Pillar 3 Disclosure

31 December 2015

Leek United
BUILDING SOCIETY
The friendlier face of finance

Contents

1. Introduction

Background

The Pillar 3 disclosure report is a summary statement designed to inform the reader of the risk management organisation and structure, and provide key information on capital, risk exposures and the general risk profile of the Society in accordance with the Capital Requirements Directive (CRD).

This framework represents the approach to capital adequacy for building societies governing the amount of capital required to be held by them in order to provide security for members and depositors. The Society seeks to ensure that it protects members' savings by holding sufficient capital at all times.

On 1st January 2014, the Basel Committee replaced the Basel II framework with the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), commonly known as the Capital Requirements Directive IV (CRD IV), introducing a revised definition of capital resources and included additional capital and disclosure requirements. The rules are enforced in the UK by the Prudential Regulatory Authority (PRA).

The CRD comprises 3 main elements, or 'Pillars', as follows:

> **Pillar 1**: Minimum capital requirements, using a risk based capital calculation focusing particularly on credit and operational risk, to determine the capital resources requirement.
>
> **Pillar 2**: Internal capital adequacy assessment process (ICAAP), and supervisory review and evaluation process (SREP). The Board of the Society has undertaken an assessment of all of the key risks facing the Society and additionally has stress tested those risks to establish a level of additional capital to be held under Pillar 2.
>
> **Pillar 3**: This document deals with the requirements under Pillar 3 (disclosure). The disclosures in this document meet the Society's obligations under Pillar 3 and are based on the CRD IV rules.

This document details Leek United's Pillar 3 disclosures as at 31 December 2015, with comparative figures for 31 December 2014 where relevant, and has been prepared to meet the disclosure requirement of CRD IV.

Scope of Application

The disclosure requirements in this document apply to Leek United Building Society.

The statutory body responsible for the prudential supervision of the Society is the Prudential Regulation Authority (PRA) and the PRA firm reference number is as follows.

PRA Number: 100014

The principal office of the Society is Leek United Building Society, 50 Edward Street, Leek, Staffordshire, SD13 5DL.

A list of all entities consolidated as part of the Society's results are set out below:

Group member	Activity
Leek United Building Society	Provision of mortgage and savings products, and general insurance broking services as Leek United Building Society.
Leek United Home Loans Ltd (Wholly owned subsidiary of Leek United Building Society)	Purchase and administration of mortgage portfolios. No purchases of portfolios have taken place in the last ten years and none are planned.
Leek United Financial Services Ltd (Wholly owned subsidiary of Leek United Building Society)	Provision of financial services.
The Mortgage Outlet Ltd (Wholly owned subsidiary of Leek United Building Society)	Ceased trading on 31 December 2009.

There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among Leek United Building Society or its subsidiaries.

2. Structure and Organisation of the Risk Management Framework

The Board of Directors has overall responsibility for the Society's internal control system and for reporting its effectiveness to the members in the annual financial statements. The Board is also responsible for defining and influencing the culture of risk management across the Society including:

a) Determining the Society's appetite for risk;
b) Determining which types of risk are acceptable and which are not;
c) Providing guidance to management on conduct and probity;
d) Review and approval of the Society's ICAAP (Internal Capital Adequacy Assessment Process), ILAAP (Individual Liquidity Adequacy Assessment Process), CFP (Contingency Funding Plan) and RRP (Recovery and Resolution Plan).

The Board has overall responsibility for ensuring the Society maintains adequate financial resources, both in terms of capital and liquidity, through review and approval of both the Society's ICAAP and ILAAP.

The Board retains ultimate responsibility for ensuring that the Society operates within a framework of prudent and effective controls which enables risk to be assessed and managed.

The Society has a documented framework for the management of risk. The Risk Appetite enables the Board to formally communicate to the organisation on the level and type of risks they are willing to accept to achieve Society objectives outlined in the Corporate Plan. The Risk Appetite is defined both qualitatively and quantitatively in terms of the risk the Board is willing to accept. The formal Risk Register review and assessment process is defined as a qualitative measure whilst formal key risk indicators have been produced as quantitative measures to assess the Risk Appetite of the Society.

The Board's Risk Appetite Statement is as follows:

