Interim Financial Report

30 June 2017

Leeds Building Society


2017: our performance so far
New residential mortgage lending of
£2.1bn
(June 2016: £1.9bn)
We helped 22,410 people have the home they want.
We paid an average of
1.52%
to our savers compared to the rest of market average of 0.85%
An annual benefit to all our savers of over £70m.
Record savings balances up 11% to
£12.5bn
(Dec 2016: £11.2bn)
We've helped 41,068 more people save for their future.
Total assets up 9% to
£17.3bn
(Dec 2016: £15.9bn)
Profit before tax up 9% to
£63.2m
(June 2016: £58.0m)
Common Equity Tier 1 Capital is
14.6%
(Dec 2016: 15.2%)
Reserves available to protect us from future problems.
Customer satisfaction at
91%
(Dec 2016: 92%)
We have an ongoing commitment to be customer focused in everything we do.
Leeds Building Society
Colleague engagement score up 2% to
80%
(Dec 2016: 78%)
We're committed to being a great place to work.

Chief Executive Officer's Review

I am pleased to report Leeds Building Society has continued to build on its strengths and delivered further growth and a strong profit performance in the first half of 2017.

Membership numbers and mortgage and savings balances are all at the highest level in our history. The key financial highlights are:

- New residential mortgage lending reached £2.1bn, up by 10% (£1.9bn to June 2016). This is significantly above our market share.
- Growth in net residential lending to over £1.0bn (£0.9bn to June 2016) took total mortgage balances to £14.2bn (December 2016: £13.2bn).
- Increased total savings balances by a record £1.3bn to £12.5bn (December 2016: £11.2bn).
- Increased total membership to 778,000 (December 2016: 756,000), the highest in the Society's history.
- Profit before tax of £63.2m (June 2016: £58.0m).
- On a standardised basis, Common Equity Tier 1 ratio was 14.6% (December 2016: 15.2%) and leverage ratio was 5.1% (December 2016: 5.2%), well above the minimum regulatory requirements.
- Strong liquidity position maintained throughout the period and the unencumbered liquidity ratio was 14.5% at the end of June (December 2016: 14.0%).

The strong profit performance in the first half provides additional capital which allows us to continue to grow whilst maintaining financial security for our members. We continue to retain strong investment grade long term credit ratings from Moody's and Fitch. Moody's downgraded the Society's rating from A2 (negative outlook) to A3 (stable) and Fitch affirmed their rating of A- (stable) leaving our credit ratings aligned to those of similar sized peers.

Whilst Bank Base Rate has been maintained at an historic low we have worked hard to support savers. On average we paid 1.52% to our savers, compared to the the rest of market average of 0.85%, equating to an annual benefit to our savers of over £70.8m[i]. Our consistent approach was recognised with the 'Best Building Society Savings Provider' award from independent comparison site Moneyfacts, for the second consecutive year.

We place customers at the heart of the Society and regularly ask for their feedback. In the most recent survey customer satisfaction remained high at 91%[ii] (December 2016: 92%), underlining our objective to deliver outstanding personal service to customers.

[i] CACI's CSDB, Stock, May 2016 - April 2017. CACI is an independent company that provides financial services benchmarking data and covers 86% of the high street cash savings market.
[ii] Customer satisfaction rating based on the views of 3,678 customers

Chief Executive Officer's Review

We made good progress through our continuing change programme in the first half of the year. Some examples of what we have achieved include:

- Cutting the time we take to process ISA transfers from 15 days to three. This means our customers start earning interest with the Society sooner.
- Significantly improved our online account opening process for new accounts. We continue to work on enhancing our digital proposition for both members and intermediaries.
- Reduced the number of days it takes to issue a mortgage offer to eight days, a significant reduction from the 16 days it took at this point last year. This has been achieved without any relaxation in the quality of our underwriting standards.
- Launched a long term partnership with Parkrun. Like Parkrun, the Society was set up to improve the lives of its members and support the local communities in which it operates. We'll be collaborating on a number of initiatives to help make Parkrun accessible to more people, and to support a range of wider community projects.
- Introduced our new programme, "Project Me", to add to the personal and career development support we offer our colleagues to retain and reward the best talent.
- Excellent engagement and leadership results in Your Voice, the Society's annual colleague survey. The latest engagement result is 80%, up from 78% in the last survey.
- Successfully completed the branch refurbishment programme. As well as providing customers with greater comfort and privacy in a more modern environment, energy-efficient technology has also been used. This is good for the environment and also reduces the Society's costs.
- Completed a review of the branch network structure to ensure it remains relevant and in appropriate locations to meet the ever-changing needs of our members. The review highlighted a number of branches which were under used and others within close proximity to other branches. As a result eight branches have been closed and the London branch was relocated. The Society remains committed to its branch network.
- Continued to embed the use of IRB (Internal Ratings Based) advanced credit risk techniques in managing the business.

