Interim Financial Report

30 June 2016

Leeds Building Society

CHIEF EXECUTIVE OFFICER'S INTRODUCTION

I am pleased to report another strong set of financial results driven by further growth in mortgage lending and a reduction in impairment provisions and charges. Membership numbers and mortgage and savings balances are all at the highest level in our history.

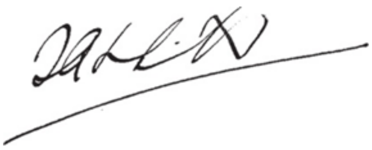
In the first six months, new residential mortgage lending was significantly above our market share and increased by 33% to record levels. We also worked hard to deliver value to savers and paid 0.77%[1] more than the rest of the market average.

Strong levels of profit have enabled us to increase capital and reserves to record levels, which significantly exceed the regulatory minimum. Our financial strength meant the credit ratings agencies, Moody's and Fitch, both affirmed our long-term 'A' ratings at the end of June and early July respectively.

During the first half of 2016, we continued to invest in the Society to support sustainable growth and improve the customer experience for the long-term benefit of our current and future members. This included creating 140 new roles as we further increase our capacity.

Following the vote to leave the EU, we've seen volatility in the financial markets and Bank Base Rate was reduced to only 0.25% today. This is likely to lead to still lower rates for savers and increased competition in the mortgage market.

The Society's financial strength leaves it well-placed to deal with any economic shocks as we continue to deliver our investment programme, further develop our customer service and remain focused on what we do well, which is help people save and have the home they want.



Peter Hill

Chief Executive Officer

[1] Savings stock data from CACI's Current Account and Savings Database (CSDB), April 2016 (latest data available) – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market

Interim Business & Financial Review
for the six months ended 30 June 2016

Key performance indicators

Secure	
Profit before tax	Increased by 5% to £58.0m (June 2015: £55.0m) and represents 0.82% of mean assets (June 2015: 0.89%)
Net interest margin	Reduced to 1.37% compared to 1.66% in the six months to June 2015
Common Equity Tier 1 capital	Increased to £832m (June 2015: £746m) CET 1 capital ratio of 15.4% (June 2015: 15.5%)
Liquidity Coverage Ratio	Increased to 197% (June 2015: 186%).
Credit ratings	Maintained long term credit ratings from Fitch (A-) and Moody's (A2)
Customer focused	
New residential lending	Increased by 33% to £1,926m (June 2015: £1,448m)
Net residential lending	Record net residential lending of £919m (June 2015: £668m)
Savings balances	Increased by 6% to £10.6bn in 2016 (June 2015: £9.2bn)
Change in membership	Membership increased to 738,000 in 2016 (June 2015: 708,000)
Service driven	
Customer satisfaction	Increased to 93% (June 2015: 92%) based on the last external quarterly data (Q1 2016)
Number of days from mortgage application to receipt of offer	16 days which continues to be better than our internal target (June 2015: 14 days)
% of customer administration processing completed on the day	Increased to 82% (June 2015: 78%)
Colleague engagement score	Increased to 79% based on interim internal scores (December 2015: 77%)
Efficient	
Cost to income ratio	Expenses as a proportion of income has increased to 43% (June 2015: 34%)
Cost to mean assets	Expenses as a proportion of mean assets increased to 0.63% (June 2015: 0.60%)
Colleague turnover	15.2% which is in line with our internal target (June 2015: 15.8%)

For glossary of terms see the 2015 Annual Report & Accounts pages 135 to 137.

Interim Business & Financial Review
for the six months ended 30 June 2016

Income statement

Following a record year in 2015, in the first half of 2016 the Society delivered a strong pre-tax profit of £58.0m (June 2015: £55.0m) driven by growth in mortgage balances and lower provision and loss charges. The key features of this financial performance are:

- Net interest income decreased by £5.9m to £97.4m and the interest margin reduced from 1.66% to 1.37%. Interest income receivable on residential loans was broadly consistent with the first half of 2015, reflecting an increase in mortgage balances offset by a reduction in the average rate due to greater market competition. The increase in interest payable from £92.7m to £106.1m is mainly due to higher retail and wholesale funding balances, which support the growth in mortgage lending.

