Leeds Building Society

Annual Report & Accounts 2015

Leeds Building Society
Moving Forward

2015: A YEAR IN REVIEW

Total residential lending up

15%

37% of new lending was to first time buyers.

Our total lending has increased by

£1.4bn

That's our best ever performance.

Our operating profit of

£108.5m

is up

34%

since last year.

Total assets increased by

11% to **£13.5bn**

Accredited

by Best Companies in our first year of entering

A record

719,000

members, increased by 22,000 in 2015.

Customer satisfaction over

91%

Based on our annual customer survey.

Total savings increased to

£9.9 bn

On average we paid 1.78% vs 1.20% market average.

Award-winning automation software

has been rolled out across the Society. Automated administration processing means we're saving time and therefore money, and leaves our colleagues free to help our members.

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Chairman's Statement

Year ended
31 December 2015

In our 140th year, Leeds Building Society continued to help more people save and have the home they want. We achieved this by providing good value products, recognising the historically low interest rate environment, supported by improving the service to our members.

Our strong lending growth led to a record level of profit, enabling us to increase our capital and reserves and invest further in the long term future of the Society. Membership grew to more than 719,000[i], assets rose by 11% to £13.5bn and savings balances reached £9.9bn, all higher than at any time in our history.

Economic background

Whilst UK economic growth slowed in 2015, annual growth remained positive. Unemployment and inflation both fell and wage growth continued to rise. The US recovered from its post-crisis recession and the Federal Reserve increased rates for the first time in almost nine years. In contrast, the European Central Bank announced further measures to boost sluggish economic growth in the Eurozone.

Inflation was 0.2%[ii] in December 2015 and Bank Base Rate remained at 0.5%. The Monetary Policy Committee noted that 'the outlook for global growth has weakened' and, as a result, we anticipate Bank Base Rate will remain low throughout 2016.

Market lending growth was particularly strong in October at £21.9bn, up 19% year-on-year and the highest monthly figure since July 2008. Gross mortgage lending was £220bn[iii] in 2015, an increase of 8.3% compared to a year earlier. House prices continued to rise with the Halifax House Price Index showing a rise of 9.5%[iv] in 2015 compared to the previous year.

Increased competition for mortgages resulted in a reduction in the average new mortgage rate and, as a consequence, market rates paid to savers also reduced. However, we continued to pay 0.58%[v] more on average to savers than our competitors. During 2015, total household deposits in the UK increased by 3.9% to £1.27 trillion[vi].

i. The methodology for calculating the number of members was reviewed and refined in 2015. The previous year has been restated for comparative purposes
ii. Office for National Statistics
iii. The Council of Mortgage Lenders, gross lending estimate for 2015
iv. Halifax HPI, December 2015
v. CACI data, November 2015, latest data available – CACI is an independent company that provides financial services benchmarking data and covers 85% of the high street cash savings market
vi. Bank of England, December 2015

Regulation and industry developments

The busy regulatory agenda shows no sign of abating. Following amendments made to the Financial Services (Banking Reform) Act 2014, and in line with the Building Societies Association Model Rules, we're proposing a change to our Memorandum to permit a floating charge over the Society's assets. This will assist the Society's Treasury Function to raise funds in line with market best practice and ensure continuity of such funding, as other building societies have done by implementing the change. The Board believes this is in the best interest of the Society and I would like to encourage all members to vote for the Special Resolution at the Annual General Meeting.

The Prudential Regulation Authority and the Financial Conduct Authority believe holding individuals to account is a key component of effective regulation and published their final rules on Strengthening Accountability in Banking in 2015. We've already taken action to ensure we comply with the proposals, which reflect the recommendations of the Parliamentary Commission on Banking Standards and come into effect next month.

The Mortgage Credit Directive will also be implemented in March and introduces a framework of conduct rules across the European Union. The UK interpretation builds on existing rules in place to protect customers and aims to standardise the way in which borrowers across Europe access mortgages. We've made all the necessary changes to our systems and processes.

Board composition and corporate governance

Your Board continued to evolve through 2015. After 27 years with the Society, Kim Rebecchi stepped down in June last year to pursue a non executive career. Kim became an executive director in 2009, leading the Society's Distribution Division. She also chaired the Conduct Risk Committee and was a member of the Credit and Assets & Liabilities Committees.

Abhai Rajguru and Ian Robertson both retired from the Board last year, after serving seven years as non executive directors. Abhai was a member of the Audit and Assets & Liabilities Committees, and a Trustee of the Leeds Building Society Pension Scheme. Ian chaired the Audit Committee and was a member of the Board Risk and Credit Committees.

I would like to say a heartfelt thanks to Kim, Abhai and Ian for their invaluable contributions during their time with the Society.

John Hunt and Gareth Hoskin joined the Board as non executive directors in 2015. John has held a wide range of senior positions with leading international banks over a 38-year career and has significant knowledge and expertise in portfolio management, risk reporting, credit policy and retail banking. Gareth has extensive financial services experience including insurance and banking, audit, remuneration and risk. Their input will be invaluable as we continue to grow and operate in a highly regulated environment.

Richard Fearon joined the Board as Chief Commercial Officer in February 2016 and will be responsible for product development, marketing and brand, digital, customer insight and distribution. He started his career at the management consultants Oliver Wyman & Company and spent the last ten years at Lloyds Banking Group where he held a number of senior roles in both the mortgage and savings businesses.

In line with best practice recommended by the UK Corporate Governance Code, all directors are subject to election or re-election each year. A summary of their details can be found on pages 40 and 41. I ask you to support the nominations.

I am delighted that Peter Hill, our Chief Executive Officer, has been appointed as Chairman of the Council of Mortgage Lenders, the main trade body representing UK mortgage lenders. Peter's skill and extensive knowledge will play an important role at the heart of the mortgage industry.

Summary

Leeds Building Society has been successful for 140 years and we will continue to innovate and invest to transform our service and meet the ever changing needs of current and future members.

This is only possible because we have talented and dedicated colleagues who strive to provide outstanding customer service in every area of the business. On behalf of the Board, I would like to thank them for their hard work and dedication.

The low interest rate environment looks set to remain throughout 2016 and, whilst this is good news for borrowers, it continues to be particularly challenging for savers. Notwithstanding this, we'll continue to work hard to deliver long term value to you, our members.

Robin Ashton
Chairman

23 February 2016

Chief Executive Officer's Review

Year ended
31 December 2015

2015 business highlights:

- New mortgage lending increased by 15% to £3.1bn, significantly above our market share[i]
- Net residential lending of £1.4bn is our best ever performance
- Total charge for impairment losses reduced by 53% to £18.5m
- Pre-tax profit rose by 23% to a record £108.5m
- Savings balances grew by £751m to £9.9bn, the highest level in our history
- We attracted 22,000 new members, taking total membership to a record 719,000[ii]
- Capital and reserves increased to £830m
- Total assets increased by 11% to a record £13.5bn

I'm proud to report another excellent set of results for Leeds Building Society. We've provided more mortgages than ever before and increased savings balances to the highest level in our history. As a result, our assets now total £13.5bn.

Our record lending, combined with a reduction in impairment provisions, has led to a very strong profit performance and means we're able to continue to invest in the long term future of the Society for the benefit of our members.

We've developed the products and services we offer and we'll continue to innovate and transform the way we deliver these, by keeping members' needs at the centre of everything we do.

Our vision, which is built on four strategic pillars, is to be 'Britain's most successful building society'. Our pillars are:

1. To support the aspirations of a wide range of borrowers and savers, in particular those who are not well served by the wider market.
2. To generate strong levels of profit, which is retained in the business to build a solid platform for growth.
3. To deliver outstanding personal service to all our members.
4. To continue to reinvest in the business to improve efficiency, whilst being intolerant of waste.

I'm delighted to report that we've made significant progress against each of these during 2015.