The recent general election result has added to the economic and political uncertainty created by the decision to leave the European Union. This contributed to some volatility in financial markets and cuts to economic growth forecasts in the near term.

Recent lending and housing market indicators showed that gross lending growth and mortgage approvals have remained relatively flat over the last year. A number of the housing market indices have reported house price growth softening in the second quarter.

Despite these uncertainties the Society's strong foundations ensure it remains financially stable and secure and is well-placed to meet any challenges that may arise in the remainder of 2017 and beyond.

Peter Hill

Chief Executive Officer

2017 First Half Key Performance Indicators

The 2017 first half key performance indicators are shown below, split by each of the Society's four strategic pillars.

Customer focused

To support the aspirations of a wide range of borrowers and savers, in particular those who are not well served by the wider market.

New residential lending	Net residential lending	Savings balances	Membership
£2.1 billion	**£1.0 billion**	**£12.5 billion**	**778,000 members**
June 2016: £1.9 billion	June 2016: £0.9 billion	Dec 2016: £11.2 billion	Dec 2016: 756,000 members

Secure

To generate strong levels of profit which are retained in the business to build a solid platform for growth.

Profit before tax	Net interest margin	Liquidity Coverage Ratio (LCR)	Common Equity Tier 1 ratio	Credit ratings
£63.2 million	**1.24%**	**298%**	**14.6%**	**Fitch A- Moody's A3**
June 2016: £58.0 million	June 2016: 1.37%	Dec 2016: 179%	Dec 2016: 15.2%	Dec 2016: Fitch A- Moody's A2

Service driven

To deliver outstanding personal service to all our members.

Number of days from mortgage application to offer	% of customer administration processing completed on the same day	Customer satisfaction	Colleague engagement
8 days	**87%**	**91%**	**80%**
June 2016: 16 days	June 2016: 82%	Dec 2016: 92%	Dec 2016: 78%

Efficient

To continue to reinvest in the business to improve efficiency, whilst being intolerant of waste.

Cost to income ratio	Cost to mean assets ratio	Colleague turnover
44%	**0.56%**	**15.1%**
June 2016: 43%	June 2016: 0.63%	June 2016: 15.2%

For glossary of terms see the 2016 Annual Report & Accounts pages 141 to 143 which is available at leedsbuildingsociety.co.uk/press/financial-results.

Financial Review
for the six months ended 30 June 2017

Profit before tax was £63.2m (June 2016: £58.0m) for the period. An overview of the key financial highlights is presented below.

Net interest income

	June 2017 £m	June 2016 £m	December 2016 £m
Net interest income	102.8	97.4	201.8
Mean assets	16,607	14,196	14,718
	%	%	%
Net interest margin (NIM)	1.24	1.37	1.37

Net interest income increased to £102.8m due to the lower cost of retail and wholesale funding and strong balance sheet growth. Interest income on mortgages reduced slightly as business written at higher margins in previous years redeemed and was replaced by new mortgages at a lower margin which have been originated in an increasingly competitive market.

Management expenses

	June 2017 £m	June 2016 £m	December 2016 £m
Colleague costs	27.9	25.3	53.9
Other administrative expenses	17.1	17.5	34.8
Depreciation and amortisation	1.5	1.8	3.2
Total management expenses	46.5	44.6	91.9
	%	%	%
Cost / income ratio	43.5	43.1	43.3
Cost / mean asset ratio	0.56	0.63	0.62

Total expenses have increased compared to June 2016 due to the full year impact of additional roles added in 2016, taking total headcount to 1,405. Headcount has been broadly flat throughout the first half of 2017 and the rate of increase in costs has slowed. Other administrative expenses include project costs which continue to be incurred on both one-off investment projects and the increasing number of regulatory changes which the Society must respond to. The Society's cost ratios continue to benchmark favourably against its peers.

Impairment gains / (losses) & provisions

	June 2017 £m	June 2016 £m	December 2016 £m
Residential loan impairment charge	(0.4)	(1.5)	(4.9)
Commercial loan impairment credit	4.4	2.5	5.8
Provisions charge	(1.1)	(1.5)	(3.9)
Impairment losses on land and buildings	-	(0.3)	(0.5)
Total impairment gains / (losses) and provisions	**2.9**	**(0.8)**	**(3.5)**

The residential impairment charge has reduced due to the continued improvement in arrears[i] to 0.84% at the end of June 2017 (December 2016: 1.02%, June 2016: 1.24%), and an increase in collateral valuations. The

[i] Measured as those either in possession or arrears of more than 1.5% of the balance

commercial loan impairment credit of £4.4m (June 2016: £2.5m) reflects the continuing wind down of this legacy portfolio. The provision charge includes additional amounts set aside for customer redress and the expected cost of the 2016/2017 and 2017/18 Financial Services Compensation Scheme levies, including the reduction in levy following the sale of Bradford and Bingley assets by UK Asset Resolution in April.