- In the last six months management expenses have grown to £44.6m (June 2015: £37.0m). This increase is driven by the Society's continued programme of business investment, the administration costs of a growing business and the cost of regulatory compliance. Colleagues are key to the Society achieving its aim to be Britain's most successful building society and in the first half of the year the Society created 140 new roles. The Society still maintains good efficiency ratios with a cost/mean asset ratio of 0.63% (June 2015: 0.60%) and a cost/income ratio of 43% (June 2015: 34%), which compare favourably with our peer group.

- During the first half of the year the Society saw an overall release in the provisions held for impairment losses of £1.0m (June 2015: £5.5m charge). This is largely driven by greater than expected recoveries on commercial loans against which provisions had previously been made. There was also a continued improvement in the arrears performance on residential lending, resulting in a reduction in the cost of impairment.

- The Society continues to bear the cost of the FSCS levy, although this has reduced significantly to £2.8m as the FSCS has confirmed that no capital levy is anticipated this year. The Society's customer redress exercise on general insurance sales has now been completed. The extent of redress required was lower than expected and therefore £1.3m of the provision made in December 2015 has now been released.

Balance sheet

Overall the Society's total assets increased to £14.9bn (June 2015: £12.7bn), driven by growth in new lending.

- Growth in residential lending continued in the first half of 2016, with gross lending of £1,926m (June 2015: £1,448m), which is significantly above the Society's natural market share. Net residential lending increased to £919m (June 2015: £668m). Total residential mortgage balances now stand at £12.2bn (June 2015: £10.4bn), which is a record for the Society.

- We continue to manage down our closed portfolio of commercial loans and the portfolio has now reduced to £142m (June 2015: £230m).

- Retail savings are the Society's main source of funding and balances have increased in the first half of 2016 to £10.6bn (June 2015: £9.2bn).

- The Society also retains access to wholesale funding markets and in April 2016 raised €500m through a covered bond issue. As a result, the non-retail funding ratio increased to 22.5% (June 2015: 21.5%).

- The Society maintains liquid assets of an appropriate level and quality to ensure it can meet its financial obligations under both normal and stressed scenarios. At 30 June 2016 the unencumbered liquidity ratio was 15.3% (June 2015: 17.5%) and Liquidity Coverage Ratio was 197% (June 2015: 186%), ensuring continuing liquidity well in excess of regulatory minima.

- Total impairment provisions are £57.7m at 30 June 2016 compared to £64.1m at 31 December 2015 (June 2015: £55.9m). The reduction in provisions since the year end reflects lower arrears balances and the reduction in the size of the commercial loan portfolio. Residential arrears (1.5% or more of outstanding mortgage balances) have reduced to 1.24% (June 2015: 1.62%), reflecting the improving quality of the residential mortgage book over time. Residential mortgage provisions of £26.0m now cover 17% of the arrears and possession balances (June 2015: 15%). Commercial mortgage provisions of £29.2m represent 65% of impaired balances (June 2015: 26%), providing additional coverage as the portfolio reduces in size.

Capital

The Society's capital resources, requirements and ratios are presented below:

	30 June 2016 £m	30 June 2015 £m	31 Dec 2015 £m
Capital resources			
CET 1 capital	832	746	783
Additional Tier 1 capital	15	18	18
Total Tier 1 capital	847	764	801
Tier 2 capital	30	22	29
Total regulatory capital resources	877	786	830
Risk weighted assets (RWAs)	5,401	4,801	5,046
CRD IV ratios			
CET 1 ratio	15.4%	15.5%	15.5%
Leverage ratio	5.3%	5.6%	5.5%

The Society maintains a strong capital position and all capital ratios are significantly in excess of regulatory minima.

- Common Equity Tier 1 (CET 1) capital is the strongest form of capital and largely consists of accumulated profits. In the year to date this has increased to £832m (June 2015: £746m) in line with the strong profit performance. The CET 1 ratio of 15.4% (June 2015: 15.5%) remains significantly in excess of the regulatory minimum of 8%.

- The leverage ratio was 5.3% (June 2015: 5.6%), against a current regulatory minimum of 3%. The reduction reflects balance sheet growth slightly higher than the increase in capital resources.

- The capital ratios have been calculated in accordance with the Society's current interpretation of CRD IV on a transitional basis. The Society constantly reviews the impact of regulatory changes and has plans in place to deal with these. If the full rules had been in force, the CET 1 ratio would have been 15.4% (June 2015: 15.5%) and the leverage ratio 5.3% (June 2015: 5.6%).

