigate net mark to market credit exposures.

The Society's legal documentation with its counterparties for derivative transactions grants legal rights of setoff for those transactions. Accordingly, for credit risk exposures purposes, negative market values on derivatives will offset positive market values on derivatives with the same counterparty in the calculation of credit risk, subject to a minimum absolute exposure of zero by counterparty.

International Swaps and Derivatives Association (ISDA) documentation confers the ability to use designated cash collateral to set against derivative credit risk exposures in the event of a counterparty default. Frequent rebalancing of the collateral requirements reduces the potential increase in future credit risk exposure. For such collateralised exposures, the posting of cash collateral reduces the impact of the current market value to the difference between the market value of the derivatives and the value of the collateral. This difference is limited by the operational use of "thresholds" and "minimum transfer amounts", which set criteria to avoid the movement of small amounts of collateral.

Credit risk is further mitigated by mandatory clearing of standard derivatives through the use of Central Counterparties (CCPs). Under central clearing, collateral is exchanged on a daily basis. For more complex derivative trades, the Society enters into ISDA Master Agreements directly with counterparties. These are subject to daily exchange of collateral to better manage counterparty risk.

Further details on wholesale credit risk can be found in Note 31 to the Group Annual Report and Accounts.

## 5.7 Counterparty Credit Risk for Derivative Contracts

The Society uses derivative instruments to hedge interest rate risk, foreign currency risk or other factors of a prescribed description arising from fixed rate mortgage lending and savings products, funding and investment activities. Derivatives are only used by the Society in accordance with the Building Societies Act 1997. This means that such instruments are not used in trading activity or for speculative purposes. Counterparty credit risk in the context of this disclosure is the risk that a counterparty to a derivative instrument could default before the final settlement of the transaction's cash flows.

As described in section 5.6.2, risk is mitigated by offsetting the amounts due to the same counterparties ("netting benefits") and by cash deposited by the counterparties ("collateral held"). The following table shows the exposures to counterparty credit risk for derivative contracts as at 31 December 2021. Where derivative transactions meet eligibility for clearing at CCP, counterparty credit risk is replaced by an exposure against the CCP. Counterparty credit risk exposures are calculated using the mark to market method.

The 'other contracts' element mainly reflects funds provided to counterparties as collateral and the collateral held incorporates the positions that mitigate this exposure.

The net derivatives credit exposure represents the credit exposure to derivative transactions after taking account of legally enforceable netting agreements and collateral arrangements. The total derivatives exposure includes uplifts for potential future exposure under the mark to market method for assessing counterparty credit risk.

If the Society were to be downgraded by a credit ratings agency, there would be no impact on the collateral required to be posted in relation to existing swap agreements, other than those pertaining to securitisations discussed in section 5.3.

Wrong way risk can occur when exposure to counterparty is adversely correlated with the credit quality of that counterparty. As such, there is potential for the exposure to increase as the creditworthiness decreases. The Society mitigates wrong way risk by ensuring that exposures on derivatives are managed via CSA agreements where applicable, are regularly re-margined and are collateralised with cash.

Internally, capital is allocated to counterparty credit risk based on the methods shown above. Credit limits are determined by internal ratings from credit assessment and approved by ALCO.

Table 25 - Counterparty Credit Risk for Derivative Contracts	2021	2020
	£m	£m
Interest rate contracts	943.7	659.6
Foreign exchange contracts	4,037.8	3,973.1
Other contracts	107.8	12.8
<b>Gross positive fair value of contracts</b>	<b>5,089.3</b>	<b>4,645.5</b>
Netting benefits	(4,387.9)	(3,806.7)
<b>Netted current credit exposure</b>	<b>701.4</b>	<b>838.8</b>
Collateral held	(340.3)	(358.4)
<b>Net derivatives credit exposure</b>	<b>361.1</b>	<b>480.4</b>
Add on for potential future exposure	178.5	135.7
<b>Total derivatives exposure</b>	<b>539.6</b>	<b>616.1</b>

## 6 Operational Risk

### 6.1 Operational Risk Overview

The Society has adopted the standardised approach to all operational risks and has defined operational risk as: “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems, or from external events”.

This means that for the calculation of Pillar 1 capital requirements, the Society calculates its average annual income from prescribed business lines over the past three years. Capital is then held to support operational risk for each business line at prescribed rates from 12% to 18% of its average annual relevant income.

Qualitative requirements for the standardised approach to operational risk have been adopted including:

- Board (through its Group Risk Committee) and senior management oversight of the Enterprise Risk Management Framework (ERMF). The ERMF is in place to support the implementation of the Enterprise Risk Management Policy which sets out at a high level the requirements for the Society’s approach to risk management and outlines the responsibilities for the identification and management of these risks.
- Group Risk Committee approved Group wide ERMF in place with framework components including risk appetite setting and monitoring, risk registers, risk assessment, risk response, controls, horizon risks, risk events, Risk & Control Self-Assessment (RCSA), and Second line of defence (2<sup>nd</sup> LoD) oversight.
- Stress testing and scenario analysis activities undertaken to define the level of capital required to recover from a severe stress scenario event, including those relating to the physical and transition risks arising from climate change.
- Board, committee and senior management level reporting on Enterprise and Operational risks with appropriate actions taken as required.

### 6.2 Enterprise Risk Management Framework (ERMF) and Governance

The Enterprise Risk Management Framework has been created in order to support robust yet efficient risk management which has an important and integral role in the Society:

- Delivering against its Strategy within an appropriate culture;
- Being protected from unplanned financial outcomes;
- Being resilient to organisational threats;
- Protecting its customers from unfair outcomes; and
- Demonstrating its credibility to external stakeholders.

The Society operates a ‘three lines of defence’ model towards risk management which seeks to differentiate: those with direct responsibility for the management and control of risk; those with oversight responsibility across the effectiveness and integrity of the enterprise risk management framework; and, those providing independent assurance across the first and second lines of defence.

#### Governance

Oversight and governance arrangements for the setting and management of a robust ERMF are the responsibility of the Board, GRC and ERC. Each committee has a defined Terms of Reference allocating their accountability and responsibilities.

