Leeds Building Society

Interim Financial Report
For the period ended 30 June 2013

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Half-yearly financial report for the period ended 30 June 2013

Business Review

Leeds Building Society continues to grow its balance sheet and has again exceeded its natural market share[1] in the core mortgage and savings markets, delivering another strong set of results for the first half of 2013.

The outlook for the UK economy is slightly brighter than at the start of the year with first and second quarter GDP growth figures of 0.3% and 0.6% respectively. Many commentators have recently revised their forecasts for growth this year upwards, including the Bank of England (to 1.1%) and more recently the IMF (to 0.9%). The housing market also appears to be showing some signs of improvement.

However, the recovery still remains relatively weak compared with historical standards and economic conditions will continue to present challenges. The immediate threat emanating from the Eurozone appears to have receded, but its fundamental problems remain.

Despite this economic backdrop, Leeds Building Society has been able to provide members with good value for money savings and mortgage products, help people buy their own homes and grow its total assets by 7% to a record £10.8bn (£10.1bn, 30 June 2012).

Mortgages and Savings

We continue to provide our members with competitive savings products, paying on average 57 basis points[2] more than our competitors, backed up by excellent service. This combination has resulted in savings balances increasing by £521m in the first half of the year, to a record £8.3bn, and this growth is significantly above our market share.

The strong retail savings performance continues to support our growth aspirations and creates further capacity to lend. We significantly increased our lending again in the first half of 2013 with gross lending of £921m, which represents double our market share[1] and a 20% increase compared to the same period last year (£769m, 30 June 2012). We have particular expertise in the first-time-buyer sector and over 31% (over £280m) of our lending in the first six months of 2013 has helped almost 3,000 members purchase their first home. Net residential lending was 26% higher at £423m (£335m, 30 June 2012).

We believe that the wide range of attractive products we offer combined with the quality of service we provide is a differentiating factor. Over 95% of members independently surveyed confirmed that they were happy with the service they receive. These factors have enabled us to attract 39,000 new members in the period (33,000, 30 June 2012), which increases total membership to a record of 703,000.

Funding

Our successful retail savings strategy has enabled us to reduce our wholesale funding ratio to 17.4% (19.0%, 30 June 2012). Whilst members' savings remain a major component of our traditional building society business, we continue to benefit from access to diverse sources of funding and successfully completed our debut public mortgage backed securitisation, Albion No.2, in July 2013 raising £300m. We also continue to utilise the Funding for Lending Scheme to support our mortgage lending aspirations and have now drawn a total of £250m. This means that the proportion of our wholesale funding which has more than 1 year to maturity is now 70%.

The liquidity ratio remains high at 19.2% (20.2%, 30 June 2012) and is expected to reduce in the second half of the year as a consequence of our continuing lending growth. As a result funds held at the Bank of England continue to be high at £779m (£723m, 30 June 2012).

Loan Portfolio

As the recovery appears fragile and the economy is still some way from returning to full health, we work closely with borrowers to provide forbearance support where appropriate. Despite the challenging economic backdrop, our residential arrears (1.5% or more of outstanding mortgage balances) have reduced to 2.27% (2.76%, 30 June 2012).

Commercial loan balances in arrears (1.5% or more of outstanding mortgage balances or balances in LPA receivership) reduced to 7.7% (11.3%, 30 June 2012). The Society's exposure to this sector has reduced by £75m (16%) since June 2012 and now represents only 4.7% of our total mortgage portfolio.

[1] Leeds Building Society defines market share as follows:
Mortgages - Council of Mortgage Lenders market share statistics
Savings - Mutual sector net retail savings as published by the Building Societies Association
[2] Data supplied by CACI Current Account and Savings Database, showing weighted average pay rates of total savings balances as at 30 April 2013

Loan Portfolio continued

The charge for impairment losses and provisions for residential and commercial property increased to £26.4m in the first half of 2013 (£19.9m, 30 June 2012) as we continue to reduce our commercial loan portfolio. Total balance sheet mortgage provisions are £86m at 30 June 2013 compared to £81m at 31 December 2012 and £91m at 30 June 2012. Residential mortgage provisions of £45m represent 21% of arrears and possession balances (20%, 30 June 2012). Commercial mortgage provisions of £41m represent 24% of arrears, possession and impaired balances (24%, 30 June 2012).

Financial Strength

Pre-tax profit increased by 13% to £30.6m (£27.1m, 30 June 2012) in the first half of 2013 driven by higher net interest income. This strong performance enabled us to increase capital and reserves by £31m, to a record £629m (£598m, 30 June 2012), resulting in a core tier 1 ratio of 14.2% (14.1%, 30 June 2012), significantly above regulatory requirements.