Loans and advances to customers

	June 2017 £m	June 2016 £m	December 2016 £m
Residential loans	14,183	12,103	13,082
Commercial loans	77	142	125
Other loans and adjustments	282	388	325
Impairment provision	(47)	(58)	(54)
Total loans and advances to customers	**14,495**	**12,575**	**13,478**

	%	%	%
Proportion of mortgages in arrears	0.84	1.24	1.02
Balance-weighted average indexed LTV of mortgage book	56	56	57
Balance-weighted average LTV of new lending	64	66	65

Growth in residential loans was driven by new lending of £2.1bn in the first half of 2017 which was originated across the Society's core lending segments: owner occupied, buy to let and shared ownership properties. The Society has a conservative lending policy and controls on new lending have been maintained throughout the period which is reflected in the average LTV of new lending. This reduced to 64% (June 2016: 66%). The overall quality of the book remains good with a low level of arrears and a weighted average indexed book LTV of 56% (December 2016: 57%).

Commercial loans reduced to £77m and represent just 0.5% of total loans and advances.

Funding

	June 2017 £m	June 2016 £m	December 2016 £m
Shares (member deposits)	12,458	10,569	11,233
Wholesale funding	3,504	2,997	3,401
Off-balance sheet funding	200	450	300
Total funding	**16,162**	**14,016**	**14,934**

	%	%	%
Wholesale funding ratio	21.8	22.5	21.7

The Society's strong retail franchise has been the key driver for the increase in member deposits, with balances increasing by £1.2bn since the end of 2016. Whilst savings rates have reduced overall, the Society has maintained its position of paying above average market rates to reward saving members. The wholesale funding ratio has increased as the Society has accessed further funding at proportionally lower rates than other funding. This includes drawing down a further £100m from the Bank of England's Term Funding Scheme making the total £650m (December 2016: £550m). Since the period end a further €500m of wholesale funding was raised under the covered bond programme.

Liquidity

At 30 June 2017 the unencumbered liquidity ratio was 14.5% (December 2016: 14.0%) and the Liquidity Coverage Ratio was 298% (December 2016: 179%), ensuring continuing liquidity well in excess of regulatory minima. The quality of liquid assets has been maintained with 99.9% being 'A' rated or above. The liquidity position is subject to stress testing according to the prudential rules and shows the Society to be resilient under the different scenarios.

Capital

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

	June 2017 £m	June 2016 £m	December 2016 £m
Capital resources			
Common Equity Tier 1 (CET1) capital	914	832	871
Additional Tier 1 capital	13	15	15
Total Tier 1 capital	927	847	886
Tier 2 capital	25	30	28
Total regulatory capital resources	952	877	914
Risk-weighted assets (RWAs)	6,275	5,401	5,731
CRD IV capital ratios	%	%	%
CET1 ratio	14.6	15.4	15.2
Leverage ratio	5.1	5.3	5.2
Modified leverage ratio excluding central bank liabilities*	5.6	5.9	5.7

**The modified leverage ratio is based on the latest announcement from the Financial Stability Report which has clarified the treatment of central bank liabilities and the minimum leverage requirement for UK firms which has increased to 3.25%.*

The Society has maintained strong capital ratios which are significantly in excess of the regulatory minima. The CET 1 ratio reduced due to the growth in mortgage lending, as well as an increased deduction for Credit Value Adjustment caused by volatility of derivative market values not fully offset by collateral movements. The overall growth in assets caused the leverage ratio, the non-risk backstop measure, to reduce further. The Society has continued discussions with the Prudential Regulation Authority in relation to using advanced IRB to manage capital which, once implemented, would significantly increase the CET1 ratio.

Principal risks & uncertainties

The principal risks arising from the Society's operations are classified as credit, market, funding and liquidity, capital, operational, conduct, business and strategic risk. 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 31 to 39 of the 2016 Annual Report and Accounts.

Condensed Consolidated Income Statement

	Notes	**Six months to 30 June 2017 (Unaudited) £m**	Six months to 30 June 2016 (Unaudited) £m	Year to 31 December 2016 (Audited) £m
Interest receivable and similar income		**199.7**	203.5	406.3
Interest payable and similar charges		**(96.9)**	(106.1)	(204.5)
Net interest receivable		**102.8**	97.4	201.8
Fees and commissions receivable		**4.2**	5.8	10.4
Fees and commissions payable		**(0.3)**	(0.4)	(0.8)
Fair value gains less losses from financial instruments		**(0.5)**	(0.6)	(1.3)
Other operating income		**0.6**	1.2	1.9
Total income		**106.8**	103.4	212.0
Administrative expenses		**(45.0)**	(42.8)	(88.7)
Depreciation and amortisation		**(1.5)**	(1.8)	(3.2)
Impairment gains on loans and advances to customers	4	**4.0**	1.0	0.9
Provisions charge	2	**(1.1)**	(1.5)	(3.9)
Impairment losses on land and buildings		**-**	(0.3)	(0.5)
Operating profit and profit before tax		**63.2**	58.0	116.6
Tax expense	3	**(16.1)**	(15.0)	(30.6)
Profit for the period		**47.1**	43.0	86.0

All amounts relate to continuing operations.