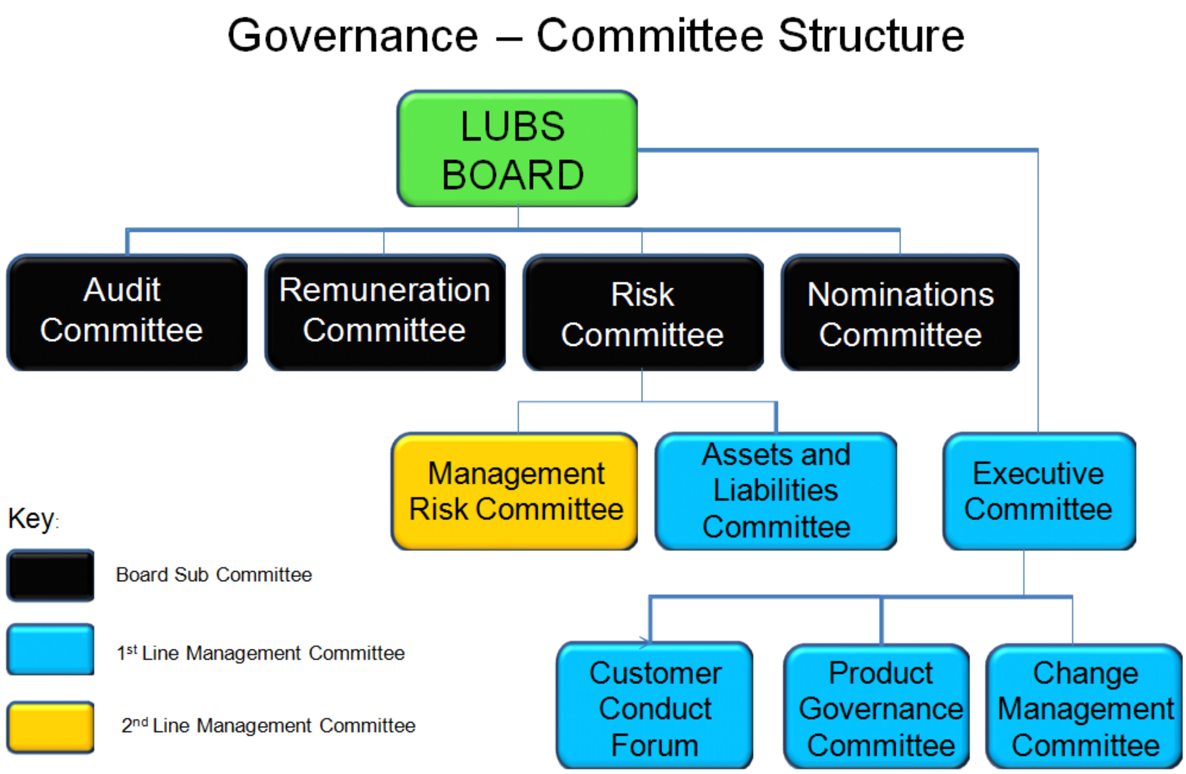
'As a mutual, Leek United Building Society operates so that the Board and Management are custodians of the interests of our members. Therefore we seek a prudent position for our risk appetite acknowledging that the lower levels of risk will lead to lower levels of return. The suite of Risk Appetite Metrics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

The Board will review the activities of the Society on an ongoing basis and ensure any risks, risk events, emerging risks, change management activities or key risk indicators are reviewed in accordance with the risk appetite of the Board. Any activities which would breach the appetite must be escalated to the Board for approval. The Board own and approve both the overall and individual elements of the risk appetite for the Society including the Risk Management Framework (RMF). Supervision and direction is facilitated by the operation of a number of Board committees which meet regularly to consider issues specific to key business areas.

A key component of the RMF is the central risk register. This is designed to incorporate all known risks, as well as the controls that manage those risks, and to be reviewed by business units (via Risk and Control self assessment (RCSA) programme), assessed by the second line of defence and challenged by the Management Risk Committee, with management information regularly received by the Board Risk Committee, allowing them to closely monitor these key risks in relation to capital requirements.

Management within each business area has day to day responsibility for the monitoring of risk within the framework and policies set by the Board.

The diagram below illustrates the Society's risk management committee structure.



The Society's Principal Risks are managed through the following Committees:

Board	Board Risk Committee (BRC)	
	Management Risk Committee	**Asset & Liability Committee**
Pension Risk	Operational Risk	Market Risk
	Conduct Risk	Liquidity Risk
	Legal and Regulatory Risk	Strategic Risk
	Credit Risk	

A summary of the role of the Board Committees and Management Committees follows:

The Board

The responsibilities of the LUBS Board include:

- Owning and approving the risk appetite for the Society including the Risk Management Framework;
- Determining the strategy and policies of the Society;
- Setting out the guidelines within which the business is managed and reviewing business performance;
- Ensuring that the Society operates within:
  - the Society rules;
  - rules and guidance issued by relevant authorities including the PRA and FCA;
  - all relevant laws;
- Determining the nature and extent of significant risks and risk appetite.

The board meets monthly.

Board Risk Committee

The role of the Board Risk Committee (BRC), a sub-committee of the Board assists the Board in carrying out its responsibilities relating to Risk and Compliance in the Society:

- To provide assurance to the Board of the independence and quality of the risk and compliance functions.
- To review, challenge and approve the Risk Management Framework.
- To provide specialist advice to the Board and other Committees in assessing Prudential and Conduct risks including those arising from the Corporate Planning process and major new business initiatives.
- To ensure the Society has in place an adequate stress testing framework to identify, measure and limit extreme risk (unexpected risk).
- To review, challenge and recommend to the Board for approval the risk appetite statement and supporting risk appetite metrics, ensuring these are linked to stress tests as well as actual and forecast profit, capital and liquidity capacity.
- To provide assurance to the Board that the Society maintains sound risk management and internal control systems.
- To provide assurance to the Board that the Society is up to date with regulatory risk requirements and is adhering to best practice in risk measurement methodologies and risk management practice.
- To review, challenge and recommend to the Board for approval the Internal Capital Adequacy Assessment Process (ICAAP) document.
- To review and approve the terms of reference of the Management Risk Committee (MRC) and the Asset and Liability Committee (ALCO).
- To receive a report summarising any fraudulent activity identified against the Society and on accounts of customers of the Society, ensuring any fraud investigations are performed effectively.

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The Committee meets bi-monthly from January 2016 and met five times in 2015.

Audit Committee

The Board Audit Committee (BAC), a sub-committee of the Board assists the Board in carrying out its responsibilities as follows:

- To review the effectiveness of the Society's first and second lines of defence internal controls and risk management systems established by management, to identify, assess, manage and monitor financial and non-financial risks, for ensuring compliance with the regulatory environment in which the Society operates.
- To review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management, including all aspects of the first and second lines of defence.
- To review the adequacy and effectiveness of the Society's fraud prevention systems and controls.
- To approve the appointment or removal of the Head of Internal Audit and monitoring the effectiveness of the Internal Audit function in its operation of the 3rd line of defence.
- To monitor the integrity of the financial statements of the Society, reviewing any significant financial judgements contained therein.
- To review and approve the Pillar 3 disclosure.
- To oversee the appointment, reappointment and removal process of the external auditor; reviewing their performance, objectivity and independence.

