Leeds Building Society

Interim Financial Report 2023

2023: Our performance so far

Gross residential lending

£1.9bn
(H1 2022: £2.5bn)

We helped **15,800** more people have the home they want including **7,700** first time buyers

Total assets

£26.9bn
(Dec 2022: £25.5bn)

Savings balances

£19.1bn
(Dec 2022: £17.5bn)

We helped **63,500** more people save for their future

Average savings rate

1.83%
compared to the rest of the market average of **1.30%**[1]

An annual benefit to all our savers of **£90.4m**

Profit before tax

£116.2m
(H1 2022: £146.5m)

Common Equity Tier 1 Capital

28.2%
(Dec 2022: 33.3%)

Reserves available to protect us from future problems

Customer satisfaction[2]

94%
(2022: 93%)

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

Colleague engagement[3]

8.3 (out of 10)
(2022: 8.0)

We're committed to being a great place to work

1. CACI's CSDB, Stock, June 2022 to May 2023, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market. **2.** Overall customer satisfaction in a survey of 1,770 members from January to June 2023. **3.** Your Voice colleague survey, 1,599 respondents (91% response rate) in June 2023.

Chief Executive Officer's Review

Continuing to support new and existing borrowers in a volatile and dynamic market helped Leeds Building Society to a strong performance in the first six months of 2023.

A record 49% of all new borrowers were first time buyers as we delivered on our purpose to put home ownership within reach of more people, despite the challenging economic conditions.

Almost 80,000 new members joined the Society, taking total membership to a new record of 878,000.

After a long period at historic lows, interest rates have continued to rise with the effects felt by borrowers and savers alike, and we stand by both.

As a business created to empower greater home ownership, we carried on lending across all market sectors during a sustained period of economic volatility and are supporting borrowers facing financial difficulties with help tailored to their individual circumstances.

I'm proud we've continued to support the affordable housing sector, and the fact nearly one in two of our new borrowers were first time buyers.

We've moderated the impact of repeated base rate rises by limiting increases in our standard variable rate (SVR). Since December 2021, the Bank of England's Monetary Policy Committee has raised base rate 13 times, by a total of 4.90%, whereas we have raised SVR six times, by 2.70%.

Meanwhile for our savings members, we consistently pay above the average market rate, which equates to an extra £90.4 million[1] in their pockets.

In response to continuing base rate rises, we've passed on increases to all our variable rate member savings accounts in a sustainable way intended to offer fair value across our range.

Supporting new and existing borrowers

We continued to lend throughout a challenging period for the mortgage market, and had six of the 10 biggest days for lending in our history, with the second highest volume of mortgage applications of any half year. We increased our market share of gross lending from 1.58% in 2022 to 1.62%[2] with a total of £1.9 billion (six months to June 2022: £2.5 billion).

By maintaining our support for affordable housing, we retained our position as the market-leading shared ownership lender, and were named Best Shared Ownership Mortgage Lender in the 2023 What Mortgage Awards, for the eighth consecutive year. June was our busiest ever month for shared ownership completions.

We were among the first signatories to the Government's new Mortgage Charter and the first lender to launch a simple, digital application process for borrowers seeking assistance. While the Charter formalises and extends support measures we offer to borrowers in need, we go further – we are not charging arrears fees, having stopped these charges early in the Covid-19 pandemic. We also remain committed to supporting existing borrowers with options at the end of their fixed rate term, now accepting applications for new products up to six months before their current rate expires.

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[1] We paid an average rate of 1.83% against the rest of the market average of 1.30%. CACI's CSDB, Stock, June 2022 to May 2023, latest data available.

[2] Based on five months to May 2023. Calculated using UK mortgage market data obtained from UK Finance.

Chief Executive Officer's Review

In support of our purpose, we continued to lend responsibly up to 95% loan to value, and launched Experian Boost, a unique partnership with financial data business Experian, which is already giving more first time buyers a better chance of a successful mortgage application.

To help people save for their deposit, we launched Home Deposit Saver, a regular savings account with a £500 bonus when the saver receives their Leeds Building Society mortgage offer. This was designed with first time buyers in mind but is available to all prospective home buyers. We also launched a savings product for shared ownership borrowers wanting to buy a greater share of their home.

Despite the volatile economic conditions, arrears levels remain broadly stable at 0.63% (December 2022: 0.58%; June 2022: 0.62%), demonstrating that our borrowers remain resilient and we continue to stress test for affordability at prudent levels to lend responsibly.

Supporting savings members and sustainably investing in value, service and financial security

With inflows of £1.4 billion, we had our biggest ever half year for new savings, which took total savings balances to a record £19.1 billion. We offered highly-competitive fixed rate savings products, a market which has seen significant growth in demand this year, and secured 93 Best Buys for our ISA and non-ISA products[3].

We continue to operate sustainably and securely, with profit before tax of £116.2 million (six months to June 2022: £146.5 million) increasing capital and reserves to £1.7 billion (December 2022: £1.6 billion), well above the regulatory requirement, and we continue to retain very strong levels of liquidity. We increased total assets to £26.9 billion (December 2022: £25.5 billion), the highest in the Society's history.

As well as creating value for members, we've invested profits in improving service and refurbishing premises across our national branch network, demonstrating our commitment to face-to-face service where this remains sustainable. Our excellent service was recognised with member satisfaction levels at an all-time high (94%).

Our multi-year IT investment is progressing, to increase functionality, security and resilience, and make our systems simpler and quicker to use for our members, colleagues and intermediary partners. We remain focused on cost efficiency, and our cost to income ratio remains among the lowest in the financial services sector at 40.4%.

We continue to invest in our fantastic people and the excellent service they provide, which has helped member satisfaction levels to all-time highs.

Our colleagues and our members have again shown their passion and generosity, taking total fundraising for our national partner Dementia UK beyond £700,000, smashing the original £500,000 target.

This year our branches also welcomed the charity's specialist Admiral Nurses for in-person clinics through our Closer to Home project, bringing dementia care to more families across the UK.

These achievements delivered through mutual efforts give me confidence for the future, however challenging times may be.

We've been there for our members during tumultuous external events throughout our long history and our financial strength and security means we'll be there to support them for generations to come.

Richard Fearon
Chief Executive Officer
27 July 2023

[3] Data from Presswatch Financial for the six months ended June 2023

2023 First Half Key Performance Indicators

Leeds Building Society is the UK's fifth largest building society. Our purpose is **"Putting home ownership within reach of more people – generation after generation"**. Our strategic drivers set out how we deliver on our purpose:

- **More responsive model** – it's our responsibility to serve members and society for generations. We will build foundations that are strong and responsive to the changing context we face.

- **Close-the-gap innovation** – there are too many barriers to people getting the home they deserve. We will be relentless in partnering and creating solutions to help people onto and up the ladder of home ownership.

- **Step-up savings** – savers are the lifeblood of our business. For them we will create experiences that are straightforward and human no matter the channel, and ensure that when people save with us they save with purpose.

We measure our performance against our strategic drivers using a number of key performance indicators (KPIs), including both financial measures, as defined under IFRS, and non-financial measures. Alternative Performance Measures (APMs) used below are in common usage across the financial services industry and are useful in explaining the performance of the business. The APMs are defined on page 245 of the 2022 Annual Report and Accounts.

The KPIs for the first half of 2023 are shown below. The KPIs are the same as those used in the 2022 Annual Report and Accounts and comparative figures are shown for the full year unless otherwise stated.

Home ownership

First time buyers	**7,700** Six months to June 2022: 9,000	We remain committed to helping first time buyers get on to the housing ladder. In 2023, despite challenging market conditions reducing the overall volume, we have increased the proportion of our lending to first time buyers.

More responsive model

Profit before tax	**£116.2 million** Six months to June 2022: £146.5 million	Profit before tax remains elevated compared to historic levels, reflecting the strong margins achieved in recent years, contributing to the long-term resilience of the Society.
Net interest margin APM	**1.34%** Year to December 2022: 1.50%	Net interest margin has fallen reflecting the increase in interest rates paid to savers as base rate has risen, coupled with higher mortgage market competition exerting downward pressure.
Common Equity Tier 1 (CET1) ratio	**28.2%** December 2022: 33.3%	The reduction in our CET1 ratio results from an updated calculation of capital requirements due to market-wide regulatory changes. Our capital levels have increased and we remain well above internal and regulatory requirements.
UK leverage ratio	**6.2%** December 2022: 6.2%	Our UK leverage ratio has remained stable and comfortably above internal limits, through careful management of our balance sheet and profitability in a challenging environment.

2023 First Half Key Performance Indicators

More responsive model (continued)

Cost to income ratio APM	**40.4%** Year to December 2022: 37.4%	Increases in costs reflect the investment made in our colleagues and our multi-year programme of technology change to deliver our purpose and meet the needs of our members.
Cost to mean asset ratio APM	**0.61%** Year to December 2022: 0.59%	We continue to maintain tight control over our costs – balancing cost efficiency with the desire to increase member value through more resilient systems and improved service.
Colleague engagement score[4]	**8.3** Year to December 2022: 8.0	We are proud to have increased our colleague engagement score as our highly engaged colleagues remain pivotal in ensuring we deliver our purpose.

Close-the-gap innovation

New (gross) residential lending APM	**£1.9 billion** Six months to June 2022: £2.5 billion	Lower application levels in late 2022 and early 2023, linked to challenging economic conditions and a smaller UK mortgage market, have reduced new lending in the first half of 2023, although we have increased our market share through our competitive product offering.
Net residential lending APM	**£0.4 billion** Six months to June 2022: £1.2 billion	Our reduced level of new lending is reflected in the lower level of net lending compared to 2022, although this is considered a strong performance relative to the pressure in the wider mortgage market.
Number of days from mortgage application to offer	**11 days** Year to December 2022: 15 days	Our ongoing investment in technology has enabled us to continue to reduce the average time from mortgage application to offer and to best serve our members.
Broker Net Promoter Score	**61** Year to December 2022: 63	Our broker Net Promoter Score remains high and above historic levels as we continue to focus on the broker experience and a streamlined process for issuing offers.

[4] Your Voice colleague survey, 1,599 respondents (91% response rate) in June 2023.

2023 First Half Key Performance Indicators

Step-up savings

Savings balances	**£19.1 billion** December 2022: £17.5 billion	We have achieved record savings inflows during the first half of 2023 through a focus on offering competitive rates, including fixed rate ISAs.
Savings rate benefit	**Annual benefit of £90.4 million**[5] Year to December 2022: £80.5 million	We consistently pay above average market rates to our savers, paying an average of 1.83% compared to the rest of market average of 1.30%.
Customer satisfaction[6]	**94%** Year to December 2022: 93%	During 2023 we have focused on delivering consistently high service levels to our members and this is reflected in our customer satisfaction score.

[5] CACI's CSDB, Stock, June 2022 to May 2023, latest data available

[6] Overall customer satisfaction in a survey of 1,770 members from January to June 2023.

Financial and Business Review
for the six months ended 30 June 2023

The economic environment in the UK has remained challenging during the first half of 2023, with the continuing high cost of living, inflation remaining high for longer than expected and the Bank of England increasing base rate in response. Through this uncertainty we have continued to serve our members and deliver on our purpose of putting home ownership within reach of more people.

We have stayed focused on the long term sustainability of the Society by managing current and future financial risks, whilst also balancing and prioritising the interests of both our savings and mortgage members throughout this period of rising interest rates and economic instability. This gives us confidence that we will remain able to support members for generation after generation.

During the first half of 2023, we attracted record savings inflows whilst maintaining high service levels during seasonal surges in demand. Similarly, we have continued to serve our mortgage members by delivering rapid turnaround times and investing in advanced initiatives to accelerate our mortgage offering.

Progress against purpose

The mortgage market in 2023 has reduced in size from the prior year due to increasing interest rates and inflation driven cost of living pressures which have reduced demand and, as a result, competition among lenders has grown.

Throughout the period, we have continued to serve our members with a wide range of mortgage products on offer. This has enabled us to achieve application volumes in line with last year despite the smaller mortgage market, including our busiest ever day for mortgage applications in April, reflecting the strength of our product proposition and the service we provide for our broker partners and our members. The achievement of record volumes is a testament to the investment we have made to evolve the capabilities of our Mortgage Hub, with better technology making it easier to deal with us, resulting in a better experience for members and brokers.

Our purpose of “putting home ownership within reach of more people – generation after generation” is also reflected in our innovative lending initiatives to enable more people to buy their own home. We became the first UK mortgage lender to use Experian Boost, meaning that we acknowledge regular personal payments that individuals make which positively influence their credit score and take these into account when making lending decisions.