The Society continues to invest in the business whilst maintaining a strong culture of operational efficiency. Our cost income ratio[4] reduced to 31%, from 33% at 30 June 2012, with our cost asset ratio remaining at 48p per £100 of assets. These ratios remain favourable compared to the average of building societies.

Leeds Building Society continues to deliver strong results and perform consistently in its core mortgage and savings markets, providing security and value to its members. We are profitable, well capitalised and remain one of only three building societies with 'A' long term credit ratings from Moody's and Fitch. We are very well placed to increase lending further, support homeownership and achieve our growth aspirations in the remainder of 2013 and beyond.

Principal risks and uncertainties

Principal Risks

The principal risks that arise from the Society's operations are classified as credit, liquidity, market, operational, conduct, strategic and pension obligation and these are common to most financial services firms in the UK. In order to ensure that the interests of members are adequately protected at all times, the Society has embedded a robust governance structure and risk management framework. These are designed to identify, manage, monitor and control the major risks exposed in the delivery of the Society's strategic objectives. Full details of the risks faced by the Society, which are unchanged from 2012, can be found on pages 16 to 21 of the 2012 Annual Report and Accounts.

Uncertainties

The principal uncertainties faced by the Society are associated with the performance of the UK economy as a whole, the potential for further disruption from the Eurozone and the outlook for financial markets.

Over the course of the first half of 2013, the UK economy has evidenced some signs of a recovery, with estimated first and second quarter GDP growth figures of 0.3% and 0.6% respectively. Whilst, it is too early to see whether the recovery will be sustained, the outlook is for further growth during the remainder of the year. However, the economic backdrop remains challenging with relatively high unemployment, mixed views on house prices changes and inflation eroding household income. If there was a material increase in unemployment and/or large reductions in house prices and/or a rapid increase in interest rates, the level of arrears and losses could be higher than anticipated in the second half of the year.

The economic conditions also mean that the outlook for the commercial property sector remains challenging and any further slowdown could place pressure on the Society's borrowers' ability to fulfil their future commitments.

During the first half of 2013, the concerns over the indebtedness of the periphery Eurozone countries (Greece, Portugal, Spain, Italy, Cyprus and Ireland) have remained, with elevated bond yields for these jurisdictions, compared to their other Eurozone countries. As at the 30th of June 2013, the Society had no direct counterparty exposure to these countries.

The difficulties in the EU resulted in some speculation over the long term future of the Euro in 2012. At 30 June 2013, circa 3% of the Society's loans to customers were located in Ireland and Spain. These assets are denominated in Euros and the foreign currency risk is mitigated through derivative financial instruments. An additional risk to emerge during the Eurozone crisis with regard to the Society's legacy Irish lending portfolio is redenomination risk, whereby a reduction in the value of foreign currency assets is not matched by a reduction in the value of foreign currency liabilities. This risk was substantively mitigated in 2012 through raising funds under the same law governing the assets.

Although the wholesale funding markets have been challenging during the first half of 2013, the Society successfully issued £300m of mortgage backed securities in July 2013. It is anticipated that market conditions will remain difficult as uncertainties, such as a deceleration of growth in China and the timing for the unwinding of quantative easing in the US, persist.

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[4] Defined as administrative expenses as a proportion of total income.

Uncertainties continued

The external regulatory framework continues to evolve, with changes covering the mortgage market, the introduction of Basel III and its impact on capital and liquidity levels, the potential for pre-funding the Financial Services Compensation Scheme and twin peaks regulation via the Prudential Regulation Authority and the Financial Conduct Authority. These changes are likely, to some extent, to impact the way the Society and other banks and building societies operate.

All these developments will continue to be monitored during the second half of the year but the Board is satisfied that the Society's successful and sustainable business model means that it remains well placed to deal with these uncertainties.