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 June 2017 (Unaudited) £m	Six months to 30 June 2016 (Unaudited) £m	Year to 31 December 2016 (Audited) £m
Profit for the period	**47.1**	43.0	86.0
Items that may subsequently be reclassified to profit and loss:			
Available for sale investment securities (loss) / gain	**(2.1)**	6.7	7.8
Tax relating to items that may subsequently be reclassified	**0.5**	(1.9)	(1.8)
Items which may not subsequently be reclassified to profit and loss:			
Actuarial gain / (loss) on retirement benefit surplus / (obligation)	**0.5**	(5.3)	(9.5)
Revaluation loss on properties revalued	**-**	-	(1.8)
Tax relating to items which may not be reclassified	**(0.2)**	1.7	3.0
Total comprehensive income for the period	**45.8**	44.2	83.7

Condensed Consolidated Statement of Financial Position

Condensed consolidated statement of financial position

	Notes	**30 June 2017 (Unaudited) £m**	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
Assets				
Liquid assets				
Cash in hand and balances with the Bank of England		**1,287.5**	833.1	938.9
Loans and advances to credit institutions		**111.0**	157.7	187.3
Investment securities				
Available for sale		**829.5**	707.9	753.7
Loans and receivables		**22.0**	24.9	24.1
Derivative financial instruments		**271.1**	267.4	263.1
Loans and advances to customers	5			
Loans fully secured on residential property		**14,185.3**	12,203.4	13,120.9
Other loans		**309.8**	372.2	356.8
Intangible assets		**5.6**	3.1	3.0
Property, plant and equipment		**31.4**	33.1	30.1
Retirement benefit surplus	6	**-**	0.6	-
Deferred income tax asset		**2.1**	-	2.6
Other assets, prepayments and accrued income		**229.6**	281.4	249.2
Total assets		**17,284.9**	14,884.8	15,929.7
Liabilities				
Shares		**12,457.7**	10,569.3	11,233.2
Derivative financial instruments		**184.5**	273.5	214.4
Amounts owed to credit institutions		**653.1**	32.4	572.1
Amounts owed to other customers		**342.8**	369.9	357.5
Debt securities in issue		**2,507.8**	2,594.8	2,471.2
Current income tax liabilities		**15.9**	15.7	14.1
Deferred income tax liabilities		**1.7**	2.4	2.7
Other liabilities and accruals		**169.1**	159.2	157.3
Provision for liabilities and charges	2	**6.0**	7.8	5.3
Retirement benefit obligations	6	**1.2**	-	2.6
Subscribed capital		**25.0**	25.0	25.0
Total liabilities		**16,364.8**	14,050.0	15,055.4
Total equity attributable to members		**920.1**	834.8	874.3
Total liabilities and equity		**17,284.9**	14,884.8	15,929.7

Condensed Consolidated Statement of Changes in Members' Interest

	General reserve	**Available for sale reserve**	**Revaluation reserve**	**Other reserve**	**Total equity attributable to members**
	£m	**£m**	**£m**	**£m**	**£m**
Six months to 30 June 2017					
At 1 January 2017 (Audited)	**844.1**	**4.8**	**11.1**	**14.3**	**874.3**
Comprehensive income for the period	**47.4**	**(1.6)**	**-**	**-**	**45.8**
Reclassification of reserves	**(0.4)**	**0.4**	**-**	**-**	**-**
At 30 June 2017 (Unaudited)	**891.1**	**3.6**	**11.1**	**14.3**	**920.1**

	General reserve	Available for sale reserve	Revaluation reserve	Other reserve	Total equity attributable to members
	£m	£m	£m	£m	£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	Available for sale reserve	Revaluation reserve	Other reserve	Total equity attributable to members
	£m	£m	£m	£m	£m
Year to 31 December 2016					
At 1 January 2016 (Audited)	765.1	(1.2)	12.4	14.3	790.6
Comprehensive income for the period	79.0	6.0	(1.3)	-	83.7
At 31 December 2016 (Audited)	844.1	4.8	11.1	14.3	874.3

