Interim Financial Report

30 June 2014

Leeds Building Society

CHIEF EXECUTIVE INTRODUCTION

I am pleased to introduce a strong set of Interim Results. During the first half of 2014, we increased our membership, mortgage lending and market share to record levels and we continue to invest in the Society, its people and systems to keep growing in a strong and sustainable way.

Savings balances grew to £9.1bn, the highest level in our history, and we were able to provide above market average returns to our members.

The Society's preparations for MMR were successful. Our well-established affordability model helped to minimise any impact of the changes, the biggest regulatory change in the mortgage industry in a decade. New residential mortgage lending increased by 29%, and is significantly above our market share, and we made more home loans than ever before.

Pre-tax profit rose by 55% in the first half of 2014, driven by growth, and this enabled us to increase capital and reserves to record levels.

The historically low interest rate environment has helped banks generate additional capital and we believe that this will result in competition for new business intensifying. We also expect to see modest increases in Base Rate over the medium term and this will have an impact on both the savings and mortgage market.

We are confident that our strong performance in the first half of 2014, combined with the progress in delivering our investment programme, will enable us to continue to grow the business and deliver security and value to even more members in the second half of this year and beyond.

Peter Hill

Chief Executive

INTERIM BUSINESS & FINANCIAL REVIEW

Key performance indicators

Secure	
Pre-tax profit	Increased by 55% to £38.6m (June 2013 restated: £24.9m) and represents 0.66% of mean assets (June 2013 restated: 0.47%)
Net interest margin	Improved to 1.57% compared to 1.45% in the six months to June 2013
Regulatory Capital	Increased to £703m (June 2013: £646m) CET 1 capital of 15.3% (June 2013: 14.4%) Leverage ratio of 5.5% (June 2013: 5.6%)
Credit rating	Maintained long term credit ratings from Moody's (A3) and Fitch (A-)
Non retail funding ratio	Increased to 19.2% (June 2013: 17.4%)
Liquidity ratio	Increased to 21.2% (June 2013: 19.2%)
Customer focused	
New residential lending	Increased by 29% to £1,189m (June 2013: £920m)
Net residential mortgage balances	Increased by £446m (June 2013: £424m)
Net savings balances	Increased by £476m (June 2013: £521m)
Change in membership	Membership increased by 1.1% to 722,000 in 2014
Service driven	
Customer satisfaction	92%
Net promoter score	Score of +45, which compares well against our peers (June 2013: +45)
Number of days from mortgage application to offer	Less than 14 days which continues to be better than our internal target
% of customer administration processing completed on the same day	88% which is in line with our target
Efficient	
Cost to income ratio	Expenses as a proportion of income increased to 33% (June 2013: 31%)
Cost to mean assets ratio	Expenses as a proportion of mean assets increased to 0.55% (June 2013: 0.48%)
Colleague turnover	18.6% which is in line with our target

The prior period comparatives have been restated. See note 1 for details.

For glossary of terms see the 2013 Annual Report & Accounts page 101.

Income statement

The Society's pre-tax profit increased by 55% to £38.6m (June 2013 restated: £24.9m) in the first half of 2014. The key features of this financial performance are:

- Net interest income increased by £15.5m to £91.9m and the margin improved from 1.45% to 1.57%. The improvement results from strong mortgage growth, and a reduction in the cost of retail funding.

- Other income, comprising mortgage related product fees, investment products and ancillary income, was £6.4m (June 2013: £6.9m).

- Management expenses increased to £32.1m (June 2013: £25.3m), reflecting the impact of the Society's investment programme. The Society still maintains strong efficiency ratios with a cost/income ratio of 33% (June 2013: 31%) and cost/mean asset ratio of 0.55% (June 2013: 0.48%).

- The impairment charge for loans and advances to customers reduced to £17.8m (June 2013: £26.4m). This reflects a lower charge for commercial loans as the size of the portfolio continues to reduce and an improvement in arrears performance on residential lending.

- Provisions for liabilities of £9.8m includes £6.2m for FSCS (June 2013 restated: £5.7m) and £3.6m for other potential customer redress payments (June 2013: £0.3m).

Balance sheet

Overall the Society's total assets have increased to £12.1bn (June 2013: £10.8bn), driven by growth in new lending and an increase in liquidity.