Supporting the aspirations of borrowers and savers

Bank Base Rate has remained at 0.5% for the last seven years and we don't currently anticipate any rise until 2017. This, combined with increased competition in the mortgage market, means borrowers have seen even greater benefit in this historically low rate environment. Conversely, I appreciate that savers find the current economic climate challenging.

Therefore, we worked hard during 2015 to provide competitive savings returns and paid an average rate of 1.78%[iii] compared to the rest of the market equivalent of just 1.20%.

The Society received the award of 'Best Regular Savings Account Provider' for the second year in a row from the independent consumer advice website Savings Champion. We also provided a competitive and popular ISA range and all savers receive a minimum return of 0.5%, which is equivalent to the current Bank Base Rate. As a result, retail deposits and savings balances are now at their highest ever level of £9.9bn.

Our ability to pay above market returns to attract and retain savers has enabled us to help a record number of borrowers in 2015. We provided £3.1bn of new mortgages, which is a 15% increase on the year before and 1.6 times above our market share.

Supporting borrowers who are not well served by the wider market remains a key focus for us and we were active in the Shared Ownership, Help to Buy, Interest Only and Buy to Let markets. This focus, combined with our mainstream product offering, means we achieved record mortgage lending across a balanced product range.

The Government has committed to building more houses, including starter homes, and we welcome support for this important segment. I'm pleased that we helped more than 9,400 first time buyers purchase their homes in 2015, which accounted for 37% of our total lending by value and an increase of £252m compared to a year earlier.

Continuing financial security

A combination of sustained lending growth over recent years, a favourable external environment and lower impairment provisions has resulted in profit before tax increasing by 23% to £108.5m. This enabled us to continue to invest in the future, build our financial strength and increase capital and reserves to a record £830m.

Total assets are now £13.5bn and our good financial performance meant the credit ratings agencies, Moody's and Fitch, both continue to assign long term 'A' ratings to the Society.

The strong UK economy has meant fewer borrowers have been experiencing financial difficulty and residential arrears (1.5% or more of outstanding mortgage balances) reduced from 1.88% in 2014 to 1.43% in 2015. As a result, impairment losses on loans to customers fell by 53% to £18.5m. The majority of this relates to the action we took to reduce our commercial balances by 28% to £194m, which represents less than 2% of total customer loans.

We've already experienced increased competition, particularly in the mortgage market, in the second half of 2015 and we anticipate this will only intensify. Therefore, we expect to see some downward pressure on our net interest margin as we move through 2016 and into 2017.

Delivering outstanding personal service

Our members' needs change and evolve, and we look to adapt to meet those needs so that members can contact us at a time that suits them and in a way that they choose – by phone, in branch, online, or by email.

In November last year we increased the service we offer through our Contact Centre, which opens from 8am to 8pm seven days a week. This means we have been able to help more savers and borrowers deal with their finances during the evening or at weekends, making life easier and improving their experience.

We also made it quicker and easier for savers to deposit funds into their account by debit card in all branches.

Our mobile application, which is piloting now, allows members to view their savings balances on the go, find a branch anywhere in the UK and easily access contact information.

i. Leeds Building Society defines market share as follows:
Mortgages – Council of Mortgage Lenders market share statistics
Savings – Mutual sector net retail savings as published by the Building Societies Association

ii. The methodology for calculating the number of members was reviewed and refined in 2015. The previous year has been restated for comparative purposes

iii. CACI data, November 2015, latest figures available – CACI is an independent company that provides financial services benchmarking data and covers 85% of the high street cash savings market

Continued

In response to feedback we started instructing mortgage valuations earlier in the underwriting process. This has enabled mortgage offers to be issued more quickly and members to move into their homes earlier.

To measure our progress, we carry out regular independent member surveys and overall customer satisfaction remained high, at 91.2%[iv]. We also use the industry standard metric Net Promoter Score® (NPS)[v], which measures the likelihood of a customer recommending a product or service. Our latest NPS of +49 benchmarks very well against the industry.

The needs of our members are central to how we develop our products and services and we created our online member forum, 'TalkingPoint' towards the end of 2015. This gives us the opportunity to build closer relationships with our members, gain insight into what matters to them and enable us to provide updates on how we've used their feedback.

Recruiting, developing and retaining the best talent is key to our success. Regular surveys show colleagues are highly engaged and this is clear from the feedback we receive from our members. In 2015, we achieved accreditation from Best Companies, which is a widely recognised industry accolade for employers. Awarded following an extensive colleague survey, this highlights Leeds Building Society as an 'employer of choice'.

I'd like to take this opportunity to thank all my colleagues for their continued commitment and passion to serving the needs of our members.

Investing in the business

Our purpose is to help people to save and have the home they want. Over the past five years we've supported more members than ever before and during this period, assets have increased 42%, to over £13.5bn. We believe it's right to use our financial strength to invest and move forward, to meet the changing needs and expectations of members.

We created a further 150 career opportunities in 2015 and now employ 1,300 colleagues. This increase in capacity also meant we required additional office space. In Leeds, we secured new space in the city centre and refurbished our Head Office to ensure we maintain the best possible environment. We also plan to move our colleagues in the north east operations centre to a larger, more modern building later this year.

Further investment in the long term future of the business included the successful upgrade of the Society's core IT systems during the first half of 2015. This created a platform for future improvements to our service and members will see further benefits from these enhancements in the coming months.

As a result of this investment, our cost to asset and cost to income ratios increased to 62p (2014: 57p) per £100 of assets and 36% (2014: 33%) respectively. However, I believe our focus on efficiency will mean these ratios will remain amongst the best in the building society sector.

Outlook

Leeds Building Society has achieved record results with savings, mortgage balances, and membership at our highest ever levels. Sustained lending growth has led to a strong profit performance and record capital and reserves, consolidating our financial strength.

Bank Base Rate looks set to stay low in 2016 and we've already experienced increased competition in the second half of last year. We anticipate this will intensify and, therefore, expect to see further downward pressure on margin as we move through the second half of the decade.

Despite this, our strong profitability and sustainable business model mean we're well placed to continue with our investment plan in 2016. We remain focused on providing what is best for you, our members, and will continue to strive to deliver security, value and excellent personal service.

I would like to thank you for your continued support.

Peter Hill
Chief Executive Officer

23 February 2016

iv. Customer Satisfaction rating based on the views of 2,300 customers

v. Net Promoter, NPS, and the NPS-related emoticons are registered service marks, and Net Promoter Score and Net Promoter System are service marks, of Bain & Company, Inc., Satmetrix Systems, Inc. and Fred Reichheld – based on the views of 750 customers surveyed in Q4 2015

Leeds Building Society has achieved record results with savings, mortgage balances, and membership at their highest ever levels.

Strategic Report

Year ended
31 December 2015

The Strategic Report reviews the Society's mission, business model and strategy, together with its performance in 2015 and future outlook.

Business Model

Leeds Building Society is the fifth largest building society in the UK, with assets of over £13bn. As a member owned mutual, the Society's mission is to help people save and buy the home they want and can afford. This is delivered using a straightforward business model:

The Society borrows from Savers via:
Branch
Online
Post

Building societies fund the majority of mortgage lending with members' savings. The Society offers products through a network of 67 branches, by phone, post and a range of internet services.

The Society aims to attract members at all life stages and, increasingly, is attracting younger families in the settling down stages of life.

A range of competitive products is offered to over half a million saving members which offer long term value when compared to the wider savings market.

As well as:
Raising long term, stable and diverse funds from the wholesale markets.

The balance of funding required for lending and maintaining an appropriate level of liquidity is obtained from the wholesale money markets (other large financial institutions and banks). The amount of wholesale funding the Society receives varies on a daily basis, and is typically managed to around a fifth of total funding.