Condensed Consolidated Statement of Cashflows

	Six months to 30 June 2017 (Unaudited) £m	Six months to 30 June 2016 (Unaudited) £m	Year to 31 December 2016 (Audited) £m
Profit before tax	**63.2**	58.0	116.6
Adjusted for changes in:			
Impairment provision	**(7.7)**	(6.4)	(10.0)
Provision for liabilities and charges	**0.7**	1.4	(1.1)
Depreciation and amortisation	**1.5**	1.8	3.2
Impairment losses on land and buildings	**-**		0.5
Interest on subscribed capital	**1.7**	1.7	-
Cash generated from operations	**59.4**	56.5	109.2
Changes in operating assets and liabilities:			
Loans and advances to customers	**(1,009.7)**	(1,024.9)	(1,923.5)
Derivative financial instruments	**(37.9)**	(24.7)	(79.5)
Other operating assets	**19.6**	(141.4)	(109.2)
Shares	**1,224.5**	636.4	1,300.3
Amounts owed to credit institutions and other customers	**66.3**	(71.9)	455.4
Other operating liabilities	**8.4**	92.4	85.3
Taxation paid	**(14.0)**	(9.3)	(27.1)
Net cash outflows from operating activities	**316.6**	(486.9)	(189.1)
Cash flows from investing activities			
Returns from investments and servicing of finance	**0.5**	(7.7)	(1.8)
Purchase of investment securities	**(258.6)**	(424.1)	(695.7)
Proceeds from sale and redemption of investment securities	**182.7**	546.6	774.0
Purchase of property, plant and equipment	**(2.5)**	(2.5)	(2.8)
Purchase of intangible assets	**(2.9)**	-	(0.2)
Net cash flows from investing activities	**(80.8)**	112.3	73.5
Cash flows from financing activities			
Issue and repayment of debt securities in issue	**36.5**	538.0	414.4
Net cash flows from financing activities	**36.5**	538.0	414.4
Net increase in cash and cash equivalents	**272.3**	163.4	298.8
Cash and cash equivalents at beginning of the period	**1,126.2**	827.4	827.4
Cash and cash equivalents at end of the period	**1,398.5**	**990.8**	1,126.2

Notes to the Accounts (continued)

1. General information

Reporting period

The Interim Financial Report is for the six months to 30 June 2017 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 2016 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 2017:

Disclosure Initiative (Amendments to IAS 7)
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
Annual Improvements to IFRSs 2014–2016

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:

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 the 2016 Annual Report & Accounts. 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, investment securities and derivative assets and liabilities. The standard also introduces new classification and measurement criteria for financial instruments.

An implementation project is underway which provides regular updates to the Audit Committee, the governance forum ultimately responsible for the application of IFRS. The expected credit loss model for the core residential mortgage portfolios is under development, with the scope agreed and definitions of the key components tested and reviewed. The Group is continuing with its assessment of its final impact. During 2016 an initial assessment of the classification and measurement of financial instruments was performed and presented to the Audit Committee. The hedge accounting part of IFRS 9 is not expected to have a significant impact on the Society, which expects to continue to use IAS 39 in accordance with the IFRS 9 carve out. Work on the disclosure requirements of IFRS 9, including sourcing and mapping data, is underway and will be finalised during the second half of 2017.

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 2016 Annual Report & Accounts

Notes to the Accounts (continued)

1. General information (continued)

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 since Article 50 to leave the European Union was triggered in March 2017. 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.

2. Provisions

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

	Six months to 30 June 2017 (Unaudited) £m	Six months to 30 June 2016 (Unaudited) £m	Year to 31 December 2016 (Audited) £m
Provisions charge			
FSCS levy	**0.2**	2.8	2.3
Customer redress and other related provisions	**0.9**	(1.3)	1.6
Total provisions charge	**1.1**	1.5	3.9
Provisions			
FSCS levy	**2.7**	5.6	2.5
Customer redress and other related provisions	**3.1**	1.9	2.5
Commission clawback	**0.2**	0.3	0.3
Provisions at the end of the period	**6.0**	7.8	5.3

In April 2017 UK Asset Resolution sold certain Bradford and Bingley assets and reduced the outstanding debt due to the Financial Services Compensation Scheme (FSCS) by £11.0bn to £4.7bn, which enabled the FSCS to make a corresponding repayment of its loan to HM Treasury. Additional sales of Bradford and Bingley assets are expected in the near future which would reduce the FSCS's loan with HM Treasury further. In accordance with IFRIC 21 'Levies', the Society recognised £1.0m for the 2017/18 scheme year at 1 April 2017. The Society is now carrying provisions of £1.7m and £1.0m for the 2016/17 and 2017/18 scheme years respectively.