- Strong residential lending has continued in the first half of 2014, with gross lending of £1,189m (June 2013: £920m), representing nearly twice the Society's natural market share. Net residential lending increased by £446m (June 2013: £424m). Total residential mortgage balances are now £9.1bn, which is a record for the Society.

- The legacy commercial loan portfolio has reduced to £338m (June 2013: £406m). Commercial loans now represent just 3.5% of total loans (June 2013: 4.7%).

- A strong performance on retail savings in the first six months, which is the Society's main source of funding, has increased total balances by £476m to £9.1bn, a record for the Society. The Society also continues to benefit from access to wholesale funding and raised €500m of funding in April 2014 through the Medium Term Note Programme. As a result the total wholesale funding ratio has increased to 19.2% (June 2013: 17.4%).

- The Society has continued to maintain a strong liquidity position and the liquidity ratio has increased to 21.2% (June 2013: 19.2%).

- Total impairment provisions are £82.9m at 30 June 2014 compared to £74.5m at 31 December 2013 and £85.7m at 30 June 2013. Residential mortgage provisions of £34.9m represent 18% of arrears and possession balances (June 2013: 21%). Commercial mortgage provisions of £47.5m represent 32% of impaired balances (June 2013: 24%).

- Residential arrears (1.5% or more of outstanding mortgage balances) have reduced to 2.12% (30 June 2013: 2.62%). Commercial loan balances in arrears (1.5% or more of outstanding mortgage balances or balances in LPA receivership) reduced to 5.2% (June 2013: 7.7%).

Regulatory Capital

The strong profit performance has increased regulatory capital to a record £703.5m (June 2013: £646.3m), resulting in a CET 1 ratio of 15.3% (June 2013: 14.4%), significantly above regulatory requirements. The composition of regulatory capital and capital ratios are set out below.

	30 June 2014 (Unaudited) Fully loaded	**30 June 2014 (Unaudited) Transitional**	30 June 2013 Restated (Unaudited) Transitional	31 December 2013 (Unaudited) Transitional
		£m	£m	£m
Common Equity Tier 1 (CET 1)				
General reserve	**656.0**	**656.0**	593.0	626.4
Revaluation reserve	**12.4**	**12.4**	13.2	12.4
Available for sale reserve	**(3.1)**	**(3.1)**	(1.8)	(4.1)
Cashflow Hedge Reserve	**-**	**-**	(2.0)	-
CET 1 add-on	**-**	**-**	2.0	(1.1)
Total CET 1 capital	**665.3**	**665.3**	**604.4**	**633.6**
Additional Tier 1 - PIBS	**-**	**20.0**	20.0	20.0
Total tier 1 capital	**665.3**	**685.3**	**624.4**	**653.6**
Tier 2				
Subordinated debt	**-**	**0.2**	0.2	0.2
Collective provisions	**18.0**	**18.0**	21.7	22.1
Total tier 2 capital	**18.0**	**18.2**	**21.9**	**22.3**
Total regulatory capital	**683.3**	**703.5**	**646.3**	**675.9**
Total risk weighted assets	**4,344.1**	**4,344.1**	**4,188.4**	**4,336.2**

Regulatory Capital (continued)

	30 June 2014 (Unaudited) Fully loaded	30 June 2014 (Unaudited) Transitional £m	30 June 2013 Restated (Unaudited) Transitional £m	31 December 2013 (Unaudited) Transitional £m
Leverage ratio total exposures				
Total assets as per balance sheet (less derivatives)	**12,033.9**	**12,033.9**	10,696.3	11,094.7
Plus derivatives & add on	**105.7**	**105.7**	19.5	72.0
Plus securities financing transactions	**19.6**	**19.6**	14.1	14.0
Off-balance sheet commitments	**356.8**	**356.8**	309.9	333.4
Regulatory leverage exposure	**12,516.0**	**12,516.0**	11,039.8	11,514.1
CET1 Ratio	**15.3%**	**15.3%**	14.4%	14.6%
Tier 1 Ratio	**15.3%**	**15.8%**	14.9%	15.1%
Regulatory minimum Tier 1 Ratio	**7.0%**	**7.0%**	7.0%	7.0%
Leverage Ratio	**5.3%**	**5.5%**	5.6%	5.7%
Regulatory minimum Leverage Ratio	**3.0%**	**3.0%**	3.0%	3.0%

The capital and leverage tables are based on the Society's current interpretation of CRD IV and are presented on a transitional basis. The transitional basis includes tier 1 capital instruments, PIBS and subordinated debt, which will become ineligible as capital over a period of time. The fully loaded basis excludes these items.