Cautionary statement

This half-yearly financial report has been prepared solely to provide additional information to members to assess the Group's strategies and the potential for those strategies to succeed. These statements should not be relied on by any other party or for any other purpose. The half-yearly financial report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

The directors are responsible for the maintenance and integrity of the corporate information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board by

Robin J. Ashton Chairman	Peter A. Hill Chief Executive

Independent Review report

We have been engaged by the Leeds Building Society ("Society") to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated income statement, the condensed consolidated statements of comprehensive income, the condensed consolidated statements of financial position, the condensed consolidated statements of changes in members' interests, the condensed consolidated statements of cash flows and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with International Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Society those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with the International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
5 August 2013

Condensed Consolidated Income Statement for the period ended 30 June 2013

	Notes	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
Continuing operations				
Interest receivable and similar income	5	184.4	176.9	360.7
Interest payable and similar charges	6	(108.0)	(112.6)	(227.5)
Net interest receivable		**76.4**	**64.3**	**133.2**
Fees and commissions receivable	7	6.3	8.1	16.1
Fees and commissions payable	7	(0.1)	(0.1)	(0.2)
Fair value gain less losses from derivative financial instruments		(0.7)	(1.5)	0.7
Other operating income	8	0.7	0.4	1.1
Total income		**82.6**	**71.2**	**150.9**
Administrative expenses	9	(25.0)	(23.3)	(48.9)
Depreciation	9	(0.3)	(0.4)	(0.8)
Operating profit before impairment and provisions		**57.3**	**47.5**	**101.2**
Impairment losses on loans and advances to customers	11	(26.4)	(19.9)	(41.9)
Provisions for liabilities and charges				
Other	12	(0.3)	-	(0.6)
FSCS Levy	12	-	(0.5)	(5.2)
Investment property fair value movement		-	-	(1.1)
Profit before tax		**30.6**	**27.1**	**52.4**
Tax expense	10	(7.1)	(6.6)	(13.0)
Profit for the period		**23.5**	**20.5**	**39.4**

Segmental information is shown in note 20.
The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Comprehensive Income for the period ended 30 June 2013

	Notes	Unaudited 30 June 2013 £M	Unaudited 30 June 2012 £M	Audited 31 December 2012 £M
Continuing operations				
Profit for the period		23.5	20.5	39.4
Items that will subsequently be reclassified to profit and loss				
Available for sale investment securities				
Fair value changes taken to reserves		(6.0)	1.4	4.6
Amortisation/disposals post 1 July 2008		0.9	2.6	3.3
Cash flow hedges				
Fair value changes taken to reserves		0.8	-	(3.5)
Tax relating to items that may be reclassified		1.0	(1.0)	(1.2)
Items that will not subsequently be reclassified to profit and loss				
Actuarial movements on retirement benefit obligations		(7.0)	3.0	(1.6)
Tax relating to items which will be not reclassified		1.7	(0.7)	0.4
Other comprehensive (expense)/income net of tax		**(8.6)**	**5.3**	**2.0**
Total comprehensive income for the period		**14.9**	**25.8**	**41.4**

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Financial Position as at 30 June 2013

	Notes	Unaudited 30 June 2013 £M	Unaudited 30 June 2012 £M	Audited 31 December 2012 £M
Assets				
Cash in hand and balances with the Bank of England		783.1	723.1	663.1
Loans and advances to credit institutions		108.2	117.3	117.0
Derivative financial instruments		94.5	108.5	118.9
Loans and advances to customers				
Loans fully secured on residential property		8,052.1	7,236.0	7,645.4
Other loans		591.3	667.1	629.9
Investment securities				
Available for sale		911.8	886.6	847.4
Loans and receivables		102.5	140.3	121.2
Retirement benefit surplus		-	2.5	-
Property, plant and equipment		29.1	27.9	28.5
Investment properties		5.6	6.8	5.6
Deferred tax asset		4.0	1.1	3.0
Other assets, prepayments and accrued income		108.6	146.2	135.9
Total assets		**10,790.8**	**10,063.4**	**10,315.9**
Liabilities				
Shares	13	8,258.9	7,542.9	7,738.3
Derivative financial instruments		114.7	148.1	148.5
Amounts owed to credit institutions		330.5	416.0	433.1
Amounts owed to other customers		428.6	255.1	351.3
Debt securities in issue		922.2	1,026.8	937.0
Current tax liabilities		9.3	6.9	7.6
Deferred tax liabilities		2.8	3.2	2.8
Other liabilities and charges		77.4	59.6	72.0
Provision for liabilities	12	9.1	6.6	9.1
Retirement benefit obligations	16	8.6	-	2.4
Subordinated liabilities		0.9	0.9	0.9
Subscribed capital		25.0	25.0	25.0
		10,188.0	**9,491.1**	**9,728.0**
Reserves				
Cash flow hedge reserve		(2.0)	-	(2.6)
Available for sale reserve		(1.8)	(0.7)	2.2
Revaluation reserve		13.2	13.2	13.2
Other reserve		14.3	14.3	14.3
General reserve		579.1	545.5	560.8
Total reserves		**602.8**	**572.3**	**587.9**
Total reserves and liabilities		**10,790.8**	**10,063.4**	**10,315.9**