Notes to the Accounts (continued)

3. Taxation

The standard rate of corporation tax for the six months ended 30 June 2017 (excluding banking levy) is 19.5% (half year ended 30 June 2016: 20%, full year ended 31 December 2016 20%). The statutory corporation tax rate for the full year to 31 December 2017 is 19.25%.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The Finance (No. 2) Act 2015 also introduced an additional surcharge of 8 per cent on banking profits above a £25m threshold (including those of building societies) from 1 January 2016. The deferred tax asset at 30 June 2017 has been calculated based on these rates.

4. Impairment losses on loans and advances to customers

	Six months to 30 June 2017 (Unaudited) £m	Six months to 30 June 2016 (Unaudited) £m	Year to 31 December 2016 (Audited) £m
Loans fully secured on residential property	**0.4**	1.5	4.9
Loans fully secured on land	**(4.4)**	(2.5)	(5.8)
Total impairment (credit) for the period	**(4.0)**	(1.0)	(0.9)
Loans fully secured on residential property	**24.3**	26.0	26.0
Loans fully secured on land	**19.7**	29.2	25.7
Other loans	**2.5**	2.5	2.5
Impairment provision at the end of the period	**46.5**	57.7	54.2

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 124 of the 2016 Annual Report & Accounts and is materially unchanged.

5. Loans and advances to customers

	Six months to 30 June 2017 (Unaudited) £m	Six months to 30 June 2016 (Unaudited) £m	Year to 31 December 2016 (Audited) £m
Loans fully secured on residential property	**14,182.7**	12,103.5	13,082.1
Other loans			
- Loans fully secured on land	**77.3**	142.0	125.3
- Other loans	**249.8**	255.3	254.4
Fair value adjustment for hedged risk	**31.8**	132.5	70.1
	14,541.6	12,633.3	13,531.9
Less:			
Impairment provision	**(46.5)**	(57.7)	(54.2)
Total loans and advances to customers	**14,495.1**	12,575.6	13,477.7

6. Retirement benefit (obligations) / surplus

	30 June 2017 (Unaudited) £m	30 June 2016 (Unaudited) £m	31 December 2016 (Audited) £m
Present value of pension scheme's liabilities	**(112.1)**	(100.5)	(114.2)
Scheme assets at fair value	**110.9**	101.1	111.6
Retirement benefit (obligations) / surplus	**(1.2)**	0.6	(2.6)

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.

7. Related party transactions

The Group had no related party transactions outside the normal course of business in the six months ended 30 June 2017 (June 2016: £nil, December 2016 £nil).

8. Financial commitments

The Society has commitments of £18.1m (June 2016: £14.5m, December 2016: £9.9m) 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.

9. Credit risk on loans and advances to customers

Residential mortgages

A full analysis of credit risk on residential mortgages is included in note 35 of the 2016 Annual Report & Accounts.

The indexed weighted average loan to value analysis on the Group's residential loan portfolio is as follows:

	Six months to 30 June 2017 (Unaudited)	Six months to 30 June 2016 (Unaudited)	Year to 31 December 2016 (Audited)
	%	%	%
Below 70%	**74.4**	74.1	73.7
70% - 80%	**15.0**	16.1	16.0
80% - 90%	**7.7**	6.9	7.5
Above 90%	**2.9**	2.9	2.8
Total percentage	**100.0**	100.0	100.0

The overall weighted average indexed loan-to-value of the residential portfolio is 56% (June 2016: 56%, December 2016: 56%).

The table below provides information on the Group's residential loans and advances by payment due status as at 30 June 2017. The balances exclude the fair value adjustment for hedged risk and impairment losses. The table includes £42.2m (June 2016: £42.6m, December 2016: £40.3m) of loans and advances secured on residential property in Ireland that are past due and £0.7m (June 2016: £1.0m, December 2016: £0.4m) in possession. Of the loans and advances secured on residential property in Spain, £10.1m (June 2016: £13.0m, December 2016: £11.8m) are past due and £0.3m (June 2016: £0.8m, December 2016: £0.8m) are in possession.

	Six months to 30 June 2017 (Unaudited)		Six months to 30 June 2016 (Unaudited)		Year to 31 December 2016 (Audited)	
	£M	%	£M	%	£M	%
Not impaired:						
- Neither past due nor impaired	**13,759.5**	**97.0**	11,609.4	95.9	12,718.9	97.3
- Past due up to 3 months but not impaired	**306.9**	**2.2**	350.5	2.9	240.4	1.8
Impaired:						
- Not past due but impaired	**-**	**-**	-	-	-	-
- Past due 3 to 6 months	**46.6**	**0.3**	61.9	0.5	50.9	0.4
- Past due 6 to 12 months	**29.9**	**0.2**	35.0	0.3	31.8	0.2
- Past due over 12 months	**32.6**	**0.2**	34.0	0.3	30.6	0.2
- Possessions	**7.2**	**0.1**	12.7	0.1	9.5	0.1
Total	**14,182.7**	**100.0**	12,103.5	100.0	13,082.1	100.0

9. Credit risk on loans and advances to customers (continued)

Commercial mortgages

A full analysis of credit risk on commercial mortgages is included in note 35 to the 2016 Annual Report & Accounts.