The Society has a long term 'A' credit rating, which is amongst the strongest in the sector. This allows the Society to access wholesale funds on competitive terms and across a number of instruments and durations.

And lends to Mortgage borrowers:
First time buyers
Shared ownership
Prime mortgages
Buy to let

The Society provides mortgages secured on residential property including for shared ownership and buy to let purposes. Mortgage business is sourced through a network of approved mortgage brokers, as well as via the branch network, online and direct telephone services.

The Society has nearly 200,000 mortgage members and a cautious approach to credit risk is reflected in the overall loan to value (LTV) on the mortgage portfolio being less than 50%.

A blend of lending segments allows the Society to achieve an acceptable portfolio risk profile, along with appropriate margins.

The Society's approach to business delivers member value

- A strong capital base is maintained to ensure long term security for members. A prudent approach to lending helps ensure the Society can meet the necessary capital requirements.
- Competitive products are offered with savings rates that are currently higher than the market average.
- The highest standards of trust and integrity are observed in all our engagement with members. This, along with competitive products and investment in the Society, results in high member satisfaction and strong long term relationships with members.
- Families and first time buyers are helped to purchase homes through competitive products and a focus on customer needs means the Society can lend to borrowers underserved by other banks and building societies (but not expose itself to too much risk).
- High levels of customer service are maintained and the customer lies at the centre of the Society's operational processes and a single contact point is delivered where possible.

"Society Values explain the behaviours all colleagues are expected to display in everything they do, underpinning delivery of the Society's business model and strategy."

Remaining financially stable by:
Maintaining liquid investments with strong credit rated institutions and central banks.

The Society maintains a portfolio of liquid investments, used to ensure there is sufficient cash available to meet the requirements of savers, investors and other creditors.

Assets are invested conservatively, in a range of high quality investment instruments, in a spread of counterparties.

The Society also retains access to contingent liquidity facilities to help ensure sufficient liquidity is held at all times in excess of regulatory requirements.

Investing to:
Continually improve the products and services the Society offers to help existing members and attract new ones.

The Society is investing in its digital capability so that savers can access products more easily and manage savings through the internet and mobile devices, as well as through traditional channels. The mortgage application process is being streamlined for brokers and customers.

A strong focus on customer experience and digital channels will help the Society attract new saving and mortgage members.

And is financially secure:
Generating sufficient profit to maintain a strong capital base.

The Society aims to generate sufficient profit to maintain a strong capital position, so it can continue to grow, invest and enhance its customer proposition.

This requires a strong focus on cost efficiency and management of the net interest margin. This means the Society can price competitively to provide value to existing members, while attracting new borrowers and savers.

Society Values

Society Values explain the behaviours all colleagues are expected to display in everything they do, underpinning delivery of the Society's business model and strategy. They are as follows:

Collaborative – nurturing positive relationships

Straightforward – doing the right thing

Progressive – always moving forward

Integrity – trusted custodians

Passionate – determined to succeed

Responsible – taking personal ownership

Strategic Report

Year ended
31 December 2015

Continued

Strategic pillars

The Society has four strategic pillars which focus on delivery priorities in order to further develop the Society and help its vision of becoming Britain's most successful building society. 2015 has been a year of very good progress, the key areas of which are highlighted below.

Strategic pillars	How this is delivered	Progress in 2015
Customer focused To support the aspirations of a wide range of borrowers and savers, in particular those who are not well served by the wider market.	The Society has been a mutual organisation for over 140 years, which means customers are also members. The Society does not have the distraction of separate shareholders and is able to have a customer centric focus on everything it does. Competitive products are developed which meet customer needs. The Society's flexible systems and risk management capabilities are used to meet customer needs in areas which have historically been underserved, while competitive savings products offer members long term value.	• Whilst savings rates in the market reduced further in 2015, the Society continued to offer a compelling product proposition and was able to pay higher average savings rates than the market average. Savings balances increased to a record level. • The Society formalised member value principles which are now integral to its product development process. • The facility to accept debit card transactions to make deposits in branches was introduced towards the end of 2015.
Secure To generate strong levels of profit which are retained in the business to build a solid platform for growth.	The Society is well capitalised and retains capital and leverage ratios in excess of the regulatory minima. This provides the Society with the resources to grow mortgage lending, invest and meet future regulatory changes, whilst maintaining a secure Society for members. Risks are managed through investing in resources and technology. The Society is seeking regulatory approval to use the Internal Ratings Based (IRB) approach for the assessment of credit risk capital requirements for residential mortgages. Legacy portfolios are proactively managed to reduce the credit risk associated with these loans.	• A strong profit performance was a key driver of the increase in capital ratios. As expected the leverage ratio reduced slightly as lending was increased. • Risk management capability was further increased and the process of making an application to use IRB has been largely completed. In addition, regulatory approval was gained to manage our treasury risks using the 'comprehensive approach'. • The commercial lending portfolio, part of 'legacy' lending, reduced further and now represents less than 2% of balances. The commercial impairment charge reduced significantly.
Service driven To deliver outstanding personal service to all our members.	Strong relationships have been developed with our approved network of mortgage brokers. Flexible systems, competitive products and a dedicated relationship management team help to deliver an industry-leading broker experience. Customer centric processes are being developed, supported by our flexible systems so that customers can seamlessly engage with the Society across their chosen method of communication: web, email, smartphone, telephone or mail. Outstanding personal service is delivered by 1,300 highly engaged colleagues employed by the Society.	• The Customer Operations Department was reorganised to support improved engagement with customers across all channels. • Colleague engagement and leadership scores continued to be in the top quartile for the financial services industry. The Society also achieved accreditation from Best Companies for the first time. • A new app has been piloted which enables customers to check balances and locate nearby branches. Further functionality will be included in future releases. • The Society continues to grow through investment, with 150 new roles created in 2015.
Efficient To continue to reinvest in the business to improve efficiency, whilst being intolerant of waste.	The Society maintains a resilient, scalable and flexible core administration system platform on which future developments can be made. Expenses have increased over recent years as the Society's investment programme continues. Strong cost control is maintained and operational efficiencies continue to be realised to ensure cost ratios remain amongst the best in the sector.	• The Society's core customer administration systems were successfully transferred to HP in April 2015. • Robotic process automation software has been deployed in customer administration processing. This software can be quickly developed to link complete processes across multiple systems, thereby reducing manual work. This rollout has already saved 4,720 hours of manual processing and will continue to realise further efficiencies.

Key performance indicators

Performance is measured against a number of key performance indicators, shown below.

KPI (strategic pillar)	What we measure	Performance	2015 highlights
New residential lending (Customer focused)	The value of residential lending advanced by the Society during the year, including loans for house purchases, further advances and remortgages.	2015: £3.1bn 2014: £2.7bn 2013: £2.2bn 2012: £1.7bn 2011: £1.3bn	The Society took advantage of market conditions to grow gross lending to a record of £3.1bn. Gross lending was significantly above the Society's market share[i].
Net residential lending (Customer focused)	Gross residential lending, net of repayments of principal and redemptions. This represents the change in residential mortgage balances outstanding and forms the main component of the Society's total assets.	2015: £1.4bn 2014: £1.1bn 2013: £1.0bn 2012: £0.7bn 2011: £0.3bn	A small increase in redemptions was offset by a strong performance in gross lending. This resulted in record net lending growth of £1.4bn, an increase of 27%.
Savings balances (Customer focused)	The balance of shares and deposits held by the Society's members and other customers. These form the main component of the Society's total liabilities.	2015: £9.9bn 2014: £9.2bn 2013: £8.6bn 2012: £7.7bn 2011: £7.4bn	The Society continued to offer a compelling range of investment products which helped increase savings balances to £9.9bn, paying on average a rate of 58 bps above the market average.
Change in membership[ii] (Customer focused)	The number of Society members. Increasing the number of members is part of achieving the Society's vision.	2015: 719,000 2014: 697,000 2013: 690,000 2012: 675,000 2011: 668,000	The strong performance on new lending and the increase on savings balances resulted in membership rising to a record 719,000.
Operating profit before exceptional item (Secure)	Operating profit before exceptional item. It represents the Society's underlying profitability, creating capital to support future business growth. Profit is subject to tax.	2015: £108.5m 2014: £80.9m 2013: £64.2m 2012: £54.6m 2011: £50.2m	The strong performance was driven by growth in net interest income and a reduction in impairment provisions. This offset an increase in management expenses.
Liquidity Coverage Ratio (LCR) (Secure)	LCR is a measure of liquid assets which can be converted to cash to meet cash outflows in the event of a stress scenario. The Society is required to maintain a minimum of 100% to meet the regulatory minimum set by the Bank of England.	2015: 194% 2014: 196%	The Society maintained a strong level of liquidity which is in excess of the regulatory minimum. The Society continues to balance the need to hold liquidity in excess of the regulatory minimum and the cost associated with this.