The Committee meets quarterly.

Management Risk Committee

The Management Risk Committee (MRC)'s main responsibility is to assess the management of operational, credit and conduct risk together with legal and regulatory risk across the Society. Responsibilities of the MRC also include ensuring the detailed application of the risk management framework and the development of key risk policies and indicators.

The Committee meets monthly.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) supervises the Society's treasury and financial risk management activities and advises and supports the Finance Director in carrying out his responsibilities, including the identification, management and control of the balance sheet risks and the overview and monitoring of relevant risk control frameworks. Management of market, liquidity and strategic risk has been delegated to the ALCO.

The Committee meets monthly, or more regularly if required for hedging or investment decisions.

Stress Testing and Planning

The Board agrees a number of stress testing scenarios that the business uses to ensure the consideration of extreme but plausible events which could impact on the Society. The modelling of those scenarios helps the Society to understand the impact on profitability, balance sheet, capital and liquidity positions. Reverse stress tests are also undertaken in which scenarios are specifically designed to result in the business model being no longer viable.

Stress testing forms an integral part of the corporate planning process, liquidity forecasting and capital planning.

3. Capital Resources

The objective of the CRD IV regulation is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress. This is to be achieved through increasing both the quality and quantity of regulatory capital firms will be required to hold.

The Society's capital resources consist of:

- General Reserves accumulated, Revaluation Reserves and Available for Sale Reserve representing Common Equity Tier 1 Capital (CET1)
- Collective Mortgage Provision, representing Tier 2 Capital

	31 December 2015 £m	**31 December 2014[1] £m**
General Reserves	57.8	54.4
Revaluation Reserve	0.9	0.9
Available for Sale Reserve	-	0.2
Total Common Equity Tier 1 Capital[2]	**58.7**	**55.5**
Tier 2 Capital	**0.4**	**0.3**
Total Capital	**59.1**	**55.8**

[1] Restated under FRS 102
[2] Total Tier 1 Capital is the same as CET1 Capital

Note that there are no deductions required from Tier 1 or Tier 2 capital. Deferred tax assets are below the 10% CET1 threshold and so are risk weighted at 250%. There is no difference in the Society's capital resources under both the transitional and final rules.

The total CET1 Capital figure of £58.7m (2014: £55.5m), comprises general reserves, revaluation reserve and available for sale reserve, as shown in the above table, these in turn agree to the balance sheet in the audited financial statements. The Tier 2 capital of £0.4m (2014: £0.3m) reflects the collective mortgage provision held.

4. Capital Adequacy

Capital Management

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain the future development of the business. The Board manages the Society's capital and risk exposure to maintain capital in line with regulatory requirements. This is subject to regular stress tests to ensure the Society maintains sufficient capital for future possible events.

The Society's capital requirements are also monitored by the Prudential Regulatory Authority (PRA).

Internal Capital Adequacy Assessment Process (ICAAP)

The Society's Internal Capital Adequacy Assessment Process (ICAAP) ensures that the capital resources of the Society are sufficient to support its Business Plan both in normal and stressed conditions.

The process reviews objectives and projects the capital requirement for all material risks, both in normal and stressed conditions, over the planning period. This ensures that the potential risk and associated capital requirements are consistent with the capital resources available. The ICAAP is submitted to the Board for approval with the necessary supporting stress testing. Having regard to the projected capital requirement within the ICAAP and Individual Capital Guidance provided by the Prudential Regulation Authority, the Board sets a risk appetite and internal limit for the minimum amount of capital resources. This appetite is in excess of the level required by the Prudential Regulation Authority providing a further amount of capital above the required regulatory level.

The Society uses the standardised approach to calculate credit risk weightings. This is as follows:

Pillar 1 credit risk capital requirement = Exposure Value x Risk Weighting x 8%.

The risk weighting applied will vary depending on whether the asset is retail or wholesale.

For retail assets, variables such as loan to value and security will impact the risk weighting. Wholesale assets are dependent on counterparty, duration and credit rating.

Capital Requirements Summary

The society's minimum capital requirement under Pillar 1 is the sum of the credit risk capital requirement and the operational risk capital requirement.

The following table shows the Society's overall minimum capital requirement as at 31 December 2015.

	31 December 2015 £m	**31 December 2014 £m**
Credit Risk (Section 5.1)		
- Loans and advances to customers	20.8	19.6
- Wholesale Lending	1.8	3.2
- Other	0.7	0.6
Operational Risk (Section 5.8)	1.8	1.7
Capital Requirement under Pillar 1	**25.1**	**25.1**
Capital resources (Section 3)	59.1	55.8
Excess of own funds over Pillar 1 Capital requirement	**34.0**	**30.7**
Capital Ratios		
Common Equity Tier 1 ratio	18.7%	17.6%
Capital ratio	**18.8%**	**17.7%**

Leverage Ratio

The CRD IV framework requires firms to calculate a simple, transparent, non-risk based leverage ratio that is supplementary to the risk-based capital requirements.

The ratio is defined as the Capital Measure divided by the Exposure Measure, with this expressed as a percentage. The calculation is based on the balance sheet at 31st December.

The capital measure for the leverage ratio is Total Tier 1 Capital (as per Section 3). For the Society, this is the same as Common Equity Tier 1 Capital.

The exposure measure is the total on and off balance sheet exposures, with off balance sheet items (eg mortgage pipeline) converted into credit exposure equivalents through the use of credit conversion factors resulting in a reduced exposure measure.

