Interim Financial Report

30 June 2020

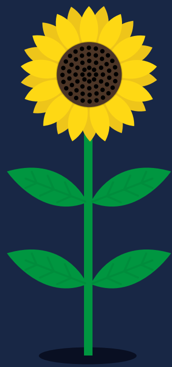
Leeds Building Society

2020
Our performance so far

Gross residential lending of
£1.0bn
(H1 2019: £1.9bn)

We helped **11,000** more people have the home they want

Total assets of
£20.5bn
(Dec 2019: £20.8bn)



Savings balances
£14.2bn
(Dec 2019: £14.5bn)

We helped **10,000** more people save for their future

We paid an average of
1.35%
to our savers
compared to the rest of the market average of 0.74%[1]

An annual benefit to all our savers of almost **£88m**

Profit before tax
£32.6m
(H1 2019: £49.4m)

Common Equity Tier 1 Capital is
34.5%
(Dec 2019: 33.6%)

Reserves available to protect us from future problems

Customer satisfaction[2]
93%
(2019: 91%)

We have an ongoing commitment to be customer focused in everything we do

Colleague engagement[3]
85%
(2019: 82%)

We're committed to being a great place to work

1. We paid an average of 1.35% to our savers compared to the rest of market average of 0.74%, which equates to an annual benefit to our savers of £87.7 million. CACIs CSDB, Stock, June 2019 to May 2020, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market. **2.** External Customer Experience and Satisfaction tracking conducted by Savanta on behalf of the Society with 2,667 members, January to June 2020. 2019 tracking conducted by Engine Transformation formerly ORC International with 5,948 members from January to December 2019. **3.** Shorter Your Voice colleague survey, 1,094 respondents in June 2020, including three engagement index (EI) questions. (82%, May 2019 based on the full EI, 81% based on the three questions).

Chief Executive Officer's Review

Leeds Building Society has stayed true to its purpose and resolute in its support for members through the challenges posed by coronavirus.

During the first half of the year, we remained focused on safely maintaining service for members and intermediaries, preserving our financial strength and security, and progressing our planned investment programme.

I am both proud and humbled by my colleagues' professional response to the pandemic and their dedication to the service of our members, such as the swift creation of mortgage payment holiday capability for borrowers facing financial difficulty, a process since automated, extended and improved, helping some 26,000 customers.

When I reported our 2019 results in February for my first full year as CEO, none of us could have imagined how soon we would feel the personal, national and global impacts of coronavirus.

Our colleagues have stepped up to continue serving our members diligently and look after, and out for, each other. They've focused on those members most in need of our help as their lives and finances have been disrupted, and have worked hard to ensure the Society stays financially secure in the long term for our membership as a whole. We've neither laid off nor furloughed any of our workforce, a decision I'm happy we were able to make.

In the face of their own personal challenges, colleagues have demonstrated resilience, innovation and teamwork at pace to overcome each practical and logistical test as it's arisen, from making all our premises 'COVID Secure', to enabling a greater proportion of office-based colleagues to work from home.

Multiple specialists worked together to swiftly create a new mortgage payment holiday process and self-service online functionality, backed by increased capacity in Robotic Process Automation (RPA).

Meanwhile branch teams maintained essential financial services on the high street and also joined colleagues from across the business to staff up a 'virtual' contact centre, dealing with soaring call numbers from members worried about the effects of the pandemic.

We have taken a cautious approach to steer a steady course through the pandemic and have increased provisions to reflect tougher economic conditions ahead. Having reined back levels of growth and tightened risk appetite, we continue to monitor the evolving situation closely.

Leeds Building Society retains its strong capital position, with a CET 1 ratio of 34.5%, and its cost to income and cost to mean asset ratios of 52.5% and 0.47% respectively remain among the best in the sector.

Our very strong liquidity position as 2020 began allowed the business to reduce excess liquidity while still ensuring a secure position well above regulatory requirements. At 30 June our Liquidity Coverage Ratio was 201%, well above the 100% regulatory minimum.

Taking into account provisions made reflecting the deteriorating economic backdrop, efforts to protect rates for savings members, and the accounting adjustments associated with our legacy portfolio, we have delivered strong profitability of £32.6m (£49.4m June 2019) and stable net interest income. A fair value charge of £9.3m was made against our legacy equity release portfolio and other mortgage assets and impairment provision charges increased by £9.6m.

Efforts in recent years to manage down legacy commercial assets have reduced these so they now represent just 0.07% (£15m) of total assets (£20.5bn). Total arrears - which have stayed at a low level of 0.57% - compare favourably against industry benchmarks[1], underlining the high quality of Society underwriting and our prudent assessment of lending risk.

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[1] The Society's arrears levels are lower than market averages published in UK Finance data for Quarter 1 2020 (see page 8 for further details).

Chief Executive Officer's Review

The Society delivered a pleasing lending performance in H1 as our financial strength enabled us to maintain support for customers in under-served markets, including first time buyers and Shared Ownership, which continued through the lockdown. Leeds Building Society was named Best Shared Ownership Mortgage Lender in the 2020 What Mortgage Awards, for a fifth consecutive year.

Although the slowdown and suspension of the housing market and wider economy caused by the pandemic had led to a material drop in lending volumes, we are encouraged by the corresponding recovery in June, as consumer demand rebounded strongly and we experienced our best ever month for Shared Ownership with new lending higher than in June 2019. We remain optimistic about the resilience of the housing market and the positive impact expected to follow the Government's stamp duty announcement.

The pandemic has not set back our plans to improve our environmental sustainability and future-proof lending systems. Despite inevitable disruption from the lockdown, fitting out is ongoing at the new head office in Leeds city centre in readiness for its scheduled opening next spring. Similarly, major IT investment is proceeding to plan, with a phased launch of the new 'Mortgage Hub' platform over the coming months, making the application process smoother and easier from start to finish.

Both projects will deliver significant benefits to help the Society deliver improved service to customers and our intermediary partners, and long term value to all our members, whether borrowers or savers.

Even after Bank of England cuts, totalling 0.65%, took Base Rate to its lowest ever level, we kept variable savings rates as high as possible for as long as possible and kept reductions to a minimum to protect savers. Affected savers saw an average reduction of 0.28% and the Society's current minimum rate is 0.15%, above the Base Rate of 0.10%.

Despite the historically low rate environment, we have consistently paid above the average interest rate on savings and will continue to do so – using the most recent data, this equates to an annual benefit to our savers of almost £88m[2], although over time this number is forecast to decrease given recent market conditions.

Decisions will always be taken with the regard to the membership as a whole and its long term best interests.

Members and colleagues are key to the Society's support for its communities, including the choice and success of its charity partnerships – the two-year relationship with Samaritans ended in March, having smashed our £250,000 target by raising a total of £315,000.

Succeeding Samaritans is new charity partner Dementia UK, already attracting enthusiastic support, which is testament to colleagues' high engagement levels (up to 85% from 82% in June 2019).

Leeds Building Society has weathered many external shocks in its long history, but in terms of scale and speed, the current pandemic - and the challenges it's created for individuals, businesses and our communities - has no precedent in recent times.

Colleagues have shown the values which underpin us as a mutual, that when we work together we can succeed against what may feel overwhelming or unachievable, to ensure we carry on helping people to save and have the home they want.

We've all been inspired and touched by our members' response to our teams' care and professionalism throughout a difficult time, with customer satisfaction scores at record highs of 93%.

In all business, and financial services in particular, trust is an essential currency for us to function successfully. So as we all respond to the biggest global challenge for generations we're proud our members continue to put their trust in Leeds Building Society.

Richard Fearon

Chief Executive Officer

[2] We paid an average of 1.35% to our savers compared to the rest of market average of 0.74%, which equates to an annual benefit to our savers of £87.7 million. Source: CACI's CSDB, Stock, June 2019 to May 2020, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market.

2020 First Half Key Performance Indicators

The 2020 first half key performance indicators (KPIs) are shown below. The KPIs are those used in the 2019 Annual Report and Accounts and comparative figures are shown for the full year unless otherwise stated. They align to the Society's four strategic pillars: Secure, Customer Centred, Simple and Future Facing, all underpinned by our People. Our Future Facing pillar KPIs are used internally to measure our performance in adapting to the evolving market and are therefore commercially sensitive.

Some of the KPI's are Alternative Performance Measures (APMs). These are measures that are not defined in accounting standards but are useful in explaining the performance of the business. The APMs used in this report are in common use across the financial services industry. These APMs and other terms used in this report are explained and reconciled to the equivalent statutory measure in the glossary of terms on pages 192 to 195 of the 2019 Annual Report and Accounts which can be found at www.leedsbuildingsociety.co.uk/press/financial-results/.

Secure

Generate strong sustainable profit levels by meeting the needs of key segments.

Profit before tax	**£32.6 million** H1 2019: £49.4 million	Profit before tax has reduced from 2019 due to increased fair value losses of £9.3m and £9.6m higher impairment provisions, resulting from the ongoing COVID-19 pandemic.
Net interest margin APM	**0.96%** 2019: 1.00%	Net interest margin continues to fall, as expected, due to lower new lending margins in recent years and the March reductions in Bank of England Base Rate to 0.1%.
Common Equity Tier 1 (CET1) ratio	**34.5%** 2019: 33.6%	The CET1 capital ratio has increased as the Society continues to generate profits, while capital requirements have fallen slightly due to the reduction in the size of the balance sheet and the regulatory response to the COVID-19 pandemic.
UK leverage ratio	**5.6%** 2019: 5.3%	The UK leverage ratio has been increased through careful management of the Society's balance sheet. It remains well above the regulatory minimum of 3.25%.
New (gross) residential lending APM	**£1.0 billion** H1 2019: £1.9 billion	The Society has tempered its appetite for new lending in light of the COVID-19 pandemic and the consequent withdrawal of lenders from certain segments of the market, in order to maintain financial strength and protect service to members.
Net residential lending APM	**£(0.1) billion** H1 2019: £0.7 billion	Net lending has fallen to a modest negative position during 2020 due to the significant reduction in new lending, as seen across the sector, supporting high service levels and maintaining a robust financial position for members.

2020 First Half Key Performance Indicators

Customer Centred

Deliver an outstanding member and broker experience.

Customer satisfaction	**93%** 2019: 91%	Customer satisfaction improved throughout 2020 typified by the Society's focus on helping its members throughout the COVID-19 pandemic.
Broker Net Promoter Score	**57** 2019: 54	The significant investment made in systems and processes in 2019 have continued to improve the broker experience and in turn improve the Net Promoter Score.
Savings balances	**£14.2 billion** 2019: £14.5 billion	As the Society has adjusted its funding requirement to respond to its lower lending appetite, a small reduction in savings balances has been seen since December 2019.
Society membership	**778,000 members** 2019: 797,000 members	The reduction in savings balances has been accompanied by a reduction in member numbers.
Savings rate benefit	**£87.7 million** 2019: £88.5 million	The Society is committed to its members and so consistently pays above the market average for its savings products.