Members

Delivering outstanding personal service to all our members is one of the Society's four strategic pillars. The highlights of performance against this in the first half of 2014 were:

- A survey of customer satisfaction achieved a combined score of 92%, following the trend of recent scores which have all been in excess of 90%. The net promoter score of +45 continues to be higher than the average for financial services companies.

- The total number of members increased to almost 722,000 as the Society's product proposition continues to attract new customers.

- The programme to roll out the Society's new brand made significant progress in the first half of 2014. The branch fronts have now been rebranded and it is expected the programme will be completed in the near term.

Principal risks & uncertainties

The principal risks that arise from the Society's operations are classified as credit, liquidity, market, operational, conduct, strategic and pension obligation. 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 the Directors consider are unchanged, can be found on pages 18 to 23 of the 2013 Annual Report and Accounts.

Outlook

Leeds Building Society continues to grow its balance sheet and has again exceeded its natural market share in the core mortgage and savings markets, delivering another strong set of results for the first half of 2014.

The outlook for the UK economy continues to brighten as growth is expected to recover to pre-recession levels. The housing market also appears to be showing a recovery, albeit with some concentration of price increases in the South East and London.

Interest rates remain at an historic low driven by monetary policy designed to support sustainable economic growth. Modest rises in interest rates are expected over the medium term. A rise in rates will impact mortgage affordability, the level of mortgage arrears and the size of demand for new mortgages. Rising rates may also result in deteriorating net interest margin as we continue to balance the interests of borrowers and savers. Low interest rates and de-leveraging have assisted banks in generating additional capital. As banks approach appropriate levels of capital the Society expects additional competition for new business.

Against the economic and competitive conditions, the Society will continue to invest in developing the business which will support the Society's vision to be Britain's most successful building society.

Cautionary statement

This Interim 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 Interim 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. 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 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting';
- the Interim Financial 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 Financial Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

Signed on behalf of the Board of Directors:

Robin J. Ashton Chairman	Peter A. Hill Chief Executive	Robin Litten Finance Director

5 August 2014

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Six months to 30 June 2014 (Unaudited) £m**	Six months to 30 June 2013 (Unaudited) Restated £m	Year to 31 December 2013 (Audited) £m
Interest receivable and similar income		**196.8**	184.4	384.0
Interest payable and similar charges		**(104.9)**	(108.0)	(220.8)
Net interest receivable		**91.9**	76.4	163.2
Fees and commissions receivable		**6.1**	6.3	14.6
Fees and commissions payable		**(0.1)**	(0.1)	(0.5)
Fair value gain less losses from financial instruments		**-**	(0.7)	(0.9)
Other operating income		**0.4**	0.7	0.9
Total income		**98.3**	82.6	177.3
Administrative expenses		**(31.3)**	(25.0)	(54.2)
Depreciation		**(0.8)**	(0.3)	(1.3)
Operating profit before impairment and provisions		**66.2**	57.3	121.8
Impairment of loans and advances to customers	2	**(17.8)**	(26.4)	(47.9)
Provisions	3	**(9.8)**	(6.0)	(7.6)
Impairment loss on land and buildings		**-**	-	(0.8)
Investment property fair value movement		**-**	-	(1.3)
Profit before tax		**38.6**	24.9	64.2
Tax expense	4	**(8.4)**	(5.8)	(15.2)
Profit for the period		**30.2**	19.1	49.0

The prior period comparatives have been restated. See note 1 for details.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months to 30 June 2014 (Unaudited) £m	Six months to 30 June 2013 (Unaudited) Restated £m	Year to 31 December 2013 (Audited) £m
Net profit	**30.2**	19.1	49.0
Items which may subsequently be reclassified to profit and loss:			
Available for sale investment gains/(losses) taken to equity	**1.3**	(5.1)	(8.3)
Cash flow hedges	**-**	0.8	3.5
Property revaluation	**-**	-	(0.9)
Tax relating to items which may subsequently be reclassified	**(0.3)**	1.0	1.6
Items which may not subsequently be reclassified			
Actuarial movements on retirement benefit obligations	**(0.8)**	(7.0)	(2.3)
Tax relating to items which may not be reclassified	**0.2**	1.7	0.2
Total comprehensive income for the period	**30.6**	10.5	42.8