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 2016 were:

- The most recent quarterly external survey of customer satisfaction (Q1 2016) achieved a combined score of 93% (June 2015: 92%), following the trend of recent scores which have all been in excess of 90%.

- The total number of members increased to 738,000 (June 2015: 708,000[2]) as the Society's mortgage and saving products continue to attract new customers.

- We remain committed to providing good value to our members and paid an average of 1.77% across our savings range, 0.77%[3] above rest of the market average.

Principal risks & uncertainties

The principal risks that arise from the Society's operations are classified as credit, liquidity, market, operational, conduct, business 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 risk categories faced by the Society, which the directors consider are unchanged, can be found on pages 32 to 39 of the 2015 Annual Report and Accounts.

[2] The methodology for calculating the number of members was reviewed and refined in 2015 as set out in the 2015 Annual Report and Accounts. June 2015 membership numbers have been restated for comparative purposes.
[3] Savings stock data from CACI's Current Account and Savings Database (CSDB), April 2016 (latest data available) – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market.

Outlook

Leeds Building Society has continued to progress towards its vision of being Britain's most successful building society. The Society has delivered strong growth and profitability during the first six months of 2016, whilst maintaining financial strength.

The Referendum result to leave the EU does not affect people's appetite to save and have the home they want, and because we operate mainly in the UK market, we do not anticipate any significant impact on the Society in the short term.

It is also important to understand that the process of leaving the EU will be a relatively slow one. The Government must first give the EU notice that the UK will leave the European Union and then has two years to negotiate the terms of withdrawal under Article 50 of the EU Treaty, although an extension is possible. The Bank of England has put in place extensive contingency plans and has pledged to take any action required to support the stability of the UK economy and financial markets during this time.

Interest rates remain at a historic low driven by monetary policy designed to support sustainable economic growth. The low interest rate environment impacts the rates which savers receive on their savings. We anticipate that interest rates will remain low over the short to medium term, which will continue to depress the rates paid to savers. There has been an increase in competition within the mortgage market which is expected to continue and reduce margins as a result. The Society's investment programme and allied costs are planned to moderate as the associated projects and programmes complete and start to deliver customer benefits and efficiencies.

The rapid rate of regulatory change is expected to continue in the future. The Society has implemented the Financial Conduct Authority's Senior Managers Regime in early 2016. The Society also continues to monitor the Prudential Regulation Authority's policy proposals on the bail in of eligible liabilities in the event of resolution. The Government continues to support home ownership through various schemes such as Help to Buy and the ambitious Starter Homes initiative. The recent changes made to tax relief on interest payments and Stamp Duty on the Buy to Let market have caused some transactions to be brought forward, however the full impact of these changes will emerge over the coming years.

Against these political, economic and competitive conditions, the Society will continue to develop its business in line with its stated vision.

Viability statement

The Viability assessment is performed annually and the results of the 2015 assessment can be seen on page 23 of the 2015 Annual Report and Accounts.

Cautionary statement

This Interim Financial Report has been prepared solely to provide additional information to members to assess the Group's financial position and the potential for its 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	Peter A. Hill	Robin Litten
Chairman	Chief Executive	Finance Director
4 August 2016		

Condensed Consolidated Income Statement

	Notes	**Six months to 30 June 2016 (Unaudited) £m**	Six months to 30 June 2015 (Unaudited) £m	Year to 31 December 2015 (Audited) £m
Interest receivable and similar income		**203.5**	196.0	402.7
Interest payable and similar charges		**(106.1)**	(92.7)	(195.2)
Net interest receivable		**97.4**	103.3	207.5
Fees and commissions receivable		**5.8**	5.6	12.3
Fees and commissions payable		**(0.4)**	(0.5)	(1.0)
Fair value gains less losses from financial instruments		**(0.6)**	(0.5)	(0.9)
Other operating income		**1.2**	0.1	1.0
Total income		**103.4**	108.0	218.9
Administrative expenses		**(42.8)**	(36.1)	(77.0)
Depreciation and amortisation		**(1.8)**	(0.9)	(2.7)
Impairment losses on loans and advances to customers	2	**1.0**	(5.5)	(18.5)
Provisions charge	3	**(1.5)**	(7.1)	(8.8)
Investment property fair value movement		**-**	(3.4)	(3.4)
Impairment loss on property, plant & equipment		**(0.3)**	-	-
Profit before tax		**58.0**	55.0	108.5
Tax expense	4	(15.0)	(11.1)	(19.6)
Profit for the period		**43.0**	43.9	88.9

All amounts relate to continuing operations.