We further supported our members by re-launching 95% LTV products, as well as increasing our maximum loan sizes for higher LTVs, which underpin buying ability for first time buyers and home movers. In addition to this we launched Home Deposit Saver and Shared Ownership Saver products, designed to encourage and support members in saving for a deposit on their future home or to purchase additional shares in their shared ownership property. We have also improved affordability decisioning for customers with more energy efficient homes.

We are proud to have been named the Best Shared Ownership Lender at the What Mortgage Awards for the eighth year in a row and were awarded the MoneyAge Best Shared Ownership Lender award for the fourth year in a row, giving recognition that we are doing the right thing to help people onto the housing ladder.

65% of our new lending was mainstream owner-occupied (year to December 2022: 54%), while shared ownership and other affordable home ownership schemes comprised 20% of our lending (year to December 2022: 16%). We continue to see buy to let as an important sector of the market, which we use to support the delivery of our purpose, but we recognise that it has been heavily affected by changes in regulation and tax rules. In July we entered the buy to let limited company market as landlords shift towards using company structures due to the regulatory changes.

We have sought to support existing borrowers by limiting the increases to our mortgage standard variable rates (SVR) as base rate has increased. From December 2021 to June 2023, the base rate increased by 4.90%, while we limited increases in our SVR to 2.70%.

Financial and Business Review
for the six months ended 30 June 2023

We are conscious of the impact that the rise in the cost of living has had on mortgage affordability and have proactively supported members who are struggling to meet their monthly payments with a suite of forbearance options, and in addition continue to waive arrears fees if members fall behind on their payments. We were among the first lenders to sign up to the Government's Mortgage Charter, providing assurance to our members that they will be supported through these challenging times. We have consistently applied our robust checks when offering mortgages in light of the current situation and therefore only offer mortgages when these are assessed as affordable over the term of the loan.

Our savings members are vital to us and the achievement of our purpose as their funds allow us to support more people into home ownership. We remain committed to providing savers with a stable and consistent offering as well as competitive interest rates and easy access to their savings accounts. We have continued to maintain our branch network as well as improving our online channel to ensure an excellent experience for our members when accessing their savings, including enhancing our online maturity process.

During the first half of the year we achieved record net savings inflows of £1.4 billion, with this particularly driven by our range of fixed rate ISAs.

Financial performance

Profit before tax for the first six months of 2023 was £116.2 million (six months to June 2022: £146.5 million). Our profits are lower than the same period last year, which saw exceptional results, but remain well above historic levels, reflecting the continued success and stability of the Society. We have provided competitive mortgage and savings rates to our members as interest rates have risen. Our first half profits in 2022 were boosted by fair value gains on certain financial instruments which have not been repeated to the same extent in 2023 to date.

The Income Statement is summarised below:

	Six months to June 2023 £m	Six months to June 2022 £m	Year to December 2022 £m
Net interest income	173.4	172.7	359.6
Fees, commissions and other income / (expense)	2.5	(0.4)	2.4
Fair value gains	21.3	42.0	14.7
Total income	197.2	214.3	376.7
Management expenses	(79.7)	(64.4)	(141.0)
Impairment charge on loans and advances to customers	(1.3)	(3.4)	(11.9)
Other impairments and provisions	-	-	(3.3)
Profit before tax	**116.2**	**146.5**	**220.5**

Net interest income

	Six months to June 2023 £m	Six months to June 2022 £m	Year to December 2022 £m
Net interest income	173.4	172.7	359.6
Mean total assets	26,182.7	23,290.1	24,013.8
	%	%	%
Net interest margin APM	**1.34**	**1.50**	**1.50**

Net interest income is broadly in line with the prior year, although this reflects a lower net interest margin which has been impacted by lower mortgage returns as a direct result of a more competitive mortgage market, and our continued support of savings members as the base rate has increased.

We have continued to offer competitive savings rates in an increasing rate environment. As well as attracting new members and deposits with the Society, we have also seen existing members benefit from the higher minimum savings rate and increased rates on fixed products where they have opted to transfer. The minimum rate we pay across all our variable rate accounts has been increased to 2.20% (December 2022: 1.45%). The average rate we paid across all our accounts was 1.83% over the 12 months to May 2023, compared to the rest of the market average rate of 1.30%[7].

Fair value gains and losses

We hold certain financial assets and liabilities at their current fair value, defined as the value an independent third party would be willing to pay or receive, and the movement in this fair value is recognised in profit or loss. Changes in fair value are primarily due to timing differences, which will trend to zero as the asset or liability reaches maturity.

During the year to June, significant increases in market interest rates have resulted in fair value gains of £21.3 million (six months to June 2022: £42.0 million gain). These gains have largely been recorded on swaps which have been transacted to manage the interest rate risk associated with fixed rate mortgage and savings products.

The application of cash flow hedge accounting, introduced during 2022, enables us to manage volatility and mitigate some of the impact of these movements. Cash flow hedging enabled us to recognise £53.8 million (six months to June 2022: £nil) of fair value movements in the period in the cash flow hedge reserve as opposed to the income statement.

Management expenses

	Six months to June 2023 £m	Six months to June 2022 £m	Year to December 2022 £m
Colleague costs	50.1	38.0	83.8
Other administrative expenses	25.2	21.5	46.3
Depreciation and amortisation	4.4	4.9	10.9
Total management expenses	**79.7**	**64.4**	**141.0**
	%	%	%
Cost to income ratio APM	40.4	30.1	37.4
Cost to mean asset ratio APM	0.61	0.56	0.59

We continue to focus on operating the Society efficiently with close control over our costs and our cost ratios which remain important measures as we work to achieve our purpose. We are reinvesting our financial success for the long term benefit of the Society and have strengthened key areas of the business so that we are well positioned to deliver the service that our members and partners value. This has resulted in an increase in headcount with the average number of colleagues (full time equivalent) employed by the Society in 2023 increasing to 1,665 (year to December 2022: 1,466). In addition to the increased headcount, and in light of the cost of living crisis, we have supported our colleagues with a pay increase applied three months earlier than usual.

Alongside this commitment to our colleagues, we continue to invest in a multi-year programme of technological change to improve the experience for our members, as well as supporting our communities with charitable donations.

[7] CACI's CSDB, Stock, June 2022 to May 2023, latest data available.

As a result of these investments, management expenses have increased by 23.8% compared to the same period last year and have increased by 4.0% compared to the second half of 2022. We continue to carefully manage our costs in line with internal targets and are continuously looking to identify appropriate efficiencies whilst at the same time investing for the long term future of the Society.

Impairment charge

	Six months to June 2023 £m	Six months to June 2022 £m	Year to December 2022 £m
Residential loans	1.3	3.4	12.0
Commercial loans	-	-	(0.1)
Total impairment charge on loans and advances to customers	**1.3**	**3.4**	**11.9**

We make provisions for expected credit losses across all loans, based on the probability of each loan defaulting and resulting in a loss, while taking into account a range of assumptions about future economic scenarios and an assessment of whether the credit risk of the loan has increased.

Despite the challenges faced by borrowers as a result of the current uncertain economic environment, there has not been a significant increase in the number of borrowers in arrears, with the proportion in arrears by 1.5% of balance or more being 0.63% at 30 June 2023 (December 2022: 0.58%).

Although the economy has remained stronger than expected in 2023, there is still downside risk due to rising interest rates, high levels of inflation and the potentially adverse impacts of tighter financial market conditions. Our updated macroeconomic scenarios for impairment provisioning reflect inflation remaining at higher levels for a longer period but expect that the impact on GDP and unemployment in the long term will not be as severe. Affordability concerns remain due to the risk associated with rising mortgage rates and the effect of these on members who are coming to the end of their current fixed term. The key judgements and estimates involved in the calculation of impairment loss provisions, including the use of post model adjustments, are set out in note 2 on pages 26 to 33.

A residential impairment charge of £1.3 million was recorded in the first half of 2023 (six months to June 2022: £3.4 million charge). For the UK book, the impact on provisions of updated economic assumptions broadly offsets the effect of increased arrears, with UK provision coverage at 0.20% (December 2022: 0.21%). The impairment charge for the period is primarily driven by an increase in expected credit losses for a closed book of Spanish mortgages. Total residential impairment loss provisions at 30 June 2023 were £48.9 million (December 2022: £48.0 million).

Financial and Business Review
for the six months ended 30 June 2023

Financial Position

Our record savings inflows have resulted in overall balance sheet growth from £25.5 billion at 31 December 2022 to £26.9 billion at 30 June 2023.

Loans and advances to customers

	30 June 2023 £m	30 June 2022 £m	31 December 2022 £m
Residential loans	20,734.9	19,525.8	20,372.3
Commercial loans	8.3	9.3	8.6
Other loans	156.7	186.0	164.4
Impairment provision	(53.0)	(44.7)	(52.1)
Loans and advances to customers	**20,846.9**	**19,676.4**	**20,493.2**

	%	%	%
Proportion of mortgages in arrears[8]	0.63	0.62	0.58
Balance-weighted average indexed LTV of mortgage book	49.9	49.5	48.8
Balance-weighted average LTV of new lending	60.9	67.5	65.1

Gross new lending during the six month period was £1.9 billion (six months to June 2022: £2.5 billion). The volume of new lending has been impacted by reduced levels of applications in late 2022 and early 2023, with challenging economic conditions reducing the size of the UK mortgage market. Net lending was £0.4 billion (six months to June 2022: £1.2 billion). Our members are now able to secure a new mortgage up to six months ahead of the end of their existing fixed rate term, helping them to plan ahead and supporting strong levels of customer retention.

The average loan to value of new lending in 2023 was 60.9% (year to December 2022: 65.1%) and our overall book loan to value is currently 49.9% (December 2022: 48.8%).

Liquid assets

	30 June 2023 £m	30 June 2022 £m	31 December 2022 £m
Liquid assets	5,372.5	4,002.9	4,580.7

	%	%	%
Liquidity Coverage Ratio	217	191	195
Liquid assets as a percentage of shares and borrowings	22.6	18.5	20.2

The level of liquid assets, which includes cash reserves with the Bank of England, as well as investments in other assets, varies throughout the year depending on the level of funding receipts compared to mortgage completions and other obligations. The level of liquidity required is closely monitored and considers forecasted and stressed outflows on a dynamic basis. During the first half of 2023, our record breaking savings performance has meant that we have maintained good levels of liquidity and the half year position is strong, which provides protection and flexibility in this uncertain economic environment.

[8] Arrears of more than 1.5% of the balance or in possession

At 30 June 2023, liquidity included £4.9 billion of High Quality Liquid Assets (December 2022: £4.1 billion), which are either in cash or are readily realisable as cash when required. 100% of assets are rated A or above (December 2022: 100%). We also have access to additional contingent liquidity through the Bank of England's Sterling Monetary Framework.

Funding

	30 June 2023 £m	30 June 2022 £m	31 December 2022 £m
Shares (retail savings)	19,121.5	16,398.7	17,520.4
Wholesale funding	4,673.6	5,224.3	5,209.1
Total funding	**23,795.1**	**21,623.0**	**22,729.5**
	%	%	%
Wholesale funding as a proportion of total	19.6	24.2	22.9

Shares (retail savings)

In the period we have achieved record savings balance growth and we have continued to offer an attractive range of savings products and rates. Our total savings balances have grown by £1.6 billion to a record £19.1 billion. Our growth has been particularly driven by our fixed rate ISA products offering, specifically around the start of the tax year.

Wholesale funding

Total wholesale funding at 30 June 2023 was £4.7 billion (December 2022: £5.2 billion). The reduction in wholesale funding in 2023 reflects our first £200 million repayment of TFSME funding and the maturity of a covered bond.

We maintain robust credit ratings from two key agencies reflecting our strong capital base, good profitability and sound funding position.

	Long term senior unsecured	**Short term deposits**	**Outlook**
Moody's	A3	P-2	Stable
Fitch	A	F1	Stable

Capital

Capital resources	30 June 2023 £m	30 June 2022 £m	31 December 2022 £m
Total equity attributable to members (excluding cash flow hedge reserve)	1,513.0	1,384.8	1,425.5
Adjustments	(52.9)	(46.5)	(37.2)
Common Equity Tier 1 (CET1) capital	1,460.1	1,338.3	1,388.3
Additional Tier 1 capital	-	-	-
Total Tier 1 capital	1,460.1	1,338.3	1,388.3
Tier 2 capital	235.2	230.4	234.6
Total regulatory capital resources	**1,695.3**	**1,568.7**	**1,622.9**
Tier 3 capital	350.0	350.0	350.0
Total MREL resources	**2,045.3**	**1,918.7**	**1,972.9**
Risk-weighted assets (RWAs)	**5,172.9**	**4,013.0**	**4,163.9**

CRD Capital Ratios	30 June 2023 %	30 June 2022 %	31 December 2022 %
MREL ratio	39.5	47.8	47.4
Total capital ratio	32.8	39.1	39.0
CET1 ratio	28.2	33.3	33.3
UK leverage ratio *	6.2	6.1	6.2

* The UK regime is not currently legally binding as the Society operates below the applicable threshold set by the regulator (>£50bn), as reconfirmed by the PRA in June 2021.