i Leeds Building Society defines market share as follows:
Mortgages – Council of Mortgage Lenders market share statistics.
Savings – Mutual sector net retail savings as published by the Building Societies Association.

ii The methodology for calculating the number of members was reviewed and refined in 2015. The graph reflects the new methodology. The previous years have been restated for comparative purposes.

Strategic Report

Year ended
31 December 2015

Continued

KPI (strategic pillar)	What we measure	Performance	2015 highlights
Net interest margin (Secure)	The difference between interest received on assets and interest paid on liabilities, measured as a percentage of mean assets. This is the Society's main source of income.	2015: 1.62% 2014: 1.58% 2013: 1.52% 2012: 1.32% 2011: 1.32%	The net interest margin for the year was 162 bps, an increase of 4 bps compared to the previous year. This is as a result of lower retail funding costs.
Common Equity Tier 1 Capital (Secure)	The highest quality form of capital that mainly comprises retained earnings and other reserves as a proportion of Risk Weighted Assets. This is measured to ensure the Society retains its excess over the regulatory minimum.	2015: 15.5% 2014: 15.6% 2013: 14.5% 2012: 14.4% 2011: 13.8%	The CET1 capital ratio has decreased marginally to 15.5% during 2015, reflecting the strong profit performance but also the increase in Risk Weighted Assets associated with the increase in lending.
Credit ratings (Secure)	The creditworthiness ratings assigned to the Society by Moody's and Fitch. Credit ratings are assigned following detailed analysis and can impact the amount the Society pays for new funding.	**Moody's:** Long term: A2 (2014: A3) Short term: P-1 (2014: P-2) **Fitch:** Long term: A- (2014: A-) Short term: F1 (2014: F1)	The ratings from Moody's were upgraded during 2015 and the Fitch ratings remained unchanged. The Society has a strong, long term 'A' credit rating which is amongst the strongest in the sector.
Number of days from mortgage application to offer (Service driven)	The number of days it takes to make a mortgage offer after an application is received. Efforts are being made to reduce the time taken to process offers and an internal target of 15 days has been set.	2015: 12 2014: 13 2013: 16	The continued improvement reflects the Society's investment in customer service capabilities.
% of customer administration processing completed on the same day (Service driven)	The percentage of customer administration received and processed on the same day. The target of 90% reflects the expected mix of processing activities.	2015: 86 2014: 89 2013: 84 2012: 88	The performance in 2015 was impacted by high volumes of ISA related transactions, which are more time consuming to process.
Customer satisfaction[iii] (Service driven)	The percentage of customers surveyed that described themselves as quite, very or extremely satisfied with the service received from the Society.	2015: 91.2% 2014: 92.0% 2013: 93.0% 2012: 95.5% 2011: 95.8%	Customer satisfaction remained high, but was impacted by the pressures caused by high business volumes. Customer satisfaction continues to benchmark favourably against other financial services organisations.

iii Customer satisfaction rating based on the views of 2,300 customers

"Colleague turnover reduced to 14% as fewer colleagues left the Society. High colleague engagement and development opportunities for colleagues are helping to ensure the Society is an employer of choice."

KPI (strategic pillar)	What we measure	Performance	2015 highlights
Colleague engagement score (Service driven)	Colleague engagement is measured annually by way of a survey in which all colleagues participate. Society goals are delivered by highly engaged colleagues.	2015 76.0% 2014 76.0% 2013 70.0% 2012 75.0%	The score for 2015 remained unchanged notwithstanding the pressure on colleagues from high business volumes and the pace of business change. The score continues to be within the top quartile for financial services organisations.
Cost to income ratio (Efficient)	A cost efficiency ratio which measures costs in relation to the Society's income. It is calculated as the percentage of the Society's total income spent on management expenses, depreciation and amortisation.	2015 36.4% 2014 33.4% 2013 31.1% 2012 33.1% 2011 31.3%	Management expenses increased in 2015 reflecting the Society's increased capacity, continued investment programme and its new IT platform. This caused the ratio to increase to 36.4%.
Cost to mean assets (Efficient)	A further cost efficiency ratio which measures costs in relation to the Society's total assets. It is calculated as management expenses, depreciation and amortisation divided by the average total assets.	2015 0.62% 2014 0.57% 2013 0.52% 2012 0.49% 2011 0.48%	The ratio increased to 0.62% reflecting the increase in management expenses. The Society maintains a strong focus on cost management.
Colleague turnover (Efficient)	The proportion of colleagues who leave the Society during the year. The Society seeks to attract and retain the best people to deliver its goals.	2015 14% 2014 17% 2013 19% 2012 17%	Colleague turnover reduced to 14% as fewer colleagues left the Society. High colleague engagement and development opportunities for colleagues are helping to ensure the Society remains an employer of choice.

Strategic Report

Year ended
31 December 2015

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Income statement overview

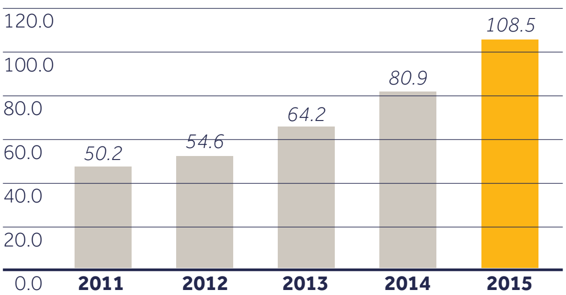
The income statement summary for the year is set out below:

	2015 £m	2014 £m	Change %
Net interest income	207.5	184.8	12
Fees, commissions and other income	12.3	14.0	(12)
Fair value gains less losses	(0.9)	(0.4)	(125)
Total income	**218.9**	**198.4**	**10**
Management expenses	(79.7)	(66.2)	(20)
Impairment losses and provisions	(30.7)	(51.3)	40
Underlying profit before tax	**108.5**	**80.9**	**34**
Pension curtailment gain	–	7.0	–
Profit before tax	**108.5**	**87.9**	**23**

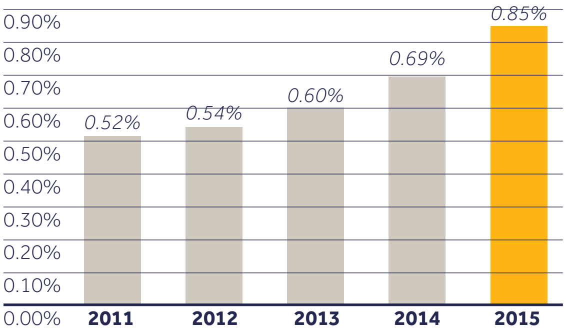
The Society's underlying profit before tax for 2015 was £108.5m, up 34% compared to the previous year (2014: £80.9m). Underlying profit before tax excludes the 2014 pension curtailment gain from profit before tax. Underlying profit before tax as a percentage of mean assets improved to 0.85% from 0.69%.