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 June 2016 (Unaudited) £m	Six months to 30 June 2015 (Unaudited) £m	Year to 31 December 2015 (Audited) £m
Profit for the period	**43.0**	43.9	88.9
Items that may subsequently be reclassified to profit and loss:			
Available for sale investment securities gain/(loss)	**6.7**	(2.8)	(3.5)
Tax relating to items that may subsequently be reclassified	**(1.9)**	0.5	0.6
Items which may not subsequently be reclassified to profit and loss:			
Actuarial (loss)/gain on retirement benefit obligations	**(5.3)**	(1.7)	2.1
Tax relating to items which may not be reclassified	**1.7**	0.4	(0.6)
Total comprehensive income for the period	**44.2**	40.3	87.5

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2016 (Unaudited) £m	30 June 2015 (Unaudited) £m	31 December 2015 (Audited) £m
Assets				
Cash in hand and balances with the Bank of England		**833.1**	637.6	701.0
Loans and advances to credit institutions		**157.7**	115.6	126.4
Derivative financial instruments		**267.4**	119.2	104.9
Loans and advances to customers				
Loans fully secured on residential property		**12,203.4**	10,393.5	11,146.0
Other loans		**372.2**	433.8	398.3
Investment securities				
Available for sale		**707.9**	807.6	821.1
Loans and receivables		**24.9**	29.0	28.2
Intangible assets		**3.1**	-	3.4
Property, plant and equipment		**33.1**	30.7	32.1
Investment properties		**-**	1.0	-
Retirement benefit surplus	5	**0.6**	0.8	5.1
Deferred income tax asset		**-**	2.8	0.1
Other assets, prepayments and accrued income		**281.4**	153.7	140.0
Total assets		**14,884.8**	12,725.3	13,506.6
Liabilities				
Shares		**10,569.3**	9,191.0	9,932.9
Derivative financial instruments		**273.5**	173.0	135.7
Amounts owed to credit institutions		**32.4**	132.5	55.9
Amounts owed to other customers		**369.9**	610.7	418.3
Debt securities in issue		**2,594.8**	1,765.8	2,056.8
Current income tax liabilities		**15.7**	12.2	10.0
Deferred income tax liabilities		**2.4**	3.2	2.4
Other liabilities and accruals		**159.2**	55.4	72.6
Provision for liabilities and charges	3	**7.8**	10.9	6.4
Subscribed capital		**25.0**	25.0	25.0
Total liabilities		**14,050.0**	11,979.7	12,716.0
Reserves				
Available for sale reserve		**3.6**	1.6	(1.2)
Revaluation reserve		**12.4**	12.4	12.4
Other reserve		**14.3**	14.3	14.3
General reserve		**804.5**	717.3	765.1
Total equity attributable to members		**834.8**	745.6	790.6
Total liabilities and equity		**14,884.8**	12,725.3	13,506.6

Condensed Consolidated Statement of Changes in Members' Interest

	General reserve £m	Available for sale reserve £m	Revaluation reserve £m	Other reserve £m	Total equity attributable to members £m
Six months to 30 June 2016					
At 1 January 2016 (Audited)	**765.1**	**(1.2)**	**12.4**	**14.3**	**790.6**
Comprehensive income for the period	**39.4**	**4.8**	**-**	**-**	**44.2**
At 30 June 2016 (Unaudited)	**804.5**	**3.6**	**12.4**	**14.3**	**834.8**

	General reserve £m	Available for sale reserve £m	Revaluation reserve £m	Other reserve £m	Total equity attributable to members £m
Six months to 30 June 2015					
At 1 January 2015 (Audited)	674.7	3.9	12.4	14.3	705.3
Comprehensive income for the period	42.6	(2.3)	-	-	40.3
At 30 June 2015 (Unaudited)	717.3	1.6	12.4	14.3	745.6