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Changes in Members' Interest for the period ended 30 June 2013

Unaudited
30 June 2013

	General Reserve	Cash Flow Hedge Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2013	560.8	(2.6)	2.2	13.2	14.3	587.9
Comprehensive income for the period	18.3	0.6	(4.0)	-	-	14.9
Balance at 30 June 2013	**579.1**	**(2.0)**	**(1.8)**	**13.2**	**14.3**	**602.8**

Unaudited
30 June 2012

	General Reserve	Cash Flow Hedge Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2012	522.7	-	(3.7)	13.2	14.3	546.5
Comprehensive income for the period	22.8	-	3.0	-	-	25.8
Balance at 30 June 2012	**545.5**	**-**	**(0.7)**	**13.2**	**14.3**	**572.3**

Audited
31 December 2012

	General Reserve	Cash Flow Hedge Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2012	522.7	-	(3.7)	13.2	14.3	546.5
Comprehensive income for the year	38.1	(2.6)	5.9	-	-	41.4
Balance at 31 December 2012	**560.8**	**(2.6)**	**2.2**	**13.2**	**14.3**	**587.9**

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Condensed Consolidated Statement of Cash Flows for the period ended 30 June 2013

	Notes	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
Profit before tax		30.6	27.1	52.4
Adjusted for changes in:				
Impairment provision		10.6	3.5	(7.1)
Provision for liabilities and charges		-	0.4	2.9
Depreciation and amortisation		0.3	0.4	0.8
Change in value of investment property		-	-	1.1
Interest on subscribed capital		1.7	1.7	3.3
Cash generated from operations		**43.2**	**33.1**	**53.4**
Changes in net operating assets and liabilities				
Loans and advances to customers		(378.7)	(309.9)	(671.5)
Derivative financial instruments		(8.8)	32.4	19.8
Loans and advances to credit institutions		(84.2)	(6.0)	1.0
Other operating assets		27.3	(38.9)	(28.6)
Shares		520.6	188.7	384.1
Credit institutions and other		(25.3)	(192.8)	(79.5)
Debt securities		(18.8)	214.1	127.2
Other operating assets / (liabilities)		6.3	(32.9)	(19.0)
Taxation paid		(6.4)	(3.8)	(11.9)
Net cash flows from operating activities		**75.2**	**(116.0)**	**(225.0)**
Returns from investments and servicing of finance		3.5	(5.6)	(11.3)
Purchase of securities		(694.3)	(1,270.5)	(1,897.2)
Proceeds from sale and redemption of securities		643.5	1,960.7	2,649.8
Purchase of property and equipment		(0.9)	(0.8)	(1.8)
Net cash flows from investing activities		**(48.2)**	**683.8**	**739.5**
Net increase in cash and cash equivalents		**27.0**	**567.8**	**514.5**
Cash and cash equivalents at beginning of the period		**775.5**	**261.0**	**261.0**
Cash and cash equivalents at end of the period	15	**802.5**	**828.8**	**775.5**

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Notes to the condensed consolidated financial statements

1. General Information
1.1 The half-yearly financial information set out above, which was approved by the Board of Directors on 5th August 2013, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.
1.2 The financial information for the 12 months to 31 December 2012 has been extracted from the accounts for that year which have been filed with the Financial Conduct Authority and on which the auditor gave an unqualified opinion. The audit opinion for the 31 December 2012 annual statutory financial statements included no reference to any matter on which the auditor is required to report by exception.
1.3 The half-yearly information for the 6 months to 30 June 2013 and 30 June 2012 is unaudited.
1.4 Copies of the announcement will be available on the Society's website, www.leedsbuildingsociety.co.uk.

2. Basis of preparation
The condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with International Accounting Standard ("IAS") 34 'Interim Financial Reporting', as adopted by the European Union. In the current financial year, the Society has adopted the amendments to IAS 1 'Presentation of items of other comprehensive income', IAS 19 (revised 2011) 'Employee Benefits' and International Financial Reporting Standard (IFRS) 13 'Fair value measurement'.
The amendments to IAS 1 require items of other comprehensive income to be grouped into those that will be subsequently reclassified to profit or loss and those that will not. This has been applied retrospectively.
IAS 19 (revised 2011) is explained in note 16.
The principal impact of IFRS 13 is to require the incorporation of credit risk into the values of all financial instruments held at fair value, both assets and liabilities. As the Group's financial instruments are primarily valued at their listed price or supported by underlying collateral agreements, the impact of the changes on the Group is judged to be minimal. Additional disclosures as required by IFRS 7, and incorporated into IAS 34, are provided in notes 18 and 19.