This strong performance in 2015 was driven by growth in net interest income, resulting from net lending growth combined with lower funding costs, and a reduction in impairment provisions. These were offset in part by an increase in management expenses as the Society wide investment programme continued.

Underlying profit before tax £m



Underlying profit before tax as % of mean assets



Profit is the primary source of new capital for the Society and is essential in ensuring its long term security for members, as well as meeting the regulator's capital requirements. The level of profit generated by the Society is sufficient to support ongoing capital requirements.

Net interest income

The net interest income summary for the year is set out below:

	2015 £m	2014 £m	Change %
Net interest income	207.5	184.8	12
Mean assets	12,819	11,663	10
	%	**%**	
Net interest margin (NIM)	1.62	1.58	4bps

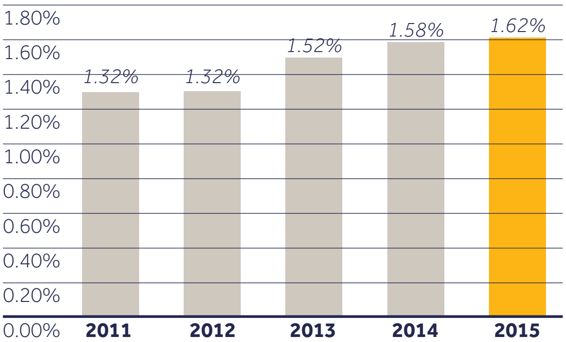
Net interest income for the year was £207.5m, up 12% compared to the previous year (2014: £184.8m) as a result of lower retail funding costs and growth in residential lending. The net interest margin improved by four basis points to 1.62% (2014: 1.58%). Net interest income is the Society's main source of income. The Society continues to balance the need to offer competitive rates for savers and borrowers, whilst generating sufficient profit to maintain a financially secure future.

"The Society remained competitive compared to the overall savings market. On average we paid 0.58% (2014: 0.61%) more on our savings range than the market average of 1.20%."

The key features of the increase in net interest income in 2015 are:

- Interest income from mortgages was broadly in line with 2014 as the increase in residential mortgage balances during the year to £11.1bn was offset by a reduction in the average rate on mortgage balances. This was due to increased competition and lower funding costs.
- Savings rates in the market reduced further during 2015 and the Society aligned rates to meet our funding requirements. A savings product rationalisation process was completed in early 2015 which offered a simplified product range to existing customers with no account paying less than 0.5% interest. As a result there was a reduction in the cost of raising new funds and retention of existing savings balances, resulting in an overall lower cost.
- The Society remained competitive compared to the overall savings market. On average we paid 0.58% (2014: 0.61%) more on our savings range than the market average of 1.20%[iv]. A compelling product proposition has meant retail savings balances increased by £751m.

Net interest income as % of mean assets



The trend of improving net interest margin is not expected to continue, with competition for mortgage and savings business likely to increase.

Other income

This consists of income from mortgage related insurance products and other investment products, together with rental income and other ancillary fees.

In 2015, other income reduced to £12.3m (2014: £14.0m) due mainly to the removal of booking fees on new mortgage applications, to help our mortgage customers, and a reduction in commission on general insurance.

Management expenses

The management expenses summary for the year is set out below:

	2015 £m	2014 £m	Change %
Colleague costs	44.8	38.5	21
Other administrative expenses	32.2	26.1	16
Depreciation and amortisation	2.7	1.6	44
Total management expenses	**79.7**	**66.2**	**20**
Cost / income ratio (%)	36.4	33.4	9
Cost / mean asset ratio (%)	0.62	0.57	5 bps

Efficiency is one of the Society's four strategic pillars and continuing to maintain a low cost base, whilst improving efficiency, remains a key focus. However, customer needs are becoming more sophisticated and the infrastructure demands associated with a highly regulated business continue to grow. In this respect, the Society has continued its investment programme and, as a result, management expenses in 2015 increased by 20% to £79.7m (2014: £66.2m). The cost to income ratio increased to 36% (2014: 33%) and the cost to mean assets ratio increased to 0.62% (2014: 0.57%). Notwithstanding the cost increases, the Society's expense ratios remain among the lowest in the building society sector.

iv CACI Data, November 2015 – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market.

Strategic Report

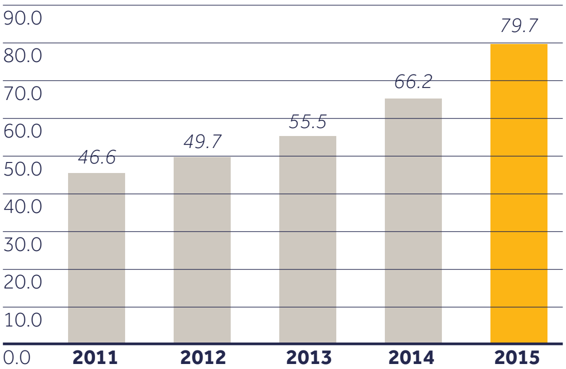
Year ended
31 December 2015

Continued

The main features of the increase in management expenses are:

- The record growth in lending in 2015, as well as the full year impact of 2014's new lending, which has required an increase in the Society's service capacity and variable costs;
- The Society's continued investment in infrastructure to deliver its vision has included additional resources across a number of business areas;
- The creation of 150 new roles across the Society in 2015. This increase supports the growth in new lending during the year and provides additional capabilities to help deliver Society goals;
- The increasing cost of one off projects, as the Society continues to develop systems and business processes to support future growth, and enhance the service proposition to include: digital capabilities, more efficient service and streamlining the mortgage application process.

Management expenses £m



The trend of cost increases is expected to continue in the short term as the investment programme progresses. In the medium term, as the Society realises benefits associated with the investment programme, the rate of cost increase should slow.

Fair value gains less losses from derivative financial instruments

Fair value movements are changes in the value of certain assets and liabilities, mainly derivatives, to reflect their current market value. The movements are primarily due to timing differences, which will trend to zero as the asset or liability reaches maturity. Fair value changes in 2015 resulted in a loss of £0.9m compared to a loss of £0.4m in 2014.

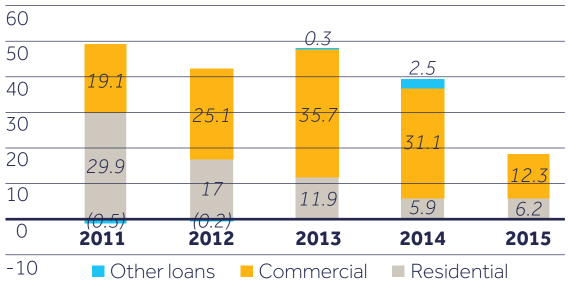
Impairment losses on loans and advances to customers

Impairment losses are summarised for the year below:

	2015 £m	2014 £m	Change %
Residential loans	6.2	5.9	(5)
Commercial loans	12.3	31.1	60
Other loans	–	2.5	–
Impairment losses on loans and advances to customers	**18.5**	**39.5**	**53**
Residential lending	25.9	29.6	13
Commercial lending	35.7	25.0	(43)
Other lending	2.5	2.5	–
Provision balance	**64.1**	**57.1**	**(12)**

Impairment losses for the year of £18.5m are 53% lower than the previous year (2014: £39.5m), mainly due to a significant reduction in the impairment charge on the commercial loan portfolio.

Impairment provision charge £m



"The Government has recently announced the introduction of an 8% surcharge to corporation tax to be paid by banks and building societies. This will affect the Society and is effective from 1 January 2016. This will increase the effective corporation tax rate by 8%, representing an additional cost of over £6m per year."

Residential lending

Total losses and impairment charges for residential loans of £6.2m (2014: £5.9m) remained broadly in line with the previous year. Sustained improvements in the economy and, continued low interest rates are the main drivers of the improvement in the arrears ratio (measured as those either in possession or arrears of more than 1.5% of the balance), which reduced to 1.43% compared to 1.88% at the end of 2014.