	General reserve £m	Available for sale reserve £m	Revaluation reserve £m	Other reserve £m	Total equity attributable to members £m
Year to 31 December 2015					
At 1 January 2015 (Audited)	674.7	3.9	12.4	14.3	705.3
Comprehensive income for the period	90.4	(2.9)	-	-	87.5
Corporation tax paid	-	(2.2)	-	-	(2.2)
At 31 December 2015 (Audited)	765.1	(1.2)	12.4	14.3	790.6

Condensed Consolidated Statement of Cashflows

	Six months to 30 June 2016 (Unaudited) £m	Six months to 30 June 2015 (Unaudited) £m	Year to 31 December 2015 (Audited) £m
Profit before tax	**58.0**	55.0	108.5
Adjusted for changes in:			
Impairment provision	**(6.4)**	(1.2)	7.0
Provision for liabilities and charges	**1.4**	6.5	2.0
Depreciation and amortisation	**1.8**	0.9	2.7
Change in value of investment property	**-**	3.4	3.4
Interest on subscribed capital	**1.7**	1.7	3.3
Cash generated from operations	**56.5**	66.3	126.9
Changes in net operating assets and liabilities:			
Loans and advances to customers	**(1,024.9)**	(565.1)	(1,290.4)
Derivative financial instruments	**(24.7)**	18.5	(4.5)
Other operating assets	**(141.4)**	(25.1)	(11.3)
Shares	**636.4**	9.4	751.3
Amounts owed to credit institutions and other customers	**(71.9)**	117.0	(152.0)
Other operating liabilities	**92.4**	(20.9)	(8.3)
Taxation paid	**(9.3)**	(9.1)	(19.8)
Net cash outflows from operating activities	**(486.9)**	(409.0)	(608.1)
Cash flows from investing activities			
Returns from investments and servicing of finance	**(7.7)**	(1.2)	0.5
Purchase of investment securities	**(424.1)**	(444.9)	(837.1)
Proceeds from sale and redemption of investment securities	**546.6**	610.8	989.2
Purchase of property, plant and equipment	**(2.5)**	(1.7)	(4.4)
Purchase of intangible assets	**-**	-	(3.9)
Disposal of inventories	**-**	-	1.0
Net cash flows from investing activities	**112.3**	163.0	145.3
Cash flows from financing activities			
Debt securities in issue	**538.0**	421.0	712.0
Repayment of subordinated debt	**-**	(0.9)	(0.9)
Net cash flows from financing activities	**538.0**	420.1	711.1
Net increase in cash and cash equivalents	**163.4**	174.1	248.3
Cash and cash equivalents at beginning of the period	**827.4**	579.1	579.1
Cash and cash equivalents at end of the period	**990.8**	**753.2**	827.4

Notes to the Accounts

1. General information

Reporting period

The Interim Financial Report is for the six months to 30 June 2016 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 2015 which were prepared in accordance with IFRS as adopted by the EU.

The following IFRS pronouncements, relevant to the Group, were adopted with effect from 1 January 2016:

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
Annual Improvements to IFRSs: 2012-2014
Disclosure Initiative (Amendments to IAS 1)

The adoption of the above standards has not had a material impact on the financial statements of the Group.

At the date of authorisation of these financial statements, the following standards and interpretations (which have not been applied in these financial statements) were in issue but not yet effective:

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
IFRS 9 – Financial Instruments
IFRS 15 – Revenue from Contracts with Customers
IFRS 16 – Leases

An overview of pronouncements that will be relevant to the Society in future periods is provided in its latest audited annual financial statements. The Directors do not expect these standards to have a material impact on the financial statements of the Group in future periods, except for IFRS 9 Financial Instruments. This standard changes the current incurred loss basis for credit provisions to an expected loss model which would have an impact on the valuation and income recognition methods relating to the Group's loans and advances to customers and derivative assets and liabilities. The standard also introduces new classification and measurement criteria for financial instruments.

The Group is currently conducting a full assessment of its potential impact, pending endorsement from the European Union. In 2015 it launched an IFRS 9 project, which reports progress through a steering group to the nominated oversight committees, and ultimately the Audit Committee. To date work has focused on technical interpretation and scoping activities but expected credit model development has commenced and will continue in the second half of the year. A period of parallel running is expected to ensure that outputs are fit for purpose ahead of full implementation.

These financial statements are presented in sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds.