	31 December 2015 £m	31 December 2014 £m
Total Tier 1 Capital	**58.7**	**55.5**
Exposure:		
Balance Sheet Exposure [1]	890.9	907.5
Derivative Exposure [2]	1.0	0.8
Mortgage Pipeline	8.4	6.6
Total Leverage Ratio Exposure [3]	**900.3**	**914.9**
Leverage Ratio [4]	**6.5%**	**6.1%**

Note 1 The balance sheet exposure represents the balance sheet assets in the audited financial statements, adjusted to exclude the collective mortgage provision of £0.4m (2014 £0.3m) and the derivative financial instrument asset of £0.1m (2014 nil) which is included under Derivative Exposures
Note 2 Represents the positive fair value plus 'potential future exposure' of interest rate swaps
Note 3 There are no deductions applied to Tier 1 capital so none are applied to the exposure measure
Note 4 For the Society, there is no difference between assessing capital and leverage under the transitional rules and the final rules.

The BCBS will continue to test for a minimum requirement of 3% for the leverage ratio during the parallel run period (ie. from 1 January 2013 to 1 January 2017).

At the 31 December 2015 the leverage ratio of the Society was well above the 3% regulatory minimum at 6.5% based on the final rules.

5. Key Risks

As set out on page 6, the Society has eight principal risks being:

- Credit risk
- Liquidity risk
- Market risk
- Strategic risk
- Regulatory and legal risk
- Conduct risk
- Pension risk
- Operational risk

These are explained in more detail in the sections below.

5.1 Credit Risk

Credit risk is the risk of losses arising from a debtor's failure to meet their legal and contractual obligations, potentially arising from mortgage customers falling into arrears, insufficient security value or the write-off of Treasury exposures.

The Society operates within appropriate policies and risk appetites and performance is monitored closely.

Our prudent lending policy means our mortgage book is of high quality. Each application is individually underwritten to ensure that loans are affordable. This is evidenced by our low level of arrears.

There is potential risk from the failure of a counterparty, however our Treasury policies also mean that we set tight criteria over where we will, and where we won't place excess funds. The criteria include both long term and short term ratings published by external credit rating agencies, which are an indication of a company's creditworthiness as well as the results of published regulatory stress tests.

Our risk appetite is as follows:

We will adopt a prudent lending approach to our mortgage customers and treasury counterparties resulting in low default rates and not impacting on earnings or capital.

5.1.1 Retail Credit Risk

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

The following tables provide further information on the key drivers of risk of security, maturity and geography.

Minimum credit risk capital requirement by standardised exposure class:

	31 December 2015		31 December 2014	
Standardised Exposure class	**Exposure Value £m**	**Capital Require-ment £m**	**Exposure Value £m**	**Capital Require-ment £m**
Secured Residential Mortgages bal <= 80% of indexed valuation	695.0	19.5	661.5	18.6
Secured Residential Mortgages bal > 80% of indexed valuation	10.2	0.6	5.1	0.3
Secured by Mortgages on Commercial Property	0.3	-	0.5	-
Past Due Items	1.3	0.1	0.9	0.1
Unsecured Loan [1]	8.0	0.6	8.0	0.6
Total Loans and Advances to customers	**714.8**	**20.8**	**676.0**	**19.6**

Note 1 The unsecured loan represents a single exposure as part of a syndicated loan provided as part of a registered social landlord arrangement and is fully performing.

The above table is stated before specific provisions of £133k (2014: £22k) and a collective provision of £384k (2014: £303k). The collection provision is included as Tier 2 capital. The effective interest rate adjustment of £172k (2014: -£156k) and fair value adjustment for hedged risk of £754k (2014: £1,041k) are not included in the above analysis as they are treated as "other assets" for credit risk purposes.

Residual maturity analysis of loans and advances to customers:

31 December 2015	**<3 Months £m**	**>3 Months but <1 Year £m**	**>1 Year but <5 Years £m**	**>5 Years £m**	**Total £m**
Secured Residential Mortgages bal < = 80% of indexed valuation	6.9	20.2	113.7	554.2	**695.0**
Secured Residential Mortgages bal > 80% of indexed valuation	-	-	0.4	9.8	**10.2**
Secured by Mortgages on Commercial Property	-	-	-	0.3	**0.3**
Past Due Items	-	-	0.1	1.2	**1.3**
Unsecured Loan	-	-	8.0	-	**8.0**
Total Loans and Advances to customers	**6.9**	**20.2**	**122.2**	**565.5**	**714.8**

31 December 2014	<3 Months £m	>3 Months but <1 Year £m	>1 Year but <5 Years £m	>5 Years £m	Total £m
Secured Residential Mortgages bal < = 80% of indexed valuation	6.4	17.8	112.9	524.4	**661.5**
Secured Residential Mortgages bal > 80% of indexed valuation	-	0.1	0.6	4.4	**5.1**
Secured by Mortgages on Commercial Property	0.1	-	0.1	0.3	**0.5**
Past Due Items	-	-	0.3	0.6	**0.9**
Unsecured Loan	-	-	8.0	-	**8.0**
Total Loans and Advances to customers	**6.5**	**17.9**	**121.9**	**529.7**	**676.0**

Analysis of loans and advances to customers by geographic area:

31 December 2015			
Geographical region	**Performing £m**	**Past due £m**	**Total £m**
West Midlands	188.9	1.1	190.0
North	125.2	-	125.2
East Midlands	87.0	0.2	87.2
London	87.0	-	87.0
Outer South East	61.2	-	61.2
South West	57.8	-	57.8
Yorks & Humberside	46.9	-	46.9
Wales & N Ireland	25.9	-	25.9
East Anglia	25.3	-	25.3
Total	**705.2**	**1.3**	**706.5**
Other loans (see below)	8.3	-	8.3
	713.5	**1.3**	**714.8**

31 December 2014			
Geographical region	**Performing £m**	**Past due £m**	**Total £m**
West Midlands	184.3	0.5	184.8
North	116.5	0.2	116.7
East Midlands	83.7	-	83.7
London	87.6	-	87.6
Outer South East	60.7	-	60.7
South West	50.8	0.1	50.9
Yorks & Humberside	40.9	-	40.9
Wales & N Ireland	21.7	0.1	21.8
East Anglia	20.4	-	20.4
Total	**666.6**	**0.9**	**667.5**
Other loans	8.5	-	8.5
	675.1	**0.9**	**676.0**

Other loans include the unsecured loan representing a single exposure as part of a syndicated loan provided as part of a registered social landlord arrangement, as well as mortgages secured on commercial property.