The indexed loan to value analysis on the Group's commercial loan portfolio is as follows:

	Six months to 30 June 2017 (Unaudited)	**Six months to 30 June 2016 (Unaudited)**	**Year to 31 December 2016 (Audited)**
	%	**%**	%
<70%	**30.7**	37.7	30.4
70% - 80%	**12.6**	26.2	29.9
80% - 90%	**7.8**	5.9	4.5
>90%	**48.9**	30.2	35.2
Total percentage	**100.0**	100.0	100.0

The overall indexed loan-to-value of the commercial portfolio is 85% (June 2016: 71%, December 2016: 76%).

The table below provides information on the Group's commercial loans and advances by payment due status at 30 June 2017. The balances exclude the fair value adjustment for hedged risk and impairment losses.

	Six months to 30 June 2017 (Unaudited)		Six months to 30 June 2016 (Unaudited)		Year to 31 December 2016 (Audited)	
	£M	**%**	£M	%	£M	%
Not impaired:						
- Neither past due nor impaired	**34.7**	**44.9**	97.1	68.4	75.0	59.9
Impaired:						
- Not past due but impaired	**37.5**	**48.6**	37.0	26.1	43.0	34.3
- Past due up to 3 months	**1.0**	**1.3**	0.1	-	0.1	0.1
- Past due 3 to 6 months	**-**	**-**	-	-	-	-
- Past due 6 to 12 months	**0.1**	**0.1**	-	-	-	-
- Past due over 12 months	**-**	**-**	-	-	-	-
- Possessions	**4.0**	**5.1**	7.8	5.5	7.2	5.7
Total	**77.3**	**100.0**	142.0	100.0	125.3	100.0

Notes to the Accounts (continued)

10. 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.

		Six months to 30 June 2017 (Unaudited)		Six months to 30 June 2016 (Unaudited)	
	Fair value hierarchy level	**Carrying value 2017 £M**	**Fair value 2017 £M**	Carrying value 2016 £M	Fair value 2016 £M
Financial assets:					
Cash in hand and balances with the Bank of England	Level 1	**1,287.5**	**1,287.5**	833.1	833.1
Loans and advances to credit institutions	Level 2	**111.0**	**111.0**	157.7	157.7
Loans and advances to customers:					
Loans fully secured on residential property	Level 2	**14,185.3**	**14,617.6**	12,203.4	12,652.6
Other loans	Level 2	**62.5**	**66.9**	119.4	124.9
Investment securities					
Loans and receivables	Level 2	**22.0**	**23.3**	24.9	24.6
Financial liabilities:					
Shares	Level 2	**12,370.0**	**12,387.8**	10,452.3	10,503.4
Amounts owed to credit institutions	Level 2	**653.1**	**653.1**	32.4	32.4
Amounts owed to other customers	Level 2	**342.8**	**342.8**	369.9	369.9
Debt securities in issue	Level 1	**2,285.2**	**2,299.4**	2,206.0	2,360.1
Debt securities in issue	Level 2	**222.6**	**225.3**	388.8	396.9
Subscribed capital	Level 1	**25.0**	**25.0**	25.0	25.0

Notes to the Accounts (continued)

10. Fair value (continued)

	Fair value hierarchy level	Year to 31 December 2016 Carrying value 2016 £M	(Audited) Fair value 2016 £M
Financial assets:			
Cash in hand and balances with the Bank of England	Level 1	938.9	938.9
Loans and advances to credit institutions	Level 2	187.3	187.3
Loans and advances to customers:			
Loans fully secured on residential property	Level 2	13,120.9	13,545.0
Other loans	Level 2	104.9	109.8
Investment securities			
Loans and receivables	Level 2	24.1	22.6
Financial liabilities:			
Shares	Level 2	11,123.8	11,270.8
Amounts owed to credit institutions	Level 2	572.1	572.1
Amounts owed to other customers	Level 2	357.5	357.5
Debt securities in issue	Level 1	2,188.6	1,926.7
Debt securities in issue	Level 2	282.6	287.4
Subscribed capital	Level 1	25.0	25.0

The methodology and assumptions for determining the fair value of financial assets and liabilities is included in note 37 of the 2016 Annual Report & Accounts and remains materially unchanged since December 2016.

The tables on page 21 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.

Notes to the Accounts (continued)

10. Fair value (continued)

The following table analyses the fair value measurement basis used for assets and liabilities held at the Statement of Financial Position date at fair value.