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2014 (Unaudited) £m	30 June 2013 (Unaudited) Restated £m	31 December 2013 (Audited) £m
Assets				
Cash in hand and balances with the Bank of England		**1,476.7**	783.1	884.6
Loans and advances to credit institutions		**103.1**	108.2	127.6
Derivative financial instruments		**115.9**	94.5	99.5
Loans and advances to customers				
Loans fully secured on residential property		**9,029.2**	8,052.1	8,607.2
Other loans		**513.4**	591.3	544.7
Investment securities				
Available for sale		**737.2**	911.8	711.9
Loans and receivables		**59.4**	102.5	96.0
Property, plant and equipment		**29.0**	29.1	28.4
Investment properties		**4.4**	5.6	4.4
Deferred income tax asset		**2.1**	4.0	2.0
Other assets, prepayments and accrued income		**79.3**	108.6	87.9
Total assets		**12,149.7**	10,790.8	11,194.2
Liabilities				
Shares		**9,098.4**	8,258.9	8,622.0
Derivative financial instruments		**102.4**	114.7	100.2
Amounts owed to credit institutions		**176.5**	330.5	177.6
Amounts owed to other customers		**520.0**	428.6	394.0
Debt securities in issue		**1,432.4**	922.2	1,131.9
Current tax liabilities		**16.6**	9.2	8.5
Deferred tax liabilities		**3.2**	2.8	3.0
Other liabilities and charges		**94.5**	77.4	88.5
Provision for liabilities	3	**14.1**	9.6	4.6
Retirement benefit obligations	5	**0.4**	8.6	3.3
Subordinated liabilities		**0.9**	0.9	0.9
Subscribed capital		**25.0**	25.0	25.0
Total liabilities		**11,484.4**	10,188.4	10,559.5
Reserves				
Cash flow hedge reserve		**-**	(2.0)	-
Available for sale reserve		**(3.1)**	(1.8)	(4.1)
Revaluation reserve		**12.4**	13.2	12.4
Other reserve		**14.3**	14.3	14.3
General reserve		**641.7**	578.7	612.1
Total reserves attributable to members		**665.3**	602.4	634.7
Total reserves and liabilities		**12,149.7**	10,790.8	11,194.2

The prior period comparatives have been restated. See note 1 for details.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' INTEREST

	General reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Revaluation reserve £m	Other reserve £m	Total reserves £m
Six months to 30 June 2014						
At 1 January 2014 (Audited)	**612.1**	**-**	**(4.1)**	**12.4**	**14.3**	**634.7**
Comprehensive income for the period	**29.6**	**-**	**1.0**	**-**	**-**	**30.6**
At 30 June 2014 (Unaudited)	**641.7**	**-**	**(3.1)**	**12.4**	**14.3**	**665.3**
Six months to 30 June 2013 (Restated)						
At 1 January 2013 (Audited)	564.8	(2.6)	2.2	13.2	14.3	591.9
Comprehensive income for the period	13.9	0.6	(4.0)	-	-	10.5
At 30 June 2013 restated (Unaudited)	578.7	(2.0)	(1.8)	13.2	14.3	602.4
Year to 31 December 2013						
At 1 January 2013 (Audited)	564.8	(2.6)	2.2	13.2	14.3	591.9
Comprehensive income for the period	47.3	2.6	(6.3)	(0.8)	-	42.8
At 31 December 2013 (Audited)	612.1	-	(4.1)	12.4	14.3	634.7