A loan is considered to be past due where three or more monthly repayments have not been made at the reporting date.

Analysis of loans and advances to customers by occupation type:

	31 December 2015 £m	**31 December 2014 £m**
Owner occupied	518.2	500.0
Buy to Let	183.8	163.0
RSL	4.5	4.5
Commercial	0.3	0.5
Unsecured loan	8.0	8.0
Total	**714.8**	**676.0**

Analysis of loans and advances to customers by loan repayment type:

	31 December 2015 %	**31 December 2014 %**
Repayment	66%	65%
Interest only	34%	35%
Total	**100%**	**100%**

Policies and limits are set within the Risk Management Framework with regard to levels of Buy to Let and interest only lending.

Retail Impairment Provisions

Provision is made for all incurred losses on loans and advances based upon the following criteria.

Individual assessments are made of all mortgage loans that are three months or greater in arrears, or in possession, where there is objective evidence that all cash flows will not be received. Based upon these assessments an individual impairment reduction of these assets is made.

In addition, a collective impairment reduction is made against those loans and advances to customers where objective evidence, including forbearance measures, indicates that it is likely that losses may ultimately be realised and thus a loss event has occurred. The impairment value is calculated by applying various factors to each loan. These factors take into account the Society's expectation of default and delinquency rate, loss emergence periods, regional house price movements and adjustments to allow for forced sale discounts, selling costs and any potential recovery of Mortgage Indemnity Guarantee (MIG). Impairment provisions are made to reduce the value of impaired loans and advances to the amount that is considered to be ultimately received based upon objective evidence.

Of the total loans and advances to customers of £714.8m at 31 December 2015 (2014: £676.0m) only £0.6m required a specific provision (2014: £0.8m). Balances one month or more past due were £6.3m at 31 December 2015 (2014: £8.0m), of these £1.3m (2014: £0.9m) were 3 or more months in arrears.

Forbearance Strategy

A range of forbearance options are available to support customers who are in financial difficulty, the purpose of which is to support customers who have temporary difficulties to get back on their feet. The main options offered are

- Reduced monthly payment including interest only concession
- An arrangement to clear outstanding arrears
- Payment holiday
- Capitalisation of arrears
- Extension of mortgage term
- Transfer to a new product which could help to reduce monthly payments

Customers requesting a forbearance option will need to provide information to support the request which is likely to include the completion of an Income and Expenditure Questionnaire, bank statements, payslips etc. in order that the request can be properly assessed. If the forbearance request is granted the account is monitored in accordance with our policy and procedures.

At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is recalculated. Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received.

These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically the receipt of six months qualifying payents is required. Different percentages of probability of default values are applied to these customer accounts reflecting the potentially higher risk of default to the Group

The table below details the movement of impairment provisions during the year.

	2015 (£k)	2014 (£k)
Individual Provision		
At 1st January	22	18
Change on transition to IAS39	-	52
Provision increase/(release)	127	(48)
Provision utilised	(16)	-
At 31 December	**133**	**22**
Collective Provision		
At 1st January	303	900
Change on transition to IAS39	-	(543)
Provision increase/(release)	81	(54)
At 31 December	**384**	**303**

5.1.2 Wholesale Credit Risk

A Board approved policy statement restricts the level of risk by placing limits on the amount of exposure that can be taken in relation to one counterparty or group of counterparties, and to industry sectors. This is reported by the Management Risk Committee to the Board Risk Committee.

The primary source for obtaining information on wholesale asset counterparties' creditworthiness is External Credit Assessment Institutions (ECAIs). The Society uses ratings provided by Fitch. Credit ratings are reviewed regularly and are reported to the Management Risk Committee. The Society reviews the capital adequacy and assesses the financial performance and any risks associated with financial institutions.

Minimum credit risk capital requirement by standardised exposure class:

Standardised Exposure Class	**31 December 2015 (£m)**		**31 December 2014 (£m)**	
	Exposure Value	**Capital Requirement**	**Exposure Value**	**Capital Requirement**
Central Government or Central Banks	87.0	-	82.8	-
Institutions	84.8	1.8	144.0	**3.2**
Total Wholesale Lending	**171.8**	**1.8**	**226.8**	**3.2**

Residual maturity analysis of Wholesale credit exposures:

31 December 2015	<3 Months (£m)	>3 Months but <1 Year (£m)	>1 Year but <5 Years (£m)	> 5 Years (£m)	Total (£m)
Central Government or Central Banks	76.8	10.0	-	0.2 [1]	**87.0**
Institutions	37.0	38.1	9.7	-	**84.8**
Total Wholesale Lending	**113.8**	**48.1**	**9.7**	**0.2**	**171.8**

31 December 2014	<3 Months (£m)	>3 Months but <1 Year (£m)	>1 Year but <5 Years (£m)	> 5 Years (£m)	Total (£m)
Central Government or Central Banks	82.6	-	-	0.2 [1]	**82.8**
Institutions	64.7	47.7	31.6	-	**144.0**
Total Wholesale Lending	**147.3**	**47.7**	**31.6**	**0.2**	**226.8**