ERC, which is a sub-committee of Group Risk Committee (GRC) from which it has delegated authority, is to ensure the Society’s balance between seeking opportunity and managing risk is appropriate:

- Determining and amending the Society’s risk appetite statements, measures and exposure limits for endorsement by GRC and Board.

- Ensuring that controls are adequately designed and effective to keep the Society within those thresholds.
- Monitoring and reviewing the risk exposures of the Society in accordance with the Enterprise Risk Management Framework, Risk Appetite, Group Strategy and the Corporate Plan.
- Overseeing that the Society operates in accordance with legal and regulatory requirements.
- Ensuring clear reporting of risk exposures to GRC and Board.

The Society has defined nine tier one principal risk categories and nineteen supporting operational and conduct risk tier two categories. A risk and control library has been developed for each category, setting out the key risks to the Society, together with the associated key controls. The libraries support the creation and maintenance of consistently articulated risk and control registers which provide the basis for the Society's Risk and Control Self-Assessment (RCSA) approach.

## 6.3 Operational Risk Oversight and Reporting

### Oversight (2<sup>nd</sup> Line of Defence)

Under the 'three lines of defence' model, the second line of defence function is responsible for overseeing the day to day management of risk by (1<sup>st</sup> Line of Defence). An integrated (2<sup>nd</sup> Line of Defence) plan for formal oversight reviews is considered and approved by GRC on an annual basis.

### Reporting

In order to demonstrate the degree to which risk management has been embedded throughout the organisation, there are a number of reporting mechanisms in place which broadly encompass:

- Current key areas of concern or 'hot topics'.
- The risks with the highest net risk exposure.
- The level of adherence to defined risk appetite.
- Any key control weaknesses / areas for improvement.
- Significant risk events.
- Any concerns in relation to the funding or progress of mitigating actions.

The first line risk functions are responsible for producing risk reports on a monthly basis in support of Division risk committees / forums, covering the above and any Division specific requirements.

The Enterprise Risk Management team compile risk reporting to support the operation of the Executive (Monthly) and Group (Quarterly) Risk Committees. Again this reporting encompasses the matters highlighted above, together with any specific areas of concern for ERC / GRC attention.

### Risk & Control Self-Assessment (RCSA)

The Society operates a RCSA process in order to ensure risks are being effectively controlled both currently and in the future.

RCSA is a self-assessment process conducted by management to review the adequacy and effectiveness of internal controls and assess the risk exposure for their respective areas of responsibility. The frequency of control assessments varies in relation to the performance frequency of the control. Risk assessments are undertaken on a minimum six-monthly basis.

The Society's RCSA process forms the basis for the assessment of risks and controls across the whole Society and is a fundamental part of the ERMF.

The Enterprise Risk Management team summarise the RCSA results for ERC and GRC within the Chief Risk Officers Report and provides a 2nd Line opinion of control performance based upon available data and 2nd Line Oversight.

Further comparison and review of control performance is provided through combined assurance reporting across all three lines of defence and the reporting and monitoring of category level risk management information.

Table 26 below shows the operational risk RWA and capital requirements at a Group level.

Table 26 - EU OR1 - Operational Risk Own Funds Requirements and Risk-Weighted Exposure	2021	2020
Amounts	£m	£m
Operational risk weighted asset (RWA)	655.0	703.3
Operational risk capital requirements	52.4	56.3

## 7 Other Risks

### 7.1 Interest Rate Risk

Interest rate risk relates to the impact of re-pricing of assets and liabilities through interest rate movements. Details of interest rate risk can be found in Note 27 to the Group Annual Report and Accounts; a description of risk appetite and governance can be found in the Risk Management Report of the Group Annual Report and Accounts.

For assessment of capital requirements, the Society models the impact of a range of severe scenarios on the Society's interest rate position to determine the amount of Pillar 2 capital to hold against this risk, including the risk related to negative interest rate scenarios.

### 7.2 Pension Risk

The risk of the Society's defined benefit pension obligations has been modelled, with the help of external actuaries, by applying a severe stress test to the factors that affect the valuation of the scheme. Details of the Society's pension obligations can be found in Note 18 to the Group Annual Report and Accounts.

### 7.3 Concentration Risk

The Society routinely considers concentrations in products, geographies, channels, income streams and funding sources as part of its strategic planning and has stress tested any such concentrations as part of the ICAAP. A degree of concentration risk is inevitable given the Society's focus in the UK residential mortgage market.

### 7.4 Strategic Risk

Consideration is given to the risk that the Society is unable to pursue its short term business plan or longer term strategy. This includes the impact of shifts in the economic, market or regulatory environment that could fundamentally impact on the Society's key Income Statement and Balance Sheet metrics. It can include, for example, the impact of credit ratings downgrades on the Society's ability to raise funding at planned levels and cost.

### 7.5 Climate Change Risks

The Society recognises climate change as a long term risk that will have an impact on a wide range of financial firms. In line with Supervisory Statement SS3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Society has assessed its exposure to climate change in the most recent ICAAP. The Society is a UK mortgage lender, with the vast majority of its assets concentrated in UK residential and buy-to-let mortgages. This sector is not significantly threatened by climate change in the near to medium term.

The Society does have the potential for some indirect exposure to climate change, for example in the assets held to fund its defined benefit pension scheme, and considers this exposure in the ICAAP.

The Society has an active Climate Change Working Group that is reviewing its potential exposure to this risk. As part of this programme, the Society has developed the capability to model physical and transition risks aligned to regulatory guidance. The climate model is controlled under the Society's model governance process and the Society intends to use the model over the medium term to inform its climate risk strategy.

## 7.6 Model Risk

The Society has a number of models that impact capital requirements or resources including IFRS 9 models, financial planning models and stress testing models. The Society has an established model governance framework with oversight provided by Model Risk Committee.

The Society conducts regular self-assessments against regulations including Supervisory Statement SS3/18 *Model risk management principles for stress testing*. These assessments have concluded that the Society believes its models remain appropriate in light of the current economic and social conditions caused by the COVID-19 pandemic.