3. Accounting policies and Judgements
With the exception of the changes to accounting standards set out above the accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements, which were prepared in accordance with IFRS as adopted by the EU.

4. Going Concern basis
The directors have reviewed the plans and forecasts for the period including giving due consideration to the ongoing economic environment in the UK and Eurozone, especially in relation to Ireland and Spain. In this context the directors consider that the Society has adequate liquidity to meet both the normal demands of the business and the requirements which might arise in stressed circumstances for the foreseeable future. The directors also have a reasonable expectation that the Society is able to generate adequate profits to enhance its capital and solvency in the future. Accordingly, the going concern basis has been adopted in the preparation of the half-yearly financial information.

5. Interest Receivable and Similar Income

	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
On loans fully secured on residential property	187.0	172.9	357.0
On other loans	13.4	15.6	30.3
On debt securities			
Interest and other income	5.1	8.0	13.4
On other liquid assets			
Interest and other income	2.2	2.1	4.3
Net expense on financial instruments	(23.3)	(21.7)	(44.3)
Total interest income	**184.4**	**176.9**	**360.7**

Notes to the condensed consolidated financial statements (continued)

6. Interest Payable and Similar Charges

	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
On shares held by individuals	97.1	96.8	198.6
On subscribed capital	1.7	1.7	3.3
On subordinated debt	-	-	0.1
On deposits and other borrowings	20.3	21.7	42.5
Net income on financial instruments	(11.1)	(7.6)	(17.0)
Total interest expense	**108.0**	**112.6**	**227.5**

7. Fees and Commissions Receivable and Payable

	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
Fees and commission receivable - at fair value	0.2	0.9	1.0
Fees and commission receivable - at amortised cost	6.1	7.2	15.1
Total fees and commission receivable	**6.3**	**8.1**	**16.1**
Fees and commission payable	(0.1)	(0.1)	(0.2)
	6.2	**8.0**	**15.9**

Notes to the condensed consolidated financial statements (continued)

8. Other Operating Income

	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
Rent receivable	0.7	0.9	1.4
Pension fund expense	-	(0.1)	(0.2)
Net loss on exchange rate movements	-	(0.4)	(0.1)
	0.7	**0.4**	**1.1**

9. Administrative Expenses

	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
Staff costs			
Wages and salaries	12.2	11.2	25.1
Social security costs	1.1	1.1	2.3
Other pension costs	1.6	1.5	3.7
Remuneration of auditor	0.2	0.1	0.4
Other administrative expenses	9.9	9.4	17.4
	25.0	23.3	48.9
Depreciation	0.3	0.4	0.8
	25.3	**23.7**	**49.7**

10. Taxation

An effective rate of 23.25% (Half year ended 30 June 2012: 24.5%, Full year ended 31 December 2012: 24.5%) has been applied to the Group's profit. This is in line with the standard corporation tax rate of 23.25% for the period (Half year ended 30 June 2012: 24.5%, Full year ended 31 December 2012: 24.5%).

The Finance Act 2013, which provides for reductions in the main rate of UK corporation tax to 21% effective from 1 April 2014 and 20% effective from 1 April 2015, was substantively enacted on 17 July 2013. As these rates were not substantively enacted prior to 30 June 2013 they have not been reflected in the net deferred tax asset at 30 June 2013. The future reductions are not expected to reduce the Group's deferred tax asset significantly.

Notes to the condensed consolidated financial statements (continued)

11. Impairment losses on loans and advances to customers

	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
Impairment charge for the period:			
Loans fully secured on residential property	9.1	9.7	17.0
Loans fully secured on land	17.0	10.5	25.1
Other loans	0.3	(0.3)	(0.2)
	26.4	**19.9**	**41.9**
Impairment provision at the end of the period:			
Loans fully secured on residential property	44.9	46.7	44.4
Loans fully secured on land	40.8	42.2	36.0
Other loans	-	2.3	0.3
	85.7	**91.2**	**80.7**

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. Such forbearance strategies include the use of arrangements to assist borrowers in arrears whom are now able to meet agreed repayment strategies, including or excluding arrears balances. Forbearance strategies exercised by the Group comprise of mortgage term extensions, transfer of mortgages (in full or in part) to an interest only or hardship product and capitalisation of arrears once the customer has demonstrated six months of consecutive contractual payments. These strategies are only adopted where they will not give rise to customer detriment.