Simple

Drive efficiency by removing complexity.

Cost to income ratio APM	**52.5%** 2019: 53.5%	The Society has continued to maintain a tight control on costs, driving an improvement in the cost to income ratio compared to the 2019 full year.
Cost to mean asset ratio APM	**0.47%** 2019: 0.50%	The cost to mean asset ratio has also fallen reflecting the continued focus on efficiency.
Number of days from mortgage application to offer	**16 days** 2019: 15 days	The service offered to members has been broadly maintained throughout the pandemic with no significant increase in the number of days between mortgage application and offer.

People

People underpin our strategy to help deliver priorities under our strategic pillars.

Colleague engagement score	**85%** 2019: 82%	Colleague engagement continues to improve and is above the industry benchmark.

Financial Review
for the six months ended 30 June 2020

Financial performance

The ongoing pandemic has radically changed the near term economic outlook and has had a significant impact on the markets in which the Society operates. Despite this, the Society remains in a strong position to overcome the difficulties posed by the current environment and continue to serve its members.

The Group's profit before tax for the first six months of 2020 was £32.6 million (six months to June 2019: £49.4 million). Although this is lower than the previous year, due to increases in fair value losses and impairment provisions as a result of the ongoing COVID-19 pandemic, this is a strong result in the current climate and demonstrates the Society's resilience.

Net interest income

	Six months to June 2020 £M	Six months to June 2019 £M	Year to December 2019 £M
Net interest income	99.7	98.0	200.8
Mean total assets	20,670	20,055	20,099
	%	%	%
Net interest margin (NIM) APM	**0.96**	**0.98**	**1.00**

Net interest margin (NIM) has reduced slightly in the first half of 2020. This is due in part to the cut in Bank of England Base Rate in response to the COVID-19 pandemic and the continued impact of the squeeze in new lending margins seen in recent years, due to high levels of competition in the mortgage market.

Reductions in the rates paid to savers following the reductions in Bank Base Rate have been kept as low as possible, while balancing the needs of savings and mortgage members. The Society continues to pay above Bank Base Rate to savings members so, as mortgage and savings rates have fallen, the margin that can be achieved is reduced.

Management expenses

	Six months to June 2020 £M	Six months to June 2019 £M	Year to December 2019 £M
Colleague costs	30.5	29.9	60.8
Other administrative expenses	15.0	16.3	33.0
Depreciation and amortisation	3.5	3.7	7.4
Total management expenses	**49.0**	**49.9**	**101.2**
	%	%	%
Cost to income ratio APM	52.5	49.4	53.5
Cost to mean asset ratio APM	0.47	0.50	0.50

The Society continues to maintain close control on costs, with costs reducing by 1.8% in the first half of 2020 compared to H1 2019. The Society has continued to operate throughout the COVID-19 pandemic and has not placed any colleagues on furlough, while investing in technology and software to enable colleagues to effectively work from home where needed. In addition, investment has been made in our buildings and branches to ensure colleagues and members are as safe as possible, with all of the Society's buildings meeting all government guidelines for being 'COVID Secure'.

As we consider the world post COVID-19 we continue to invest in a flexible new head office and agile technology to enhance member, broker and employee satisfaction, and position us strongly to meet any future challenges that may arise.

The average number of colleagues (full time equivalent) employed by the Society is 1,306, which is in line with 2019.

Impairments and provisions

	Six months to June 2020 £M	Six months to June 2019 £M	Year to December 2019 £M
Residential loans	11.7	3.0	5.0
Commercial loans	-	(0.9)	(2.2)
Impairments on loans and advances to customers	11.7	2.1	2.8
Property, plant and equipment	-	-	(0.1)
Other provisions	-	(0.4)	(2.6)
Other impairments and provisions	**-**	**(0.4)**	**(2.7)**
Total impairments and provisions	**11.7**	**1.7**	**0.1**

COVID-19 has had a significant impact on the expected credit losses associated with the Society's mortgage book. Residential impairment loss provisions have increased by 41.8% from December 2019 as a result of COVID-19's expected impact on the wider economy and environment that the Society operates in. Increased unemployment, significant falls in GDP and potential reductions in house prices are the key drivers of higher expectations of credit losses and therefore impairment loss provisions under IFRS 9.

In response to customer needs arising from the pandemic, the Society has deferred the mortgage payments of over 26,000 members, with balances totalling £3.1bn, after the introduction of mortgage payment holidays in March 2020. This has protected members from falling behind on their mortgage payments and so the proportion of residential mortgages in arrears[1] increased only moderately to 0.57% in the first half of 2020 (December 2019: 0.54%). While initial indications are that a significant majority of members with a payment holiday will resume payments at the end of the payment holiday without taking an extension, it is expected that once mortgage payment holidays end, the proportion of arrears will continue to increase as economic conditions continue to prove challenging. The IFRS 9 provisions in place take into account this expected increase. The Society is committed to assisting its customers through this period of uncertainty and is in a strong financial position to be able to do so.

Residential provision coverage has increased from 0.17% in December 2019 to 0.24%.

The Society continues to manage down its legacy commercial loan portfolio. The Society's exposure to this sector is minimal, less than 0.1% of total assets, with loan-to-values such that the impact of COVID-19 on these loans is expected to be minimal.

Financial position

Total assets decreased slightly in the first half of 2020, from £20.8 billion at 31 December 2019 to £20.5 billion. The Society is carefully managing its growth through the pandemic, having adjusted its lending appetite to the current circumstances and is proactively managing its liquidity and funding requirements. The Society also maintains a very strong capital position to ensure continued service to its members.

[1] Mortgages which are either in possession or with arrears of more than 1.5% of the balance

Loans and advances to customers

	30 June 2020 £M	30 June 2019 £M	31 December 2019 £M
Residential loans	16,632	16,504	16,768
Commercial loans	17	21	18
Other loans	230	229	222
Impairment provision	(45)	(35)	(33)
Loans and advances to customers	**16,834**	**16,719**	**16,975**

	%	%	%
Proportion of mortgages in arrears[1]	0.57	0.51	0.54
Balance-weighted average indexed LTV of mortgage book	52	54	54
Balance-weighted average LTV of new lending	58	60	60

Gross new lending in the first half of 2020 was lower than in the same period in 2019 at £1.0 billion (H1 2019: £1.9 billion) as COVID-19 severely impacted the housing and mortgage markets in this period. The Society has temporarily withdrawn from certain lending segments, in line with the rest of the market, due to a decrease in risk appetite and reduced lending ambitions to manage growth during the pandemic. The products offered are constantly under review and the Society will re-enter these markets when it is appropriate to do so. Net lending has reduced substantially in the first half of 2020 and is negative for the period as a whole. This reflects the reduction in new lending, with redemptions broadly in line with the same period in the prior year.

The Society maintains a conservative lending policy and controls on new lending have been maintained throughout the period, with some refinements to lending policy and criteria to take account of prevailing economic and market conditions; this is reflected in the average LTV of new lending. The overall quality of the book remains high with a low level of arrears, well below the market average[2], and a weighted average indexed LTV of the book at 30 June 2020 of 52.2% (December 2019: 53.8%).

Liquidity

	30 June 2020 £M	30 June 2019 £M	31 December 2019 £M
Liquid assets	2,997	3,323	3,323

	%	%	%
Liquidity Coverage Ratio (LCR)	201	226	235
Liquid assets as a percentage of shares and borrowings	16.02	17.49	17.34

The level of liquid assets (including reserves with the Bank of England and other High Quality Liquid Assets) varies throughout the year depending on the timing of savings and wholesale funding inflows.

The level of liquidity has reduced over the six months to 30 June 2020 as the Society continues to meet its obligations and optimise the level of liquidity held. Liquidity ratios remain substantially higher than the regulatory minimum. The Society has taken the necessary steps to gain access to the TFSME scheme launched by the Bank of England in response to the COVID-19 pandemic which, together with other ongoing

[2] The Society's arrears of more than 2.5% of the balance at 30 June 2020 were 0.62% for Homeowners and 0.08% for Buy to let, compared to market averages of 0.80% for Homeowners and 0.23% for Buy to let (Source: UK Finance: Mortgage Arrears and Possessions Update Quarter 1 2020).

central bank schemes, provides the ability to raise additional funds at short notice if required. At 30 June 2020, the Society had not yet made any drawings from the TFSME.

At 30 June 2020, 100% of liquid assets were rated ‘A’ or above.

Funding

	30 June 2020 £M	30 June 2019 £M	31 December 2019 £M
Shares (member deposits)	14,202	14,638	14,518
Wholesale funding	4,503	4,360	4,647
Total funding	**18,705**	**18,998**	**19,165**

	%	%	%
Wholesale funding ratio	22.4	21.7	22.7

The level of savings (shares) balances has reduced since December 2019 as the Society adjusts its funding requirements in line with its moderated lending appetite. Along with other providers, the Society has had to reduce the amount of interest paid on its savings accounts due to the unprecedented cut in Base Rate to 0.10%, however the Society continues to pay above average market rates to its members. Of the 0.65% Bank Base Rate reduction, Society affected savers saw only an average reduction of 0.28%, and the Society’s current minimum rate is 0.15%, above the Base Rate of 0.10%.

The Society issued a £600 million covered bond in January 2020, while a €500 million covered bond matured and was repaid in April. Early in 2020, the Society also redeemed its Guildford No.1 securitisation. The issued notes had been retained by the Society to support access to specific contingent funding facilities which are no longer required.

Capital

Capital resources	30 June 2020 £M	30 June 2019 £M	31 December 2019 £M
Total equity attributable to members	1,123	1,064	1,086
Adjustments	(36)	(33)	(42)
Common Equity Tier 1 (CET1) capital	1,087	1,031	1,044
Additional Tier 1 capital	5	7	8
Total Tier 1 capital	1,092	1,038	1,052
Tier 2 capital	224	220	219
Total regulatory capital resources	**1,316**	**1,258**	**1,271**
Risk-weighted assets (RWAs)	**3,147**	**3,405**	**3,104**
CRD IV Capital Ratios	**%**	**%**	**%**
CET1 ratio	34.5	30.3	33.6
Total capital ratio	41.8	37.0	41.0
UK leverage ratio	5.6	5.4	5.3

The Society has maintained capital and leverage ratios well above the regulatory requirement throughout the pandemic. In March, the PRA announced a reduction in the Countercyclical Buffer to zero (reducing the Society’s capital requirements), to encourage banks and building societies to continue lending to support the economy. As the full financial impact of the COVID-19 stress emerges, in line with peers, capital measures are likely to fall. However, for the Society this is from a strong position, well above any regulatory minimum and, due to our risk management practices and recent management down of legacy assets, a robust capital position to support future lending aspirations will be maintained.

Principal Risks

Overview

In order to ensure that the interests of members are adequately protected, the Society has embedded an Enterprise Risk Management Framework (ERMF), which is designed to identify, manage, monitor and control the risks associated with the delivery of the Society's strategic objectives. Further details of the framework can be found on pages 78 to 82 of the 2019 Annual Report and Accounts.