## 7.7 Other Risks

After detailed stress testing, no other risks were considered material from a capital perspective as part of the latest ICAAP.

## 8 Liquidity Management

### 8.1 Principles

The Society's management of liquidity is based on a number of key principles:

- The Society will at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due;
- Ensure the maintenance of adequate investments in liquid assets in order to cover the Society's statutory, regulatory and operational requirement in normal and stressed conditions, including the maintenance of liquidity levels in line with the prevailing risk appetite.
- The Society must also ensure that its liquidity resources contain an adequate buffer of high quality, unencumbered assets and it maintains a prudent funding profile;
- The Society must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor liquidity risk over a set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers. These strategies, policies, processes and systems must be tailored to business lines and must include adequate allocation mechanisms of liquidity costs, benefits and risks and ensure that the risks associated with collateral management and asset encumbrance are adequately identified, monitored and managed;
- The Society must adequately stress test their liquidity requirements with contingency funding arrangements in place.

Liquidity risk is monitored on a Group Consolidated basis with various subsidiaries which could impact the Society's liquidity position (e.g. Accord, securitisation SPVs and the Covered Bond LLP) incorporated into the liquidity risk management process.

The Society employs a number of complementary indicators within its risk appetite framework, both internal and regulatory, and supplements these with a number of secondary metrics to strengthen the liquidity risk management framework.

Cash flow and liquidity projections are reviewed weekly by the Society and appropriate actions, where required, are taken to adjust the Society's cash flow activity to remain within risk appetite; these meetings also include a discussion of major issues in the wholesale and retail markets, as well as general economic conditions.

Group Risk Committee (GRC) is responsible for review and approval of the overall liquidity risk framework, including the Funding, Liquidity & Capital Risk Policy and associated risk appetite statement. The Individual Liquidity Adequacy Assessment Process (ILAAP), is reviewed by GRC prior to submission to the Board for approval, before then being submitted to the regulator (if required).

Liquidity metrics cover the following risks across the Society:

- Pillar 1 risks (i.e. market liquidity and funding liquidity risks). The Liquidity Coverage Ratio (LCR) is a Pillar 1 standard, which ensures that a credit institution has an adequate liquidity buffer of unencumbered High-Quality Liquid Assets (HQLA) that can be converted into cash quickly and easily to meet its liquidity needs for a 30 day liquidity stress scenario. The LCR has been designed to make credit institutions less dependent on short-term financing and central bank provision. While the majority of the inflow and outflow weightings are prescribed by the regulator, some outflow weightings are at the discretion of the Society. These are considered as part of the annual ILAAP.
- Pillar 2 risks (i.e. all other material risks not captured by the LCR). The Society captures these risks within its internal liquidity stress test, the Overall Liquidity Requirements (OLR) test. The construction and assumptions in this test are outlined and agreed in the ILAAP.
- In addition to the LCR & OLR metrics, the Society also calculates monthly a Net Stable Funding Ratio (NSFR).



## 8.2 Internal Liquidity Adequacy Assessment Process (ILAAP)

The Society undertakes at least annually an ILAAP, which is an internal assessment of its liquidity risk requirement.

This process begins with an identification of the relevant liquidity risk drivers for the Society. Development of both Idiosyncratic & Market wide liquidity risk scenarios is then undertaken to enable an assessment of the requirement of the Society to be established. The scenarios developed are intended to be severe but plausible in nature. These scenarios are approved by both the ERC and GRC prior to any development work being undertaken on the impacts of the scenarios. Relevant business areas are then responsible for determining the way in which each of the scenarios would impact on the relevant elements of the balance sheet. All the relevant assessments are then consolidated to determine which of the scenarios generate the worst case outcome. This is documented in the ILAAP and will, once approved, form part of the daily stress testing process. The ILAAP is then reviewed by the second line Prudential Risk team before being submitted to GRC and ultimately the Board for approval.

## 8.3 Liquidity Coverage Ratio (LCR)

The following table shows the breakdown of the components of the LCR on both a consolidated and solo basis. The values shown have been calculated as a simple average of the twelve month-end observations preceding each quarter-end:

Table 27a - Breakdown of Components of the LCR - Group				
Quarter ending	31 March 2021	30 June 2021	30 September 2021	31 December 2021
Number of data points used in the calculation of averages	12	12	12	12
	£m	£m	£m	£m
Liquidity Buffer	5,327	5,968	6,392	6,993
Total Net Cash Outflows	3,233	3,515	3,745	3,916
Liquidity Coverage Ratio (%)	163.2%	169.2%	171.6%	178.6%

Table 27b - Breakdown of Components of the LCR - Solo				
Quarter ending	31 March 2021	30 June 2021	30 September 2021	31 December 2021
Number of data points used in the calculation of averages	12	12	12	12
	£m	£m	£m	£m
Liquidity Buffer	5,327	5,968	6,392	6,993
Total Net Cash Outflows	3,274	3,527	3,753	3,915
Liquidity Coverage Ratio (%)	161.3%	168.6%	171.2%	178.7%

The LCR is a prescribed liquidity test that aims to ensure institutions maintain an adequate amount of liquid assets to meet their requirements for a 30 day period under stress conditions. A minimum requirement of 100% is applicable and the Society has maintained liquidity levels comfortably above this level throughout 2021.

The liquidity buffer consists of all unencumbered high quality liquid assets (HQLA) that are eligible liquidity resources for regulatory purposes.

Total net cash outflows represent the total expected cash outflows less the contractual cash inflows due in the next 30 days under stress conditions. The amount of inflows that can offset outflows are capped at 75% of total outflows in the LCR.

The Society's consolidated LCR was **198.9%** as at 31 December 2021, whilst the average LCR over the 12 months to 31 December 2021 was **178.6%**.

### **Movements of LCR between reporting periods**

The Society monitors the LCR on a daily basis whilst the Net Stable Funding Ratio is measured on a monthly basis. Throughout the year, the Society's NSFR has remained in excess of the future regulatory requirement of 100%.

## 9 Remuneration

The table below shows the remuneration awarded to senior management and other material risk takers during the financial year.