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, which can be found in note 1 to the 2015 Annual Report and Accounts.

Going concern

The Directors have reviewed the Society's plans and forecasts 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.

Notes to the Accounts (continued)

2. Impairment losses on loans and advances to customers

	Six months to 30 June 2016 (Unaudited) £m	Six months to 30 June 2015 (Unaudited) £m	Year to 31 December 2015 (Audited) £m
Loans fully secured on residential property	**1.5**	2.6	6.2
Loans fully secured on land	**(2.5)**	2.9	12.3
Other loans	**-**	-	-
Total impairment (credit) / charge for the period	**(1.0)**	5.5	18.5
Loans fully secured on residential property	**26.0**	26.1	25.9
Loans fully secured on land	**29.2**	27.3	35.7
Other loans	**2.5**	2.5	2.5
Impairment provision at the end of the period	**57.7**	55.9	64.1

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 118 of the 2015 Annual Report & Accounts and is materially unchanged.

3. Provisions

The provisions charge and provisions at the end of the period are shown below.

	Six months to 30 June 2016 (Unaudited) £m	Six months to 30 June 2015 (Unaudited) £m	Year to 31 December 2015 (Audited) £m
Provisions charge			
FSCS levy	**2.8**	6.3	5.5
Customer redress and other related provisions	**(1.3)**	0.8	3.3
Total provisions charge	**1.5**	7.1	8.8
Liabilities			
FSCS levy	**5.6**	9.4	2.8
Customer redress and other related provisions	**1.9**	1.3	3.3
Commission clawback	**0.3**	0.2	0.3
Provisions at the end of the period	**7.8**	10.9	6.4

Based on publicly available information, the FSCS levy charge for the 2016/17 scheme year is expected to be in the region of £3.0m. Based on IFRIC 21 'Levies' this amount was recognised in full at the trigger date, 1 April 2016.

Notes to the Accounts (continued)

4. Taxation

The standard rate of corporation tax (excluding banking levy) applicable to the group for the period ended 30 June 2016 was 20% (half year ended 30 June 2015: 20.25%, full year ended 31 December 2015: 20.25%). In the July 2015 Budget, it was announced that the main rate of corporation tax will reduce to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. These changes were substantively enacted on 26 October 2015 as part of the Finance No.2 Bill 2015. The rate to be applicable from 1 April 2020 was revised from 18% to 17% as part of the March 2016 Budget. This rate had not been substantively enacted as at 30 June 2016 and is therefore not reflected in these accounts.

The deferred tax balances have been calculated at the standard rate of 18%, as it is expected that these balances will mostly reverse after 1 April 2020.

In addition, the surcharge of 8% on the profits of banking companies (including building societies) above the threshold took effect from 1 January 2016. As a result an effective rate of corporation tax of 25.9% has been used for 2016 to incorporate this levy. These changes were not substantively enacted by 30 June 2015 and are not therefore reflected in the comparative interim accounts figures. The expected impact of the surcharge has also been applied to the deferred tax balances.

5. Retirement benefit surplus

	30 June 2016 (Unaudited) £m	30 June 2015 (Unaudited) £m	31 December 2015 (Audited) £m
Present value of pension scheme's liabilities	**(100.5)**	(103.9)	(97.7)
Assets at fair value	**101.1**	104.7	102.8
Pension scheme surplus	**0.6**	0.8	5.1

The Society operates both defined benefit and defined contribution schemes. The defined benefit scheme provides benefits based on final salary for certain employees. It closed on 31 December 2014 for future accruals.

6. Related party transactions

The Group had no related party transactions outside the normal course of business in the six months ended 30 June 2016 (June 2015: £nil).

7. Financial commitments

The Society has commitments of £14.5m (2015: £15.4m) payable under executory contracts over a period of 10 years which relate to the ongoing investment programme. This amount is inclusive of value added tax.

8. Fair value

The table below compares the carrying and fair values of the Society's financial instruments not held at fair value 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.