Principal risks

Principal risks arising from the Society's strategy are credit, funding and liquidity, capital, market, operational, conduct and strategic and business risk. These principal risk categories remain unchanged from those described on pages 32 to 37 of the 2019 Annual Report and Accounts.

During the first half of 2020, the emergence of COVID-19 has materially impacted the risk profile of the Society across all of its principal risk categories. In response to the pandemic, the Society has implemented revised governance arrangements to manage its response, which have been based on the following key guiding principles:

- Keeping the Society financially secure;
- Safely keeping the Society operating for the benefit of its members; and
- Communicating to our colleagues and members.

Key material impacts on the Society's principal risks and mitigating actions are set out below:

Principal risk	COVID-19 impact	Key mitigating actions
Strategic/ business risk	• COVID-19 and the Government's response to mitigate the pandemic have resulted in an unprecedented stress to the UK and the Society's operating environment. • The implementation of lockdown measures during the period have resulted in a significant contraction in economic activity and also required a temporary closure of the housing market. • While lockdown measures are slowly being released there remains heightened uncertainty as to the recovery within the economy and the impact on the housing market.	• Implemented revised governance arrangements for management's response to COVID-19. • Reprioritisation of the Society's Corporate Plan and objectives. • Stress testing to understand the Society's performance under various plausible scenarios. • Close monitoring of the Society's product range to ensure it continues to price appropriately for risk.

Principal Risks

Principal risk	COVID-19 impact	Key mitigating actions
Credit risk	• The deterioration in the UK economy as a result of COVID-19 has the potential to heighten the Society's credit risk profile, primarily through increases in unemployment and reductions in affordability. • To date the expected impact of the stress is yet to be reflected in the Society's credit portfolios due to unprecedented Government interventions e.g. mortgage payment holidays and furlough scheme. • Whilst there remains a high level of uncertainty regarding length and severity of the stress, market forecasters suggest these could be pronounced, resulting in higher levels of impaired loans as these schemes are withdrawn.	• Refinements to the Society's Lending Policy and criteria to take account of prevailing economic and market conditions. • Enhanced monitoring of the Society's credit portfolios. • Review of the Society's IFRS9 scenarios and weightings to ensure that they reflect the current economic climate. • Additional stress testing and sensitivity analysis to understand potential financial impacts of the stress. • Expansion of channels available for customers to engage and make mortgage payments. • Recruitment and redeployment of colleagues into the Society's Mortgage Services Team to support potentially heightened levels of individuals in arrears or longer term payment difficulties.
Funding and liquidity risk	• The impact of COVID-19 has increased levels of uncertainty over future liquidity flows and customer behaviours. • During H1 2020 there was increased levels of financial market volatility, as investors reappraised their risk appetite. • In March, the Society's long term credit rating by Fitch was placed on Ratings Watch Negative, along with five other building societies, reflecting the economic and financial fallout from COVID-19.	• Retained a strong liquidity portfolio, consisting of high quality liquidity assets, which was comfortably above minimum regulatory requirements (LCR > 200%). • Access to central bank funding, through prepositioned collateral. • Increased levels of liquidity monitoring through revised governance protocols. • Additional stress testing and sensitivity analysis to understand potential liquidity impacts of the stress. • Retained access to diversified funding sources, including a strong retail franchise.
Market risk	• In response to COVID-19 the Bank of England (BoE) eased monetary policy through reducing Bank Base Rate to 0.1% and reintroducing its quantitative easing programme. • As a consequence, markets rates have fallen, which has negatively impacted the Society's net interest income. • Further action may be required by the BoE to alleviate the effects of COVID-19, including the potential for negative interest rates, which may further reduce profitability.	• Enhanced monitoring of the Society's market risk exposures and product offerings. • Additional stress testing and sensitivity analysis to understand potential financial impacts of the stress, including negative interest rates. • Reviewed the Society's legacy LIBOR swap position and considering earlier SONIA transition options. • Ongoing analysis and reporting of hedge accounting considerations.
Capital risk	• As at 30 June 2020, the Society remained strongly capitalised, with significant headroom over regulatory requirements. • Whilst the potential impacts of COVID-19 are yet to be reflected in the Society's capital position, due to unprecedented government and regulatory action, capital ratios are forecast to continue to remain in excess of capital requirements.	• Considered the risk profile of lending and adapted policy criteria accordingly. • Enhanced monitoring of relevant management information and stress testing of the Society's capital position under various scenarios to inform deployment of timely action.

Principal Risks

Principal risk	COVID-19 impact	Key mitigating actions
Operational risk	• The health and safety of colleagues and members has been the Society's top priority during the pandemic. Although government restrictions are being eased, the Society continues to monitor developments closely to ensure that colleagues and members remain adequately protected. • To meet the challenges presented by COVID-19, the Society has been required to modify some of its processes e.g. mortgage payment holiday applications and extensions, predominately in customer facing areas. These changes could result in processing delays or increased errors for a temporary period as they embed. • During the first half of the year, the Society has been required to place an increased reliance on remote working arrangements. Whilst this has kept colleagues safe, these arrangements are being closely monitored against potential fraud risks. • In this context, there has been a heightening of the threat landscape in relation to cyber risk as actors seek to take advantage of the prevailing climate. • COVID-19 may also impact services provided by third parties, resulting in a temporary disruption to service standards.	• Implementation and communication of Government advice in relation to COVID-19 to ensure colleague safety, including home working for all colleagues where feasible, shielding arrangements for colleagues identified as vulnerable and risk assessments across the Society's property portfolio to achieve 'COVID Secure' status. • Further investment in technology to increase capacity for home working arrangements. • Resource planning to support increases in customer demand and minimise key man dependencies. • Continuous review of the Society's risk and control processes. • Heightened focus on mitigating potential cyber / information risks under revised working arrangements, including penetration testing and programmes of activity to enhance colleague awareness. • Increased oversight for the Society's suppliers identified as 'Critical'.
Conduct risk	• COVID-19 has the potential to heighten the Society's conduct risk profile through a failure to recognise and act upon customer circumstances, financial difficulties or vulnerabilities. • During the period the Society has implemented a number of detailed regulatory initiatives within challenging timescales. Whilst these have been implemented in a controlled and compliant manner, they could potentially lead to heightened future conduct risks.	• Development of automated and self service solutions, which will be balanced with colleague support for individuals in arrears or with longer term payment difficulties. • Managing resource availability within customer facing departments and developing new customer journeys to meet increased demand. • Flexing assurance plans to ensure they continue to focus on potential conduct risks and new process changes. • Membership of various industry working parties and regulatory engagement.

Principal Risks

Emerging risks

Within the context of our principal risk categories, we continue to identify, assess and monitor emerging risks through our ERMF. These are new or evolving risks where the impact is uncertain. In assessing emerging risks, we consider the likelihood of the relevant risk materialising and the potential impact on our business strategy and stakeholders.

Excluding material developments in relation to COVID-19 during H1 2020, our top emerging risks remain broadly consistent with those identified within the 2019 Annual Report and Accounts.

Emerging risk	Description	Strategic response
Political and macroeconomic risk	• As a UK centric business, the Society is naturally exposed to a downturn in the economy and housing market. While the wider impact of COVID-19 is yet to be felt due to Government intervention, market forecasters suggest this could be substantial. • Following containment of the pandemic, the Government started to release lockdown restrictions during June. While these measures are being eased gradually, the reopening of society could result in a second wave of the pandemic and require further government intervention. • Uncertainty also remains with regards to the UK's future relationship with the EU, with transitional arrangements due to expire on 31 December 2020.	• Deployment of revised governance arrangements to ensure we can respond quickly in relation to COVID-19. • Maintain strong levels of capitalisation and liquidity over regulatory minima. • We consider macroeconomic and political risks on a regular basis, under both central and stressed conditions in order to understand and manage the impact on our business model.
Competition	• Competition within UK financial service markets remains strong driven by newly ring-fenced banks refocusing on their mortgage proposition and Fintechs with their digital only propositions. • Temporary changes in customer behaviour due to COVID-19 may become more established and result in an acceleration of the digitalisation of financial services. • Further consolidation within the Building Society sector may occur due to the effects of COVID-19.	• The Society carefully considers these risks as part of its strategic / business planning activities, which has set the future path for strategic investment and development to ensure that it is able to adapt accordingly.
Operational resilience (including cyber crime)	• Operational resilience remains a key focus area to ensure that systems and processes are able to cope with increased customer demand and provide resilient services to our members. • In this context, cyber crime continues to present a significant threat to financial organisations alike. This risk is currently heightened as fraudsters attempt to take advantage of prevailing conditions.	• Further embedding of the Society's Operational Resilience Framework. • Further investment in technology and processes and maintaining a high level of colleague awareness.
Regulatory / Government intervention	• The volume, scale and complexity of regulatory change continues to shape our operating environment. • In response to COVID-19 a number of Government and regulatory initiatives have been implemented, which have required prioritisation over business led initiatives. Further interventions may be needed over the near term, as the Government continues to manage the impacts of COVID-19.	• We closely monitor upstream regulation, with developments managed through an oversight framework, which allows management to respond in an efficient and proportionate manner.

Principal Risks

Emerging risk	Description	Strategic response
Climate change	• We recognise that physical and transitional risks associated with climate change have significant implications for our operations, members, colleagues and suppliers. • The benefits observed to the environment following the implementation of lockdown measures across the globe, may accelerate transitional risks associated with climate change.	• Continuing to deliver against a Board approved programme of climate change related activity, including development of an ESG policy and a better understanding of the physical and transitional climate change risks associated with our residential lending portfolio, people, suppliers and infrastructure footprints.
Model risk	• The Society uses financial models to support decision making across its operations. Some of these models utilise historic data and trends to inform outputs, which may be less relevant under the potential economic impacts of COVID-19 and require a greater level of management judgement.	• The Society continues to refine its approach to Model Risk management, which ensures that models are appropriately governed and remain fit for purpose. • Additional model reviews and oversight, which consider the performance of the model suite in the context of the potential economic impacts emanating from the pandemic.