Table 28a - Remuneration Awarded During the Financial Year Ended 31 December 2021			
	Senior Management	Other material risk takers	Total
	£m	£m	£m
Fixed remuneration	6.6	0.5	7.1
Variable remuneration	3.1	-	3.1
<b>Total remuneration</b>	<b>9.7</b>	<b>0.5</b>	<b>10.2</b>

Table 28b - Remuneration Awarded During the Financial Year Ended 31 December 2020			
	Senior Management	Other material risk takers	Total
	£m	£m	£m
Fixed remuneration	7.0	0.5	7.5
Variable remuneration	2.1	-	2.1
<b>Total remuneration</b>	<b>9.1</b>	<b>0.5</b>	<b>9.6</b>

Further disclosures on remuneration are contained in various sections of the Group Annual Report and Accounts.

The Society's Reward policy can be found on the Society's website, under the remuneration committee section:

<https://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html>

## 10 Appendix

### 10.1 Appendix 1 – Asset Encumbrance

Asset Encumbrance occurs through the pledging of assets as collateral against secured funding or to provide security in other collateralisation obligations and such assets become unavailable for other purposes

The disclosure tables are presented in accordance with EBA regulatory reporting technical standards set out in EBA/RTS/2017/03 on the disclosure of encumbered and unencumbered assets. The values in template A use the median of the four end of quarter period values for the previous 12 months and as such differ from the disclosures contained in the Group Annual Report and Accounts. The table in template A shows the level of encumbrance and both the carrying and fair value of those assets on a prudential group basis for the year ended 2021. **Template A: Assets**

Table 29a - Encumbered Assets (Template A)								2021	
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets		
	£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	
		£m		£m		£m		£m	
<b>Assets of the reporting institution</b>	12,635.1	466.2			36,518.2	5,940.0			
<b>Equity instruments</b>	-	-	-	-	9.2	-	-	-	
<b>Debt securities</b>	466.2	466.2	466.2	466.2	3,294.4	3,294.4	3,294.0	3,294.0	
of which: covered bonds	-	-	-	-	799.8	799.8	799.0	799.0	
of which issued by general governments	466.2	466.2	466.2	466.2	1,011.5	1,011.5	1,011.5	1,011.5	
of which issued by financial corporations	-	-	-	-	2,282.9	2,282.9	2,282.9	2,282.9	
<b>Other assets<sup>1</sup></b>	12,151.6	-			33,344.0	3,111.9			
of which: mortgage loans	10,730.5	-			29,796.5	-			

<sup>1</sup> All remaining balance sheet assets, predominantly loans and advances to customers

Table 29b - Encumbered Assets (Template A)								2020	
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets		
	£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	
		£m		£m		£m		£m	
<b>Assets of the reporting institution</b>	12,162.9	249.2			34,280.9	5,347.7			
<b>Equity instruments</b>	-	-	-	-	9.5	-	-	-	
<b>Debt securities</b>	249.2	249.2	249.2	249.2	2,527.9	2,527.9	2,527.9	2,527.9	
of which: covered bonds	-	-	-	-	649.7	649.7	649.7	649.7	
of which issued by general governments	249.2	249.2	249.2	249.2	847.7	847.7	847.7	847.7	
of which issued by financial corporations	-	-	-	-	1,680.2	1,680.2	1,680.2	1,680.2	
Other assets <sup>1</sup>	11,913.7	-			31,743.5	3,069.0			
of which: mortgage loans	10,347.8	-			28,206.3	-			

<sup>1</sup> All remaining balance sheet assets, predominantly loans and advances to customers

**Template B: Collateral**

In Supervisory Statement SS6/17 the PRA waived the Template B requirements subject to a firm meeting certain criteria. The Society meets those criteria and therefore Template B is not disclosed.

**Template C: Encumbered Assets/ Collateral Received and Associated Liabilities**

Table 30 - Encumbered Assets/Collateral Received and Associated Liabilities (Template C)				
	Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
	2021	2020	2021	2020
	£m	£m	£m	£m
Carrying amount of selected financial liabilities	8,000.7	7,410.4	12,635.1	12,162.9

**Template D: Information on importance of encumbrance**

The Society holds a level of asset encumbrance that is considered to be appropriate for the size and scope of its operations and manages the levels of encumbrance using closely monitored limits set by the Board. The most material source of encumbrance for the Society is secured funding via the Society's covered bond and securitisation programmes which are supported by pledging mortgage assets as collateral. Assets are encumbered in accordance with the contractual requirements of these programmes.

Further detail on these activities is set out in Note 28 to the Group Annual Report and Accounts. These programmes are continually assessed and a prudent buffer of over-collateralisation is voluntarily maintained for operational efficiency.

The Society also pledges debt securities as collateral in sale and repurchase transactions. An additional source of encumbrance is the collateralisation of derivative liabilities. The Society treats some cash and balances with the Bank of England, some loans and advances to credit institutions and some debt securities as encumbered even though there are no associated liabilities. An example of this would be liquid assets held within the Society's covered bond and securitisation programmes; as these are not available for use in the Society's day-to-day operations.

## 10.2 Appendix 2 – Own Funds Disclosure Template

The table below contains the own funds of the Capital Group and Solo-consolidated Group on a transitional and end-point basis and have been prepared in accordance with Regulation (EU) 1423/2013, blank cells have been removed from the template.