Our strong levels of profitability have allowed us to increase our capital resources by £72.4 million in the six months to June 2023 with an increase in RWAs of £1,009.0m. Underlying asset quality and risk weights have remained broadly stable in the period. The increase in RWAs observed in June 2023 is primarily driven by a revision to an adjustment that reflects the expected impact of regulatory IRB reforms. This has resulted in a decrease in CET1 ratio of 5.1%.

The Society remains well in excess of all capital regulatory requirements and well placed to meet any future regulations.

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

Due to the Society having a balance sheet in excess of £15 billion, the Bank of England has stated a preferred resolution strategy for us as bail-in, requiring us to hold both recovery and resolution MREL requirements. The transitional MREL requirement set for us by the Bank of England is 18% of RWAs until 20 July 2023. End state MREL requirements are two times minimum regulatory requirements plus any regulatory buffers, active from 21 July 2023. The Society has capital resources in excess of both end state and transitional requirements and continues to forecast headroom moving forward.

New and emerging regulation

Post model adjustments relating to changes in IRB capital requirements have resulted in increased RWAs and have been in place since January 2022. The upward adjustment to risk weights has been increased in June 2023 to reflect the latest expectations. Further refinement is ongoing across the industry in relation to these regulations and this is expected to be finalised in the next 12 months. The Society is expected to retain significant headroom over regulatory minimum requirements following the finalisation of these changes.

Our preparations to meet the requirements of the Basel 3.1 standards, which come into force in January 2025, are well underway. As an IRB lender, the predominant impact will be the new capital floor, expected to be phased in from January 2025 until January 2030.

Responsible Business

Climate impact

We have continued to focus on key areas of activity within our climate strategy, which is centred around supporting the orderly transition to a greener, net zero economy by 2050 or sooner. In the first half of the year, plans have been mobilised to achieve our ambitious near term scope 1 and 2 targets, which are aligned with the principles of the Science Based Targets initiative (SBTi). We remain committed to developing our approach to scope 3 emissions, and work has commenced to assess the appropriateness of setting scope 3 targets. As part of plans to understand and reduce the emissions across our value chain, we have been proactively working with suppliers to improve our understanding of the emissions linked to the goods and services that we buy and assess the climate maturity of our most material suppliers.

We continue to support environmental charities as part of our commitment to a greener, net zero society. We plant a tree for every Children’s Savings Account opened, with high demand for this product in the first half of this year seeing us pledge to plant 6,000 trees during 2023 in partnership with the Yorkshire Dales Millennium Trust. We are exploring ways to support native wildflower meadow restoration and continue to support the

Canal & River Trust through volunteers maintaining a one mile stretch of waterway behind our energy-efficient Leeds head office.

Sustainable communities

As outlined in our recently published Purpose Impact Report, we have doubled our initial five-year £1.5 million target, with a pledge to award £3 million to communities by the end of 2025. At the halfway point, we have awarded £1.96 million (65%) of our planned five-year support for communities.

This year to date we have awarded £565,000 to charities and communities, with over 65% of our planned donations for the year having already been distributed to good causes.

At the beginning of 2023, we responded quickly to the devastating earthquake in Turkey and Syria with a £25,000 donation made on behalf of our members and colleagues to the Disasters Emergency Committee's earthquake appeal. This vital support provided emergency aid to families displaced from their homes, including medical care, shelter, food, water, blankets and heating.

Alongside our charity partner, Dementia UK, we launched Closer to Home clinics in our branches at the beginning of this year, providing safe, comfortable and private spaces for our members to access free dementia advice and support from specialist Admiral nurses. So far, we are proud to have provided 162 appointments in 24 locations around the UK, and the clinics will continue throughout 2023.

One member accessing the service said: "An invaluable service which must be continued. Best 40 minutes I have spent. Any concerns I had were quickly sorted and she gave me lots of website addresses for further help. Just brilliant."

We continue to support Dementia UK until March 2024 when our four-year partnership ends, and to date we're proud to have raised over £730,000 for the charity. Our search for a new charity partner is underway and members will be invited to vote for our next charity partnership from a shortlist at the end of this year through our TalkingPoint member forum.

Our charitable foundation has awarded nearly £290,000 to registered charities that support people in need of a safe and secure home in 2023. This includes £267,000 in large grants to 10 charities including a two-year grant totalling £50,000 to Oasis Community Housing to fund a Financial Capability Officer providing advice to young women living in supported accommodation and survivors of domestic abuse and violence in the North East. Small grants of £1,000 or less have also been awarded to 23 charities across the UK, totalling £21,000. The Chair of the LBS Foundation, Gary Hetherington, has stepped down after a nine-year term and we extend our sincere thanks to him for his commitment to the Foundation. A new Chair will be appointed before the end of the year.

Our colleagues receive 14 paid volunteering hours, which we reward with a £10 per hour donation to charities of their choice. So far this year, over 1,100 hours have been donated. We have recently introduced a digital platform to manage volunteering and match funding for colleagues' charity fundraising, which has seen high levels of engagement.

Members raised an amazing £16,767 for charity by casting votes as part of our annual general meeting (AGM) in April. The Society donated 25p for every vote returned, with members able to choose to give to either the Society's charity partner Dementia UK or Leeds Building Society Foundation.

Risk Management Report
for the six months ended 30 June 2023

The Society's purpose of "putting home ownership within reach of more people – generation after generation" can only be achieved if risks are identified, understood and managed effectively. By understanding the nature of our risks, we can make informed decisions, which support our longer term viability and protect members' interests.

Enterprise Risk Management Framework

To ensure that risks are appropriately managed across the organisation, the Society operates a Board-approved Enterprise Risk Management Framework (ERMF), which sets out a structured approach to identifying, assessing, controlling and monitoring risks.

Further information on the Society's ERMF and its key components can be found on pages 82 to 85 within the Society's 2022 Annual Report and Accounts (ARA).

Risk profile

The risks that the Society is exposed to fall into two categories (Principal and emerging risks):

Principal risks

The Society has identified eight principal risks, which are inherent within its strategy and have the potential to significantly impact performance or viability. These principal risk categories are outlined below and remain consistent with those disclosed within the 2022 ARA, where further details about how these risks are managed are available.

Principal risk	Risk description
Strategic/ business risk	The risk that the Society fails to formulate or execute an appropriate strategy and business model in response to the external environment, threating our longer term viability or inhibiting delivery of our purpose.
Credit risk	The risk that residential borrowers or wholesale counterparties fail to meet their current or future financial obligations.
Funding and liquidity risk	Funding risk is the inability to generate sufficient stable funding, or only do so at excessive cost. Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due.
Market risk	The risk that movements in interest rates and foreign currency adversely impact our capital and earnings.
Capital risk	The risk that the Society has insufficient quality or quantity of capital resources to meet current or future business requirements.
Model risk	The risk of incorrect decision making, based upon the inputs or outputs of models, due to errors in the development, implementation or use of such models, leading to financial loss, a deterioration in the Society's capital or liquidity position, non-compliance with relevant regulations and reputational damage.
Operational risk	Operational risk is the risk of financial or reputational loss, as a result of inadequate or failed processes, people, systems or external events. This incorporates resilience risk which is the inability to maintain important business services in response to unexpected or adverse events.
Conduct risk	The risk that actual or potential customer detriment arises, or may arise, from the way the Society conducts its business.

Risk Management Report
for the six months ended 30 June 2023

Emerging risks

Emerging risks are new or evolving risks where the impact is uncertain but they have the potential to materially impact the Society's performance or strategic objectives.

When assessing emerging risks, we consider the likelihood of the risk materialising and the potential impact on our business strategy and stakeholders. These risks are considered by the Board and the Board Risk Committee on an ongoing basis, as part of our strategic and business planning processes.

The most significant emerging risks are described below, together with key developments and a summary of actions we are taking to manage the risk.

Economic / geopolitical risks	
Overview	**Mitigating actions**
• The outlook for the UK economy remains highly uncertain. Persistent heightened inflation and the rapid transition to a higher interest rate environment continue to squeeze real household income. Whilst the economy has remained relatively resilient to date, the full impacts of tighter monetary policy are yet to emerge. • Against this uncertainty, activity within the UK housing market has moderated. This trend is expected to continue in the near term, with the longer term outlook dependent on the performance of the wider economy. • Wider geopolitical risks outside the UK remain heightened driven by the war in Ukraine and also US / Chinese tensions.	• Macroeconomic risks are regularly assessed under both central and stressed conditions to understand and manage the impact on the business model e.g. tightening / loosening of lending appetite (volume, risk premia and mix). • Horizon scanning and close monitoring of key economic data and forecasts to support timely management response. • Robust levels of capital and liquidity are maintained to mitigate against periods of economic volatility, supported by frequent stress testing and sensitivity analysis to understand the impacts on the Society's balance sheet.

Risk Management Report
for the six months ended 30 June 2023

Affordability risks	
Overview	**Mitigating actions**
• Mortgage affordability challenges have continued to grow with a period of heightened inflation, driven by energy and food costs, eroding household disposable income. • Affordability pressures are also starting to materialise from the significant increase in interest rates over the course of the last eighteen months, as members transition from their current (lower) fixed rate mortgage products onto higher rates. • Whilst some market commentators believe that inflation will materially reduce over the near term, to date it has proven more persistent than expected. As a consequence, markets believe that the Bank of England will need to take more aggressive action to bring inflation back to target over the medium term, which will further increase mortgage rates and heighten affordability pressures.	• Close monitoring of the performance of the Society's lending portfolios and the appropriateness of credit policies, criteria and affordability assessments against prevailing conditions. In particular, the Society has made further adjustments to the stressed interest rate used in affordability assessments to account for the higher interest rate environment. • Reassessment of credit provisions to ensure they remain appropriate and reflective of prevailing conditions within the UK economy. • The Society has signed up to the new Mortgage Charter to ensure that borrowers who get into difficulty continue to receive the support they need, and has continued to invest in its Mortgage Services department to ensure it is adequately resourced to manage the potential heightened number of members in financial difficulty. • Deployment of pre-delinquency strategies to proactively engage members who may find themselves in financial difficulty.

Operational resilience risks	
Overview	**Mitigating actions**
• A significant operational risk event could result in disruption to important business services, leading to customer harm, financial or regulatory impacts, or reputational damage. Such events could include the increasing threat of cyber attacks, third party failure, loss of data or service outages. • Resilience to such threats and an ability to respond effectively remain essential to protect the Society and maintain the trust of our members and the confidence of regulators. • The Society has several material outsource arrangements in place with third parties to deliver critical services to members. Failure of a key third party provider could create vulnerabilities if not appropriately managed and affect the Society's ability to provide services.	• The Society manages resilience related risks through its Operational Resilience Framework and regularly tests its response to potential resilience events. • Operational resilience processes are in place which aim to ensure that the Society's important business services are able to recover in a timely manner in the event of disruption. • The Society continues to invest in its IT security and operational controls to improve overall resilience and combat these evolving threats. • We frequently monitor both the effectiveness of the services we receive, and the risks the third parties pose to the Society.

Change risk	
Overview	**Mitigating actions**
• The Society has a multi-year change portfolio to deliver several major strategic priorities and new regulatory requirements. • The volume of change activity could lead to increases in execution, operational and people risks. • Failure to appropriately prioritise and deliver change may also inhibit the Society's ability to achieve its purpose or strategic objectives.	• The Society continues to prioritise, manage and implement change in line with its strategic plans while assessing execution risks and taking appropriate mitigating action. • In addition, the Society continues to invest in its change management processes, capabilities, capacity and governance to mitigate the execution risks associated with change.

Competition risk	
Overview	**Mitigating actions**
• The Society operates in highly competitive markets, raising the threat of a loss of market share, reduced revenue, and lower profitability. • Competition risks mainly relate to number of competitors, changes in regulation, developments in digital technology, new market entrants and changes in customer behaviour.	• The competitive landscape is regularly reviewed, and our product proposition updated accordingly. • Management carefully considers competition risks as part of our strategic / business planning activities, which have set the future path for strategic investment and development to ensure that the Society is able to adapt accordingly. • Further investment in the Society's service and digital capabilities to support our product offering.