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

	Six months to 30 June 2014 (Unaudited)	Six months to 30 June 2013 (Unaudited) Restated	Year to 31 December 2013 (Audited)
	£m	£m	£m
Profit before tax	**38.6**	24.9	64.2
Adjusted for changes in:			
Impairment provision	**8.4**	10.6	(6.2)
Impairment of freehold property	**-**	-	0.8
Provision for liabilities and charges	**9.5**	5.7	0.7
Depreciation and amortisation	**0.8**	0.3	1.3
Change in value of investment property	**-**	-	1.3
Interest on subscribed capital	**1.7**	1.7	3.3
Cash generated from operations	**59.0**	43.2	65.4
Changes in net operating assets and liabilities:			
Loans and advances to customers	**(399.1)**	(378.7)	(870.4)
Derivative financial instruments	**(14.2)**	(8.8)	(26.3)
Loans and advances to credit institutions	**-**	(84.2)	4.6
Other operating assets	**8.6**	27.3	47.9
Shares	**476.4**	520.6	883.7
Credit institutions and other	**124.9**	(25.3)	(212.8)
Debt securities	**301.5**	(18.8)	188.6
Other operating liabilities	**2.4**	6.3	15.6
Taxation paid	**(0.2)**	(6.4)	(14.1)
Net cash flows from operating activities	**559.3**	75.2	82.2
Returns from investments and servicing of finance	**(2.7)**	3.5	4.7
Purchase of securities	**(274.8)**	(694.3)	(967.4)
Proceeds from sale and redemption of securities	**287.1**	643.5	1,120.1
Purchase of property and equipment	**(1.4)**	(0.9)	(2.9)
Net cash flows from investing activities	**8.2**	(48.2)	154.5
Net increase in cash and cash equivalents	**567.5**	27.0	236.7
Cash and cash equivalents at beginning of the period	**1,012.2**	775.5	775.5
Cash and cash equivalents at end of the period	**1,579.7**	802.5	1,012.2

NOTES TO THE ACCOUNTS

1. General information

Reporting period

The Interim Financial Report is for the six months to 30 June 2014 and is unaudited.

Basis of preparation

The condensed consolidated set of financial statements have been prepared in accordance with the International Accounting Standard ("IAS") 34 'Interim Financial Reporting', as adopted by the European Union. They do not include all the information required by International Financial Reporting Standards ("IFRS") in full annual financial statements and should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2013 which were prepared in accordance with IFRS as adopted by the EU.

In the current financial year, the Society has adopted the following IASB pronouncements. These do not have a material impact on these interim condensed consolidated financial statements.

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement'
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'
- Amendments to IAS 27 'Separate Financial Statements'
- Amendments to IAS 28 'Investments in Associates and Joint Ventures'

Otherwise the accounting policies, presentation and methods of computation are consistent with those applied by the Society in its latest audited annual financial statements.

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.

Going concern

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. 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 consider that reasonable profits continue to be generated in order to keep gross capital at a suitable level to meet regulatory requirements. Accordingly, the going concern basis has been adopted in the preparation of the Interim Financial Report.

Restatement

The Group adopted IFRIC 21 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market' in 2013, which has led to a restatement of the 2013 half-year comparatives. The IFRIC amended the trigger point for recognition of the FSCS levy from the year end to the start of the scheme year, which is in April. The effects of the restatement changed the scheme year recognition points for 2011 and 2012, thus decreased the 2013 brought forward reserves balances by £4.0m and reduced profit before tax to 30 June 2013 by £5.7m For more details please see page 70 of the 2013 Annual Report & Accounts. The accounts have been restated to show the impact on comparative numbers. The extracts from the Income Statement and Statement of Financial Position are set out below:

	30 June 2013 (Unaudited) Restated £m	30 June 2013 (Unaudited) Originally disclosed £m
Income Statement:		
Provisions	**(6.0)**	(0.3)
Tax expense	**(5.8)**	(7.1)
Profit for the period	**19.1**	23.5
Statement of Financial Position:		
Provisions for liabilities	**9.6**	9.1
Current tax liabilities	**9.2**	9.3
General reserves	**578.7**	579.1

NOTES TO THE ACCOUNTS (continued)

2. Impairment of loans and advances to customers

	Six months to 30 June 2014 (Unaudited) £m	Six months to 30 June 2013 (Unaudited) £m	Year to 31 December 2013 (Audited) £m
Loans fully secured on residential property	**4.1**	9.1	11.9
Loans fully secured on land	**13.2**	17.0	35.7
Other loans	**0.5**	0.3	0.3
Total impairment charge for the period	**17.8**	26.4	47.9
Loans fully secured on residential property	**34.9**	44.9	38.1
Loans fully secured on land	**47.5**	40.8	36.4
Other loans	**0.5**	-	-
Impairment provision at the end of the period	**82.9**	85.7	74.5

The Society continues to use forbearance arrangements to assist its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. This includes the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, including or excluding arrears balances. The Society's approach to forbearance is described on page 79 of the 2013 Annual Report & Accounts and remains materially unchanged.