The Society has total balance sheet impairment provisions against residential mortgages of £25.9m (2014: £29.6m). The specific provision of £15.1m as a percentage of impaired loans is 9.3% (2014: 10.6%).

Commercial lending

The commercial loan impairment charge has reduced by £18.8m to £12.3m (2014: £31.1m). This largely reflects the continuing action taken by the Society to reduce its exposure to commercial loans. Commercial loan balances reduced by 28% during the year to £194m (2014: £269m).

The Society has balance sheet impairment provisions against commercial mortgages of £35.7m (2014: £25.0m). The specific provision of £25.0m as a percentage of impaired loans is 43% (2014: 26%). The negative equity in the portfolio remains fully covered by provisions.

Provisions charge

As a regulated deposit taker, the Society is a member of the Financial Services Compensation Scheme (FSCS), which compensates savers and investors for losses incurred when other institutions fail. The Society, in common with other societies, raises a higher proportion of its funding from retail deposits and so pays a disproportionate share of any compensation paid by the FSCS. The FSCS levy, for both capital and interest elements, decreased to £5.5m (2014: £6.4m). The charge for the FSCS levy includes the final instalment of a capital levy relating to the failure of Bradford & Bingley and the total charge is expected to fall in future years.

The charge relating to customer redress payments has decreased to £3.3m (2014: £5.4m). The charge reflects the expected cost of a customer redress exercise relating to certain general insurance sales, as well as the ongoing volume of speculative cases, primarily relating to mortgage payment protection insurance claims, and the associated costs involved in dealing with them.

Taxation

The income tax expense of £19.6m (2014: £18.5m) represents 18% (2014: 21%) of the profit before tax and is broadly in line with the prevailing rate of corporation tax. The Government has recently announced the introduction of an 8% surcharge to corporation tax to be paid by banks and building societies. This will affect the Society from 1 January 2016. This will increase the effective corporation tax rate by 8%, representing an additional cost of over £6m per year.

Balance sheet

Total balance sheet assets increased by 11% to £13.5bn, a record for the Society, reflecting an increase in core residential lending.

	2015 £m	2014 £m	Change %
Residential loans	11,178	9,786	14
Commercial loans	194	269	(28)
Other loans	236	263	(10)
	11,608	10,318	13
Impairment provision	(64)	(57)	(12)
Loans and advances to customers	**11,544**	**10,261**	**13**
Liquid assets	1,677	1,584	6
Derivative financial instruments	105	120	(13)
Fixed and other assets	181	166	9
Total assets	**13,507**	**12,131**	**11**
Key ratios	%	%	%
Operating profit before exceptional item as a % of mean assets	0.85	0.69	23
Asset quality			
Residential mortgages:			
Proportion of UK mortgages in arrears (>1.5%)	1.43	1.88	(45) bps
Overall indexed LTV of mortgage book	44	46	(2%)
Average LTV of new lending	68	69	(1%)
Commercial lending:			
Total commercial balances (£m)	194	269	(28)%
Impaired balances (£m)	56	71	(21)%
Total impairment as % of impaired balances	29%	26%	12%

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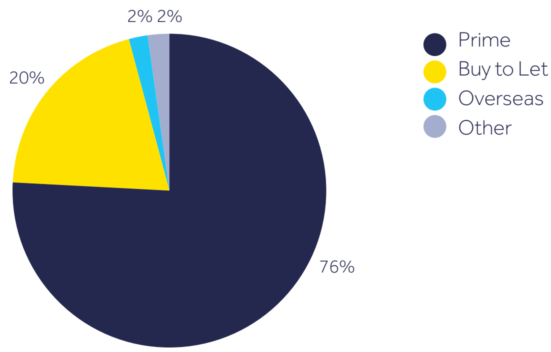
Continued

Residential lending

The majority of the Society's lending is residential, which includes prime owner-occupied properties, buy to let and shared ownership loans in the UK. Gross lending during the year was £3.1bn, an increase of £0.4bn compared to the previous year (2014: £2.7bn). The Society's share of new mortgage lending was 1.43% (2014: 1.31%), significantly higher than its natural market share of 0.84% (2014: 0.73%)[v].

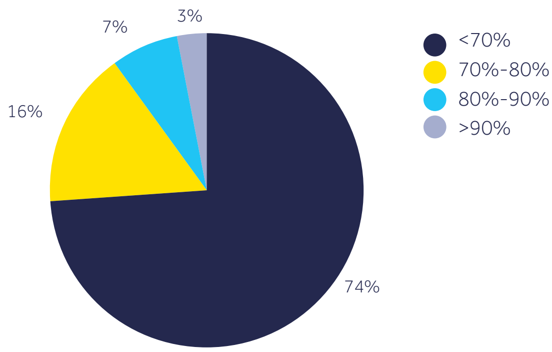
2015 UK residential mortgage balances by type



The Society's residential loans include some overseas balances relating to historic 'legacy' lending activity. The Society is no longer active in this market.

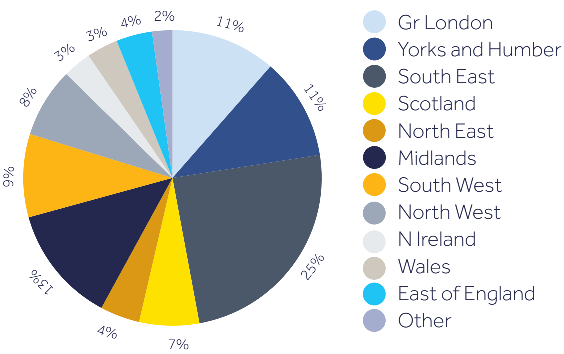
The rise in both gross and net lending reflects the Society's strategy of supporting a wide range of borrowers by taking advantage of the Society's funding capacity and strong capital position. This helps further strengthen its proposition for existing and future members.

2015 UK residential mortgage balances by LTV



The Society has a conservative lending policy, which is reflected in the distribution of LTV ratios. The average LTV of new lending reduced to 68% (2014: 69%). The rise in UK house prices has continued in 2015, leading to the overall LTV in the mortgage portfolio reducing to 44% (2014: 46%).

2015 UK residential mortgage balances by region



The portfolio is geographically diverse with the largest exposures in Yorkshire, London and the South East. This reflects the higher property prices in the South East and London areas and the higher lending volumes in the Society's heartland of Yorkshire.

Commercial lending

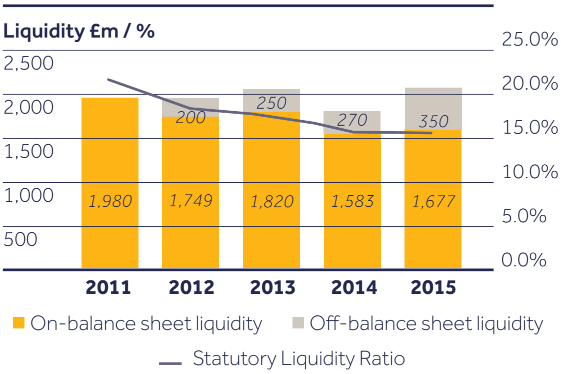
The commercial loan portfolio reduced by £75m to £194m (2014: £269m). Actions to reduce the size and credit risk of the commercial portfolio are now largely complete, with balances representing less than 2% of the total mortgage balances (2014: 2.6%).

Liquid assets

The Society maintains liquid assets principally cash and government debt, of an appropriate level and quality to ensure it can meet its financial obligations under both normal and stressed scenarios. Whilst there is a need to maintain sufficient liquidity at all times there is a cost of holding excess liquidity since earnings on liquid assets are typically lower than the cost of funding. During 2015 the Society maintained a level of liquidity in excess of the regulatory minimum.

v Leeds Building Society defines market share as follows:
Mortgages – Council of Mortgage Lenders market share statistics Savings – Mutual sector net retail savings as published by the Building Societies Association

"The credit quality of the liquid asset portfolio is high with 99% of assets rated 'A' or better (2014: 99%)."