Table 31a - Own Funds Disclosure Template - Group		Transitional		End-Point	
		2021	2020	2021	2020
		£m	£m	£m	£m
<b>Common Equity Tier 1 (CET1) Capital: instruments and reserves</b>					
2	Retained earnings	2,778.9	2,644.9	2,778.9	2,644.9
3	Accumulated other comprehensive income (and other reserves)	46.8	13.6	46.8	13.6
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	257.1	132.8	257.1	132.8
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	3,082.8	2,791.3	3,082.8	2,791.3
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>					
7	Additional value adjustments (negative amount)	(4.8)	(3.8)	(4.8)	(3.8)
8	Intangible assets (net of related deferred tax liability (negative amount))	(16.5)	(14.8)	(16.5)	(14.8)
11	Fair value reserves related to gains or losses on cash flow hedges	(10.4)	0.1	(10.4)	0.1
12a	IFRS 9 transitional arrangements	-	1.7	-	1.7
15	Defined-benefit pension fund assets (negative amount)	(80.9)	(66.4)	(80.9)	(66.4)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(112.8)	(83.2)	(112.8)	(83.2)
29	Common Equity Tier 1 (CET1) capital	2,970.2	2,708.1	2,970.2	2,708.1
45	Tier 1 capital (T1 = CET1 + AT1)	2,970.2	2,708.1	2,970.2	2,708.1
<b>Tier 2 (T2) capital: instruments and provisions</b>					
46	Capital instruments and the related share premium accounts	324.7	350.7	324.7	350.7
50	Credit risk adjustments	-	3.5	-	3.5
51	Tier 2 (T2) capital before regulatory adjustments	324.7	354.2	324.7	354.2
<b>Tier 2 (T2) capital: regulatory adjustments</b>					
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	-	-	-	-
58	<b>Tier 2 (T2) capital</b>	324.7	354.2	324.7	354.2
59	Total capital (TC = T1 + T2)	3,294.9	3,062.3	3,294.9	3,062.3
60	Total risk weighted assets	17,631.0	16,175.6	17,631.0	16,175.6
<b>Capital ratios and buffers</b>					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.8%	16.7%	16.8%	16.7%
62	Tier 1 (as a percentage of total risk exposure amount)	16.8%	16.7%	16.8%	16.7%
63	Total capital (as a percentage of total risk exposure amount)	18.7%	18.9%	18.7%	18.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	2.5%	2.5%	2.5%	2.5%
65	of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%

Table 31a - Own Funds Disclosure Template - Group (Continued)		Transitional		End-Point	
		2021	2020	2021	2020
		£m	£m	£m	£m
66	of which: countercyclical buffer requirement	0.0%	0.0%	0.0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.8%	10.7%	10.8%	10.7%
<b>Applicable caps on the inclusion of provisions in Tier 2</b>					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	3.5	-	3.5
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	220.4	202.2	220.4	202.2



Table 31b - Own Funds Disclosure Template - Solo		Transitional		End-Point	
		2021	2020	2021	2020
		£m	£m	£m	£m
<b>Common Equity Tier 1 (CET1) Capital: instruments and reserves</b>					
2	Retained earnings	2,781.8	2,640.7	2,781.8	2,640.7
3	Accumulated other comprehensive income (and other reserves)	46.8	11.7	46.8	11.7
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	269.7	141.6	269.7	141.6
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	3,098.3	2,794.0	3,098.3	2,794.0
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>					
7	Additional value adjustments (negative amount)	(4.7)	(3.6)	(4.7)	(3.6)
8	Intangible assets (net of related deferred tax liability (negative amount))	(16.5)	(14.8)	(16.5)	(14.8)
11	Fair value reserves related to gains or losses on cash flow hedges	(10.4)	0.1	(10.4)	0.1
12a	IFRS 9 transitional arrangements	-	1.7	-	1.7
15	Defined-benefit pension fund assets (negative amount)	(80.9)	(66.4)	(80.9)	(66.4)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(112.5)	(83.0)	(112.5)	(83.0)
29	Common Equity Tier 1 (CET1) capital	2,985.8	2,711.0	2,985.8	2,711.0
45	Tier 1 capital (T1 = CET1 + AT1)	2,985.8	2,711.0	2,985.8	2,711.0
<b>Tier 2 (T2) capital: instruments and provisions</b>					
46	Capital instruments and the related share premium accounts	324.7	350.7	324.7	350.7
50	General credit risk adjustments	-	3.5	-	3.5
51	Tier 2 (T2) capital before regulatory adjustments	324.7	354.2	324.7	354.2
<b>Tier 2 (T2) capital: regulatory adjustments</b>					
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-	-	-
58	Tier 2 (T2) capital	324.7	354.2	324.7	354.2
59	Total capital (TC = T1 + T2)	3,310.5	3,065.2	3,310.5	3,065.2
60	Total risk weighted assets	17,686.8	16,177.7	17,686.8	16,177.7
<b>Capital ratios and buffers</b>					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.9%	16.8%	16.9%	16.8%
62	Tier 1 (as a percentage of total risk exposure amount)	16.9%	16.8%	16.9%	16.8%
63	Total capital (as a percentage of total risk exposure amount)	18.7%	18.9%	18.7%	18.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	2.5%	2.5%	2.5%	2.5%
65	of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	2.5%

Table 31b - Own Funds Disclosure Template - Solo (Continued)		Transitional		End-Point	
		2021	2020	2021	2020
		£m	£m	£m	£m
66	of which: countercyclical buffer requirement	0.0%	0.0%	0%	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.9%	10.8%	10.9%	10.8%
<b>Applicable caps on the inclusion of provisions in Tier 2</b>					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	3.5	-	3.5
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	221.1	202.2	221.5	202.2

### 10.3 Appendix 3 – Capital Instruments Main Features Template

The table below contains the capital instruments of the Society and has been prepared in accordance with Commission Implementing Regulation (EU) 1423/2013.

Disclosure in the required format has resulted in simplification and abbreviation of the features of the capital instruments described herein. The information contained in this document is not intended to be a comprehensive description of such capital instruments. No investor or prospective investor in any such capital instruments should rely upon the description contained in this document and the Society shall not be liable for any inaccuracy or misstatement contained in this document.