Condensed Consolidated Income Statement

	Notes	**Six months to 30 June 2020 (Unaudited)**	Six months to 30 June 2019 (Unaudited)	Year to 31 December 2019 (Audited)
		£M	£M	£M
Interest receivable and similar income	3	**219.1**	227.6	465.3
Interest payable and similar charges	4	**(119.4)**	(129.6)	(264.5)
Net interest receivable		**99.7**	98.0	200.8
Fees and commissions receivable		**2.8**	3.5	7.2
Fees and commissions payable		**(0.2)**	(0.6)	(0.9)
Fair value losses from financial instruments		**(9.3)**	(0.6)	(19.7)
Other operating income		**0.3**	0.7	1.9
Total income		**93.3**	101.0	189.3
Administrative expenses	6	**(45.5)**	(46.2)	(93.8)
Depreciation and amortisation		**(3.5)**	(3.7)	(7.4)
Impairment losses on loans and advances to customers	7	**(11.7)**	(2.1)	(2.8)
Reversal of impairment losses on property, plant and equipment		**-**	-	0.1
Provisions release		**-**	0.4	2.6
Operating profit and profit before tax		**32.6**	49.4	88.0
Tax expense	8	**(5.8)**	(12.5)	(21.8)
Profit for the period		**26.8**	36.9	66.2

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 June 2020 (Unaudited) £M	Six months to 30 June 2019 (Unaudited) £M	Year to 31 December 2019 (Audited) £M
Profit for the period	**26.8**	36.9	66.2
Items that may subsequently be reclassified to profit and loss:			
Fair value gains on investment securities measured at fair value through other comprehensive income	**11.7**	2.9	1.8
Losses / (gains) on investment securities measured through other comprehensive income reclassified to profit or loss on disposal	**0.1**	(0.1)	(0.5)
Tax relating to items that may subsequently be reclassified	**(3.2)**	(0.7)	0.1
Items that may not subsequently be reclassified to profit and loss:			
Actuarial gain / (loss) on retirement benefit surplus	**1.4**	(2.3)	(7.9)
Revaluation loss on properties revalued	**-**	-	(1.1)
Tax relating to items that may not be reclassified	**(0.4)**	0.6	1.0
Effect of change in corporation tax rate	**0.3**	-	-
Total comprehensive income for the period	**36.7**	37.3	59.6

Condensed Consolidated Statement of Financial Position

	Notes	**30 June 2020 (Unaudited) £M**	30 June 2019 (Unaudited) £M	31 December 2019 (Audited) £M
Assets				
Liquid assets				
Cash in hand and balances with the Bank of England		**1,382.3**	1,879.1	1,451.7
Loans and advances to credit institutions		**170.3**	188.2	163.4
Investment securities		**1,444.8**	1,256.0	1,708.1
Derivative financial instruments		**235.3**	278.5	182.9
Loans and advances to customers	9			
Loans fully secured on residential property		**16,591.7**	16,474.9	16,739.8
Other loans		**242.6**	243.9	235.0
Fair value adjustment for hedged risk on loans and advances to customers		**113.8**	73.9	23.9
Other assets, prepayments and accrued income		**247.3**	234.1	210.1
Deferred tax assets		**6.6**	6.3	6.1
Intangible assets		**23.6**	9.0	19.6
Property, plant and equipment		**69.4**	67.7	64.2
Retirement benefit surplus	10	**4.5**	8.5	3.0
Total assets		**20,532.2**	20,720.1	20,807.8
Liabilities				
Shares		**14,201.7**	14,637.6	14,517.5
Fair value adjustment for hedged risk on shares		**(18.9)**	6.0	(30.3)
Derivative financial instruments		**278.4**	200.8	200.4
Amounts owed to credit institutions		**1,211.3**	1,350.4	1,439.5
Amounts owed to other customers		**113.7**	193.3	234.7
Debt securities in issue		**3,177.6**	2,816.0	2,972.5
Other liabilities and accruals		**194.9**	201.6	141.0
Current tax liabilities		**1.5**	11.2	9.4
Deferred tax liabilities		**6.1**	4.3	3.7
Provisions for liabilities and charges		**1.1**	4.0	1.2
Subscribed capital		**242.0**	231.1	232.1
Total liabilities		**19,409.4**	19,656.3	19,721.7
Total equity attributable to members		**1,122.8**	1,063.8	1,086.1
Total liabilities and equity		**20,532.2**	20,720.1	20,807.8

Condensed Consolidated Statement of Changes in Members' Interest

Six months to 30 June 2020	**General reserve £M**	**Fair value reserve £M**	**Revaluation reserve £M**	**Other reserve £M**	**Total equity attributable to members £M**
At 1 January 2020 (Audited)	**1,064.6**	**(0.9)**	**8.1**	**14.3**	**1,086.1**
Comprehensive income for the period	**28.3**	**8.6**	**(0.2)**	**-**	**36.7**
At 30 June 2020 (Unaudited)	**1,092.9**	**7.7**	**7.9**	**14.3**	**1,122.8**

Six months to 30 June 2019	General reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2019 (Audited)	1,006.3	(2.3)	8.2	14.3	1,026.5
Comprehensive income for the period	35.2	2.1	-	-	37.3
Revaluation gains transferred on disposal of assets	0.2	-	(0.2)	-	-
At 30 June 2019 (Unaudited)	1,041.7	(0.2)	8.0	14.3	1,063.8

Year to 31 December 2019	General reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2019 (Audited)	1,006.3	(2.3)	8.2	14.3	1,026.5
Comprehensive income for the period	58.1	1.4	0.1	-	59.6
Revaluation gains transferred on disposal of assets	0.2	-	(0.2)	-	-
At 31 December 2019 (Audited)	1,064.6	(0.9)	8.1	14.3	1,086.1

Condensed Consolidated Statement of Cash Flows

	Six months to 30 June 2020 (Unaudited) £M	Six months to 30 June 2019 (Unaudited) £M	Year to 31 December 2019 (Audited) £M
Profit before tax	**32.6**	49.4	88.0
Adjusted for changes in:			
Impairment provision	**11.9**	0.3	(1.0)
Provisions for liabilities and charges	**(0.1)**	(1.0)	(3.8)
Depreciation and amortisation	**3.5**	3.7	7.4
Fair value of collateral loan which represents a pool of equity release mortgages *	**(9.4)**	-	8.5
Non-cash and other items	**1.8**	(32.0)	(7.4)
Cash generated from operations	**40.3**	20.4	91.7
Changes in operating assets and liabilities:			
Derivative financial instruments	**22.4**	3.7	12.2
Loans and advances to customers	**138.0**	(685.6)	(948.9)
Other operating assets	**(40.9)**	(71.9)	(49.6)
Shares	**(315.8)**	728.2	608.0
Amounts owed to credit institutions and other customers	**(349.2)**	(66.6)	63.9
Other operating liabilities	**58.1**	25.2	(63.0)
Taxation paid	**(15.1)**	(13.7)	(24.6)
Net cash flows from operating activities	**(462.2)**	(60.3)	(310.3)
Cash flows from investing activities			
Purchase of investment securities	**(683.0)**	(2,559.0)	(5,176.5)
Proceeds from sale and redemption of investment securities	**957.9**	2,534.0	4,699.4
Purchase of intangible assets	**(5.1)**	(1.7)	(11.9)
Purchase of property, plant and equipment	**(7.2)**	(4.6)	(5.9)
Proceeds from sale of property, plant and equipment	**-**	0.4	0.4
Net cash flows from investing activities	**262.6**	(30.9)	(494.5)
Cash flows from financing activities			
Net proceeds from issue of debt securities	**863.5**	650.4	1,609.4
Repayments of debt securities in issue	**(725.6)**	(89.6)	(787.2)
Principal lease payments **	**(0.8)**	-	-
Net cash flows from financing activities	**137.1**	560.8	822.2
Net increase / (decrease) in cash and cash equivalents	**(62.5)**	469.6	17.4
Cash and cash equivalents at the beginning of the period	**1,615.1**	1,597.7	1,597.7
Cash and cash equivalents at the end of the period	**1,552.6**	2,067.3	1,615.1

* Following a change in presentation at 31 December 2019, the fair value of collateral loan which represents a pool of equity release mortgages has been disclosed separately. June 2019 has not been restated; the movement was included within derivative financial instruments.

** For presentation purposes principal lease payments in 2020 are shown separately. 2019 has not been restated, with these included within other operating liabilities.

Notes to the Accounts

1. General information

Reporting period

The Interim Financial Report is for the six months to 30 June 2020 and is unaudited.

Basis of preparation

This condensed consolidated set of financial statements has been prepared in accordance with the International Accounting Standard ("IAS") 34 – Interim Financial Reporting, as adopted by the European Union. It does 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 and Accounts for the year ended 31 December 2019 which was prepared in accordance with IFRS as adopted by the EU.

These financial statements are presented in sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds. The particular accounting policies adopted, 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 2019 Annual Report and Accounts.

In 2019 the Group chose to early adopt 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' which was issued by the International Accounting Standards Board in September 2019 and was mandatorily effective from 1 January 2020. The amendments modified certain hedge accounting requirements to allow continued designation for affected hedge relationships during the period of uncertainty as benchmark interest rates are amended or replaced. Full details of the impacted hedge relationships are provided in note 1(a) of the 2019 Annual Report and Accounts.

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 17 – Insurance Contracts

IFRS 17, which is effective from 1 January 2023, is not expected to have a material impact on the Group since the Group does not issue insurance contracts. The Group holds a collateral loan which represents a pool of equity release mortgages purchased from a third party and is currently accounted for under IFRS 9 – Financial Instruments. The Group expects to continue to apply IFRS 9 to this loan following the adoption of IFRS 17, as permitted by the scope exclusion in Amendments to IFRS 17 issued in June 2020.

Segmental reporting

As reported in note 1(n) of the 2019 Annual Report and Accounts, the Group has determined that it has one reportable segment under IFRS 8 and therefore no separate segmental reporting is provided.

Going concern

The directors have reviewed the Group's financial position and future plans and forecasts, assessing the current economic and market conditions, including the ongoing impacts of the COVID-19 pandemic and the UK's withdrawal from the European Union. As part of this the directors have considered the potential risks to the business as set out in the 2019 Annual Report and Accounts and updated on pages 10 to 14.

The Group has continued to operate throughout the pandemic, with proven capabilities for those colleagues working remotely and adjustments made for colleagues working on Group premises and is expected to be able to continue to do so in the foreseeable future.

While the extent and duration of the effect of the pandemic on businesses and consumers remains unclear, financial risk for the Group will stay heightened. The directors note that COVID-19 has had a detrimental effect on the UK economy that may ultimately impact how the Group operates.

The Group has proven access to liquidity resources to meet the expected demands of the business and is able to access central bank funding facilities if required. It has demonstrated through the Internal Liquidity Adequacy Assessment Process (ILAAP) that sufficient liquidity is available in modelled stressed scenarios to meet both internal risk capacity requirements and regulatory requirements. ILAAP scenarios continue to be assessed on a weekly basis.

Notes to the Accounts (continued)

1. General information (continued)

The Group has current capital resources well in excess of regulatory requirements and has credible plans to meet known future requirements. The Internal Capital Adequacy Assessment Process (ICAAP) has also demonstrated that the Group can meet its capital requirements under the modelled stress scenario.

Accordingly, the directors conclude that there is no material uncertainty in relation to the Group's continuation as a going concern and therefore it is appropriate to adopt the going concern basis in the preparation of the Interim Financial Report.

2. Critical accounting estimates and judgements

The preparation of the Interim Financial Report involves making judgements, estimates and assumptions in the application of the Group's accounting policies which affect the amounts reported in the financial statements. The critical judgements and estimates which have a significant impact on the financial statements are described in note 2 of the 2019 Annual Report and Accounts.