Note 1 The exposure greater than 5 years relates to the Cash Ratio Deposit account with the Bank of England which has an undefined maturity

Residual maturity and credit rating analysis of Wholesale credit exposures:

31 December 2015 Fitch Rating	Credit Quality Step	< 3 Months (£m)	>3 Months but <1 Year (£m)	>1 year (£m)	Total (£m)
AAA to AA-	1	86.5	36.0	1.4	123.9
A+ to A-	2	27.3	8.1	-	35.4
BBB+ to BBB-	3	-	4.0	8.5	12.5
		113.8	**48.1**	**9.9**	**171.8**

31 December 2014 Fitch Rating	Credit Quality Step	< 3 Months (£m)	>3 Months but <1 Year (£m)	>1 year (£m)	Total (£m)
AAA to AA-	1	93.5	18.6	22.6	134.7
A+ to A-	2	53.8	29.1	9.2	92.1
		147.3	**47.7**	**31.8**	**226.8**

The ECAI (Fitch) rating is aligned with the relevant credit quality step as defined in the CRR.

Analysis of Wholesale credit exposures by geographic area:

31 December 2015	Central Government/ Central Banks (£m)	Institutions (£m)	Total (£m)
United Kingdom	87.0	73.9	160.9
Europe	-	4.9	4.9
Non Europe	-	6.0	6.0
Total	**87.0**	**84.8**	**171.8**

31 December 2014	Central Government/ Central Banks (£m)	Institutions (£m)	Total (£m)
United Kingdom	82.8	130.0	212.8
Europe	-	4.9	4.9
Non Europe	-	9.1	9.1
Total	**82.8**	**144.0**	**226.8**

Wholesale Impairment Provisions

A regular assessment of investment quality is reported monthly to the Management Risk Committee. In assessing whether an asset has been impaired, the Society considers the credit rating of the counterparty, the current market valuation and the extent to which coupon payments have been made on a timely basis. As at 31 December 2015, no Wholesale assets were either past due or impaired and no provision has therefore been made.

5.1.3 Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations.

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the board, which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes include derivative financial instruments ‘derivatives’, which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates. Derivatives are only used by the Society in accordance with the Building Societies Act 1986 (as amended by the Building Societies Acts 1997 and 2005), to reduce the risk of loss arising from changes in interest rates of other factors specified in the legislation. The Society does not trade in derivatives or use them for speculative purposes.

The principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge balance sheet exposures arising from fixed rate mortgage lending and savings products. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities

The following table describes the significant activities undertaken by the Society, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks.

Activity	**Risk**	**Fair Value Interest Rate Hedge**
Fixed Rate Mortgage products	Sensitivity to increases in interest rates	Pay fixed interest rate swaps
Fixed Rate Savings products	Sensitivity to falls in interest rates	Receive fixed interest rate swaps

The table below shows the nominal principal amounts, credit risk weighted amounts and replacement costs of derivatives. Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at balance sheet date reflecting the Society's maximum exposure should the counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Prudential Regulatory Authority, is based on the replacement costs, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

31 December 2015	**Nominal principal amount (£m)**	**Fair Value (£m)**	**Replacement Cost (£m)**	**Credit risk weighted amount (£m)**
Interest rate contracts maturing:				
In less than 1 year	43.0	(0.2)	-	-
Between 1 year and 5 years	174.1	(1.2)	0.1	0.3
Total	**217.1**	**(1.4)**	**0.1**	**0.3**

31 December 2014	Nominal principal amount (£m)	Fair Value (£m)	Replacement Cost (£m)	Credit risk weighted amount (£m)
Interest rate contracts maturing:				
In less than 1 year	11.1	(0.1)	-	-
Between 1 year and 5 years	143.1	(1.7)	-	0.2
Total	**154.2**	**(1.8)**	**-**	**0.2**

The net exposure value of derivatives at 31 December 2015, which includes uplifts for Potential Future Credit Exposure (PFCE) under the mark to market method for assessing counterparty credit risk, totalled £1.0m (2014: £0.8m).

5.2 Liquidity Risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, is unable to support normal business activity and fails to meet liquidity regulatory requirements. We continue to hold very strong levels of liquidity. There is potential risk to this from an extreme scenario of depositors withdrawing their funds

The Society aims to provide customer savings rates that are both fair and sustainable and monitor them closely. The Society has appropriate appetites and policies in place and monitors the liquidity position closely on an on-going and forward looking basis. There are also contingency plans in place should extreme situations arise.

Our risk appetite is as follows:

We will maintain sufficient liquid resources, over and above the financial minimum, that gives our members confidence that we have the ability to meet our financial obligations as they fall due.

The risk is managed principally by holding cash and other easily realisable liquid assets (high quality liquid assets) and managing funding maturities to avoid bunching. In order to manage this risk the Society operates a liquidity policy which ensures that liquid assets are appropriately invested to achieve a sensible balance between realisability, prudence and return. The policy also lays down strict guidelines on counterparty criteria and sector limits to ensure that liquid capital investments are of a high quality. The Society regularly performs stress tests to ensure that liquidity levels remain at operational levels in exceptional circumstances.

5.3 Market Risk

Market risk is the risk of losses arising from changes in market rates or prices. The main exposure for the Society is interest rates, there is a risk that changes in interest rates will result in changes to income due to the difference between interest rates charged for mortgages compared to those paid for funding over different re-pricing time periods.

The Society has a cautious approach to market risk and operates with policies and risk appetites. Reports are produced on a monthly basis to ensure the Society remains within these limits. The Society does not operate a trading book and only takes out interest rate swaps with approved counterparties to reduce interest rate risk exposure.

Our risk appetite is as follows:

We will manage our interest rate and basis risk positions to ensure that losses due to adverse movements in market rates do not impact significantly over and above our forecasted market expectations.