<b>Table 32 - Capital Instruments Main Features</b>				
1	Issuer	Yorkshire Building Society	Yorkshire Building Society	Yorkshire Building Society
2	Unique Identifier	XS0096893465	XS0498549194	XS1681849300
3	Governing law(s) of the instrument	English	English	English
<b>Regulatory treatment</b>				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated / solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£2.0m	£18.2m	£304.5m
9	Nominal amount of instrument	£3,900,000	£25,605,500	£300,000,000
9a	Issue price	97.983	100	99.389
9b	Redemption price	100	100	100
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	26/04/1999	01/04/2010	13/09/2018
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	26/04/2024	01/04/2025	13/09/2028
14	Issuer call subject to prior supervisory approval	n/a	n/a	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	n/a	13/09/2027
16	Subsequent call dates, if applicable	n/a	n/a	n/a
<b>Coupon / dividends</b>				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	6.375	13.500	3.375
19	Existence of a dividend stopper	n/a	n/a	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory

20b	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory		Mandatory		Mandatory	
21	Existence of step up or other incentive to redeem	No		No		No	
22	Non-cumulative or cumulative	n/a		n/a		n/a	
24	If convertible, conversion trigger(s)	n/a		CET < 5% contractual approach		n/a	
25	If convertible, fully or partially	n/a		Fully		n/a	
26	If convertible, conversion rate	n/a		100		n/a	
27	If convertible, mandatory or optional conversion	n/a		Mandatory		n/a	
28	If convertible, specify instrument type convertible into	n/a		Profit Participating Deferred Shares (PPDS)		n/a	
29	If convertible, specify issuer of instrument it converts into	n/a		Yorkshire Building Society		n/a	
30	Write-down features	Contractual: none; statutory: via bail-in		Contractual: none; statutory: via bail-in		Contractual: none; statutory: via bail-in	
31	If write-down, write-down trigger(s)	n/a		n/a		n/a	
32	If write-down, full or partial	n/a		n/a		n/a	
33	If write-down, permanent or temporary	n/a		n/a		n/a	
34	If temporary write-down, description of write-up mechanism	n/a		n/a		n/a	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Secondary Preferential liabilities	Non-	Secondary Preferential liabilities	Non-	Secondary Preferential liabilities	Non-
36	Non-compliant transitioned features	No		No		No	
37	If yes, specify non-compliant features	n/a		n/a		n/a	

## 10.4 Appendix 4 – Leverage Disclosure Template

The table below contains the CRR leverage ratio disclosure and has been prepared in accordance with Commission Implementing Regulation (EU) 2016/200; blank cells have been removed from the template.

<b>Reference date</b>	31 December 2021 (31 December 2020 for comparatives)
<b>Entity name</b>	Yorkshire Building Society
<b>Level of application</b>	Consolidated

<b>Table 33 - LRSum: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures</b>		<b>2021</b>	<b>2020</b>
		<b>£m</b>	<b>£m</b>
1	Total assets as per published financial statements	52,731.9	47,925.3
4	Adjustments for derivative financial instruments	(246.9)	(63.1)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3,283.7	2,800.1
7	Other adjustments	(112.8)	(83.2)
<b>8</b>	<b>Leverage ratio total exposure measure</b>	<b>55,655.9</b>	<b>50,579.1</b>

<b>Table 34 - LRCom: Leverage Ratio Common Disclosure</b>		<b>2021</b>	<b>2020</b>
		<b>£m</b>	<b>£m</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	52,019.2	47,150.7
2	(Asset amounts deducted in determining Tier 1 capital)	(112.8)	(83.2)
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)</b>	<b>51,906.4</b>	<b>47,067.5</b>
<b>Derivative exposures</b>			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	377.3	310.7
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	189.2	147.4
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(322.5)	(105.0)
<b>11</b>	<b>Total derivatives exposures</b>	<b>244.0</b>	<b>353.1</b>
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposures at gross notional amount	5,837.7	5,624.7
18	(Adjustments for conversion to credit equivalent amounts)	(2,332.2)	(2,466.2)
<b>19</b>	<b>Other off-balance sheet exposures</b>	<b>3,505.5</b>	<b>3,158.5</b>
<b>Capital and total exposure measure</b>			
<b>20</b>	<b>Tier 1 capital</b>	<b>2,970.9</b>	<b>2,708.1</b>
<b>21</b>	<b>Leverage ratio total exposure measure</b>	<b>55,655.9</b>	<b>50,579.1</b>
<b>Leverage Ratios</b>			
22	Leverage ratio	5.3%	5.4%
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional

Table 35 - Table LRSpl: Split-up of on Balance Sheet Exposures (Excluding Derivatives, SFTs and Exempted Exposures)		2021	2020
		£m	£m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	52,019.2	47,150.7
EU-3	Banking book exposures, of which:	52,019.2	47,150.7
EU-4	Covered bonds	960.7	787.5
EU-5	Exposures treated as sovereigns	7,416.6	5,923.4
EU-7	Institutions	1,139.9	539.8
EU-8	Secured by mortgages of immovable properties	42,454.0	38,523.7
EU-11	Exposures in default	136.4	139.7
EU-12	Other exposures (e.g. securitisations, and other non-credit obligation assets)	(88.3)	1,236.6

#### Table 36 - LRQua - Qualitative Information on Managing the Risk of Excessive Leverage and the Factors Impacting on the Leverage Ratio

1 Description of the processes used to manage the risk of excessive leverage

The Society has a CRR leverage ratio of 5.3%, and a UK leverage ratio of 5.9%. The Leverage ratio is monitored by the Board quarterly, with the Society producing a strategic reassessment of its leverage risk appetite annually. The Society produces a five year capital plan of the leverage ratio annually, reforecasting this position more frequently during the year.

2 Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers.

The key factors impacting the Society's CRR leverage ratio during the period are primarily an increase in Tier 1 capital due to increased general reserves offset by increased leverage exposure due to an increase in balance sheet assets.

## 10.5 Appendix 5 – Countercyclical Capital Buffer

The table below contains the Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer and has been prepared in accordance with Commission Delegated Regulation (EU) 2015/1555.

In accordance with Commission Delegated Regulation (EU) 1152/2014, due to foreign exposures not exceeding 2% of the Society's aggregate exposures, all exposures have been allocated to the UK. For the purposes of this calculation this includes loans secured by mortgages on immovable property, securitisation positions and other assets. The Society has no trading book exposures.