The critical judgements and estimates used in the preparation of this Interim Financial Report are consistent with those used in the 2019 Annual Report and Accounts apart from as described below.

a. Critical judgements

Impairment of loans and advances to customers

Impact of COVID-19 related interventions

The Group's accounting policy for the impairment of loans and advances to customers is explained on pages 129 to 130 of the 2019 Annual Report and Accounts.

As a result of the pandemic, in line with government and regulatory requirements, mortgage lenders, including the Group, have offered mortgage payment holidays (MPH) of three months on request, with a further three month extension available on further request. MPH taken during the pandemic are not considered to be a forbearance measure or an indicator of a significant increase in credit risk (SICR) and arrears do not accrue during the period of the MPH. Therefore a borrower taking a MPH does not automatically result in the classification of the loan into Stage 2 or Stage 3 for impairment purposes.

However, it is recognised that a proportion of those loans will have suffered a SICR or default event during the period of the MPH but that, while in some instances, this will have resulted in stage migration for impairment purposes, not all cases will be evident in data used for calculating impairment provisions. A post model adjustment (PMA) has therefore been added to modelled impairment provisions to reflect this impact. The estimation of this PMA is detailed in note 2b.

Mortgage lenders have also suspended repossessions during the pandemic. This means that the time between default and possession will be extended beyond that assumed in the impairment provision models. A PMA has therefore been added to impairment loss provisions, for cases already in default, to reflect this.

It is expected that these PMAs will be reduced once MPH and the repossession moratorium end and actual evidence of SICR or default events emerge in the data used to model provisions.

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions

Impairment of loans and advances to customers

Macroeconomic scenarios and probability weightings

Macroeconomic scenarios are developed based on the Group's analysis of third party published economic data and forecasts along with expert internal judgement. The Group continues to use four scenarios to determine impairment loss provisions. Since December 2019, the central and growth scenarios have been significantly updated to reflect the impacts of the pandemic, while the downside and alternative downside scenarios are broadly unchanged beyond the immediate impacts of COVID-19 as they are considered to be 'through the cycle' stress scenarios. At 30 June 2020 the scenarios are:

- a central scenario considered to reflect the most likely impact and duration of the pandemic and subsequent recovery;
- a downside scenario as modelled in the Group's risk management process;
- an alternative downside scenario representing a more severe downturn than in the downside scenario; and
- a growth scenario representing a more optimistic potential outcome of the pandemic than reflected in the central scenario.

The macroeconomic scenarios are weighted in order to determine a distribution of expected credit losses across a range of scenarios, in line with the requirements of IFRS 9. The relative weighting of the macroeconomic scenarios is estimated by comparing recent movements in economic variables to historic data and trends to ascertain similarities with the periods preceding previous downturns or periods of growth. This enables a range of probabilities for such scenarios occurring to be derived, which then informs the weighting of the scenarios relative to each other.

This analysis is then supplemented by an overlay reflecting management's view of the current economic and political climate to determine final weightings. The unprecedented impact of the COVID-19 pandemic, coupled with Government intervention to support consumers and businesses, has meant that historic data does not necessarily provide a reliable indicator of future outcomes, so a greater reliance has been placed on management's judgement at 30 June 2020. Further, while the scenarios are considered representative of potential future economic outcomes, there remains a risk that further deterioration in key economic metrics, particularly unemployment and house price inflation, will be experienced and therefore an 'economic uncertainty' PMA has also been considered to capture this risk of more extreme outcomes. This is explained in more detail on page 28.

The scenario weightings used in the modelling of expected credit losses are detailed below:

	30 June 2020	30 June 2019	31 December 2019
Central	**45%**	52%	55%
Downside	**30%**	46%	30%
Alternative Downside	**10%**	N/A	10%
Growth	**15%**	2%	5%

As stated above, the central and growth scenarios have been significantly updated to reflect the impacts of the COVID-19 pandemic and therefore the updated probability weightings are not considered directly comparable to those used at 31 December 2019. The weightings at 30 June 2020 reflect the Group's view of the likelihood of the scenarios given the current economic position at that date. It is noted that the growth and central scenarios reflect a worse economic position than assumed at 31 December 2019, so the weighted scenario is more negative than previously assumed.

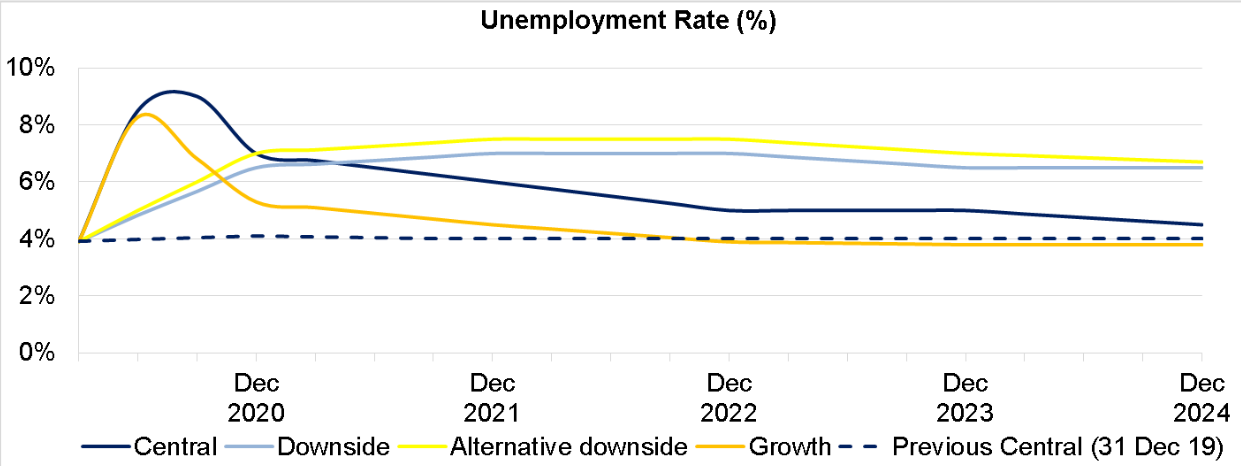
Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

The table overleaf shows the macroeconomic assumptions used in each scenario. The variables with the most significant impact on the calculated impairment loss provisions are house price inflation and unemployment rate.

The tables show the full year rates for house price inflation, Gross Domestic Product growth and inflation, together with the year end position for unemployment rate and Bank Base Rate. In the central and growth scenarios, the unemployment rate is forecast to peak at 9.0% in Q3 2020 and 8.3% in Q2 2020 respectively before reducing to the year end level shown in the table, as follows:



The risk of the unemployment rate peaking at a higher level and remaining at a higher rate for a longer period is considered as part of the 'economic uncertainty' PMA (see page 28).

Beyond the five year period shown below, assumptions move towards historic long run averages over the following five years and then remain constant at these rates thereafter.

Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

		30 June 2020				
		2020	2021	2022	2023	2024
House price inflation	Central	(2.5)%	(4.0)%	0.0%	3.5%	4.0%
	Downside	(10.6)%	(3.1)%	(2.0)%	0.0%	0.0%
	Alternative Downside	(10.8)%	(7.0)%	(4.0)%	0.0%	2.0%
	Growth	(1.0)%	(0.5)%	1.5%	5.0%	5.5%
	Weighted *	(5.5)%	(3.5)%	(0.8)%	2.3%	2.8%
Unemployment rate	Central	7.0%	6.0%	5.0%	5.0%	4.5%
(31 December)	Downside	6.5%	7.0%	7.0%	6.5%	6.5%
	Alternative Downside	7.0%	7.5%	7.5%	7.0%	6.7%
	Growth	5.3%	4.5%	3.9%	3.8%	3.8%
	Weighted *	6.6%	6.2%	5.7%	5.5%	5.2%
Gross Domestic Product growth	Central	(7.0)%	3.7%	1.7%	1.8%	2.0%
	Downside	(7.0)%	(1.0)%	2.0%	1.5%	1.5%
	Alternative Downside	(8.0)%	(1.5)%	0.5%	1.5%	2.0%
	Growth	(5.0)%	8.5%	2.7%	2.8%	3.0%
	Weighted *	(6.8)%	2.5%	1.8%	1.8%	2.0%
Inflation (CPI)	Central	1.0%	1.0%	1.5%	2.0%	2.0%
	Downside	3.5%	3.0%	3.0%	2.5%	2.5%
	Alternative Downside	4.0%	3.0%	2.5%	2.0%	2.0%
	Growth	1.9%	1.9%	1.4%	1.3%	1.3%
	Weighted *	2.2%	1.9%	2.0%	2.0%	2.0%
Bank Base Rate (31 December)	Central	0.1%	0.1%	0.3%	0.3%	0.3%
	Downside	0.1%	0.3%	0.3%	0.5%	0.5%
	Alternative Downside	1.5%	2.0%	2.0%	2.0%	2.0%
	Growth	0.1%	0.5%	1.5%	1.8%	2.0%
	Weighted *	0.2%	0.4%	0.6%	0.7%	0.8%

** Note that ECLs are calculated for each loan in each scenario and then probability weighted, so the weighted figure here is for illustrative purposes only.

Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

		30 June 2019				
		2019	2020	2021	2022	2023
House price inflation	Central	1.0%	1.8%	2.0%	2.1%	2.3%
	Downside	(10.6)%	(3.1)%	(2.0)%	0.0%	1.0%
	Alternative Downside	N/A	N/A	N/A	N/A	N/A
	Growth	2.5%	3.0%	3.0%	3.5%	3.9%
	Weighted *	(4.3)%	(0.4)%	0.2%	1.2%	1.7%
Unemployment rate (31 December)	Central	4.1%	4.3%	4.3%	4.3%	4.3%
	Downside	5.9%	6.5%	7.5%	7.0%	6.8%
	Alternative Downside	N/A	N/A	N/A	N/A	N/A
	Growth	4.1%	4.0%	3.9%	3.8%	3.7%
	Weighted *	4.9%	5.3%	5.8%	5.5%	5.4%
Gross Domestic Product growth	Central	1.6%	1.7%	1.7%	1.7%	1.8%
	Downside	(2.0)%	(1.0)%	2.0%	1.5%	1.7%
	Alternative Downside	N/A	N/A	N/A	N/A	N/A
	Growth	2.2%	2.0%	2.0%	2.0%	2.0%
	Weighted *	(0.0)%	0.5%	1.8%	1.6%	1.8%
Inflation (CPI)	Central	2.1%	2.0%	2.0%	2.0%	2.0%
	Downside	6.2%	5.8%	3.3%	2.6%	2.4%
	Alternative Downside	N/A	N/A	N/A	N/A	N/A
	Growth	1.3%	1.3%	1.4%	1.3%	1.3%
	Weighted *	4.0%	3.7%	2.6%	2.3%	2.2%
Bank Base Rate (31 December)	Central	1.0%	1.3%	1.5%	1.5%	1.5%
	Downside	0.5%	0.3%	0.3%	0.3%	0.5%
	Alternative Downside	N/A	N/A	N/A	N/A	N/A
	Growth	1.0%	1.3%	1.5%	1.8%	1.8%
	Weighted *	0.8%	0.8%	0.9%	0.9%	1.0%

Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

		31 December 2019				
		2020	2021	2022	2023	2024
House price inflation	Central	1.5%	2.0%	2.0%	2.0%	2.0%
	Downside	(10.6)%	(3.1)%	(2.0)%	0.0%	0.0%
	Alternative Downside	(10.8)%	(7.0)%	(4.0)%	0.0%	2.0%
	Growth	2.5%	3.0%	3.0%	3.5%	3.5%
	Weighted *	(3.3)%	(0.4)%	0.3%	1.3%	1.5%
Unemployment rate (31 December)	Central	4.1%	4.0%	4.0%	4.0%	4.0%
	Downside	5.7%	6.3%	7.0%	6.5%	6.5%
	Alternative Downside	6.5%	7.5%	7.5%	7.0%	6.7%
	Growth	4.1%	4.0%	3.9%	3.8%	3.8%
	Weighted *	4.8%	5.0%	5.2%	5.0%	5.0%
Gross Domestic Product growth	Central	1.5%	1.7%	1.7%	1.8%	2.0%
	Downside	(2.0)%	(1.0)%	2.0%	1.5%	1.5%
	Alternative Downside	(3.0)%	(2.0)%	0.5%	1.0%	1.0%
	Growth	2.2%	2.0%	2.0%	2.0%	2.0%
	Weighted *	0.0%	0.5%	1.7%	1.6%	1.8%
Inflation (CPI)	Central	1.9%	1.9%	2.0%	2.0%	2.0%
	Downside	3.5%	3.0%	3.0%	2.5%	2.5%
	Alternative Downside	4.0%	3.0%	2.5%	2.0%	2.0%
	Growth	1.3%	1.3%	1.4%	1.3%	1.3%
	Weighted *	2.6%	2.3%	2.3%	2.1%	2.1%
Bank Base Rate (31 December)	Central	0.5%	0.5%	0.5%	0.5%	0.8%
	Downside	0.3%	0.3%	0.3%	0.5%	0.5%
	Alternative Downside	1.5%	2.0%	2.0%	2.0%	2.0%
	Growth	1.0%	1.3%	1.5%	1.8%	1.8%
	Weighted *	0.6%	0.6%	0.6%	0.7%	0.9%

Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

The sensitivity of calculated impairment loss provisions at 30 June 2020 to changes in key individual macroeconomic variables, with all other assumptions held constant, is illustrated below. Note that due to the interaction between different economic variables within the impairment loss provision models, the impacts of such single variable sensitivities may be distorted and not representative of realistic alternative scenarios.

The impact of changing the assumption for annual house price inflation in each of the first two years of the central scenario is as follows:

	+ 2.5 percentage points	- 2.5 percentage points
(Decrease) / increase in impairment loss provisions (£M)	(1.6)	2.4

The impact of changing the assumption for unemployment in each of the first two years of the central scenario is as follows:

	+ 1.0 percentage point	- 1.0 percentage point
Increase / (decrease) in impairment loss provisions (£M)	4.5	(1.3)

In practice the above variables are unlikely to move in isolation. The combined impact of movements in a number of variables can be illustrated by the sensitivity of calculated provisions to scenario weightings. The table below shows the movement in impairment loss provisions if each of the scenarios were weighted 100%:

	Six months to 30 June 2020 (Unaudited)	Six months to 30 June 2019 (Unaudited)	Year to 31 December 2019 (Audited)
	£M	£M	£M
(Decrease) / increase in impairment loss provisions			
Central	**(7.3)**	(9.6)	(9.8)
Downside	**2.4**	13.3	12.4
Alternative Downside	**53.1**	N/A	51.9
Growth	**(13.6)**	(9.9)	(9.8)

COVID-19 related post model adjustments

As described in note 2a, PMAs are required to reflect the estimated impact on impairment loss provisions of loans which have suffered a SICR or default event but where this is not evident in the data used in provision calculations due to the effect of MPH and for the impact of delayed repossession proceedings on those cases already in default at the time repossessions were suspended.

The total COVID-19 PMAs at 30 June 2020 are £2.7m with a range of potential alternative outcomes from a reduction of £1.0m to an increase of £1.7m. Due to the nature of the PMA calculations, changes to the severity of the modelled outcomes from the economic scenarios or actual outcomes should result in an offsetting adjustment to the PMAs.

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

Each element of the PMA has been estimated as follows:

- Loans with a MPH which were up to date when the MPH was taken – the population of loans has been segmented into risk categories based on information provided when the MPH was requested together with internal and external credit data, including current account turnover. For high and very high risk cases, a PMA is then estimated based on average provision coverage rates for Stage 2 loans with varying levels of early arrears. The PMA reflects management's judgement as to the most likely position, with a range of alternatives from a reduction in the PMA of £0.7m to an increase of £1.4m.

- Loans with a MPH which were less than three months in arrears when the MPH was taken – it is assumed that a proportion of these accounts would have rolled into three months arrears and thus been classified as Stage 3 for provisioning purposes. The roll rate was selected with reference to historic experience, in particular during the downturn of 2008/09. A 10% reduction in the roll rate would reduce the PMA by £0.2m, while a 10% increase in the roll rate would increase the PMA by £0.2m.

- Loans in default – the model assumption for the time to possession was increased by an estimated six to nine months with the mid-point of the resultant provision increase used and a range of possible outcomes of + / - £0.1m.

The nature of the calculation of these PMAs means that they have not been allocated to individual loans and therefore they are not reported against stages in the table in note 13.

Economic uncertainty PMA

The COVID-19 pandemic has created significant uncertainty and volatility in the global economy with the potential for additional waves of infection as lockdown measures are eased. The impacts seen to date suggest that the relationships between different economic indicators in the current situation are different to those seen in previous economic recessions and therefore there is a risk that future outcomes are different. While the economic scenarios modelled for impairment loss provisions are considered to represent a reasonable range of plausible outcomes, there remains a risk of further volatility and possibly more extreme negative outcomes for the UK economy. A further PMA has therefore been added to calculated impairment provisions to recognise this potential more severe impact.

The PMA has been calculated with reference to the economic scenario used in stress testing the Society's capital position. This includes a peak unemployment rate of 9.2% in 2021 before reducing steadily towards the long run average over the following six years and cumulative peak-to-trough reductions in house prices of 33.0% across the first three years of the forecast period.

The PMA is calculated as the additional provision required if a 5% weighting were allocated to this stress scenario with the alternative downside scenario weighting reduced to 5%.

The PMA has been calculated as £3.2m with a sensitivity of + / - £1.6m to a + / - 2.5 percentage point shift in weighting from the alternative downside to this more extreme scenario. As with the COVID-19 PMA, this has not been allocated to stages in note 13.

Fair value of the collateral loan

The Group holds a collateral loan which represents a pool of equity release mortgages which were purchased from a third party for which some but not all of the risks were transferred to the Group. The underlying mortgages contain a 'no negative equity guarantee' such that any shortfall that may arise on the sale of the property securing the mortgage will not be pursued. The Group therefore measures this collateral loan at fair value through profit or loss.

Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

The fair value of this loan is calculated using a model which uses a combination of observable market data (such as interest rate curves and RPI swap prices) and unobservable inputs which require estimation. The model projects the future cash flows anticipated from the loan based on the contractual terms with the third party from which the mortgages were acquired, with the timing of those cash flows determined with reference to mortality tables (which are subject to estimation uncertainty). The model also calculates a value for the 'no negative equity guarantee' provided to the customer using a stochastic methodology applying a variant of the Black-Scholes formula.

The key estimates used in the model and the basis of estimation are summarised below:

Assumption	Basis of estimation
Discount rate	Benchmarking the portfolio against current market rates for equity release loans
Property price volatility	Analysis of historic property price volatility and third party research with judgement overlay giving estimate of 10%
Sales discount (dilapidations)	Average actual discounts observed on the portfolio in the previous three years

At 30 June 2020 the book value of the collateral loan was £227.5m (30 June 2019: £226.4m; 31 December 2019: £219.4m). The sensitivity of this value to the estimates shown above is as follows:

Assumption	Change to current assumption	(Decrease) / increase in fair value of collateral loan (£M)
Discount rate	+ / - 0.5 percentage points	(9.6) / 10.2
Property price volatility	+ 3 / - 3 percentage points	(2.4) / 1.9
Sales discount (dilapidations)	+ / - 5 percentage points	(2.5) / 2.3

The sensitivities shown reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

Notes to the Accounts (continued)

3. Interest receivable and similar income

	Six months to 30 June 2020 (Unaudited) £M	Six months to 30 June 2019 (Unaudited) £M	Year to 31 December 2019 (Audited) £M
Interest receivable calculated using the effective interest rate method:			
On loans fully secured on residential property	**225.4**	218.8	453.0
On other loans and advances to customers	**0.4**	0.5	0.9
On investment securities	**6.6**	6.8	14.5
On other liquid assets	**3.2**	6.5	12.7
Total interest receivable calculated using the effective interest rate method	**235.6**	232.6	481.1
Similar income on instruments held at fair value through profit or loss:			
On other loans and advances to customers	**5.2**	4.9	11.2
Net expense on derivatives which hedge financial assets and are designated in accounting hedge relationships	**(11.4)**	(7.5)	(15.8)
Net expense on derivatives which hedge financial assets and are not designated in accounting hedge relationships	**(10.3)**	(2.4)	(11.2)
Total similar income on instruments held at fair value through profit or loss	**(16.5)**	(5.0)	(15.8)
Total interest receivable and similar income	**219.1**	227.6	465.3
Included in the above is:			
Interest receivable on impaired financial assets	**3.6**	1.3	7.2

4. Interest payable and similar charges

	Six months to 30 June 2020 (Unaudited) £M	Six months to 30 June 2019 (Unaudited) £M	Year to 31 December 2019 (Audited) £M
Interest payable on instruments not held at fair value through profit or loss			
On shares held by individuals	**91.2**	95.2	194.9
On deposits and other borrowings	**31.3**	31.9	67.9
On subscribed capital	**5.4**	5.4	10.8
Total interest payable on instruments not held at fair value through profit or loss	**127.9**	132.5	273.6
Similar charges on instruments held at fair value through profit or loss			
Net income on derivatives which hedge financial liabilities and are designated in accounting hedge relationships	**(8.0)**	(5.2)	(16.1)
Net expense/(income) on derivatives which hedge financial liabilities and are not designated in accounting hedge relationships	**(0.5)**	2.3	7.0
Total similar charges on instruments held at fair value through profit or loss	**(8.5)**	(2.9)	(9.1)
Total interest payable and similar charges	**119.4**	129.6	264.5

Notes to the Accounts (continued)