12. Provisions for Liabilities and Charges

Unaudited 30 June 2013

	FSCS levy £M	Customer redress and other related provisions £M	Commission clawback £M	Total £M
Balance at 1 January 2013	8.1	0.6	0.4	9.1
Amounts paid during the period	-	(0.3)	-	(0.3)
Provision increase in the period	-	0.3	-	0.3
Balance at 30 June 2013	**8.1**	**0.6**	**0.4**	**9.1**

12. Provisions for Liabilities and Charges (continued)

Unaudited 30 June 2012

	FSCS levy	Customer redress and other related provisions	Commission Clawback	Total
	£M	£M	£M	£M
Balance at 1 January 2012	5.4	0.3	0.5	6.2
Amounts paid during the period	-	(0.1)	-	(0.1)
Provision increase in the period	0.5	-	-	0.5
Balance at 30 June 2012	**5.9**	**0.2**	**0.5**	**6.6**

Audited 31 December 2012

	FSCS levy	Customer redress and other related provisions	Commission Clawback	Total
	£M	£M	£M	£M
Balance at 1 January 2012	5.4	0.3	0.5	6.2
Amounts paid during the year	(2.5)	(0.3)	(0.1)	(2.9)
Provision increase in the year	5.2	0.6	-	5.8
Balance at 31 December 2012	**8.1**	**0.6**	**0.4**	**9.1**

Financial Services Compensation Scheme (FSCS) Levy

The FSCS has borrowings of approximately £17.2bn in the form of loans funds from HM Treasury, used to safeguard depositors' money following the financial institution failures in 2008 and 2009. While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, the FSCS has advised of an expected shortfall. The Group's share of the shortfall is estimated to be in the region of £5.2m and is expected to be levied in three equal instalments beginning in the scheme year 2013/14.

Based on publicly available information, the levy charge and the second instalment of the capital shortfall for 2013 are expected to be in the region of £2.4m and £2.6m respectively and these will be provided for in full at the end of the year in accordance with the International Accounting Standards Board draft IFRIC interpretation on "Levies Charged by Public Authorities on Entities that Operate in a Specific Market".

Customer redress and other related provisions

This provision is in respect of claims for redress by customers, including potential claims on payment protection insurance, endowment policies sold by the Group and other fees and premiums charged.

Commission clawback

This provision has been made for the potential clawback of commission on assurance policies sold.

Notes to the condensed consolidated financial statements (continued)

13. Shares

	Unaudited 30 June 2013 £M	Unaudited 30 June 2012 £M	Audited 31 December 2012 £M
Held by individuals	8,212.8	7,483.8	7,680.5
Other shares	7.0	8.4	7.3
Fair value adjustment for hedge risk	39.1	50.7	50.5
	8,258.9	**7,542.9**	**7,738.3**

14. Contingent Liabilities

There is no material change to the Group's contingent liabilities reported in the 2012 Annual Report & Accounts.

15. Cash and Cash Equivalents

	Unaudited 30 June 2013 £M	Unaudited 30 June 2012 £M	Audited 31 December 2012 £M
Cash and balances with the Bank of England	783.1	723.1	663.1
Loans and advances to credit institutions repayable on demand	19.4	105.7	112.4
	802.5	**828.8**	**775.5**

16. Retirement benefit obligations

	Unaudited 30 June 2013 £M	Unaudited 30 June 2012 £M	Audited 31 December 2012 £M
Present value of pension scheme’s liabilities	(97.6)	(77.9)	(87.7)
Assets at fair value	89.0	80.4	85.3
(Deficit) / surplus	**(8.6)**	**2.5**	**(2.4)**

For the 6 months ended 30 June 2013, the profit is lower by £0.2m and other comprehensive income £0.2m higher than it would have been prior to the adoption of International Accounting Standard 19 (revised 2011) ‘Employee Benefits’. This is due to changes in how the return on scheme assets is calculated. The comparative periods have not been restated for the adoption of IAS 19 (revised 2011) as the impact on the results would have been insignificant.

17. Related party transactions

The Group had no related party transactions outside the normal course of the business in the 6 months ended 30 June 2013.