Climate change risk	
Overview	**Mitigating actions**
• Climate risk continues to be classified as an emerging risk due to uncertainty surrounding the exact nature and timing of the impact on the Society's strategy and operations. Both transitional and physical risks could materially affect the Society's eight principal risks, with impacts dependent on the future path of climate change and timescales of government intervention and actions. • Stakeholder expectations continue to rise with regards to the Society's management and response to climate risk, which could present heightened reputational risks.	• The Society has developed a climate strategy centered upon supporting the orderly transition to a greener, net zero economy by 2050 or sooner. • The setting of scope 1 and 2 targets to reduce the climate change impacts from our own operations in line with the Paris Climate Agreement goals to limit future temperature increases to 1.5°C. • Ongoing development of scope 3 methodologies and practices to better understand the climate impacts of our wider value chain, including our mortgage portfolio. • Implementation of a Climate Risk Management Framework across the organisation, including use of climate risk factors and data in our mortgage lending policy and credit decisioning processes. • Scenario analysis is undertaken to assess possible future climate-related risks and exposures that may impact the Society. • Refer to pages 48 to 79 of the 2022 ARA for further information on how the Society manages the risks from climate change.

Regulatory risk	
Overview	**Mitigating actions**
• The volume, scale and complexity of regulatory change continues to shape our operating environment. There are a number of key regulatory instruments on the horizon, which will need careful implementation e.g. Basel 3.1. • Consumer Duty takes effect from 31 July 2023 with a step change expected by regulators across the industry. There remain ongoing deliverables for 2024, including those for closed products, and evidencing of embedding management information and consumer outcomes testing.	• The Society closely monitors upstream regulation, with developments managed through an oversight framework, which allows management to respond in an efficient, proportionate and prioritised manner. • A consumer duty project continues to track progress and provide the Board and Risk committees with updates at appropriate frequencies. This will now include assurance monitoring and customer outcomes information under business as usual.

Condensed Consolidated Income Statement

	Notes	**Six months to 30 June 2023 (Unaudited)**	Six months to 30 June 2022 (Unaudited)	Year to 31 December 2022 (Audited)
		£M	£M	£M
Interest receivable and similar income	3	**552.8**	271.0	675.9
Interest payable and similar charges	4	**(379.4)**	(98.3)	(316.3)
Net interest receivable		**173.4**	172.7	359.6
Fees and commissions receivable		**2.7**	2.9	6.1
Fees and commissions payable		**(0.4)**	(0.3)	(0.7)
Fair value gains from financial instruments	5	**21.3**	42.0	14.7
Other operating income / (expense)		**0.2**	(3.0)	(3.0)
Total income		**197.2**	214.3	376.7
Administrative expenses	6	**(75.3)**	(59.5)	(130.1)
Depreciation and amortisation		**(4.4)**	(4.9)	(10.9)
Impairment charge on loans and advances to customers	7	**(1.3)**	(3.4)	(11.9)
Impairment of property, plant and equipment		**-**	-	(3.8)
Provisions release		**-**	-	0.5
Operating profit and profit before tax		**116.2**	146.5	220.5
Tax expense	8	**(27.0)**	(33.9)	(58.6)
Profit for the period		**89.2**	112.6	161.9

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 June 2023 (Unaudited) £M	Six months to 30 June 2022 (Unaudited) £M	Year to 31 December 2022 (Audited) £M
Profit for the period	**89.2**	112.6	161.9
Items that may subsequently be reclassified to profit and loss:			
Fair value gains recorded in cash flow hedge reserve	**53.8**	-	118.1
Gains previously recorded in cash flow hedge reserve amortised through profit or loss	**(11.9)**	-	(5.2)
Fair value losses on investment securities measured at fair value through other comprehensive income	**(4.2)**	(6.6)	(10.8)
Losses on investment securities measured through other comprehensive income reclassified to profit or loss on disposal	**0.4**	2.3	1.7
Tax relating to items that may subsequently be reclassified	**(10.7)**	1.2	(19.7)
Effect of change in corporation tax rate	**-**	-	(9.4)
Items that may not subsequently be reclassified to profit and loss:			
Actuarial loss on retirement benefit surplus	**(0.8)**	(1.7)	(4.9)
Revaluation loss on properties	**-**	-	(1.9)
Tax relating to items that may not be reclassified	**1.8**	3.1	1.9
Effect of change in corporation tax rate	**-**	(0.7)	0.5
Total comprehensive income for the period	**117.6**	110.2	232.2

Condensed Consolidated Statement of Financial Position

	Notes	**30 June 2023 (Unaudited) £M**	30 June 2022 (Unaudited) £M	31 December 2022 (Audited) £M
Assets				
Liquid assets				
Cash in hand and balances with the Bank of England		**2,738.8**	2,615.7	2,958.1
Loans and advances to credit institutions		**285.0**	145.1	235.9
Investment securities		**2,348.7**	1,242.1	1,386.7
Derivative financial instruments		**933.9**	453.8	679.9
Loans and advances to customers	9			
Loans fully secured on residential property		**20,686.0**	19,485.3	20,324.3
Other loans		**160.9**	191.1	168.9
Fair value adjustment for hedged risk on loans and advances to customers		**(707.4)**	(413.4)	(585.9)
Other assets, prepayments and accrued income		**312.1**	242.9	248.3
Current tax assets		**-**	-	4.6
Deferred tax assets		**0.3**	1.5	0.3
Intangible assets		**24.6**	23.5	22.5
Property, plant and equipment		**65.7**	72.2	66.7
Retirement benefit surplus	10	**2.9**	6.7	3.6
Total assets		**26,851.5**	24,066.5	25,513.9
Liabilities				
Shares		**19,121.5**	16,398.7	17,520.4
Fair value adjustment for hedged risk on shares		**(131.5)**	(93.2)	(100.7)
Derivative financial instruments		**334.5**	231.0	251.9
Amounts owed to credit institutions		**2,083.6**	2,310.9	2,268.4
Amounts owed to other customers		**186.0**	328.6	229.7
Debt securities in issue		**2,404.0**	2,584.8	2,711.0
Other liabilities and accruals		**690.8**	383.8	586.1
Deferred tax liabilities		**42.1**	1.4	33.0
Provisions for liabilities and charges		**0.5**	1.4	0.6
Subordinated liabilities		**303.7**	322.7	309.1
Subscribed capital		**191.9**	211.6	197.6
Total liabilities		**25,227.1**	22,681.7	24,007.1
General reserve		**1,505.6**	1,369.7	1,415.3
Cash flow hedge reserve		**111.4**	-	81.3
Fair value reserve		**(8.7)**	(2.4)	(5.9)
Revaluation reserve		**1.8**	3.2	1.8
Other reserve		**14.3**	14.3	14.3
Total liabilities and equity		**26,851.5**	24,066.5	25,513.9

Condensed Consolidated Statement of Changes in Members' Interest

Six months to 30 June 2023	General reserve £M	Cash flow hedge reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2023 (Audited)	**1,415.3**	**81.3**	**(5.9)**	**1.8**	**14.3**	**1,506.8**
Comprehensive income / (expense) for the period	**90.3**	**30.1**	**(2.8)**	**-**	**-**	**117.6**
At 30 June 2023 (Unaudited)	**1,505.6**	**111.4**	**(8.7)**	**1.8**	**14.3**	**1,624.4**

Six months to 30 June 2022	General reserve £M	Cash flow hedge reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2022 (Audited)	1,251.3	-	0.7	8.3	14.3	1,274.6
Comprehensive income / (expense) for the period	110.5	-	(3.1)	2.8	-	110.2
Revaluation gains transferred on disposal of assets	7.9	-	-	(7.9)	-	-
At 30 June 2022 (Unaudited)	1,369.7	-	(2.4)	3.2	14.3	1,384.8

Year to 31 December 2022	General reserve £M	Cash flow hedge reserve £M	Fair value reserve £M	Revaluation reserve £M	Other reserve £M	Total equity attributable to members £M
At 1 January 2022 (Audited)	1,251.3	-	0.7	8.3	14.3	1,274.6
Comprehensive income / (expense) for the year	156.1	81.3	(6.6)	1.4	-	232.2
Revaluation gains transferred on disposal of assets	7.9	-	-	(7.9)	-	-
At 31 December 2022 (Audited)	1,415.3	81.3	(5.9)	1.8	14.3	1,506.8

Condensed Consolidated Statement of Cash Flows

	Six months to 30 June 2023 (Unaudited) £M	Six months to 30 June 2022 (Unaudited) £M	Year to 31 December 2022 (Audited) £M
Profit before tax	**116.2**	146.5	220.5
Adjusted for:			
Impairment charge	**1.3**	3.4	11.9
Provisions release	**-**	-	(0.5)
Depreciation and amortisation	**4.4**	4.9	10.9
Impairment of property, plant and equipment	**-**	-	3.8
Fair value of collateral loan which represents a pool of equity release mortgages	**6.3**	31.0	53.9
Non cash and other items	**(15.1)**	9.9	25.9
Cash generated from operations	**113.1**	195.7	326.4
Changes in operating assets and liabilities:			
Derivative financial instruments	**(55.1)**	(20.2)	(7.4)
Loans and advances to customers	**(360.8)**	(1,183.7)	(2,031.8)
Other operating assets	**(59.2)**	(76.4)	(76.9)
Shares	**1,601.1**	1,140.7	2,262.4
Amounts owed to credit institutions and other customers	**(228.5)**	83.1	(58.3)
Other operating liabilities	**100.3**	182.9	380.7
Taxation paid	**(22.2)**	(29.2)	(56.0)
Net cash flows from operating activities	**1,088.7**	292.9	739.1
Cash flows from investing activities			
Purchase of investment securities	**(1,612.8)**	(507.9)	(1,292.5)
Proceeds from sale and redemption of investment securities	**651.3**	211.3	847.9
Purchase of intangible assets	**(4.3)**	(1.1)	(3.9)
Purchase of property, plant and equipment	**(1.1)**	(1.3)	(3.7)
Proceeds from sale of property, plant and equipment	**-**	9.2	8.9
Net cash flows from investing activities	**(966.9)**	(289.8)	(443.3)
Cash flows from financing activities			
Net proceeds from issue of debt securities	**-**	499.8	665.1
Repayments of debt securities in issue	**(291.3)**	(438.8)	(463.0)
Principal lease payments	**(0.7)**	(1.0)	(1.6)
Net cash flows from financing activities	**(292.0)**	60.0	200.5
Net (decrease) / increase in cash and cash equivalents	**(170.2)**	63.1	496.3
Cash and cash equivalents at the beginning of the period	**3,194.0**	2,697.7	2,697.7
Cash and cash equivalents at the end of the period	**3,023.8**	2,760.8	3,194.0

Notes to the Accounts

1. General information

Reporting period

The unaudited Interim Financial Report shows the financial performance of the Group for the six months to 30 June 2023 and the financial position of the Group as at that date.

Basis of preparation and accounting policies

These condensed consolidated set of financial statements for the six month period ended 30 June 2023 have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, as adopted by the United Kingdom. They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should therefore be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2022 which were prepared in accordance with IFRS as adopted by the United Kingdom and in accordance with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) applicable to societies reporting under IFRS.

The information in these interim condensed consolidated financial statements is unaudited and does not constitute annual accounts within the meaning of Section 72 of the Building Societies Act 1986 (the Act). Group accounts for the year ended 31 December 2022 have been filed with the Financial Conduct Authority and Prudential Regulation Authority and contained an unqualified audit report, which did not draw attention to any matters by way of emphasis and did not contain any statements under Section 78 of the Act.

The accounting policies adopted, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements. These financial statements are presented in sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand pounds.

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.

Accounting developments

The information on future accounting developments and their potential effect on the financial statements is provided in note 1(b) of the 2022 Annual Report and Accounts.

Segmental reporting

As reported in note 1(n) of the 2022 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 review the results of regular forecasts and stress tests to understand the potential financial and operational performance of the business under a range of economic and market conditions. This informs their assessment of whether the Group is a going concern. These assessments reflect the potential impacts of the principal and emerging risks set out on pages 86 to 108 of the 2022 Annual Report and Accounts. An update on emerging risks is provided on pages 16 to 19 of this report.

The directors have concluded that:

- The Group has proven access to liquidity resources, including access to central bank funding facilities if required, sufficient to meet both the normal demands of the business and the requirements which might arise in modelled stressed circumstances. The availability and quality of liquid assets are structured so that funds are available to repay any maturing wholesale funds and cover exceptional demand from retail investors;
- The Group's other assets consist primarily of mortgages secured on residential property. The recoverability of all mortgage assets is reviewed regularly and provisions are made, incorporating a forward looking view of expected losses under a range of macroeconomic scenarios, so that the Group is not exposed to losses on these assets which would impact its decision to adopt the going concern basis; and

1. General information (continued)

Going concern (continued)

- The Group's current capital resources are sufficient to meet regulatory requirements. Having reviewed future plans and forecasts, the directors consider plans for future capital generation are sufficient to maintain capital in excess of regulatory requirements, under both central and modelled stressed scenarios, taking into consideration known changes to future regulatory requirements.