5. Fair value losses from financial instruments

	Six months to 30 June 2020 (Unaudited)	Six months to 30 June 2019 (Unaudited)	Year to 31 December 2019 (Audited)
	£M	£M	£M
Fair value hedge relationships			
Derivatives designated in fair value hedge relationships	(72.6)	(51.6)	(57.6)
Fair value adjustment for hedged risk of hedged items	68.5	57.4	53.1
Derivatives not designated in fair value hedge relationships			
Equity release swaps	(12.9)	(4.7)	(0.5)
Cross currency swaps net of retranslation on matched Euro liabilities	0.9	0.1	(3.1)
Other derivatives	(2.6)	(0.2)	(3.1)
Other financial instruments measured at FVTPL			
Collateral loan which represents a pool of equity release mortgages	9.4	(1.6)	(8.5)
Total fair value losses from financial instruments	**(9.3)**	(0.6)	(19.7)
The net position on the cross currency swaps and options includes:			
Movement in fair value of cross currency swaps	0.8	(2.3)	(2.9)
Movement in exchange rate on retranslation of cross currency	59.5	(4.0)	(101.3)
Movement in exchange rate on retranslation of matched Euro	(59.4)	6.4	101.1

6. Administrative expenses

	Six months to 30 June 2020 (Unaudited) £M	Six months to 30 June 2019 (Unaudited) £M	Year to 31 December 2019 (Audited) £M
Staff costs			
Wages and salaries	**23.6**	21.7	47.5
Social security costs	**2.4**	2.7	5.2
Other pension costs	**3.3**	3.3	6.3
Other staff costs	**1.2**	2.2	1.8
Remuneration of auditor	**0.3**	0.2	0.6
Other administrative expenses			
Technology	**5.0**	5.6	11.0
Property	**2.5**	2.1	5.0
Marketing	**1.6**	2.1	3.6
Other	**5.6**	6.3	12.8
Total administrative expenses	**45.5**	**46.2**	**93.8**

Notes to the Accounts (continued)

7. Impairment on loans and advances to customers

	Six months to 30 June 2020 (Unaudited) £M	Six months to 30 June 2019 (Unaudited) £M	Year to 31 December 2019 (Audited) £M
Loans fully secured on residential property	**11.7**	3.0	5.0
Loans fully secured on land	**-**	(0.9)	(2.2)
Total impairment losses for the period	**11.7**	2.1	2.8

8. Taxation

The standard rate of corporation tax applicable to the Group for the six months ended 30 June 2020 was 19% (six months ended 30 June 2019: 19%, year ended 31 December 2019: 19%). Reductions in the UK corporation tax rate which had been due to be effective from 1 April 2020 were repealed in the 2020 Budget and substantively enacted on 17 March 2020. The Finance (No. 2) Act 2015 introduced an additional surcharge of 8% on banking profits (including those of building societies) above a £25m threshold from 1 January 2016.

Deferred tax balances have been calculated at a rate of 27% (inclusive of the 8% banking levy).

9. Loans and advances to customers

30 June 2020 (Unaudited)	**Gross balance £M**	**Impairment loss provision £M**	**Total £M**
Loans fully secured on residential property	**16,632.4**	**(40.7)**	**16,591.7**
Loans fully secured on land	**17.0**	**(1.9)**	**15.1**
Other loans	**230.0**	**(2.5)**	**227.5**
Total loans and advances to customers	**16,879.4**	**(45.1)**	**16,834.3**

30 June 2019 (Unaudited)	Gross balance £M	Impairment loss provision £M	Total £M
Loans fully secured on residential property	16,503.8	(28.9)	16,474.9
Loans fully secured on land	20.6	(3.1)	17.5
Other loans	228.9	(2.5)	226.4
Total loans and advances to customers	16,753.3	(34.5)	16,718.8

31 December 2019 (Audited)	Gross balance £M	Impairment loss provision £M	Total £M
Loans fully secured on residential property	16,768.5	(28.7)	16,739.8
Loans fully secured on land	17.6	(2.0)	15.6
Other loans	221.9	(2.5)	219.4
Total loans and advances to customers	17,008.0	(33.2)	16,974.8

9. Loans and advances to customers (continued)

The Group continues to use forbearance arrangements to assist its arrears management strategies to minimise credit risk, whilst ensuring customers are treated fairly. This includes the use of arrangements to assist borrowers in arrears that are now able to meet agreed repayment strategies, including or excluding arrears balances. The Group's approach to forbearance is described on page 166 of the 2019 Annual Report and Accounts and is materially unchanged.

In addition, during the first half of 2020, the Group provided customers, on request, with 'mortgage payment holidays' allowing the deferral of, initially, up to three months' mortgage payments, with a further three months' deferral on further request, in line with the UK Government's measures to assist with the impacts of the pandemic. By 30 June 2020, 26,118 mortgage payment holidays had been granted in relation to balances of £3.1 billion, of which £2.7 billion remained in place at 30 June.

10. Retirement benefit surplus

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)	31 December 2019 (Audited)
	£M	£M	£M
Present value of funded obligations	**(122.2)**	(110.4)	(115.5)
Present value of unfunded obligations	**(0.8)**	(0.8)	(0.8)
Assets at fair value	**127.5**	119.7	119.3
Surplus	**4.5**	8.5	3.0

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

11. Related party transactions

The Group had no related party transactions outside the normal course of business in the six months ended 30 June 2020 (six months ended June 2019: none, year ended December 2019: none).

12. Guarantees and other financial commitments

a. Financial Services Compensation Scheme

The Group has a contingent liability in respect of contributions to the Financial Services Compensation Scheme (FSCS) provided by the Financial Services and Markets Act 2000. The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due and is funded by contributions from the financial services industry.

b. Capital commitments

The Group has capital commitments contracted for but not accrued for under executory contracts of £7.0m (June 2019: £7.3m, December 2019: £6.2m) relating to technology investment programmes (intangible and tangible assets) and £8.0m (June 2019: £14.8m, December 2019: £11.8m) relating to the refurbishment of the Society's new head office (property, plant and equipment). This amount is inclusive of value added tax.

c. Other commitments

The Group is committed to a multi-year service contract for the provision and maintenance of its IT infrastructure. The remaining commitment at 30 June 2020 is £25.9m (June 2019: £31.5m, December 2019: £28.2m). This service contract does not meet the definition of a lease under IFRS 16 – Leases since it does not give the Group the right to control the assets used to provide the service.

Notes to the Accounts (continued)

13. Credit risk on loans and advances to customers

Retail mortgages

A full analysis of credit risk on retail mortgages is included in note 31 of the 2019 Annual Report and Accounts.

The table below provides information on the Group's retail mortgages by payment due status, excluding impairment losses. Where a mortgage payment holiday (MPH) has been taken, the loan will not be accruing arrears and therefore will be categorised according to the payment due status at the time the MPH was taken out.

The table includes £8.9m (June 2019: £11.6m, December 2019: £7.9m) of loans and advances secured on residential property in Spain that are past due and £1.3m (June 2019: £0.6m, December 2019: £0.6m) in possession.

	30 June 2020 (Unaudited)		30 June 2019 (Unaudited)		31 December 2019 (Audited)	
	£M	%	£M	%	£M	%
Not past due	**16,312.4**	**98.0**	16,237.9	98.4	16,501.0	98.5
Past due up to 3 months	**227.4**	**1.4**	192.0	1.2	184.2	1.1
Past due 3 to 6 months	**43.8**	**0.3**	37.7	0.2	41.1	0.2
Past due 6 to 12 months	**27.9**	**0.2**	18.9	0.1	22.3	0.1
Past due over 12 months	**12.9**	**0.1**	10.8	0.1	12.8	0.1
Possessions	**8.0**	**-**	6.5	-	7.1	-
Total	**16,632.4**	**100.0**	16,503.8	100.0	16,768.5	100.0

The Group's policy for calculating impairment of loans and advances to customers is detailed in note 1 of the 2019 Annual Report and Accounts. The table below summarises the Group's retail mortgage balances, loan commitments and associated impairment loss provisions.

As explained in note 2a, the taking of a COVID-19 MPH does not automatically result in a loan being allocated to Stage 2 or Stage 3 for impairment purposes. In some instances, other indications of a significant increase in credit risk (SICR) or default event are evident in the data used for impairment provisioning and these cases are allocated to Stage 2 or Stage 3 respectively in the table below. However, no adjustment is made in the table to reflect the proportion of balances deemed likely to have experienced a SICR for which no evidence exists and for which the COVID-19 PMA has been calculated.

	30 June 2020 (Unaudited)			30 June 2019 (Unaudited)		
	Gross exposure £M	Impairment loss provision £M	Provision coverage %	Gross exposure £M	Impairment loss provision £M	Provision coverage %
Retail mortgages						
Stage 1	**13,801.0**	**4.3**	**0.03**	14,963.6	5.1	0.03
Stage 2 and <30 days past due	**2,597.5**	**13.8**	**0.53**	1,278.8	8.1	0.63
Stage 2 and 30+ days past due	**62.2**	**1.2**	**1.98**	90.9	1.4	1.55
Stage 3	**171.7**	**15.5**	**9.03**	170.5	14.3	8.37
COVID-19 and economic PMAs	**-**	**5.9**	**-**	-	-	-
Total retail mortgages	**16,632.4**	**40.7**	**0.24**	16,503.8	28.9	0.18
Loan commitments						
Stage 1	**440.1**	**-**	**0.02**	699.9	-	0.01

Notes to the Accounts (continued)

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

Retail mortgages (continued)

	31 December 2019 (Audited)		
	Gross exposure £M	Impairment loss provision £M	Provision coverage %
Retail mortgages			
Stage 1	15,048.1	3.7	0.02
Stage 2 and <30 days past due	1,469.7	8.6	0.59
Stage 2 and 30+ days past due	78.6	1.3	1.65
Stage 3	172.1	15.1	8.77
Total retail mortgages	16,768.5	28.7	0.17
Loan commitments			
Stage 1	467.3	-	0.01

The table below summarises the balances and impairment loss provisions for those accounts with a MPH in place at 30 June 2020:

	30 June 2020 (Unaudited)		
	Gross exposure £M	**Impairment loss provision £M**	**Provision coverage %**
Retail mortgages			
Stage 1	**1,720.2**	**1.0**	**0.06**
Stage 2 and <30 days past due	**909.8**	**4.4**	**0.48**
Stage 2 and 30+ days past due	**24.6**	**0.5**	**2.03**
Stage 3	**51.2**	**2.3**	**4.49**
COVID-19 PMAs relating to MPH		**2.2**	
Total MPH	**2,705.8**	**10.4**	**0.38**

Retail mortgages are all fully secured on residential property. The indexed loan to value analysis of the Group's retail mortgage portfolio is as follows:

	30 June 2020 (Unaudited) %	30 June 2019 (Unaudited) %	31 December 2019 (Audited) %
<70%	**82.7**	78.9	80.5
70% - 80%	**10.3**	12.0	11.2
80% - 90%	**5.4**	6.7	6.0
>90%	**1.6**	2.4	2.3
Total	**100.0**	100.0	100.0

The overall weighted average indexed loan to value of the residential portfolio is 52.2% (June 2019: 54.0%, December 2019: 53.8%).