8. Fair value (continued)

	Fair Value Hierarchy Level 2015 & 2016	**30 June 2016 (Unaudited)** Carrying value £m	**Fair value £m**	30 June 2015 (Unaudited) Carrying value £m	Fair value £m
Financial assets:					
Cash in hand and balances with the Bank of England	Level 1	**833.1**	**833.1**	637.6	637.6
Loans and advances to credit institutions	Level 2	**157.7**	**157.7**	115.6	115.6
Loans and advances to customers					
Loans fully secured on residential property	Level 2	**12,203.4**	**12,652.6**	10,393.5	10,796.0
Other loans	Level 2	**119.4**	**124.9**	189.8	189.0
Investment securities					
Loans and receivables	Level 2	**24.9**	**24.6**	29.0	27.9
Financial liabilities:					
Shares	Level 2	**10,452.3**	**10,503.4**	9,036.8	9,123.0
Amounts owed to credit institutions	Level 2	**32.4**	**32.4**	132.5	132.5
Amounts owed to other customers	Level 2	**369.9**	**369.9**	610.7	610.7
Debt securities in issue	Level 1/2	**2,594.8**	**2,757.0**	1,765.8	1,883.8
Subscribed capital	Level 1	**25.0**	**25.0**	25.0	25.0

	Fair Value Hierarchy Level 2015	31 December 2015 (Audited) Carrying value £m	Fair value £m
Financial assets:			
Cash in hand and balances with the Bank of England	Level 1	701.0	701.0
Loans and advances to credit institutions	Level 2	126.4	126.4
Loans and advances to customers			
Loans fully secured on residential property	Level 2	11,146.0	11,578.4
Other loans	Level 2	162.2	164.2
Investment securities			
Loans and receivables	Level 2	28.2	26.6
Financial liabilities:			
Shares	Level 2	9,810.3	9,867.8
Amounts owed to credit institutions	Level 2	55.9	55.9
Amounts owed to other customers	Level 2	418.3	418.3
Debt securities in issue	Level 1/2	2,056.8	2,199.8
Subscribed capital	Level 1	25.0	25.0

8. Fair value (continued)

The methodology and assumptions for determining the fair value of financial assets and liabilities is included in note 38 of the 2015 Annual Report & Accounts and remains materially unchanged since December 2015.

The tables on page 16 classify all assets and liabilities 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 from 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.

The following table analyses the fair value measurement basis used for assets and liabilities held at the Balance Sheet date at fair value.

As at 30 June 2016 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Investment securities - available for sale	**261.7**	**446.2**	**-**	**707.9**
Derivative financial instruments	**-**	**267.4**	**-**	**267.4**
Loans and advances to customers	**-**	**-**	**252.8**	**252.8**
	261.7	**713.6**	**252.8**	**1,228.1**
Liabilities				
Shares	**-**	**117.0**	**-**	**117.0**
Derivative financial instruments	**-**	**202.4**	**71.1**	**273.5**
	-	**319.4**	**71.1**	**390.5**

As at 30 June 2015 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Investment securities - available for sale	380.1	427.5	-	807.6
Derivative financial instruments	-	119.2	-	119.2
Loans and advances to customers	-	-	244.0	244.0
Investment properties	-	1.0	-	1.0
	380.1	547.7	244.0	1,171.8
Liabilities				
Shares	-	154.1	-	154.1
Derivative financial instruments	-	120.4	52.6	173.0
	-	274.5	52.6	327.1

Notes to the Accounts (continued)

8. Fair value (continued)

As at 31 December 2015 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Investment securities - available for sale	359.8	461.3	-	821.1
Derivative financial instruments	-	104.9	-	104.9
Loans and advances to customers	-	-	236.1	236.1
Investment properties	-	-	-	-
	359.8	566.2	236.1	1,162.1
Liabilities				
Shares	-	122.6	-	122.6
Derivative financial instruments	-	82.0	53.7	135.7
	-	204.6	53.7	258.3

Reconciliation of Level 3 fair value measurements of financial instruments

	Six months to 30 June 2016 (Unaudited) Financial assets £m	**Six months to 30 June 2016 (Unaudited) Financial liabilities £m**
Balance at 1 January	**236.1**	**(53.7)**
Total (gains)/losses in the income statement	**17.4**	**(17.4)**
Net repayment in the period	**(0.7)**	**-**
Balance at 30 June	**252.8**	**(71.1)**

	Six months to 30 June 2015 (Unaudited) Financial assets £m	Six months to 30 June 2015 (Unaudited) Financial liabilities £m
Balance at 1 January	262.9	(57.5)
Total (gains)/losses in the income statement	(4.9)	4.9
Net repayment in the period	(14.0)	-
Balance at 30 June	244.0	(52.6)