The directors have therefore concluded 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 in the application of accounting policies which affect the amounts recognised in the financial statements. In addition, the Group makes estimates and assumptions which could affect the reported amounts of assets and liabilities during the remainder of the financial year and beyond. The critical judgements and estimates which have a significant impact on the financial statements are described in note 2 of the 2022 Annual Report and Accounts.

The critical judgements and estimates which have a significant impact on the Interim Financial Report are described below.

a. Critical judgements

Impairment of loans and advances to customers

The Group's accounting policy for the impairment of loans and advances to customers is explained in note 1(e) of the 2022 Annual Report and Accounts.

Post model adjustments (PMAs) are applied to modify the level of impairment loss provisions from that calculated by the detailed models used to determine expected credit losses (ECL). They are used where there is a material risk that is not adequately captured within modelled ECL as a result of a lack of historical data with which to model or due to ongoing uncertainty. Judgement is required in determining whether a PMA should be used and the appropriate quantum of the adjustment. All PMAs are subject to approval by Credit Committee and must be reviewed and reapproved at least annually.

The total of these PMAs at 30 June 2023 was £21.8m (30 June 2022: £11.8m; 31 December 2022: £25.1m). Further details of the estimates used to evaluate these PMAs are presented in note 2(b) below.

b. Significant accounting estimates and assumptions

Impairment of loans and advances to customers

The significant estimates required for the calculation of impairment loss provisions are forecast UK macroeconomic variables, the probability weightings of the macroeconomic scenarios used and the approach to PMAs.

Macroeconomic scenarios and probability weightings

The Group has used four macroeconomic scenarios (30 June 2022: four; 31 December 2022: four), which are considered to represent a range of possible outcomes, in determining impairment loss provisions. The scenarios have been revised during the period and reflect that, despite recent economic resilience, there is still downside risk due to rising interest rates, high levels of inflation and the potential adverse impacts of tighter financial market conditions.

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

A summary of each of the four revised macroeconomic scenarios is as follows:

- Central scenario reflecting that the external environment remains extremely volatile. The scenario anticipates that a combination of higher inflation (7.5% across 2023) and higher interest rates will drive a reduction in consumer spending. The scenario shows a rise in unemployment as decreases in gross domestic product during 2023 and 2024 are likely to reduce demand for labour.
- Downside scenario as modelled in the Group's risk management process reflecting a '1 in 20' stress scenario, with weak consumer spending resulting in a reduction in GDP, a rise in unemployment and reductions in house prices as demand falls due to weaker affordability. The scenario assumes that base rate is cut in order to tackle the effects of the recession on the UK economy.
- Alternative downside scenario representing a more severe downturn than in the downside scenario with peak unemployment of 8.4% and a fall in demand across the housing market, causing greater reductions in house prices in the earlier years of the forecast.
- Growth scenario representing a more optimistic view of the current economic outlook than assumed in the central scenario, including higher gross domestic product growth as the economy proves to be resilient to the high interest rate environment.

While the scenarios used do not directly reflect the potential for further significant increases in interest rates, the potential impact on borrowers of higher rates is considered as part of the affordability post model adjustment (see below).

Scenarios are developed by the Group based on analysis of third party published economic data and forecasts. The relative weighting of the macroeconomic scenarios is derived by determining the point in the economic cycle at which the UK economy sits at the date of the Statement of Financial Position. This indicates a possible range of outcomes for each scenario based on defined boundaries. Management judgement is then applied to determine the appropriate point within the ranges, informed by current relevant market, macroeconomic and political factors and the degree of uncertainty inherent in the UK economy.

At 30 June 2023, the ongoing economic uncertainty has meant that we have set the probability of the growth scenario towards the lower end of the established range and the downside and alternative downside towards the higher end of the range. The final weightings used are shown in the table below.

	30 June 2023	30 June 2022	31 December 2022
Central	**50%**	45%	55%
Downside	**25%**	35%	20%
Alternative Downside	**20%**	10%	20%
Growth	**5%**	10%	5%

The tables on pages 29 and 30 show 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 and gross domestic product growth, together with the year end position for unemployment rate and base rate. Beyond the five year period shown, assumptions move towards historic long run averages over the following five years and then remain constant at these rates thereafter.

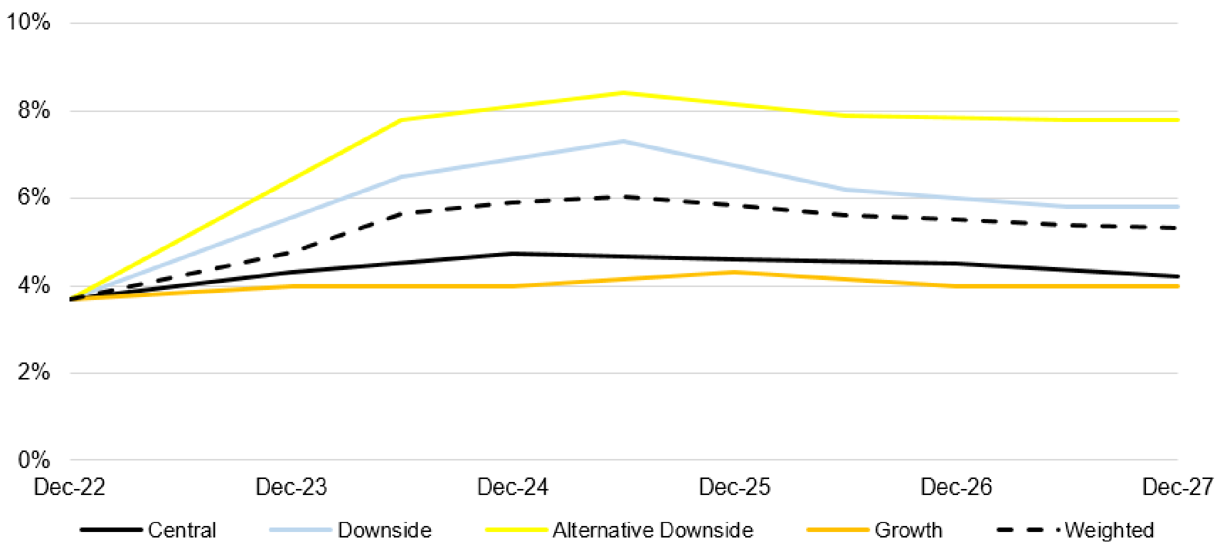
The charts below illustrate the unemployment assumptions and the cumulative impact of the annual house price inflation assumptions across all four scenarios.

Notes to the Accounts (continued)

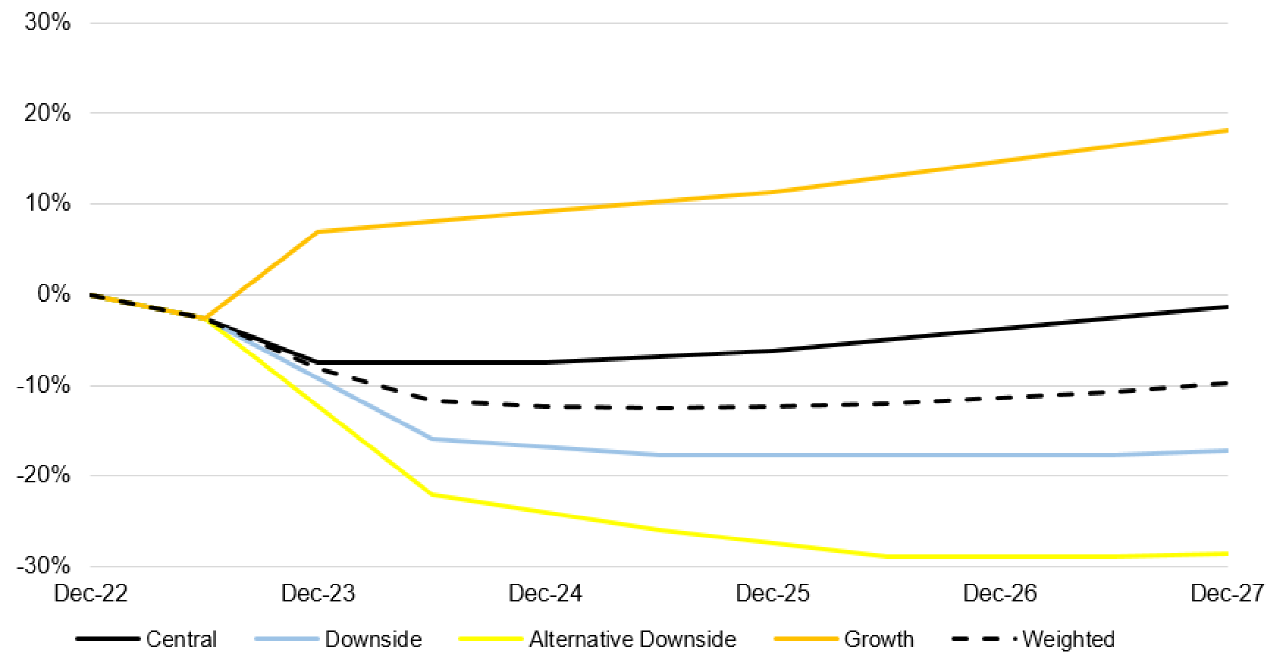
2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

Unemployment rate (%)



House prices (December 2022 = 0)



Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

Central scenario

	30 June 2023				
	2023	**2024**	**2025**	**2026**	**2027**
House price inflation	**(7.50%)**	**0.00%**	**1.50%**	**2.50%**	**2.50%**
Unemployment rate (31 December)	**4.30%**	**4.75%**	**4.60%**	**4.50%**	**4.20%**
Gross domestic product growth	**(0.50%)**	**(0.25%)**	**0.75%**	**1.00%**	**1.50%**
Base rate (31 December)	**5.50%**	**5.25%**	**5.00%**	**4.75%**	**4.00%**

	30 June 2022				
	2022	2023	2024	2025	2026
House price inflation	7.40%	0.00%	0.50%	1.00%	1.00%
Unemployment rate (31 December)	4.00%	4.30%	4.75%	4.50%	4.50%
Gross domestic product growth	3.75%	(0.25%)	0.00%	1.00%	1.00%
Base rate (31 December)	1.75%	1.75%	1.75%	1.75%	1.75%

	31 December 2022				
	2023	2024	2025	2026	2027
House price inflation	(10.00%)	0.00%	1.00%	1.50%	1.50%
Unemployment rate (31 December)	4.50%	5.20%	5.50%	5.50%	5.20%
Gross domestic product growth	(1.50%)	0.00%	0.50%	1.00%	1.00%
Base rate (31 December)	4.00%	3.00%	2.25%	2.25%	2.25%

Downside scenario

	30 June 2023				
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
House price inflation	**(13.70%)**	**(2.00%)**	**0.00%**	**0.00%**	**1.00%**
Unemployment rate (30 June)	**6.50%**	**7.30%**	**6.20%**	**5.80%**	**5.80%**
Gross domestic product growth	**(0.75%)**	**(1.25%)**	**1.00%**	**1.00%**	**1.00%**
Base rate (30 June)	**3.00%**	**0.25%**	**0.25%**	**0.25%**	**0.25%**

	30 June 2022				
	Year 1	Year 2	Year 3	Year 4	Year 5
House price inflation	(13.70%)	(2.00%)	0.00%	0.00%	1.00%
Unemployment rate (30 June)	7.30%	6.50%	6.20%	5.80%	5.80%
Gross domestic product growth	2.60%	1.20%	1.00%	1.00%	1.00%
Base rate (30 June)	1.25%	0.10%	0.10%	0.10%	0.10%

	31 December 2022				
	Year 1	Year 2	Year 3	Year 4	Year 5
House price inflation	(13.70%)	(2.00%)	0.00%	0.00%	1.00%
Unemployment rate (31 December)	7.30%	6.50%	6.20%	5.80%	5.80%
Gross domestic product growth	(2.00%)	0.00%	1.00%	1.00%	1.00%
Base rate (31 December)	3.25%	0.10%	0.10%	0.10%	0.10%

Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

Alternative downside scenario

	30 June 2023				
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
House price inflation	**(20.00%)**	**(5.00%)**	**(4.00%)**	**0.00%**	**1.00%**
Unemployment rate (30 June)	**7.80%**	**8.40%**	**7.90%**	**7.80%**	**7.80%**
Gross domestic product growth	**(0.20%)**	**(4.20%)**	**2.10%**	**1.50%**	**1.50%**
Base rate (30 June)	**2.00%**	**0.10%**	**0.10%**	**0.10%**	**0.10%**

	30 June 2022				
	Year 1	Year 2	Year 3	Year 4	Year 5
House price inflation	(19.50%)	(9.50%)	3.50%	2.00%	1.50%
Unemployment rate (30 June)	10.30%	9.00%	8.60%	7.40%	6.80%
Gross domestic product growth	1.40%	0.00%	0.90%	0.80%	0.80%
Base rate (30 June)	2.00%	(0.10%)	0.10%	0.10%	0.10%