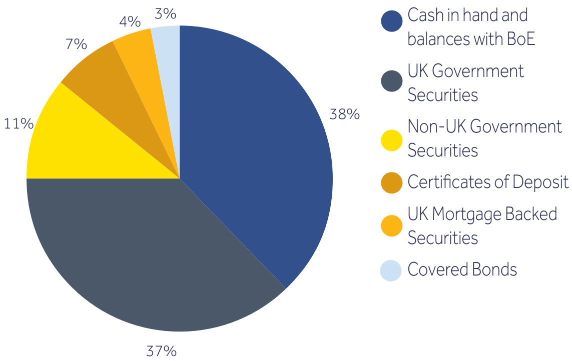


Liquid assets at the end of 2015 were £1.7bn compared to £1.6bn at the end of 2014. This included £1.6bn of Liquid Asset Buffer investments (2014: £1.4bn), considered to be the highest quality investment instruments, readily realisable as cash when required.

The credit quality of the liquid asset portfolio is high with 99% of assets rated 'A' or better (2014: 99%).

As well as liquid assets on the balance sheet, the Society has off-balance sheet liquidity through the Funding for Lending Scheme (FLS). The Society held £350m (2014: £270m) of drawn funding from the FLS at the end of 2015. The Society also has access to contingent liquidity through the Bank of England's Sterling Monetary Framework and the European Central Bank.

Total unencumbered liquidity, including on-balance sheet and off-balance sheet expressed as a percentage of shares, deposits and liabilities was 15.8% (2014: 16.2%).



As part of the CRD IV package of regulatory reforms, two new measures of liquidity were introduced for monitoring purposes by the Prudential Regulation Authority (PRA). The Liquidity Coverage Ratio (LCR) is a measure of short term liquidity and the Net Stable Funding Ratio (NSFR) is a measure of liquidity over a longer horizon. Based on the final LCR rules, implemented in October 2015, the Society's LCR is 194% (2014: 196%), compared to the regulatory minimum of 100%. In October 2014, the Basel Committee on Banking Supervision published its final NSFR standard, with a minimum requirement of 100% to be introduced from 1 January 2018. Based on current interpretations, the Society's NSFR is 133% (2014: 136%), compared to an expected regulatory minimum of 100%. A final European NSFR standard is expected in 2016.

Liabilities

A summary of the Society's liabilities is set out below:

	2015 £m	2014 £m	Change %
Shares	9,933	9,182	8
Wholesale funding	2,531	1,971	28
Derivative financial instruments	136	156	(13)
Other liabilities	116	117	(1)
Total liabilities	**12,716**	**11,426**	**11**
Equity	791	705	12
Total liabilities and equity	**13,507**	**12,131**	**11**
Key ratios	**%**	**%**	
LCR	194	196	(2)
NSFR	133	136	(3)
Wholesale funding ratio	20.3	16.9	3
Total unencumbered liquidity	15.8	16.2	(0)

Achieving an appropriate level, mix and duration of retail savings and wholesale funding is essential to ensure the Society has the necessary resources to meet its lending growth aspirations.

Strategic Report

Year ended
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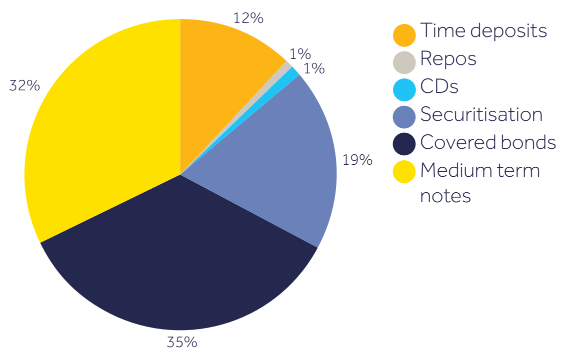
Continued

Shares
Savings balances increased by 8% to a record £9.9bn (2014: £9.2bn). This strong performance reflects the competitive savings rates the Society has continued to offer members.

Borrowings
The Society continues to access wholesale markets and benefited from favourable funding conditions leading to a lower cost of funding. During 2015 it issued €500m of senior unsecured notes, launched Albion No. 3 (a residential mortgage backed securities issue) and issued further notes under its covered bond programme. The three deals totalled over £900m, providing funding to support the increase in net lending. As a result the Society's wholesale funding ratio increased to 20.3% (2014: 16.9%).

Wholesale funding portfolio 2015



The Society maintains strong credit ratings from two key agencies. The short term and long term ratings from Moody's were upgraded during 2015, whilst the Fitch rating remained unchanged.

	Long Term	Short Term	Outlook
Moody's	A2	P-1	Stable
Fitch	A-	F1	Stable

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

	2015 £m	2014 £m	Change %
Capital resources			
Common Equity Tier 1 (CET1) capital	783	704	11
Additional Tier 1 capital	18	20	(10)
Total Tier 1 capital	801	724	11
Tier 2 capital	29	21	38
Total regulatory capital resources	830	745	11
Risk weighted assets (RWAs)	5,046	4,508	12
CRD IV capital ratios	**%**	**%**	
CET1 ratio	15.5	15.6	(1)
Leverage ratio	5.5	5.6	(2)

A strong capital position was maintained throughout the year with all capital ratios significantly in excess of regulatory minima.

The CET1 capital resources have increased by £79m during 2015 as a result of the strong profit performance. RWAs also increased during the year, as a result of the growth in residential lending. The CET1 capital ratio decreased marginally, to 15.5% (2014: 15.6%). The total solvency ratio (including other eligible capital items) was 16.4% (2014: 16.4%). The leverage ratio, a non risk based capital measure, reduced to 5.5% from 5.6%. This reflects balance sheet growth slightly higher than the growth in capital resources.

The Society is progressing an application with the PRA to migrate to the IRB approach for credit risk capital requirement assessment for its residential mortgage portfolio. Following approval from the PRA, it is expected that RWAs for the Society's residential mortgage portfolio will reduce to levels comparable to other IRB organisations.

CRD IV will be implemented over the next six years. There are a number of transitional rules that apply over this period and these have been applied in the calculation of the above measures. If the full rules were in force at the end of 2015 the CET1 ratio would have been 15.5% (2014: 15.8%) and the leverage ratio 5.5% (2014: 5.6%).

“Delivering outstanding personal service to all our members is one of the Society’s four strategic pillars.”

In December 2015, the PRA released a consultation paper on the minimum requirements for own funds and eligible liabilities (MREL) that could be ‘bailed in’ at the point of failure of an institution. The conclusions of this are yet to be finalised. Changes to the capital regime for banks and building societies from the regulatory bodies in the UK, Europe and internationally continue to be monitored and the Society remains well placed to meet regulatory capital requirements as they evolve.

Members

Delivering outstanding personal service to all our members is one of the Society’s four strategic pillars.

Member satisfaction is measured through independent surveys. Overall customer satisfaction in 2015 was 91.2% (2014: 92.0%). In the latest quarterly survey, Net Promotor Score® reduced to +49 (2014: +54). The performance in 2015 was impacted by high volumes of processing as the Society continues to expand, which peaked in ISA season. Despite this, the Society benchmarks favourably against other financial services organisations and, in the latest survey for Q4 2015, customer satisfaction was 94.0%.

The Society also measures the total number of members, as a growing membership base is a reflection of the attraction of our customer proposition. Total membership increased by 22,000 to 719,000[ii].