The Society is not exposed to equity, foreign currency or commodity risk. The Society's strategy and approach to the management of market risk is set out in its Policy Statement on Market Risk. By delegated authority of the Board, the Asset and Liability Committee (ALCO) controls and supervises the Society's treasury and related risk management activities.

Interest rate risk is the potential adverse impact on the Society's future cash flows from changes in interest rates and arises due to the differing interest rate risk characteristics of the Society's assets and liabilities. Interest rate risk exists within the Society's banking book largely through the provision of fixed rate mortgages and fixed rate savings products. Changes in the variable rate of interest have the potential to adversely affect future cash flows by either a reduction in interest income or an increase in interest expense. The Society's exposure to a 2% parallel shift in interest rates, in line with the interest rate gap position disclosed in Note 26 of the audited financial accounts, is less than £0.5m (2014: less than £0.1m).

The Board has ensured that suitable capital provisions are made where appropriate.

5.4 Strategic Risk

Strategic risk is the risk of losses as a result of strategic/management decisions or business choices. Factors such as competition and regulatory change could impact the Society should it fail to keep up with the pace of change. As a result there could be significant loss or insufficient capital to meet operational and regulatory demands.

The Society has an established corporate planning process which is subject to rigorous challenge which sets the overall direction for the Society. The Society recognises that it operates in a competitive market place and keeps a close eye on market trends and is mindful of these in its decision making. The Society operates a Three Lines of Defence model providing oversight, challenge and independent assurance and the Non Executives provide a robust level of challenge over Executive proposals.

Our risk appetite is as follows:

We will ensure that the strategic direction delivers a sufficient return that enables us to deliver capital which provides long term growth as well as financial stability for our members.

5.5 Regulatory and Legal Risk

Regulatory and legal risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements. It is essential for the Society to comply with all applicable regulatory requirements.

Continuous monitoring of regulatory change requirements is ongoing to ensure awareness and compliance by the Society. The Three Lines of Defence model also provides oversight, challenge and independent assurance.

Our risk appetite is as follows:

We will maintain a robust process to ensure that regulatory requirements are met within agreed timeframes.

5.6 Conduct Risk

Conduct risk is the risk that the Society is unable to demonstrate that it is putting the customer interest at the very heart of the business.

The Society has no appetite for unfair customer outcomes arising from any element of the conduct risk lifecycle, which includes product design, sales and after sales processes and culture.

Our risk appetite is as follows:

We will strive to deliver positive outcomes to our customers and members at all times, maintaining a high degree of customer and public confidence, to be achieved primarily through focusing on our core mission statement.

Background and outlook

Financial institutions continue to bear the cost of poor customer conduct and unfair customer outcomes. Given the longevity of many financial products, it is likely that issues will continue to arise in the market.

From a conduct perspective the FCA and European Banking Authority (EBA) continue to shape the industry. The main regulatory changes in the coming year are:

- The introduction of the European Mortgage Credit Directive in March 2016. This aims to enhance existing consumer protection already provided through the current mortgage regulatory framework. The Society is well prepared and will meet the regulatory timeframes.

- The Senior Managers Regime (SMR) comes into force in March 2016. This outlines requirements for senior managers, introduces certified roles (for example mortgage advisers) and establishes new conduct requirements. The Society is well prepared to meet the SMR timeframes.

- In July 2015, the FCA released new rules on complaint handling. The majority of the new rules apply from June 2016 and focus on complaint reporting to the FCA and the timeframes for handling complaints. The Society is updating its systems and processes to accommodate the new requirements.

Conduct risk mitigation

In line with its stated appetite, the Society restricts its activities to areas where appropriate expertise is in place. Customer facing and operational departments provide first line management of conduct risk. All colleagues complete mandatory conduct risk training and there is a Board approved Conduct Risk Policy in place.

The Society undertakes first and second line monitoring of Conduct Risk and also has a Customer Conduct Forum as part of its Board approved governance committee structure. The Society maintains a Product Governance Policy which encompasses the need to offer products that meet the needs of our existing and new members.

5.7 Pension Risk

Pension risk is the risk of financial deficit in the Society's defined benefit scheme and therefore the possibility that the Society will have to pay more than expected into its employees' pension schemes which could be impacted by factors such as mortality rates, asset values and yield prices.

The defined benefit scheme is closed to further accrual. The Society works closely with the pension trustees to try and seek further de-risking opportunities as conditions allow.

The preliminary results of the 24 April 2015 actuarial valuation showed a deficit of £3,814,000. As a consequence of this, the Society has agreed to pay £765,000 per annum for 5 years commencing in April 2016. In addition the Society contributes approximately £50,000 per annum towards premiums for death in service.

Our risk appetite is as follows:

We will ensure that we can meet our contractual and regulatory requirements so that we can meet our existing and future liabilities.

5.8 Operational Risk

Operational risk is the risk of a loss arising from inadequate or failed internal processes or systems, human error, key supplier failure or external events.

The Society manages these risks as an integral part of its operations, utilising controls, the Risk & Control Self Assessment tool and the Risk Registers. The Society maintains detailed risk registers for all departments which reflect key operational risks and the controls in place to mitigate the risk coming to fruition. Risks are scored on both an inherent and residual basis.

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

Our risk appetite is as follows:

We will maintain efficient operational processes and controls to ensure that we can optimise our resources and reduce the impact of operational risks on the Society's performance.

Operational risk is managed through the Management Risk Committee and reported to the Board Risk Committee.

Minimum Capital Requirements for Operational Risk

The Society has adopted the Basic Indicator Approach (BIA) under Pillar I, which is based upon a 15% charge of the average of the last three years net income.