	31 December 2022				
	Year 1	Year 2	Year 3	Year 4	Year 5
House price inflation	(20.00%)	(5.00%)	(4.00%)	0.00%	1.00%
Unemployment rate (31 December)	8.40%	7.80%	7.90%	7.50%	7.00%
Gross domestic product growth	(0.20%)	(4.20%)	2.10%	1.50%	1.50%
Base rate (31 December)	3.00%	0.00%	0.00%	0.10%	0.10%

Growth scenario

	30 June 2023				
	2023	**2024**	**2025**	**2026**	**2027**
House price inflation	**7.00%**	**2.00%**	**2.00%**	**3.00%**	**3.00%**
Unemployment rate (31 December)	**4.00%**	**4.00%**	**4.30%**	**4.00%**	**4.00%**
Gross domestic product growth	**2.50%**	**2.50%**	**2.00%**	**2.50%**	**2.00%**
Base rate (31 December)	**5.00%**	**4.50%**	**4.00%**	**3.25%**	**3.25%**

	30 June 2022				
	2022	2023	2024	2025	2026
House price inflation	9.00%	2.00%	2.00%	3.00%	3.00%
Unemployment rate (31 December)	3.50%	4.00%	4.30%	4.00%	4.00%
Gross domestic product growth	5.00%	2.00%	2.00%	2.50%	2.00%
Base rate (31 December)	1.75%	2.50%	3.00%	3.00%	3.00%

	31 December 2022				
	2023	2024	2025	2026	2027
House price inflation	7.00%	2.00%	2.00%	3.00%	3.00%
Unemployment rate (31 December)	3.70%	4.00%	4.30%	4.00%	4.00%
Gross domestic product growth	5.00%	2.00%	2.00%	2.50%	2.00%
Base rate (31 December)	4.50%	3.00%	3.00%	3.00%	3.00%

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

Modelled residential impairment loss provisions totalled £27.1m at 30 June 2023 (30 June 2022: £28.7m; 31 December 2022: £22.9m), with PMAs of £21.8m (30 June 2022: £11.8m; 31 December 2022: £25.1m) contributing to total provisions of £48.9m (30 June 2022: £40.5m; 31 December 2022: £48.0m).

The sensitivity of modelled impairment loss provisions at 30 June 2023 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 are 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:

	+ 10.0 percentage points	+ 5.0 percentage points	- 5.0 percentage points	- 10.0 percentage points
(Decrease) / increase in impairment loss provisions (£m)	(1.5)	(0.9)	1.2	3.3

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

	+ 2.0 percentage points	+ 1.0 percentage point	- 1.0 percentage point	- 2.0 percentage points
Increase / (decrease) in impairment loss provisions (£m)	2.2	0.3	(0.2)	(0.3)

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 2023 (Unaudited) £m	Six months to 30 June 2022 (Unaudited) £m	Year to 31 December 2022 (Audited) £m
(Decrease)/ increase in impairment loss provisions			
Central	**(10.8)**	(13.9)	(8.9)
Downside	**0.2**	(2.1)	(0.8)
Alternative Downside	**45.7**	104.7	37.3
Growth	**(12.8)**	(15.2)	(11.6)

The total residential impairment loss provisions (including PMAs) if the central scenario were weighted 100% would be £38.1m, compared to £48.9m when the scenarios are weighted.

Changes to macroeconomic assumptions, as expectations change over time, are likely to lead to volatility in impairment loss provisions, and may lead to pro-cyclicality in the recognition of impairment losses.

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

Post model adjustments (judgemental adjustments)

At 30 June 2023, the total of post model adjustments applied by the Group was £21.8m (30 June 2022: £11.8m; 31 December 2022: £25.1m). These adjustments were applied to cover the following:

- The potential impacts of inflationary pressures, the cost of living crisis and residential mortgage rate increases on customer affordability, although it is noted that the stressed affordability assessments performed when mortgages are originated provide assurance that the majority of customers can absorb some level of affordability stress.

- There continues to be uncertainty over the timing of remediation of cladding issues in high rise flats. This could result in lower valuations and challenges obtaining new mortgages on these properties, with the potential to impact on the value of the Group's collateral and thus calculated losses in the event of default.

- The risk of inherent bias in reported house prices towards properties which have recently sold, which may not be reflective of the composition of the Group's mortgage book.

The temporary post model adjustment of £1.1m at 31 December 2022 relating to the additional risks associated with the underestimation of the probability of default associated with euro mortgages has been removed as this has now been incorporated into the ECL model.

Affordability post model adjustment

At 30 June 2023 the affordability PMA calculation has been refreshed by using the latest underlying mortgage data and also by applying recent enhancements to front end affordability assessments. Whilst some level of redemptions and improvements in affordability have been experienced during the financial year to date, there is also some evidence of worsening risk profile in the balances at risk population. The analysis performed was based on a limited emergence window to date, with the expectation that continued affordability pressures will result in further arrears emergence as inflation continues to remain higher for longer and the proportion of borrowers rolling off fixed terms continues to increase. As a result we have not changed our approach for calculating the PMA and have continued to apply a consistent methodology as at 31 December 2022.

The potential impact of current high levels of inflation on mortgage affordability has been estimated by uplifting customers' recorded expenditure (having adjusted for wage inflation) to identify those accounts that could be at risk of having a shortfall against their monthly mortgage payments, depending on individual financial resilience levels. A forward-looking assessment has also identified those accounts at risk of a shortfall due to potential rate increases for those borrowers who are currently paying interest at the standard variable rate and those who have an upcoming fixed term maturity.

The PMA has been estimated as the additional impairment loss provisions required as loans migrate through impairment stages, based on weighted coverage rates by stage. For loans where the identified shortfall is sufficient to equate to three months' arrears over a period of 12 months, migration to Stage 3 is assumed. For the remainder, migration from Stage 1 to Stage 2 or from Stage 2 to Stage 3, depending on their staging at 30 June 2023, is assumed. The resultant PMA is £18.6m (30 June 2022: £5.0m; 31 December 2022: £20.0m).

Notes to the Accounts (continued)

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

The significant judgements underpinning the affordability PMA calculation and the sensitivity of the PMA to these judgements are:

Assumption	Sensitivity modelled for current assumption	(Decrease) / increase in post model adjustment (£m)
Borrower wage growth of 6%	Decrease / increase by 1 percentage point	1.2 / (1.4)
£100 threshold above which shortfall against mortgage payment is 'unaffordable' and PMA is applied	Increase threshold to £200 / reduce threshold to 1p	(3.9) / 3.6
Product interest rates available for switching product on maturity or for standard variable rate	Reduce / increase rates by 1 percentage point	(0.6) / 0.6

Inadequate cladding post model adjustment
Applying a consistent approach with 31 December 2022, this PMA has been estimated by identifying properties at the highest risk of cladding issues by matching the Group's portfolio to third party postcode data where nil valuations have been returned and applying a range of haircuts to property valuations and making an allowance for remediation costs. The latest data underpinning the calculation indicates a reduction in the number of properties potentially at risk and this resulted in a reduced PMA of £2.5m as at 30 June 2023 (30 June 2022: £3.4m; 31 December 2021: £2.9m).

Transaction bias post model adjustment
The same methodology has been applied as previous reporting periods, by comparing the increases in indexed valuations on the Group's portfolio with alternative third party data and applying a haircut to collateral valuations, giving a PMA of £0.7m (30 June 2022: £1.2m; 31 December 2022: £1.1m).

Fair value of the collateral loan

The Group measures the collateral loan which represents a pool of equity release mortgages at fair value through profit or loss. 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, such as the discount rate, property price volatility and the haircut applied to individual sales prices.

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	Derived from current market rates for new equity release loans adjusted for the specific profile of the Group's portfolio; also reflects liquidity term premium in current market funding costs
Property price volatility	Analysis of historic property price volatility and external research
Sales price haircut	Average actual discounts observed on the portfolio during the last three financial years.

2. Critical accounting estimates and judgements (continued)

b. Significant accounting estimates and assumptions (continued)

At 30 June 2023 the carrying value of the collateral loan was £154.2m (30 June 2022: £183.5m; 31 December 2022: £161.9m). 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	+ / - 1 percentage point (floored at the risk-free rate)	(11.8) / 12.9
Property price volatility	+ / - 3 percentage points	(4.1) / 3.7
Sales price haircut	+ / - 5 percentage points	(3.3) / 2.8

An overlay was applied to the valuation at 30 June 2023 to reflect the potential for a future reduction in house prices as a result of affordability pressures following a rise in inflation, the cost of living crisis and increased residential mortgage rates. The overlay has been estimated by applying a 10.8% decrease in indexed property values which was set by reference to the near term weighted average house price inflation assumption in the macroeconomic scenarios that have been used in the ECL models at 30 June 2023. The overlay reduces the value of the collateral loan by £6.1m (30 June 2022: £3.7m; 31 December 2022: £6.4m).

Fair value of the RPI-linked equity release swap

One of the Group's equity release swaps is linked to the retail price index (RPI) and is valued using a discounted cash flow model which uses observable market data for RPI and the discount rate used to discount future cash flows and unobservable input assumptions for prepayment rates. Wherever possible these input assumptions are calculated with reference to actual historic experience and are aligned to those assumptions used in the valuation of the collateral loan. The variable which is considered to have the largest impact on the value of the swap is the prepayment rate.

A 1 percentage point increase in the assumed prepayment rate would increase the value of the swap by £0.8m resulting in a corresponding fair value gain in the Income Statement. A 1 percentage point reduction in the assumed prepayment rate would reduce the value of the swap by £0.9m, resulting in a corresponding fair value loss in the Income Statement.

3. Interest receivable and similar income

	Six months to 30 June 2023 (Unaudited) £M	Six months to 30 June 2022 (Unaudited) £M	Year to 31 December 2022 (Audited) £M
Interest receivable calculated using the effective interest rate method:			
On instruments held at amortised cost:			
On loans fully secured on residential property	**310.3**	**240.7**	512.7
On other loans and advances to customers	**0.3**	**0.6**	0.8
On liquid assets	**65.4**	**9.4**	42.0
Total interest receivable on instruments held at amortised cost	**376.0**	**250.7**	555.5
On instruments held at fair value through other comprehensive income:			
On investment securities	**36.0**	**5.0**	19.1
Total interest receivable calculated using the effective interest rate method	**412.0**	**255.7**	574.6
Similar income / (expense) on instruments held at fair value through profit or loss:			
On other loans and advances to customers	**5.8**	**5.5**	11.4
Net income on derivatives that hedge financial assets and are designated in accounting hedge relationships	**132.5**	**13.7**	96.9
Net income/ (expense) on derivatives that hedge financial assets and are not designated in accounting hedge relationships	**2.5**	**(3.9)**	(7.0)
Total similar income on instruments held at fair value through profit or loss	**140.8**	**15.3**	101.3
Total interest receivable and similar income	**552.8**	**271.0**	675.9
Included in the above is:			
Interest receivable on impaired financial assets	**5.6**	**4.1**	8.3

4. Interest payable and similar charges

	Six months to 30 June 2023 (Unaudited) £M	Six months to 30 June 2022 (Unaudited) £M	Year to 31 December 2022 (Audited) £M
Interest payable on instruments held at amortised cost:			
On shares held by individuals	**207.5**	60.0	175.3
On deposits and other borrowings:			
Wholesale and other funding	**105.9**	26.2	90.4
Lease liabilities	**0.1**	0.1	0.3
On subordinated liabilities	**2.9**	2.9	5.8
On subscribed capital	**5.4**	5.4	10.8
Total interest payable on instruments held at amortised cost	**321.8**	94.6	282.6
Similar charges / (income) on instruments held at fair value through profit or loss:			
Net charges on derivatives that hedge financial liabilities and are designated in accounting hedge relationships	**47.5**	4.6	24.3
Net charges / (income) on derivatives that hedge financial liabilities and are not designated in accounting hedge relationships	**10.1**	(0.9)	9.4
Total similar charges on instruments held at fair value through profit or loss	**57.6**	3.7	33.7
Total interest payable and similar charges	**379.4**	98.3	316.3

Notes to the Accounts (continued)

5. Fair value gains from financial instruments

	Six months to 30 June 2023 (Unaudited) £M	Six months to 30 June 2022 (Unaudited) £M	Year to 31 December 2022 (Audited) £M
Fair value hedge relationships			
Derivatives designated in fair value hedge relationships	**80.6**	179.5	254.5
Fair value adjustment for hedged risk of hedged items	**(74.3)**	(149.6)	(254.8)
Cash flow hedge relationships			
Derivatives designated in cash flow hedge relationships	**12.5**	-	5.4
Derivatives not designated in accounting hedge relationships			
Equity release swaps	**8.4**	41.2	61.4
Cross currency swaps net of retranslation on matched Euro liabilities	**0.4**	1.9	2.1
Other financial instruments measured at fair value through profit or loss			
Collateral loan which represents a pool of equity release mortgages	**(6.3)**	(31.0)	(53.9)
Total fair value gains from financial instruments	**21.3**	42.0	14.7

6. Administrative expenses

	Six months to 30 June 2023 (Unaudited) £M	Six months to 30 June 2022 (Unaudited) £M	Year to 31 December 2022 (Audited) £M
Staff costs			
Wages and salaries	**37.7**	29.6	64.8
Social security costs	**3.9**	3.2	6.9
Pension costs	**5.2**	4.0	8.2
Temporary staff	**5.4**	1.6	5.1
Other staff costs	**0.8**	0.7	1.4
Less capitalised staff costs	**(3.0)**	(1.1)	(2.6)
Remuneration of auditor	**0.6**	0.5	1.0
Other administrative expenses			
Technology	**8.8**	7.6	15.1
Development activity	**2.5**	1.7	5.9
Property	**2.9**	3.0	6.5
Legal and professional fees	**1.8**	1.7	3.8
Marketing	**2.0**	1.8	3.6
Regulatory fees	**1.3**	1.2	2.4
Other	**5.4**	4.0	8.0
Total administrative expenses	**75.3**	59.5	130.1

Notes to the Accounts (continued)

7. Impairment on loans and advances to customers

	Six months to 30 June 2023 (Unaudited)	Six months to 30 June 2022 (Unaudited)	Year to 31 December 2022 (Audited)
	£M	£M	£M
Loans fully secured on residential property	**1.3**	3.4	12.0
Loans fully secured on land	**-**	-	(0.1)
Total income statement charge for the period	**1.3**	3.4	11.9

The Group's policy for calculating impairment of loans and advances to customers is detailed in note 1(e) of the 2022 Annual Report and Accounts.