3. Provisions

The provisions charge and provisions at the end of the period are shown below. In the year to December 2013 there was also an additional provision charge of £0.5m relating to financial guarantee contracts included in Other Liabilities & Charges.

	Six months to 30 June 2014 (Unaudited) £m	Six months to 30 June 2013 (Unaudited) Restated £m	Year to 31 December 2013 (Audited) £m
Provision charge			
FSCS levy	**6.2**	5.7	5.7
Customer redress and other related provisions	**3.6**	0.3	1.3
Commission clawback	**-**	-	0.1
Total provisions charge	**9.8**	6.0	7.1
Liabilities			
FSCS levy	**9.1**	8.6	2.9
Customer redress and other related provisions	**4.6**	0.6	1.3
Commission clawback	**0.4**	0.4	0.4
Provisions at the end of the period	**14.1**	9.6	4.6

3. Provisions (continued)

Based on publicly available information, the levy charge and the contribution to the capital shortfall for 2014 are expected to be in the region of £6.2m. The Society follows IFRIC 21 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market'. Based on this interpretation, the expected full year cost of the FSCS levy is recognised on 31 March each year.

4. Taxation

An effective rate of 21.5% (Half year ended 30 June 2013 restated: 23.25%, Full year ended 31 December 2013: 23.25%) has been applied to the Group's profit. This is in line with the standard corporation tax rate of 21.5% for the period (Half year ended 30 June 2013: 23.25%, Full year ended 31 December 2013: 23.25 %).

The Finance Act 2013, which provides for reductions in the main rate of UK corporation tax from 23% to 21% effective from 1 April 2014 and 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. As such, the average standard rate of corporation tax applicable to the Group for the period is 21.5%. The deferred tax balances have been calculated at 20% as it is expected that these balances will mostly reverse after 1 April 2015.

5. Retirement benefit obligations

	Six months to 30 June 2014 (Unaudited) £m	Six months to 30 June 2013 (Unaudited) £m	Year to 31 December 2013 (Audited) £m
Present value of pension scheme's liabilities	**(98.1)**	(97.6)	(97.5)
Assets at fair value	**97.7**	89.0	94.2
Pension scheme deficit	**(0.4)**	(8.6)	(3.3)

A consultation with members on the future of the defined benefit scheme has concluded in July and the scheme will be closed to future accrual after 31 December 2014.

6. Related party transactions

The Group had no related party transactions outside the normal course of business in the 6 months ended 30 June 2014.

7. Fair value

The table below compares the carrying and fair values of the Society's non-derivative financial instruments by category at the reporting date. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

	30 June 2014 (Unaudited)		30 June 2013 (Unaudited)		31 December 2013 (Audited)	
	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	**1,476.7**	**1,476.7**	783.1	783.1	884.6	884.6
Loans and advances to credit institutions	**103.1**	**103.1**	108.2	108.2	127.6	127.6
Derivative financial instruments	**115.9**	**115.9**	94.5	94.5	99.5	99.5
Loans and advances to customers	**9,542.6**	**9,778.2**	8,643.4	8,857.7	9,151.9	9,383.0
Investment securities - Available for sale	**737.2**	**737.2**	911.8	911.8	711.9	711.9
Investment securities - Loans & receivables	**59.4**	**58.4**	102.5	98.8	96.0	94.8
Investment properties	**4.4**	**4.4**	5.6	5.6	4.4	4.4
Financial liabilities						
Shares	**9,098.4**	**9,167.4**	8,258.9	8,340.1	8,622.0	8,710.3
Derivative financial instruments	**102.4**	**102.4**	114.7	114.7	100.2	100.2
Amounts owed to credit institutions	**176.5**	**176.5**	330.5	330.5	177.6	177.9
Amounts owed to other customers	**520.0**	**520.0**	428.6	428.6	394.0	393.9
Debt securities in issue	**1,432.4**	**1,537.2**	922.2	1,009.9	1,131.9	1,207.7
Subordinated liabilities	**0.9**	**0.9**	0.9	0.9	0.9	0.9
Subscribed capital	**25.0**	**25.0**	25.0	25.0	25.0	25.0

The methodology and assumptions for determining the fair value of financial assets and liabilities is included on page 90 of the 2013 Annual Report & Accounts and remains materially unchanged.