18. Value of financial instruments

		30 June 2013		30 June 2012		31 December 2012	
		Carrying value £M	Fair value £M	Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets							
Cash in hand and balances with the Bank of England		783.1	783.1	723.1	723.1	663.1	663.1
Loans and advances to credit institutions	i)	108.2	108.2	117.3	117.3	117.0	117.0
Derivative financial instruments	ii)	94.5	94.5	108.5	108.5	118.9	118.9
Loans and advances to customers							
Loans fully secured on residential property	iii)	8,052.1	8,258.5	7,236.0	7,408.7	7,645.4	7,837.9
Other loans		591.3	599.2	667.1	678.9	629.9	638.7
Investment securities	iv)						
Available for sale		911.8	911.8	886.6	886.6	847.4	847.4
Loans and receivables		102.5	98.8	140.3	126.1	121.2	115.6
Retirement benefit surplus		-	-	2.5	2.5	-	-
Property, plant and equipment		29.1	29.1	27.9	27.9	28.5	28.5
Investment properties		5.6	5.6	6.8	6.8	5.6	5.6
Deferred income tax assets		3.4	3.4	1.1	1.1	3.0	3.0
Other assets, prepayments and accrued income		108.6	108.6	146.2	146.2	135.9	135.9
		10,790.2	**11,000.8**	**10,063.4**	**10,233.7**	**10,315.9**	**10,511.6**
Financial liabilities							
Shares	iii)	8,258.9	8,340.1	7,542.9	7,657.2	7,738.3	7,835.1
Derivative financial instruments	ii)	114.7	114.7	148.1	148.1	148.5	148.5
Amounts owed to credit institutions	v)	330.5	330.5	416.0	416.0	433.1	433.1
Amounts owed to other customers	iii)	428.6	428.6	255.1	255.1	351.3	351.3
Debt securities in issue	iv)	922.2	1,009.9	1,026.8	1,140.2	937.0	1,053.6
Current income tax liabilities		10.9	10.9	6.9	6.9	7.6	7.6
Deferred income tax liabilities		0.6	0.6	3.2	3.2	2.8	2.8
Other liabilities and charges		77.4	77.4	59.6	59.6	72.0	72.0
Provision for liabilities		9.1	9.1	6.6	6.6	9.1	9.1
Retirement benefit obligations		8.6	8.6	-	-	2.4	2.4
Subordinated liabilities	vi)	0.9	0.9	0.9	0.9	0.9	0.9
Subscribed capital	vi)	25.0	25.0	25.0	25.0	25.0	25.0
Total reserves		602.8	602.8	572.3	572.3	587.9	587.9
		10,790.2	**10,959.1**	**10,063.4**	**10,291.1**	**10,315.9**	**10,529.3**

Fair value is the amount for which an asset could be exchanged or a liability transferred between knowledgeable willing parties in an arms length transaction. The following methods and assumptions have been applied in determining fair value:

i) The carrying amount of loans and advances to credit institutions with a maturity of under 12 months is assumed to equate to their fair value.

Notes to the condensed consolidated financial statements (continued)

18. Value of financial instruments *continued*

ii) All derivatives are held for economic hedge purposes. The fair value of interest rate swaps is calculated via a discounted cash flow valuation model. The fair value of cross currency swaps is obtained from external counterparties.

iii) Loans and advances to customers, shares and amounts due to customers are calculated using the effective interest rate method, less provisions for impairment together with a fair value adjustment for the entire mortgage portfolio using discounted cashflow principles set out in IAS 39. This value is considered to be a good approximation of fair value.

iv) Fair values are based on quoted market prices. For instruments where quoted market prices are not available, the market price is based on discounted cash flows using interest rates for securities with similar credit, maturity and yield characteristics.

v) The fair value of floating rate and overnight deposits is approximately equal to their carrying amount. The estimated fair value of fixed rate loans and deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

vi) The fair value of subordinated liabilities and subscribed capital are obtained from market prices.

19. Fair value measurement

	Level 1	Level 2	Level 3	Total
	£M	£M	£M	£M
30 June 2013				
Financial assets				
Investment securities – available for sale	351.1	560.7	-	911.8
Derivative financial instruments	-	94.5	-	94.5
Financial liabilities				
Derivative financial instruments	-	71.4	43.3	114.7

	Level 1	Level 2	Level 3	Total
	£M	£M	£M	£M
30 June 2012				
Financial assets				
Investment securities – available for sale	241.5	645.0	-	886.5
Derivative financial instruments	-	108.5	-	108.5
Financial liabilities				
Derivative financial instruments	-	96.7	51.4	148.1

	Level 1	Level 2	Level 3	Total
	£M	£M	£M	£M
31 December 2012				
Financial assets				
Investment securities – available for sale	293.3	554.2	-	847.5
Derivative financial instruments	-	119.2	-	119.2
Financial liabilities				
Derivative financial instruments	-	97.9	50.5	148.4

Notes to the condensed consolidated financial statements (continued)

19. Fair value measurement *continued*

Level 1: Relates to financial instruments where fair values are derived quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques are used to value these instruments for which significant inputs are taken from observable market data for the asset and liability, either directly (i.e. as price) or indirectly (i.e. derived prices) other than quoted prices included in Level 1. These include valuation models used to calculate the present value of expected future cash flows, using curves from published market sources and are employed when no active market exists or when no quoted prices for similar instruments can be obtained.