The table below summarises the Group's retail mortgage balances, loan commitments and associated impairment loss provisions.

30 June 2023 (Unaudited)	**Gross exposure £M**	**Impairment loss provision £M**	**Provision coverage %**
Retail mortgages			
Stage 1	**17,480.1**	**4.7**	**0.03**
Stage 2 and <30 days past due	**2,912.6**	**28.5**	**0.98**
Stage 2 and 30+ days past due	**104.2**	**2.2**	**2.11**
Stage 3 and <90 days past due	**113.1**	**2.1**	**1.86**
Stage 3 and 90+ days past due	**124.9**	**11.1**	**8.89**
Total retail mortgages	**20,734.9**	**48.6**	**0.23**
Loan commitments			
Stage 1	**1,556.7**	**0.3**	**0.02**
Total impairment loss provision	**22,291.6**	**48.9**	**0.22**

Notes to the Accounts (continued)

7. Impairment on loans and advances to customers (continued)

30 June 2022 (Unaudited)	Gross exposure £M	Impairment loss provision £M	Provision coverage %
Retail mortgages			
Stage 1	16,910.3	12.7	0.08
Stage 2 and <30 days past due	2,305.1	11.6	0.50
Stage 2 and 30+ days past due	86.0	2.3	2.67
Stage 3 and <90 days past due	109.3	5.7	5.22
Stage 3 and 90+ days past due	115.1	7.8	6.78
Total retail mortgages	19,525.8	40.1	0.21
Loan commitments			
Stage 1	1,530.7	0.4	0.03
Total impairment loss provision	21,056.5	40.5	0.19

31 December 2022 (Audited)	Gross exposure £M	Impairment loss provision £M	Provision coverage %
Retail mortgages			
Stage 1	16,965.3	5.1	0.03
Stage 2 and <30 days past due	3,088.3	30.0	0.97
Stage 2 and 30+ days past due	97.2	1.6	1.65
Stage 3 and <90 days past due	108.5	1.9	1.75
Stage 3 and 90+ days past due	113.0	9.2	8.14
Total retail mortgages	20,372.3	47.8	0.23
Loan commitments			
Stage 1	1,051.7	0.2	0.02
Total impairment loss provision	21,424.0	48.0	0.22

Notes to the Accounts (continued)

7. Impairment on loans and advances to customers (continued)

The tables below provide information on movements in the gross retail mortgage exposures and associated impairment loss provisions during the year to date:

Six months to 30 June 2023

	Stage 1		Stage 2		Stage 3		Total	
	Gross exposure	Provision 12m ECL	Gross exposure	Provision Lifetime ECL	Gross exposure	Provision Lifetime ECL	Gross exposure	Provision
	£M	£M	£M	£M	£M	£M	£M	£M
At 1 January 2023	**16,965.3**	**5.1**	**3,185.5**	**31.6**	**221.5**	**11.1**	**20,372.3**	**47.8**
Transfers resulting in increased impairment loss provision:								
From Stage 1 to Stage 2	**(849.6)**	**(0.3)**	**849.6**	**2.4**	**-**	**-**	**-**	**2.1**
From Stage 1 to Stage 3	**(17.3)**	**-**	**-**	**-**	**17.3**	**0.3**	**-**	**0.3**
From Stage 2 to Stage 3	**-**	**-**	**(39.3)**	**(0.6)**	**39.3**	**2.6**	**-**	**2.0**
Transfers resulting in reduced impairment loss provision:								
From Stage 2 to Stage 1	**837.2**	**0.2**	**(837.2)**	**(1.2)**	**-**	**-**	**-**	**(1.0)**
From Stage 3 to Stage 1	**4.0**	**-**	**-**	**-**	**(4.0)**	**-**	**-**	**-**
From Stage 3 to Stage 2	**-**	**-**	**17.0**	**0.1**	**(17.0)**	**(0.2)**	**-**	**(0.1)**
Change in impairment loss provision resulting from loan modifications	**-**	**0.1**	**-**	**0.1**	**-**	**-**	**-**	**0.2**
Other remeasurement of impairment loss provision (no movement in stage)	**-**	**(1.0)**	**-**	**(1.5)**	**-**	**0.4**	**-**	**(2.1)**
New advances	**2,799.7**	**1.0**	**-**	**-**	**-**	**-**	**2,799.7**	**1.0**
Redemptions and repayments	**(2,248.6)**	**(0.4)**	**(169.4)**	**(0.2)**	**(19.1)**	**(0.9)**	**(2,437.1)**	**(1.5)**
Write offs	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**-**	**(0.1)**
At 30 June 2023	**17,490.7**	**4.7**	**3,006.2**	**30.7**	**238.0**	**13.2**	**20,734.9**	**48.6**

Six months to 30 June 2022

	Stage 1		Stage 2		Stage 3		Total	
	Gross exposure	Provision 12m ECL	Gross exposure	Provision Lifetime ECL	Gross exposure	Provision Lifetime ECL	Gross exposure	Provision
	£M	£M	£M	£M	£M	£M	£M	£M
At 1 January 2022	16,208.6	9.3	1,903.3	11.6	228.4	16.1	18,340.3	37.0
Transfers resulting in increased impairment loss provision:								
From Stage 1 to Stage 2	(1,017.9)	(0.5)	1,017.9	2.3	-	-	-	1.8
From Stage 1 to Stage 3	(13.4)	-	-	-	13.4	0.2	-	0.2
From Stage 2 to Stage 3	-	-	(25.9)	(0.3)	25.9	0.8	-	0.5
Transfers resulting in reduced impairment loss provision:								-
From Stage 2 to Stage 1	417.1	0.2	(417.1)	(0.7)	-	-	-	(0.5)
From Stage 3 to Stage 1	6.5	-	-	-	(6.5)	(0.1)	-	(0.1)
From Stage 3 to Stage 2	-	-	15.9	0.1	(15.9)	(0.2)	-	(0.1)
Change in impairment loss provision resulting from loan modifications	-	-	-	-	-	-	-	-
Other remeasurement of impairment loss provision (no movement in stage)	-	2.7	-	1.3	-	(2.2)	-	1.8
New advances	3,670.9	1.5	-	-	-	-	3,670.9	1.5
Redemptions and repayments	(2,361.5)	(0.5)	(103.0)	(0.4)	(20.9)	(0.7)	(2,485.4)	(1.6)
Write offs	-	-	-	-	-	(0.4)	-	(0.4)
At 30 June 2022	16,910.3	12.7	2,391.1	13.9	224.4	13.5	19,525.8	40.1

Notes to the Accounts (continued)

7. Impairment on loans and advances to customers (continued)

Year to 31 December 2022

	Stage 1		Stage 2		Stage 3		Total	
	Gross exposure	Provision 12m ECL	Gross exposure	Provision Lifetime ECL	Gross exposure	Provision Lifetime ECL	Gross exposure	Provision
	£M	£M	£M	£M	£M	£M	£M	£M
At 1 January 2022	16,208.6	9.3	1,903.3	11.6	228.4	16.1	18,340.3	37.0
Transfers resulting in increased impairment loss provision:								
From Stage 1 to Stage 2	(1,847.5)	(0.7)	1,847.5	16.5	-	-	-	15.8
From Stage 1 to Stage 3	(32.5)	-	-	-	32.5	0.7	-	0.7
From Stage 2 to Stage 3	-	-	(42.3)	(1.1)	42.3	1.7	-	0.6
Transfers resulting in reduced impairment loss provision:								
From Stage 2 to Stage 1	492.9	0.1	(492.9)	(0.9)	-	-	-	(0.8)
From Stage 3 to Stage 1	10.4	-	-	-	(10.4)	(0.1)	-	(0.1)
From Stage 3 to Stage 2	-	-	32.5	0.2	(32.5)	(0.7)	-	(0.5)
Change in impairment loss provision resulting from loan modifications	-	0.1	-	-	-	(0.2)	-	(0.1)
Other remeasurement of impairment loss provision (no movement in stage)	-	(5.3)	-	6.2	-	(3.5)	-	(2.6)
New advances	6,145.4	2.6	-	-	-	-	6,145.4	2.6
Redemptions and repayments	(4,012.0)	(1.0)	(62.6)	(0.9)	(38.8)	(1.2)	(4,113.4)	(3.1)
Write offs	-	-	-	-	-	(1.7)	-	(1.7)
At 31 December 2022	16,965.3	5.1	3,185.5	31.6	221.5	11.1	20,372.3	47.8

In the above tables, the impact of changes to accounting estimates and judgements, including macroeconomic scenarios and probability weightings, is included within 'other re-measurement of impairment loss provision' unless the change results in the transfer of a loan between stages in which case it is included in the relevant transfer row.

8. Taxation

The standard rate of corporation tax applicable to the Group for the six months ended 30 June 2023 was 22% (six months ended June 2022: 19%; year ended December 2022: 19%). The statutory corporation tax rate for the full year to 31 December 2023 is 23.5%.

An increase in the UK corporation tax rate to 25% with effect from 1 April 2023 was substantively enacted on 24 May 2021. 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. A reduction in this surcharge to 3% of profits above a £100m threshold, effective from 1 April 2023, was substantively enacted on 2 February 2022.

Deferred tax balances have been calculated at a rate of 28% (30 June 2022: 28%; 31 December 2022: 28%) reflecting the increased corporation tax rate and the 3% banking surcharge effective from 1 April 2023.

Notes to the Accounts (continued)

9. Loans and advances to customers

30 June 2023 (Unaudited)	**Gross exposure £M**	**Impairment loss provision £M**	**Total £M**
Loans fully secured on residential property	**20,734.9**	**(48.9)**	**20,686.0**
Loans fully secured on land	**8.3**	**(1.6)**	**6.7**
Other loans	**156.7**	**(2.5)**	**154.2**
Total loans and advances to customers	**20,899.9**	**(53.0)**	**20,846.9**

30 June 2022 (Unaudited)	Gross exposure £M	Impairment loss provision £M	Total £M
Loans fully secured on residential property	19,525.8	(40.5)	19,485.3
Loans fully secured on land	9.3	(1.7)	7.6
Other loans	186.0	(2.5)	183.5
Total loans and advances to customers	19,721.1	(44.7)	19,676.4

31 December 2022 (Audited)	Gross exposure £M	Impairment loss provision £M	Total £M
Loans fully secured on residential property	20,372.3	(48.0)	20,324.3
Loans fully secured on land	8.6	(1.6)	7.0
Other loans	164.4	(2.5)	161.9
Total loans and advances to customers	20,545.3	(52.1)	20,493.2

10. Retirement benefit surplus

	30 June 2023 (Unaudited) £M	30 June 2022 (Unaudited) £M	31 December 2022 (Audited) £M
Present value of funded obligations	**(66.4)**	(82.0)	(69.6)
Present value of unfunded obligations	**(0.6)**	(0.7)	(0.6)
Assets at fair value	**69.9**	89.4	73.8
Surplus	**2.9**	6.7	3.6

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 to 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 2023 (six months ended June 2022: none; year ended December 2022: 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.