The table over the page classifies all financial instruments held at fair value according to the method used to establish the fair value.

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 arm's length transaction.

7. Fair value (continued)

As at June 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Cash in hand and balances with the Bank of England	1,476.7	-	-	1,476.7
Loans and advances to credit institutions	103.1	-	-	103.1
Derivative financial assets	-	115.9	-	115.9
Loans and advances to customers	-	9,778.2	-	9,778.2
Investment securities - Available for sale	324.5	412.7	-	737.2
Investment securities - Loans & receivables	-	58.4	-	58.4
Investment properties	-	4.4	-	4.4
	1,904.4	10,369.7	-	12,273.9
Financial liabilities				
Shares	9,167.1	-	-	9,167.1
Derivative financial instruments	-	62.2	40.2	102.4
Amounts owed to credit institutions	-	176.5	-	176.5
Amounts owed to other customers	-	520.0	-	520.0
Debt securities in issue	-	1,537.2	-	1,537.2
Subordinated liabilities	-	0.9	-	0.9
Subscribed capital	-	25.0	-	25.0
	9,167.1	2,321.7	40.2	11,529.0

As at Dec 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Cash in hand and balances with the Bank of England	884.6	-	-	884.6
Loans and advances to credit institutions	127.6	-	-	127.6
Derivative financial instruments	-	99.5	-	99.5
Loans and advances to customers	-	9,383.0	-	9,383.0
Investment securities - Available for sale	314.3	397.6	-	711.9
Investment securities - Loans & receivables	-	94.8	-	94.8
Investment properties	-	4.4	-	4.4
	1,326.5	9,979.3	-	11,305.8
Financial liabilities				
Shares	8,710.3	-	-	8,710.3
Derivative financial instruments	-	61.7	38.5	100.2
Amounts owed to credit institutions	-	177.9	-	177.9
Amounts owed to other customers	-	393.9	-	393.9
Debt securities in issue	-	1,207.7	-	1,207.7
Subordinated liabilities	-	0.9	-	0.9
Subscribed capital	-	25.0	-	25.0
	8,710.3	1,867.1	38.5	10,615.9

7. Fair value (continued)

As at June 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Cash in hand and balances with the Bank of England	783.1	-	-	783.1
Loans and advances to credit institutions	108.2	-	-	108.2
Derivative financial instruments	-	94.5	-	94.5
Loans and advances to customers	-	8,857.7	-	8,857.7
Investment securities - Available for sale	351.1	560.7	-	911.8
Investment securities - Loans & receivables	-	98.8	-	98.8
Investment properties	-	5.6	-	5.6
	1,242.4	9,617.3	-	10,859.7
Financial liabilities				
Shares	8,340.1	-	-	8,340.1
Derivative financial instruments	-	71.4	43.3	114.7
Amounts owed to credit institutions	-	330.5	-	330.5
Amounts owed to other customers	-	428.6	-	428.6
Debt securities in issue	-	1,009.9	-	1,009.9
Subordinated liabilities	-	0.9	-	0.9
Subscribed capital	-	25.0	-	25.0
	8,340.1	1,866.3	43.3	10,249.7

Reconciliation of Level 3 fair value measurements of financial liabilities

	2014 (Unaudited) Fair value though profit and loss £m	2013 Fair value though profit and loss £m
Balance at 01 January	**38.5**	50.5
Total losses / (gains) in the income statement	**1.7**	(7.2)
Balance at 30 June	**40.2**	43.3

7. Fair value (continued)

There have been no transfers of assets or liabilities between the above levels of valuation.

The following table sets our details of the recurring fair value measurements of liabilities included in Level 3.