Table 37a - Geographical Distribution of Credit Exposures Relevant for the Calculation of the Countercyclical Capital Buffer										2021	
Breakdown by country	£m		£m		£m				%	%	
	General Credit Exposures		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer	
	Exposure value for SA	Exposure value for IRB	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total			
UK	43,494.3	-	88.4	-	1,300.0	-	0.7	1,300.7	100.0%	0.0%	

Table 37b - Geographical Distribution of Credit Exposures Relevant for the Calculation of the Countercyclical Capital Buffer										2020	
Breakdown by country	£m		£m		£m				%	%	
	General Credit Exposures		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer	
	Exposure value for SA	Exposure value for IRB	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total			
UK	39,821.1	-	62.8	-	1,185.0	-	0.5	1,185.5	100.0%	0.0%	

The table below contains the Society's specific countercyclical buffer rate.

Table 38 - Amount of Institution-Specific Countercyclical Capital Buffer	2021	2020
	£m	£m
Total risk exposure amount <sup>1</sup>	17,665.2	16,175.6
Institution specific countercyclical buffer rate	0.0%	0.0%
Institution specific countercyclical buffer requirement	0.0	0.0

<sup>1</sup> The total risk exposure amount provided is equal to total RWAs

## 10.6 Appendix 6 – Non - Performing and Forborne Exposures

The table below provides an overview of the quality of forborne exposures as per Commission Implementing Regulation (EU) No 680/2014.

Table 39a - Credit Quality of Forborne Exposures								
2021	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non - performing forborne			On performing forborne exposures	On non - performing forborne		Of which collateral and financial guarantees
		Of which defaulted	Of which impaired					
<b>Loans and advances</b>	54.2	205.4	198.4	198.4	0.6	8.7	250.3	196.7
Non-financial corporations	-	7.0	-	-	-	0.4	6.6	6.6
Households	54.2	198.4	198.4	198.4	0.6	8.3	243.7	190.1
<b>Total</b>	<b>54.2</b>	<b>205.4</b>	<b>198.4</b>	<b>198.4</b>	<b>0.6</b>	<b>8.7</b>	<b>250.3</b>	<b>196.7</b>

Table 39b - Credit Quality of Forborne Exposures								
2020	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non - performing forborne			On performing forborne exposures	On non - performing forborne		Of which collateral and financial guarantees
		Of which defaulted	Of which impaired					
<b>Loans and advances</b>	81.6	205.2	199.3	199.3	1.4	12.3	273.2	192.9
Non-financial corporations	-	5.9	-	-	-	0.4	5.5	5.5
Households	81.6	199.3	199.3	199.3	1.4	11.9	267.7	187.4
<b>Total</b>	<b>81.6</b>	<b>205.2</b>	<b>199.3</b>	<b>199.3</b>	<b>1.4</b>	<b>12.3</b>	<b>273.2</b>	<b>192.9</b>



The table below provides an overview of credit quality of non-performing exposures, as per Commission Implementing Regulation (EU) No 680/2014.

Table 40a - Credit Quality of Performing and Non-Performing Exposures by Past Due Days													2021
	Performing exposures			Non-performing exposures									
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted	
<b>Loans and advances</b>	41,405.2	41,314.0	91.2	806.3	666.2	65.5	39.0	22.6	10.5	-	2.5	806.3	
Non-financial corporations	863.4	862.8	0.6	21.0	20.6	0.3	0.1	-	-	-	-	21.0	
Of which SMEs	525.4	525.3	0.1	18.7	18.3	0.3	0.1	-	-	-	-	18.7	
Households	40,541.8	40,451.2	90.6	785.3	645.6	65.2	39.0	22.6	10.5	-	2.5	785.3	
<b>Total</b>	<b>41,405.2</b>	<b>41,314.0</b>	<b>91.2</b>	<b>806.3</b>	<b>666.2</b>	<b>65.5</b>	<b>39.0</b>	<b>22.6</b>	<b>10.5</b>	<b>-</b>	<b>2.5</b>	<b>806.3</b>	

Table 40b - Credit Quality of Performing and Non-Performing Exposures by Past Due Days													2020
	Performing exposures			Non-performing exposures									
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted	
<b>Loans and advances</b>	37,785.5	37,664.0	121.5	824.1	747.4	-	46.7	24.3	2.9	0.5	2.2	824.1	
Non-financial corporations	1,164.7	1,164.7	-	26.9	26.2	-	0.7	-	-	-	-	26.9	
Of which SMEs	90.9	90.8	-	9.0	9.0	-	-	-	-	-	-	9.0	
Households	36,620.8	36,499.3	121.5	797.2	721.2	-	46.0	24.3	2.9	0.5	2.2	797.2	
<b>Total</b>	<b>37,785.5</b>	<b>37,664.0</b>	<b>121.5</b>	<b>824.1</b>	<b>747.4</b>	<b>-</b>	<b>46.7</b>	<b>24.3</b>	<b>2.9</b>	<b>0.5</b>	<b>2.2</b>	<b>824.1</b>	

The table below provides an overview of the credit quality of non-performing exposures and related impairments, provisions and valuation adjustments by portfolio and exposure class.

Table 41a - Performing and Non-Performing Exposures and Related Provisions														2021	
Gross carrying amount/nominal amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
<b>Loans and advances</b>	41,405.2	37,604.8	3,800.4	806.3	-	806.3	23.1	5.6	17.5	31.4	-	31.4	1.1	41,382.1	774.9
Non-financial corporations	863.4	839.5	23.9	21.0	-	21.0	1.8	0.3	1.5	1.0	-	1.0		861.6	20.0
Of which SMEs	525.4	507.7	17.5	18.7	-	18.7	1.6	0.3	1.3	1.1	-	1.1		523.7	17.7
Households	40,541.8	36,765.3	3,776.5	785.3	-	785.3	21.3	5.3	16.0	30.4	-	30.4	1.1	40,520.5	754.9
<b>Total</b>	41,405.2	37,604.8	3,800.4	806.3	-	806.3	23.1	5.6	17.5	31.4	-	31.4	1.1	41,382.1	774.9