Notes to the Accounts (continued)

12. Guarantees and other financial commitments (continued)

b. Capital commitments

The Group has capital commitments contracted for but not accrued for under executory contracts of £3.0m (June 2022: £1.2m; December 2022: £4.8m) relating to technology investment programmes. 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 2023 is £35.9m (June 2022: £14.4m; December 2022: £42.3m). 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.

13. Credit risk on loans and advances to customers

Retail mortgages

A full analysis of credit risk on retail mortgages is included on pages 86 to 90 of the 2022 Annual Report and Accounts.

The table below provides information on the Group's retail mortgages by payment due status, excluding impairment loss provisions. The table includes £9.1m (June 2022: £3.3m; December 2022: £6.6m) of loans and advances secured on residential property in Spain that are past due and none (June 2022: £0.3m; December 2022: none) in possession.

	30 June 2023 (Unaudited)	**30 June 2023 (Unaudited)**	30 June 2022 (Unaudited)	30 June 2022 (Unaudited)	31 December 2022	31 December 2022
	£M	**%**	£M	%	£M	%
Not past due	**20,460.5**	**98.8**	19,280.5	98.7	20,122.8	98.8
Past due up to 3 months	**153.9**	**0.7**	127.2	0.7	136.3	0.7
Past due 3 to 6 months	**47.2**	**0.2**	41.7	0.2	41.0	0.2
Past due 6 to 12 months	**41.1**	**0.2**	39.7	0.2	36.6	0.2
Past due over 12 months	**25.5**	**0.1**	31.5	0.2	29.8	0.1
Possessions	**6.7**	**-**	5.2	-	5.8	-
Total	**20,734.9**	**100.0**	19,525.8	100.0	20,372.3	100.0

The Group continues to use forbearance arrangements as part of 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 89 of the 2022 Annual Report and Accounts and is materially unchanged.

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

Retail mortgages (continued)

	30 June 2023 (Unaudited) £M	**30 June 2023 (Unaudited) %**	30 June 2022 (Unaudited) £M	30 June 2022 (Unaudited) %	31 December 2022 £M	31 December 2022 %
Less than 10%	**214.3**	**1.0**	192.5	1.0	225.0	1.1
10% to 20%	**986.3**	**4.8**	915.5	4.7	1,042.9	5.1
20% to 30%	**2,168.9**	**10.5**	1,966.5	10.1	2,240.3	11.0
30% to 40%	**3,296.7**	**15.9**	3,119.5	16.0	3,498.4	17.2
40% to 50%	**4,020.5**	**19.3**	4,021.8	20.6	4,147.6	20.2
50% to 60%	**3,405.0**	**16.4**	3,461.8	17.7	3,395.8	16.7
60% to 70%	**2,789.0**	**13.5**	2,492.8	12.8	2,701.3	13.3
70% to 80%	**1,929.6**	**9.3**	1,871.5	9.6	1,705.6	8.4
80% to 90%	**1,450.7**	**7.0**	1,103.1	5.6	1,220.2	6.0
90% to 100%	**469.5**	**2.3**	375.0	1.9	191.5	0.9
Move than 100%	**4.4**	**-**	5.8	-	3.7	0.1
Total	**20,734.9**	**100.0**	19,525.8	100.0	20,372.3	100.0

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:

The overall weighted average indexed loan to value of the residential portfolio is 49.9% (June 2022: 49.5%; December 2022: 48.8%).

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.

	Fair value hierarchy level	**30 June 2023 (Unaudited) Carrying value £M**	**30 June 2023 (Unaudited) Fair value £M**	30 June 2022 (Unaudited) Carrying value £M	30 June 2022 (Unaudited) Fair value £M
Financial assets:					
Cash in hand and balances with the Bank of England	**Level 1**	**2,738.8**	**2,738.8**	2,615.7	2,615.7
Loans and advances to credit institutions	**Level 2**	**285.0**	**285.0**	145.1	145.1
Loans and advances to customers					
Loans fully secured on residential property	**Level 3**	**20,686.0**	**19,569.0**	19,485.3	18,857.3
Other loans	**Level 2**	**6.7**	**6.7**	7.6	7.6
Financial liabilities:					
Shares	**Level 2**	**19,121.5**	**18,727.9**	16,398.7	16,342.8
Amounts owed to credit institutions	**Level 2**	**2,083.6**	**2,083.6**	2,310.9	2,310.9
Amounts owed to other customers	**Level 2**	**186.0**	**186.0**	328.6	328.6
Debt securities in issue	**Level 1**	**2,315.0**	**2,395.8**	2,452.4	2,471.2
Debt securities in issue	**Level 2**	**89.0**	**89.6**	132.4	156.2
Subordinated liabilities	**Level 1**	**303.7**	**300.7**	322.7	317.7
Subscribed capital	**Level 1**	**191.9**	**233.9**	211.6	262.6

	Fair value hierarchy level	31 December 2022 (Audited) Carrying value £M	31 December 2022 (Audited) Fair value £M
Financial assets:			
Cash in hand and balances with the Bank of England	Level 1	2,958.1	2,958.1
Loans and advances to credit institutions	Level 2	235.9	235.9
Loans and advances to customers			
Loans fully secured on residential property	Level 3	20,324.3	19,734.9
Other loans	Level 2	7.0	7.0
Financial liabilities:			
Shares	Level 2	17,520.4	17,635.6
Amounts owed to credit institutions	Level 2	2,268.4	2,268.4
Amounts owed to other customers	Level 2	229.7	229.7
Debt securities in issue	Level 1	2,601.0	2,664.8
Debt securities in issue	Level 2	110.0	110.2
Subordinated liabilities	Level 1	309.1	305.3
Subscribed capital	Level 1	197.6	245.6

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 33 of the 2022 Annual Report and Accounts and remain unchanged since December 2022. 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.

At 30 June 2023 (Unaudited)	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	**955.8**	**1,392.9**	**-**	**2,348.7**
Derivative financial instruments	**-**	**933.9**	**-**	**933.9**
Loans and advances to customers	**-**	**-**	**154.2**	**154.2**
Fair value adjustment for hedged risk on loans and advances to customers	**-**	**-**	**(707.4)**	**(707.4)**
Total assets	**955.8**	**2,326.8**	**(553.2)**	**2,729.4**
Liabilities:				
Fair value adjustment for hedged risk on shares	**-**	**(131.5)**	**-**	**(131.5)**
Derivative financial instruments	**-**	**324.5**	**10.0**	**334.5**
Total liabilities	**-**	**193.0**	**10.0**	**203.0**

At 30 June 2022 (Unaudited)	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	105.7	1,136.4	-	1,242.1
Derivative financial instruments		453.8	-	453.8
Loans and advances to customers	-	-	183.5	183.5
Fair value adjustment for hedged risk on loans and advances to customers	-	-	(413.4)	(413.4)
Total assets	105.7	1,590.2	(229.9)	1,466.0
Liabilities:				
Fair value adjustment for hedged risk on shares	-	(93.2)	-	(93.2)
Derivative financial instruments	-	188.2	42.8	231.0
Total liabilities	-	95.0	42.8	137.8

At 31 December 2022 (Audited)	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Assets:				
Investment securities	396.7	990.0	-	1,386.7
Derivative financial instruments	-	679.9	-	679.9
Loans and advances to customers	-	-	161.9	161.9
Fair value adjustment for hedged risk on loans and advances to customers	-	-	(585.9)	(585.9)
Total assets	396.7	1,669.9	(424.0)	1,642.6
Liabilities:				
Fair value adjustment for hedged risk on shares	-	(100.7)	-	(100.7)
Derivative financial instruments	-	225.0	26.9	251.9
Total liabilities	-	124.3	26.9	151.2

14. Fair values (continued)

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

Level 1: Relates to financial instruments where fair values are taken from quoted prices in active markets for identical assets or liabilities, without adjustment.

Level 2: Valuations of financial instruments for which significant inputs are taken from observable market data for the asset or liability. These include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets which are not active. These also include valuations where models are used to calculate the present values of expected future cash flows, using solely inputs (such as interest rate curves) from published market observable sources.

Level 3: The valuation of the asset or liability is not solely 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 provided in the 2022 Annual Report and Accounts on pages 238 and 239.

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

Six months to 30 June 2023 (Unaudited)	**Derivative financial instruments £M**	**Loans and advances to customers £M**	**Fair value adjustment for hedged risk £M**	**Total £M**
At 1 January 2023	**(26.9)**	**161.9**	**(585.9)**	**(450.9)**
Total gains / (losses) in the Income Statement	**6.3**	**(6.3)**	**-**	**-**
Movement in fair value adjustment for hedged risk on loans and advances to customers	**-**	**-**	**(121.5)**	**(121.5)**
Net repayment in the year	**10.6**	**(1.4)**	**-**	**9.2**
At 30 June 2023	**(10.0)**	**154.2**	**(707.4)**	**(563.2)**

Six months to 30 June 2022 (Unaudited)	Derivative financial instruments £M	Loans and advances to customers £M	Fair value adjustment for hedged risk £M	Total £M
At 1 January 2022	(77.6)	215.5	(169.1)	(31.2)
Total gains / (losses) in the Income Statement	34.8	(31.0)	-	3.8
Movement in fair value adjustment for hedged risk on loans and advances to customers	-	-	(244.3)	(244.3)
Net repayment in the year	-	(1.0)	-	(1.0)
At 30 June 2022	(42.8)	183.5	(413.4)	(272.7)

Notes to the Accounts (continued)

14. Fair values (continued)

c. Reconciliation of level 3 fair value measurements of financial instruments (continued)

Year to 31 December 2022 (Audited)	Derivative financial instruments £M	Loans and advances to customers £M	Fair value adjustment for hedged risk £M	Total £M
At 1 January 2022	(77.6)	215.5	(169.1)	(31.2)
Total gains / (losses) in the Income Statement	50.7	(53.9)	-	(3.2)
Movement in fair value adjustment for hedged risk on loans and advances to customers	-	-	(416.8)	(416.8)
Net repayment in the year	-	0.3	-	0.3
At 31 December 2022	(26.9)	161.9	(585.9)	(450.9)

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

d. Level 3 unobservable inputs

(i) Derivative financial instruments (Level 3 equity release swaps)

One of the Group's equity release swaps is linked to RPI and is valued using a discounted cash flow model which uses observable market data for RPI and the yield curve used to discount future cash flows and unobservable input assumptions for prepayment rates. Wherever possible these input assumptions are calculated with reference to actual historic experience. At 30 June 2023, a 100 basis points increase in assumed prepayment rates would increase the value of the swap by £0.8m and a 100 basis points decrease in assumed prepayment rates would reduce the value of the swap by £0.9m.

(ii) 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 price haircut, mortality, early prepayment and the discount rate used to discount future cash flows. Wherever possible these input assumptions are calculated with reference to historic experience. The variables considered to have the largest impact on the value of the loan are property price volatility, sales price haircut and the discount rate. The sensitivities below reflect a range of alternative assumptions based on observed historic data and regulatory guidance.

The discount rate used in the valuation of the collateral loan is comprised of SONIA and a risk premium. SONIA rates are obtained from market information and the risk premium is internally calculated At 30 June 2023, a 1 percentage point increase in the discount rate would reduce the value of the collateral loan by £11.8m and a 1 percentage point decrease in the discount rate would increase the value of the collateral loan by £12.9m.

A 3 percentage point increase in assumed property price volatility would reduce the value of the collateral loan by £4.1m and a 3 percentage point decrease in assumed property price volatility would increase the value of the collateral loan by £3.7m. A 5 percentage point increase in the sales price haircut would reduce the value of the collateral loan by £3.3m and a 5 percentage point decrease in the sales price haircut would increase the value of the collateral loan by £2.8m.

(iii) Fair value adjustment for hedged risk on loans and advances to customers

The Group designates a portfolio of fixed rate mortgages into hedge relationships to mitigate interest rate risk. 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.

14. Fair values (continued)

d. Level 3 unobservable inputs (continued)

At 30 June 2023, a 20% proportionate increase in mortgage repayments would lead to a reduction in the fair value of the mortgages in the hedge relationship of £18.5m. A 20% proportionate decrease in mortgage repayments would lead to an increase in the fair value of the mortgages of £20.2m.

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

There have been no subsequent events between 30 June 2023 and the date of approval of this Interim Financial Report by the Board which would have had a material impact on the financial position of the Group.

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, which have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Society and the undertakings included in the consolidation as a whole; and
- 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).

Signed on behalf of the Board of Directors:

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

27 July 2023

Independent Review Report to Leeds Building Society

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in members' interests, the condensed consolidated statement of cash flows and related notes 1 to 15.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 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.

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK) 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
27 July 2023