The Society's minimum (Pillar 1) capital requirement for Operational Risk is:

Operational Risk	**2015 £m**	**2014 £m**
Annual gross income (2012)	-	9.9
Annual gross income (2013)	11.7	11.7
Annual gross income (2014)[1]	11.3	12.4
Annual gross income (2015)	13.1	-
Average annual gross income	**12.0**	**11.3**
Requirement at 15% Risk Weighting	**1.8**	**1.7**

[1] 2014 income has been restated for the 2015 operational risk calculation to reflect the adoption of FRS102 and IAS39

The Board considers the BIA approach appropriate for the Society, given the simple and straightforward nature of the operations and the fact that there are no international operations.

It has further considered whether the BIA provision is sufficient given the status of the Society's risk management framework. Given the low risk nature of the Society and its risk appetite, it is felt unlikely that any operational issues would exceed the Pillar 1 requirement.

The Society makes use of insurance to mitigate the effect of accepted risks such as material damage, business interruption, professional indemnity, third party liability etc. The insurance policies are reviewed annually by the Executive in order to agree the scope and level of cover.

The Society has in place an extensive Business Continuity Plan, which is reviewed and tested annually. The Board is satisfied that the plan, when enacted, will allow the Society to continue to function after suffering a number of severe events.

6. Remuneration Policy and Practice

The Society seeks to ensure that its remuneration decisions are in line with its business strategy and long term objectives, and consistent with the Society's current financial condition and future prospects. It also seeks to establish an appropriate balance between the fixed and variable elements of remuneration.

The Remuneration Committee is responsible for the following:

- To review the overall remuneration policy for the Society
- To approve appropriate levels of remuneration and conditions for Executive Directors and all other Remuneration Code Staff
- To establish the parameters within which the Executive Directors are to conduct negotiations with employee representatives recognised by the Society for the purpose of setting the general level of remuneration and conditions of employment for all other employees.

In determining remuneration, the Committee considers the guidance in the UK Corporate Governance Code 2014 (the Code) and applies the FCA Remuneration Code. The Remuneration Committee, comprises solely of Non-Executive Directors (four as at 31 December 2015), met on six occasions during 2015.

Further details regarding the remuneration policy are set out in the Directors' Remuneration report in the 2015 Annual Report and Accounts which are published on the Society's website.

The main components of remuneration are as follows:

- Basic salary – this takes into account job content and responsibilities, individual performance (assessed annually against personal objectives) and salary levels of similar positions in comparable organisations.
- Bonus – a performance related pay scheme was introduced for the first time in 2015, for all staff including Executive Directors. The scheme results in a maximum payment of £1,000 per annum regardless of salary.
- Benefits – include the provision of a car or car allowance, pension and medical insurance.

The table below sets out the aggregate remuneration for staff who are Material Risk Takers, as per the relevant EBA regulatory technical standards, in relation to their services for the Society for the year ended 31 December 2015.

	2015			**2014**	
	Number of Staff	**Total Remuneration £'000**	**Of which Variable £'000**	**Number of Staff**	**Total Remuneration £'000**
Executive Directors*	3	509	3	4	396
Non Executive Directors	7	154	-	6	132
Material Risk Takers	13	620	11	11	512
Total	**23**	**1,283**	**14**	**21**	**1,040**

All remuneration was fixed, with the exception of the performance related bonus scheme in 2015 which resulted in a maximum payment of £1,000 per annum.

*One individual received £18k holiday pay in 2014 (relating to 2013 and 2014) and an additional £10k as part of an agreed retirement package

8. Glossary

Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that the outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed
Basel II	Basel II is the second of the Basel Accords, issued by the Basel Committee on Banking Supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain sufficient capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA/FCA Handbook
Basel III	Basel III entered into force on 1 January 2014 and introduces more onerous capital requirements for credit institutions and amends the existing standards for Basel I and Basel II
Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV)	CRD IV is the European legislation which came into force from 1 January 2014 to implement Basel III. It has revised the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms. The Capital Requirements Regulation forms part of CRD IV
Common Equity Tier 1 Capital (CET1)	CET1 capital consists of general reserves and other reserves less intangible assets and other regulatory deductions
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows
Credit Risk	This is the risk of losses arising from a debtor's failure to meet their legal and contractual obligations
External Credit Assessment Institution (ECAI)	An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment, as part of Basel III requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events
Institutions	Financial institutions such as banks and building societies
Leverage Ratio	Leverage Ratio is defined as Tier 1 Capital divided by the total exposures which includes on and off balance sheet items, with this ratio expressed as a percentage
Minimum Capital requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements
Operational Risk	The risk of a loss arising from inadequate or failed internal processes or systems, human error, key supplier failure or external events
Past Due Items	Loans which are 90 days or more in arrears
Provisions	Amounts set aside to cover incurred losses associated with credit risks
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK from the 1 April 2013. The PRA replaced the FSA (Financial Services Authority)

Retail lending	Residential mortgages including buy to let and secured lending to small businesses
Risk Appetite	The level of risk that the society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst achieving business objective.
Registered Social Landlords (RSL)	Registered social landlords (also known as housing associations) are independent, non-profit-making organisations, which provide homes for people to rent, buy or both
Secured Residential Mortgages > 80% of indexed valuation	Residential mortgages where outstanding balance is greater than 80% of indexed valuation
Secured Residential Mortgages <= 80% of indexed valuation	Residential mortgages where outstanding balance is less than or equal to 80% of indexed valuation
Secured by Mortgages on Commercial Property	Secured business lending
Tier 1 Capital	A component of regulatory capital, it comprises CET1 and Additional Tier 1 capital
Tier 2 Capital	Comprises the collective mortgage provision (for exposures treated on a Basel II standardised basis)
Wholesale	Lending to financial institutions