Table 41b - Performing and Non-Performing Exposures and Related Provisions

2020

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
<b>Loans and advances</b>	37,785.5	35,228.9	2,556.6	824.1	-	824.1	31.2	4.0	27.2	41.8	-	41.8	2.7	37,754.3	782.3
Non-financial corporations	1,164.7	1,102.8	61.9	26.9	-	26.9	4.4	0.5	3.9	1.4	-	1.4		1,160.3	25.5
Of which SMEs	90.9	85.5	5.2	9.0	-	9.0	0.1	-	0.1	0.6	-	0.6		90.8	8.3
Households	36,620.8	34,126.1	2,494.7	797.2	-	797.2	26.8	3.5	23.3	40.4	-	40.4	2.7	36,594.0	756.8
<b>Total</b>	<b>37,785.5</b>	<b>35,228.9</b>	<b>2,556.6</b>	<b>824.1</b>	<b>-</b>	<b>824.1</b>	<b>31.2</b>	<b>4.0</b>	<b>27.2</b>	<b>41.8</b>	<b>-</b>	<b>41.8</b>	<b>2.7</b>	<b>37,754.3</b>	<b>782.3</b>

## Glossary

Arrears	A customer is defined as being in arrears when they fall behind in meeting their obligations to pay their mortgage and as a result there is an outstanding loan commitment that is overdue.
Average Risk Weight (RW)	Risk weighted assets divided by capital exposure.
Behaviour score	Behavioural scoring is used throughout the life of a customer relationship to inform management strategies for each customer.
Central Counterparties (CCP)	A CCP is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, where a single bilateral contract between the buyer and seller is replaced with two contracts, one between the buyer and CCP and one between the seller and CCP.
Common Equity Tier 1 (CET1) capital	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments, as defined under CRD IV. Equivalent to Core Tier 1 defined under previous CRD legislation.
Common Equity Tier 1 capital ratio	The ratio of Common Equity Tier 1 Capital to Risk Weighted Assets.
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 Quality Steps (CQS)	A credit quality assessment scale as set out in CRD IV.
CRR	The Capital Requirements Regulation that applied the Basel III framework in the EU and has been incorporated into UK regulation following the UK's exit from the EU.
Credit risk	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set off or netting.
Credit Valuation Adjustment (CVA)	These are adjustments applied to the fair values of derivatives to reflect the creditworthiness of the counterparty.
External Credit Assessment Institution (ECAI)	An ECAI (e.g. Moody'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 UK conduct regulator which is responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA's objective is to protect consumers, promote competition and enhance market integrity.
Guarantee	An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations.
International Financial Reporting Standard 9 (IFRS 9)	The IFRS 9 accounting standard sets out the requirements for the classification and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial items. It includes requirements on impairment and hedge accounting.

Individual Capital Assessment (ICA)	The document produced as a result of the ICAAP.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's internal assessment of the levels of capital that need to be held by the Society to meet its regulatory capital requirements.
Individual Liquidity Adequacy Assessment Process (ILAAP)	The Society's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.
Interest rate risk	Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.
Impaired loans	Loans where there is evidence to suggest a measurable decrease in the present value of cash flows expected which has occurred after initial recognition of the asset, but before the statement of financial position date.
Internal Ratings Based (IRB)	Approach to calculating capital requirements where lenders use their own models of risk to determine the appropriate minimum capital requirement.
International Swaps and Derivatives Association (ISDA)	The global trade association for over-the-counter (OTC) derivatives, and providers of the industry-standard ISDA documentation.
Loan-to-value ratio (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
Maturity	The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, operational risk and market risk.
Minimum Requirement of Eligible Liabilities (MREL)	The minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.
Netting	The ability to reduce credit risk exposures by offsetting the value of any deposits against loans to the same counterparty.
Operational risk	The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
Past due	Loans which are in arrears by 3 months or more.
Pillar 1	The part of the Basel III Framework which sets out the regulatory minimum capital requirements for credit and operational risk.
Pillar 2	The part of the Basel III Framework which sets out the processes by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments.
Pillar 3	The part of the Basel III Framework which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
Provisions	Amounts set aside to cover incurred losses associated with credit risks.
Prudential Regulation Authority (PRA)	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA, has responsibility for the oversight of building societies, banks and insurers. The PRA's objective is to promote the safety and soundness of regulated firms.

Prudent Valuation Adjustment (PVA)	Regulatory deduction applied to CRD IV Common Equity Tier 1 capital calculated in accordance with Article 105 of the Capital Requirements Regulation (CRR). The purpose of the Prudent Valuation Adjustment is to ensure that the valuation of financial instruments for capital reporting is at the more conservative end of any range of plausible valuations.
Resecuritisation	A securitisation transaction or scheme that includes at least one securitisation within its underlying asset pool.
Risk Weighted Assets (RWA)	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Securitisation	A transaction or scheme where assets are sold to a Special Purpose Vehicle (SPV) in return for immediate cash payment. That vehicle raises the immediate cash payment by issuing debt securities in the form of tradable notes or commercial paper to wholesale investors who receive an income from the underlying assets. Some risk is retained on the balance sheet while the remaining risk is transferred to investors. Securitisations may be purchased or retained.
SME	Small and medium-sized enterprise.
SNP	Secondary Non-Preferential liabilities that rank behind senior debt and can be subject to bail-in at the point of resolution. These liabilities cannot be used to meet regulatory capital requirements but do contribute to meeting MREL.
SREP	Supervisory Review and Evaluation Process, the PRA assessment of a firm's own capital assessment (ICA) under Basel III Pillar 2.
Stress testing	Various techniques that are used to gauge the potential vulnerability to exceptional but plausible events.
Subordinated debt	Tier 2 capital that is subordinated to the claims of all depositors, creditors and members holding shares in the Society.
The Standardised Approach (credit risk)	The standardised approach to credit risk, calculated by applying varying RWA percentages to credit exposures, depending on the underlying risk.
The Standardised Approach (operational risk)	The standardised approach to operational risk, calculated using three-year historical net income multiplied by a factor of between 12-18%, depending on the underlying business being considered.
Tier 1 (T1) capital	The sum total of Common Equity Tier 1 and Additional Tier 1 capital.
Tier 1 capital ratio	The ratio of Tier 1 capital to Risk Weighted Assets.
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
Total capital ratio	The ratio of total capital (Tier 1 and Tier 2) to Risk Weighted Assets.
Total Capital Requirement (TCR)	The total of Pillar 1 requirements and Pillar 2A requirements.

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