As at 30 June 2017 (unaudited)	**Level 1 £M**	**Level 2 £M**	**Level 3 £M**	**Total £M**
Assets				
Investment securities - available for sale	**216.6**	**612.9**	**-**	**829.5**
Derivative financial instruments	**-**	**231.3**	**39.8**	**271.1**
Loans and advances to customers	**-**	**-**	**247.3**	**247.3**
	216.6	**844.2**	**287.1**	**1,347.9**
Liabilities				
Shares	**-**	**87.7**	**-**	**87.7**
Derivative financial instruments	**-**	**90.7**	**93.8**	**184.5**
	-	**178.4**	**93.8**	**272.2**

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 31 December 2016 (Audited)	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets				
Investment securities - available for sale	298.6	455.1	-	753.7
Derivative financial instruments	-	221.3	41.8	263.1
Loans and advances to customers	-	-	251.9	251.9
	298.6	676.4	293.7	1,268.7
Liabilities				
Shares	-	109.4	-	109.4
Derivative financial instruments	-	116.8	97.6	214.4
		226.2	97.6	323.8

Notes to the Accounts (continued)

10. Fair value (continued)

Reconciliation of level 3 fair value measurements of financial instruments

	Six months to 30 June 2017 (Unaudited) Financial assets £m	Six months to 30 June 2017 (Unaudited) Financial liabilities £m
Balance at 1 January	**293.7**	**(97.6)**
Total (losses)/gains in the Income Statement	**(4.9)**	**3.1**
Net repayment in the period	**(1.8)**	**0.7**
Balance at 30 June	**287.0**	**(93.8)**

	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 (losses)/gains in the Income Statement	17.4	(17.4)
Net repayment in the period	(0.7)	-
Balance at 30 June	252.8	(71.1)

	Full year to 31 December 2016 (Audited) Financial assets £m	Full year to 31 December 2016 (Audited) Financial liabilities £m
Balance at 1 January	236.1	(53.7)
Transfer from level 2 to level 3	13.8	(1.1)
Total (losses)/gains in the Income Statement	44.1	(42.8)
Net repayment in the period	(0.3)	-
Balance at 31 December	293.7	(97.6)

There have been no transfers of assets or liabilities between the above levels of valuation during the period. Details of the recurring fair value measurements of assets and liabilities included in level 3 are included in the 2016 Annual Report & Accounts on page 134.

11. 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 resource 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 and Euro lending

Information regarding the Group's reporting segments is reported below. Central group operations have been included in core activities and include risk management, funding, treasury services, finance, human resources and information technology services, none of which constitutes 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 2017 (Unaudited)				
Interest receivable and similar income	**197.4**	**1.4**	**0.9**	**199.7**
Interest payable and similar charges	**(96.4)**	**(0.4)**	**(0.1)**	**(96.9)**
Other Income and fair value gains less losses	**3.8**	**0.2**	**-**	**4.0**
Total income/(expense)	**104.8**	**1.2**	**0.8**	**106.8**
Administrative expenses (incl depreciation and amortisation)	**(46.1)**	**(0.1)**	**(0.3)**	**(46.5)**
Provisions and impairment	**(0.2)**	**4.4**	**(1.3)**	**2.9**
Profit / (loss) before tax	**58.5**	**5.5**	**(0.8)**	**63.2**
Total loans and advances to customers	**14,191.6**	**57.7**	**245.8**	**14,495.1**

	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	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 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

Notes to the Accounts (continued)

11. Operating segments (continued)

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Year to 31 December 2016 (Audited)				
Interest receivable and similar income	400.0	4.3	2.0	406.3
Interest payable and similar charges	(201.9)	(2.3)	(0.3)	(204.5)
Other Income and fair value gains less losses	10.4	(0.2)	-	10.2
Total income	208.5	1.8	1.7	212.0
Administrative expenses (incl depreciation and amortisation)	(91.0)	(0.3)	(0.6)	(91.9)
Provisions and impairment	(6.6)	5.8	(2.7)	(3.5)
Profit before tax	110.9	7.3	(1.6)	116.6
Total loans and advances to customers	13,144.0	104.7	229.0	13,477.7

12. Events after the date of the Statement of Financial Position

On 3 July 2017 the Group issued €500m of debt securities under the existing covered bond programme. There have been no other material subsequent events between 30 June 2017 and the date of approval of this Interim Financial Report by the Board.

Notes to the Accounts (continued)

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 Ashton Chairman	Peter Hill Chief Executive Officer	Robin Litten Chief Financial Officer

3 August 2017

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 2017 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 12. 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 of 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 of 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 2017 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

Statutory Auditor

Leeds, United Kingdom

3 August 2017

Other Information

The financial information set out in the Interim Financial Report, which was approved by the Board of Directors on 3 August 2017, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.

The financial information for the year ended 31 December 2016 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 2016 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.