	Full year to 31 December 2015 (Audited) Financial assets £m	Full year to 31 December 2015 (Audited) Financial liabilities £m
Balance at 1 January	262.9	(57.5)
Total (gains)/losses in the income statement	(3.8)	3.8
Net repayment in the year	(23.0)	-
Balance at 31 December	236.1	(53.7)

Notes to the Accounts (continued)

8. **Fair value** (continued)

There have been no transfers of assets or liabilities between the above levels of valuation. The following table sets out details of the recurring fair value measurements of assets and liabilities included in Level 3.

Financial assets/ financial liabilities	**Fair value at 30 June 2016**	**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 - £71.1m (30 June 2015: £52.6m; 31 Dec 2015: £53.7m)	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.
Loans and advances to customers	Assets - £252.8m (30 June 2015: £244.0m; 31 Dec 2015: £236.1m)	Level 3	The assets are linked to equity release mortgages and are valued using the valuation of the associated derivatives as all critical terms and conditions match.	N/A	N/A

9. Operating segments

Products and services from which reportable segments derive their revenues
The information reported to the Group's Chief Executive Officer for the purpose of resources allocation and assessment or segment performance is specifically focused on the category of customer for each type of activity. The Group's reportable segments under IFRS 8 are therefore as follows:

Core activities
Commercial lending
Euro lending

Information regarding the Group's reporting segments is reported below. Central Group operations have been included in core activities and comprise risk management, funding, treasury services, finance, 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.

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Six months to 30 June 2016 (Unaudited)				
Interest receivable and similar income	**199.7**	**2.5**	**1.3**	**203.5**
Interest payable and similar charges	**(103.7)**	**(2.2)**	**(0.2)**	**(106.1)**
Other Income and fair value gains less losses	**3.2**	**2.8**	**-**	**6.0**
Total income/(expense)	**99.2**	**3.1**	**1.1**	**103.4**
Administrative expenses (incl depreciation and amortisation)	**(44.7)**	**(0.1)**	**0.2**	**(44.6)**
Provisions and impairment	**(2.9)**	**2.5**	**(0.4)**	**(0.8)**
Profit/(loss) on ordinary activities before tax	**51.6**	**5.5**	**0.9**	**58.0**
Total loans and advances to customers	**12,218.8**	**112.8**	**244.0**	**12,575.6**

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Six months to 30 June 2015 (Unaudited)				
Interest receivable and similar income	191.4	3.2	1.4	196.0
Interest payable and similar charges	(88.6)	(2.6)	(1.5)	(92.7)
Other Income and fair value gains less losses	9.1	(3.9)	(0.5)	4.7
Total income/(expense)	111.9	(3.3)	(0.6)	108.0
Administrative expenses (incl depreciation and amortisation)	(36.6)	(0.1)	(0.3)	(37.0)
Provisions and impairment	(13.0)	(2.9)	(0.1)	(16.0)
Profit/(loss) on ordinary activities before tax	62.3	(6.3)	(1.0)	55.0
Total loans and advances to customers	10,409.8	202.4	215.1	10,827.3

Notes to the Accounts (continued)

9. Operating segments (continued)

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Year to 31 December 2015 (Audited)				
Interest receivable and similar income	394.6	5.8	2.3	402.7
Interest payable and similar charges	(191.0)	(3.8)	(0.4)	(195.2)
Other Income and fair value gains less losses	11.6	(0.2)	-	11.4
Total income/(expense)	215.2	1.8	1.9	218.9
Administrative expenses (incl depreciation and amortisation)	(79.0)	(0.3)	(0.4)	(79.7)
Provisions and impairment	(20.5)	(12.3)	2.1	(30.7)
Profit/(loss) on ordinary activities before tax	115.7	(10.8)	3.6	108.5
Total loans and advances to customers	11,179.6	158.3	206.4	11,544.3

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 2016 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 9. 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 (UK and Ireland) 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 2016 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

4 August 2016

Other Information

The financial information set out in the Interim Financial Report, which was approved by the Board of Directors on 4 August 2016, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.

The financial information for the year ended 31 December 2015 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts have been filed with the Financial Conduct Authority.

The audit opinion for the 31 December 2015 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.