Level 3: The valuation of the asset or liability is not based on observable market data (unobservable inputs). Valuation techniques include net present value and discounted cash flow methods. The assumptions used in such models include risk-free benchmark interest rates, foreign currency exchange rates, equity index prices and expected price volatilities. The objective of the valuation techniques is to determine a fair value that reflects the price of the financial instrument that would have been used by two counterparties in an arms length transaction.

Reconciliation of Level 3 fair value measurement of financial liabilities

	Fair value through profit and loss £M
Balance at 1 January 2013	50.5
Total gains in the Income Statement	(7.2)
Balance at 30 June 2013	43.3

The table above only includes financial liabilities. There were no financial assets subsequently measured at fair value on Level 3 fair value measurement bases.

Of the total gains included in the Income Statement, £7.2m (Half year ended 30 June 2012: £0.6m loss, Full year ended 31 December 2012: £0.3m gain) related to derivatives included within the Level 3 fair value category. These movements are included in fair value gains less losses from derivative financial instruments in the Income Statement.

Notes to the condensed consolidated financial statements (continued)

20. Segmental information

Segmental interest income and operating profit:

	Unaudited Six months to 30 June 2013 £M	Unaudited Six months to 30 June 2012 £M	Audited Year to 31 December 2012 £M
Interest receivable and similar income			
Core Activities	175.6	167.1	341.7
Commercial Lending	4.4	6.2	11.5
Euro Lending	4.4	3.6	7.5
	184.4	176.9	360.7
Interest payable and similar charges			
Core Activities	(104.3)	(106.2)	(215.7)
Commercial Lending	(3.5)	(3.7)	(7.3)
Euro Lending	(0.2)	(2.7)	(4.5)
	(108.0)	(112.6)	(227.5)
Other Income			
Core Activities	4.9	7.2	15.5
Commercial Lending	1.9	(0.5)	2.0
Euro Lending	(0.6)	0.2	0.2
	6.2	6.9	17.7
Total Income	**82.6**	**71.2**	**150.9**
Admin Expenses			
Core Activities	(25.0)	(23.5)	(49.3)
Commercial Lending	(0.1)	(0.0)	(0.3)
Euro Lending	(0.2)	(0.2)	(0.1)
	(25.3)	(23.7)	(49.7)
Provisions			
Core Activities	(9.4)	(11.0)	(25.5)
Commercial Lending	(17.0)	(11.9)	(25.1)
Euro Lending	(0.3)	2.5	1.8
	(26.7)	(20.4)	(48.8)
Profit on ordinary Activities before income tax			
Core Activities	41.8	33.6	66.7
Commercial Lending	(14.3)	(9.9)	(19.2)
Euro Lending	3.1	3.4	4.9
Total profit on ordinary Activities before income tax	**30.6**	**27.1**	**52.4**

The Group does not consider its operations to be cyclical or seasonal in nature.

Notes to the condensed consolidated financial statements (continued)

20. Segmental information (continued)

Segmental loans and advances to customers

	Unaudited 30 June 2013 £M	Unaudited 30 June 2012 £M	Audited 31 December 2012 £M
Loans and advances to customers			
Core Activities	8,008.9	7,169.5	7,577.6
Of which: fair value through profit and loss	*278.3*	*287.2*	*284.7*
Commercial Lending	406.6	481.4	438.5
Euro Lending	276.5	265.9	265.5
	8,692.0	**7,916.8**	**8,281.6**
Less: impairment provisions			
Core Activities	(27.8)	(34.3)	(29.5)
Commercial Lending	(40.8)	(42.2)	(36.3)
Euro Lending	(17.1)	(14.7)	(14.9)
	(85.7)	(91.2)	(80.7)
Fair value adjustment for hedged risk			
Core Activities	37.1	77.5	74.4
Commercial Lending			-
Euro Lending	-	-	-
	37.1	77.5	74.4
Total loans and advances to customers	**8,643.4**	**7,903.1**	**8,275.3**