Notes to the Accounts (continued)

14. Fair values

a. Carrying value and fair value of financial instruments not carried at fair value

The table below compares the carrying and fair values of the Group'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 future cash flows at prevailing interest rates.

		30 June 2020 (Unaudited)		30 June 2019 (Unaudited)	
	Fair value hierarchy level	**Carrying value £M**	**Fair value £M**	Carrying value £M	Fair value £M
Financial assets					
Cash in hand and balances with the Bank of England	**Level 1**	**1,382.3**	**1,382.3**	1,879.1	1,879.1
Loans and advances to credit institutions	**Level 2**	**170.3**	**170.3**	188.2	188.2
Loans and advances to customers:					
Loans fully secured on residential property	**Level 3**	**16,591.7**	**18,398.3**	16,474.9	16,948.9
Other loans	**Level 2**	**15.1**	**15.1**	17.5	17.5
Financial liabilities					
Shares	**Level 2**	**14,201.7**	**14,313.5**	14,637.6	14,656.2
Amounts owed to credit institutions	**Level 2**	**1,211.3**	**1,211.3**	1,350.4	1,350.4
Amounts owed to other customers	**Level 2**	**113.7**	**113.7**	193.3	193.3
Debt securities in issue	**Level 1**	**2,971.9**	**2,956.1**	2,690.8	2,935.9
Debt securities in issue	**Level 2**	**205.7**	**205.6**	125.2	125.3
Subscribed capital	**Level 1**	**242.0**	**287.0**	231.1	278.1

		31 December 2019 (Audited)	
	Fair value hierarchy level	Carrying value £M	Fair value £M
Financial assets			
Cash in hand and balances with the Bank of England	Level 1	1,451.7	1,451.7
Loans and advances to credit institutions	Level 2	163.4	163.4
Loans and advances to customers:			
Loans fully secured on residential property	Level 3	16,739.8	17,866.7
Other loans	Level 2	15.6	15.6
Financial liabilities			
Shares	Level 2	14,517.5	14,580.4
Amounts owed to credit institutions	Level 2	1,439.5	1,439.5
Amounts owed to other customers	Level 2	234.7	234.7
Debt securities in issue	Level 1	2,528.7	2,744.8
Debt securities in issue	Level 2	443.8	447.4
Subscribed capital	Level 1	232.1	230.7

Notes to the Accounts (continued)

14. Fair values (continued)

b. Fair value measurement basis for financial instruments carried at fair value

The methodology and assumptions for determining the fair value of financial assets and liabilities are included in note 36 of the 2019 Annual Report and Accounts and remain unchanged since December 2019.

The tables below classify all assets and liabilities carried at fair value in the Statement of Financial Position according to the method used to establish their fair value.

As at 30 June 2020 (Unaudited)	**Level 1 £M**	**Level 2 £M**	**Level 3 £M**	**Total £M**
Assets				
Investment securities	**346.1**	**1,098.7**	**-**	**1,444.8**
Derivative financial instruments	**-**	**233.1**	**2.2**	**235.3**
Loans and advances to customers	**-**	**-**	**227.5**	**227.5**
Fair value adjustment for hedged risk on loans and advances to customers	**-**	**-**	**113.8**	**113.8**
Total assets	**346.1**	**1,331.8**	**343.5**	**2,021.4**
Liabilities				
Fair value adjustment for hedged risk on shares	**-**	**-**	**(18.9)**	**(18.9)**
Derivative financial instruments	**-**	**211.1**	**67.3**	**278.4**
Total liabilities	**-**	**211.1**	**48.4**	**259.5**

As at 30 June 2019 (Unaudited)	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets				
Investment securities	319.5	936.5	-	1,256.0
Derivative financial instruments	-	255.4	23.1	278.5
Loans and advances to customers	-	-	226.4	226.4
Fair value adjustment for hedged risk on loans and advances to customers	-	-	73.9	73.9
Total assets	319.5	1,191.9	323.4	1,834.8
Liabilities				
Fair value adjustment for hedged risk on shares	-	-	6.0	6.0
Derivative financial instruments	-	100.3	100.5	200.8
Total liabilities	-	100.3	106.5	206.8

Notes to the Accounts (continued)

14. Fair values (continued)

b. Fair value measurement basis for financial instruments carried at fair value (continued)

As at 31 December 2019 (Audited)	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets				
Investment securities	508.1	1,200.0	-	1,708.1
Derivative financial instruments	-	168.6	14.3	182.9
Loans and advances to customers	-	-	219.4	219.4
Fair value adjustment for hedged risk on loans and advances to customers	-	-	23.9	23.9
Total assets	508.1	1,368.6	257.6	2,134.3
Liabilities				
Fair value adjustment for hedged risk on shares	-	-	(30.3)	(30.3)
Derivative financial instruments	-	131.3	69.1	200.4
Total liabilities	-	131.3	38.8	170.1

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 (market prices) or indirectly (derived prices) other than quoted prices included in Level 1. These include valuation models used to calculate the present values 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 and includes 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 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.

Details of the recurring fair value measurements of assets and liabilities are included in the 2019 Annual Report and Accounts on page 185.

Notes to the Accounts (continued)

14. Fair values (continued)

c. Reconciliation of level 3 fair value measurements of financial instruments

Six months to 30 June 2020 (Unaudited)	**Derivative financial instruments £M**	**Loans and advances to customers £M**	**Fair value adjustment for hedged risk £M**	**Total £M**
Balance at 1 January 2020	**(54.8)**	**219.4**	**54.2**	**218.8**
Total (losses) / gains in the Income Statement	**(10.3)**	**9.4**	**-**	**(0.9)**
Movement in fair value adjustment for hedged risk on loans and advances to customers	**-**	**-**	**89.9**	**89.9**
Movement in fair value adjustment for hedged risk on shares	**-**	**-**	**(11.4)**	**(11.4)**
Net repayment in the period	**-**	**(1.3)**	**-**	**(1.3)**
Balance at 30 June 2020	**(65.1)**	**227.5**	**132.7**	**295.1**

Six months to 30 June 2019 (Unaudited)	Derivative financial instruments £M	Loans and advances to customers £M	Fair value adjustment for hedged risk £M	Total £M
Balance at 1 January 2019	(72.6)	229.5	2.3	159.2
Total (losses) / gains in the Income Statement	(4.7)	(5.2)	-	(9.9)
Movement in fair value adjustment for hedged risk on loans and advances to customers	-	-	55.9	55.9
Movement in fair value adjustment for hedged risk on shares	-	-	9.7	9.7
Net repayment in the period	-	2.0	-	2.0
Balance at 30 June 2019	(77.3)	226.3	67.9	216.9

Year to 31 December 2019 (Audited)	Derivative financial instruments £M	Loans and advances to customers £M	Fair value adjustment for hedged risk £M	Total £M
Balance at 1 January 2019	(72.6)	229.5	2.3	159.2
Total (losses) / gains in the Income Statement	(1.2)	(8.5)	-	(9.7)
Movement in fair value adjustment for hedged risk on loans and advances to customers	-	-	5.9	5.9
Movement in fair value adjustment for hedged risk on shares	-	-	46.0	46.0
Reclassification of equity release swap from Level 3 to Level 2	19.0	-	-	19.0
Net repayment in the year	-	(1.6)	-	(1.6)
Balance at 31 December 2019	(54.8)	219.4	54.2	218.8

Total gains / (losses) for the period are included in fair value gains less losses from financial instruments in the Income Statement.

Notes to the Accounts (continued)

14. Fair values (continued)

d. Level 3 unobservable inputs

(i) Loans and advances to customers (collateral loan)

The collateral loan which represents a pool of equity release mortgages is valued using a discounted cash flow model which uses unobservable input assumptions for property price volatility, sales discount, mortality, early prepayment and the discount rate used to discount future cash flows. Wherever possible these input assumptions are calculated with reference to actual historic experience. The variables which are considered to have the largest impact on the value of the loan are property price volatility, sales discount and the discount rate. The sensitivities below reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

At 30 June 2020, a 300 basis points increase in assumed property price volatility would reduce the value of the collateral loan by £2.4m and a 300 basis points decrease in assumed property price volatility would increase the value of the collateral loan by £1.9m. A 500 basis points increase in the sales discount would reduce the value of the collateral loan by £2.5m and a 500 basis points decrease in the sales discount would increase the value of the collateral loan by £2.3m. A 50 basis points increase in the discount rate would reduce the value of the collateral loan by £9.6m and a 50 basis points decrease in the discount rate would increase the value of the collateral loan by £10.2m.

(ii) Derivative financial instruments (securitisation swaps and equity release swaps)

The valuation of securitisation swaps is performed using models which utilise a combination of observable market interest rate data and unobservable assumptions about future mortgage prepayment. At 30 June 2020, a 20% proportionate increase in the constant prepayment rate would lead to a decrease in the fair value of the swaps of £0.8m. A 20% proportionate reduction in the constant prepayment rate would increase the fair value by £1.0m. These sensitivities reflect the variability in prepayment rates observed historically.

For equity release swaps, the valuation uses significant unobservable inputs which have not been developed by the Group. The Group is therefore not disclosing quantitative information regarding these inputs, in line with the permitted exemption under IFRS 13.

(iii) Fair value adjustment for hedged risk

The Group designates a portfolio of fixed rate mortgages into hedge relationships to mitigate interest rate risk and similarly for a portfolio of fixed rate savings. For the mortgage portfolio only, the calculation of the fair value uses observable market interest rate data and assumptions about projected prepayments. These prepayment assumptions are unobservable inputs that are calculated using historic data and reviewed periodically so that projections are broadly in line with actual data, with sensitivities calculated based on historic observed variability.

At 30 June 2020, a 20% proportionate increase in mortgage repayments would lead to a reduction in the fair value of the mortgages in the hedge relationship of £3.8 million. A 20% proportionate decrease in mortgage repayments would lead to an increase in the fair value of the mortgages of £3.9 million.

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

There have been no material subsequent events between 30 June 2020 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:

Iain Cornish Chairman	Richard Fearon Chief Executive Officer	Andrew Conroy Chief Financial Officer

30 July 2020

Independent Review Report to Leeds Building Society

We have been engaged by the Leeds Building Society (the "Society") to review the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2020 which comprises 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' interest, the condensed consolidated statement of cash flows and related notes 1 to 15. 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.

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 Guidance 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 IFRSs 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 Company 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 Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, 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 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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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 Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it 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 company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

30 July 2020

Other Information

The financial information set out in the Interim Financial Report, which was approved by the Board of Directors on 30 July 2020, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.

The financial information for the year ended 31 December 2019 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts have been filed with the Financial Conduct Authority.

The audit opinion for the 31 December 2019 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.