Financial assets/ financial liabilities	Fair value at 30 June 2014	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equity release swaps	Liabilities - £40.2m (30 June 2013: liabilities £43.3m)	Level 3	Discounted cash flow. The liabilities are linked to equity release mortgages and are economically offset by movements in the corresponding mortgages. The valuations are provided by the counterparty and are based on a discounted cash flow model which uses projections of interest rates, a discount rate to reflect the counterparty risk and assumptions for future mortality.	Assumptions on future life expectancy of the customers based on best estimate life expectancy data. On this basis no reasonable alternative assumption is considered appropriate.	An increase in life expectancy will increase the value of the liability.

8. Segmental information

Operating segments are reported in accordance with the internal reporting provided to the Board (the chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Society has three main business segments:

- Core activities – incorporating residential lending, saving, investments and protection;
- Commercial lending – primarily representing legacy loans for commercial property investment; and
- Euro lending – a legacy portfolio of euro denominated mortgages.

Central Group operations have been included in core activities and comprise risk management, funding, treasury services, human resources and computer services, none of which constitute a separately reportable segment. There were no changes to reportable segments during the period. The Society does not consider its operations to be cyclical or seasonal in nature.

NOTES TO THE ACCOUNTS (continued)

8. Segmental information (continued)

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Six months to 30 June 2014 (Unaudited)				
Interest receivable and similar income	**190.5**	**4.4**	**1.9**	**196.8**
Interest payable and similar charges	**(100.7)**	**(3.4)**	**(0.8)**	**(104.9)**
Other Income	**5.9**	**-**	**0.5**	**6.4**
Total income	**95.7**	**1.0**	**1.6**	**98.3**
Administrative expenses (incl depreciation)	**(31.5)**	**(0.3)**	**(0.3)**	**(32.1)**
Provisions and impairment	**(13.4)**	**(13.2)**	**(1.0)**	**(27.6)**
Profit on ordinary activities before income tax	**50.8**	**(12.5)**	**0.3**	**38.6**
Total loans and advances to customers	**9,002.1**	**289.6**	**250.9**	**9,542.6**

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Six months to 30 June 2013 (Unaudited) Restated				
Interest receivable and similar income	175.6	4.4	4.4	184.4
Interest payable and similar charges	(104.3)	(3.5)	(0.2)	(108.0)
Other Income	4.9	1.9	(0.6)	6.2
Total income	76.2	2.8	3.6	82.6
Administrative expenses (incl depreciation)	(25.0)	(0.1)	(0.2)	(25.3)
Provisions and impairment	(15.1)	(17.0)	(0.3)	(32.4)
Profit on ordinary activities before income tax	36.1	(14.3)	3.1	24.9
Total loans and advances to customers	8,018.2	365.8	259.4	8,643.4

8. Segmental information (continued)

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Year to 31 December 2013 (Audited)				
Interest receivable and similar income	370.2	9.2	4.6	384.0
Interest payable and similar charges	(211.2)	(6.9)	(2.7)	(220.8)
Other Income	15.9	(1.8)	-	14.1
Total income	174.9	0.5	1.9	177.3
Administrative expenses (incl depreciation)	(54.8)	(0.3)	(0.4)	(55.5)
Provisions and impairment	(20.0)	(35.7)	(1.9)	(57.6)
Profit on ordinary activities before income tax	100.1	(35.5)	(0.4)	64.2
Total loans and advances to customers	8,577.8	323.5	250.6	9,151.9

INDEPENDENT REVIEW REPORT TO LEEDS BUILDING SOCIETY

We have been engaged by the Leeds Building Society (the "Society") to review the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2014 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in members' interests, the condensed consolidated statement of cash flows and related notes 1 to 8. We have read the other information contained in the Interim 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 Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, 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 Interim Financial 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 Interim 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 Interim Financial Report for the six months ended 30 June 2014 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 2014

OTHER INFORMATION

The financial information set out in the Interim Financial Report, which was approved by the Board of Directors on 5 August 2014, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.

The financial information for the year ended 31 December 2013 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts have been filed with the Financial Conduct Authority and on which the auditor gave an unqualified opinion.

The audit opinion for the 31 December 2013 annual statutory financial statements was unqualified and included no reference to any matter on which the auditor is required to report by exception.

A copy of the Interim Financial Report is placed on the Society's website. The Directors are responsible for the maintenance and integrity of the information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.