Colleagues

Recruiting and retaining the best talent is key to delivering the Society’s vision and is reflected in the Society’s people strategy. Continued growth over 2015 has meant the Society has again increased the number of colleagues employed. The total number of colleagues at the end of the year now stands at 1,300, an increase of 139 compared to 2014.

The Society has maintained and developed systems during the year for effective communication with colleagues. The communication is used to ensure colleagues are aware of the Society’s performance and objectives and the business environment in which it operates. There is a Staff Association, through which colleagues make their views known on matters affecting their employment and, in addition, there is a regular colleague engagement survey. In the 2015 survey, the overall colleague engagement score was maintained at 76% (2014: 76%). Colleague turnover for the year reduced to 14% compared to 17% in 2014. The results represent a strong performance when considered alongside the degree of organisational change and stretch, as the Society delivers its growth plans. The colleague engagement index remains well above financial services industry benchmarks.

The Society remains committed to training and career development for all colleagues demonstrated by the continuing Investors in People accreditation. It also achieved accreditation from Best Companies for the first time.

Equality and diversity

The Society is committed to providing an environment in which colleagues feel valued and respected so that everyone can contribute to creating Britain’s most successful building society.

It is the Society’s policy to consider employment applications, provide access to training, career development and promotion opportunities to all regardless of their gender, sexual orientation, marital or civil partner status, gender reassignment, race, religion or belief, colour, nationality, ethnic or national origin, disability or age, pregnancy, trade union membership, or part time or fixed term status.

Strategic Report

Year ended
31 December 2015

Continued

Wherever possible, colleagues who develop a disability continue their employment with appropriate training or redeployment where necessary and reasonable adjustments are accommodated.

Information on the composition of the workforce at the year end is shown below:

		2015 Females	**2015 Males**	2014 Females	2014 Males
Colleagues	Number	784	446	711	390
	Percentage	64%	36%	65%	35%
Managers	Number	19	38	15	32
	Percentage	33%	67%	32%	68%
Directors	Number	3	10	4	9
	Percentage	23%	77%	31%	69%

The ethnic diversity is shown below:

		2015 Ethnic minority employees	2014 Ethnic minority employees
Colleagues	Number	75	64
	Percentage	6%	6%
Managers	Number	–	–
	Percentage	–	–
Directors	Number	–	1
	Percentage	–	8%

Outlook

2015 has been a record year for the Society in which it has achieved significant progress in delivering its vision to be Britain's most successful building society. The Society has further increased its underlying profitability and financial strength, delivering record profits, attracting record levels of savings balances and new mortgage business and having a record number of members.

The mortgage and savings markets are becoming increasingly competitive as the big banks re-enter the market and 'so-called' challenger banks compete for business. Interest rates are expected to remain low for the foreseeable future and any increases thereafter are likely to be gradual. This, combined with the continued recovery in the UK economy, is expected to retain resilience in the housing market. This may impact margins and the Society's appetite for growth. However, the Society will continue to grow whilst market conditions allow it to do so safety and profitably.

Further information regarding the principal risks and uncertainties faced by the Society, together with a summary of mitigating controls, is set out in the Risk Management Report on pages 28 to 39.

Against this backdrop, the Society plans to continue to increase net residential lending further, funded by growing members' savings balances and accessing wholesale funding. The Society's investment programme will continue, enabling delivery of the key initiatives required to achieve its vision and ten year strategy.

The continuing financial strength of the Society ensures it can continue to invest and grow, without compromising the financial security so important to members' confidence.

“The corporate planning process assessed the projected financial performance of the Society over the corporate planning period, including the impact of a range of stress scenarios, against the Society’s strategic risk appetite.”

Viability Statement

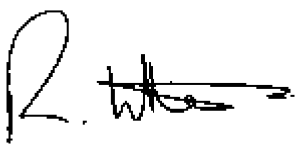
In accordance with the revised UK Corporate Governance Code, the directors have assessed the longer term viability of the Society over a three year period to 31 December 2018. The three year period was selected with regard to the duration of the Society’s corporate planning horizon and the lack of certainty that can reasonably be relied upon beyond the three year outlook period to 31 December 2018, regarding the economic and competitive environments.

During 2015, the directors conducted a robust assessment of the Society’s principal risks, as outlined on pages 32 to 39 of the Risk Management Report. The corporate planning process assessed the projected financial performance of the Society over the corporate planning period, including the impact of a range of stress scenarios, against the Society’s strategic risk appetite. The directors also reviewed the ICAAP and ILAAP and considered the range of management actions, including their impact and credibility in mitigating the capital, liquidity and operational impacts of the stress scenarios.

On this basis, the directors have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 December 2018.

Approval

Approved by the Board of Directors and signed on behalf of the Board.



Robin S P Litten
Chief Financial Officer

23 February 2016

Corporate Responsibility Report

Year ended
31 December 2015

Moving forward

The Society's successful, sustainable business model has helped millions of people save and have the home they want for over 140 years. The Society works hard to have a positive impact on society and realises that relationships with members, colleagues and communities are much more than business transactions.

Products and services

Meeting the needs of members and making it easy for them to deal with the Society is at the heart of the business. The Society aims always to deliver the best for members, building relationships by listening, adapting and developing the competitive products and services they want.

Products

Product development focuses on the needs of members and prospective members, taking time to understand them and providing solutions for all segments of the market. This includes areas other lenders may neglect because of complexity or lack of scale such as shared ownership, help to buy and interest only.

Awards

The society's innovative approach to product development continues to be recognised by industry commentators, resulting in a number of awards during the year including:

- Mortgage Finance Gazette (MFG) – Product Innovation Award (Lenders) for the Part and Part Interest Only mortgage (the third consecutive year an MFG product innovation award has been won).
- Savings Champion – Best Regular Savings Account Provider (for the second consecutive year).

Colleagues with awards from Mortgage Finance Gazette, Savings Champion and Agile.

Facts and figures:

- Helped a record number of borrowers, including more than 9,400 first time buyers.
- 4,720 hours of manual processing saved through robotic process automation, winner of Mortgage Finance Gazette Innovation Award (Lenders).

Customer service

Regular independent surveys show customer satisfaction scores for 2015 remain high at 91% (2014: 92%). However, the Society is always looking for ways to make things better for members so in 2015 the Society has:

- Helped even more savers and borrowers deal with their finances during the evening or at weekends by increasing the service offered by the Contact Centre, which opens from 8am to 8pm, seven days a week.
- Enabled people to use their debit cards to top up their savings by rolling out Chip and PIN to all the branches.
- Upgraded the website, making it even easier to use.
- Helped prospective customers and existing members understand more about money and finances, by launching Knowledge Base on the website; this has articles and information covering areas such as current savings and mortgage topics, a property guide and useful details about products.
- Piloted a new mobile application (to be made available to all members in 2016).

TalkingPoint

During the autumn 10,000 members were invited to join TalkingPoint, the new online customer panel. This has quick polls, surveys and focus groups covering a range of topics about the Society and the financial markets in general. TalkingPoint will help the Society gain a better understanding of members' needs and build strong relationships. It will be opened up to all members during 2016.

Nominate a Star

The Nominate a Star scheme encourages members to recommend a colleague or team that has delivered outstanding customer service. Once again the Society was delighted by the excellent response from members in 2015, with 471 nominations giving positive feedback about colleagues across the Society.

People

People are key to the success of the Society, as it continues to recruit, develop and retain the best talent. This approach includes annual talent reviews, providing career

"The Society's successful, sustainable business model has helped millions of people save and have the home they want for over 140 years."

development opportunities, fair reward for all roles, a commitment to pay the living wage to all colleagues and encouraging them to live the Values. A highlight of the year was the participation in the Best Companies survey and the Society was delighted to be accredited.

Talent reviews and development

Personal and professional development is embedded within the Society. All colleagues are encouraged to create a Personal Development Plan to support their aspirations to advance their career with the Society. The annual talent review provides important information about how people are progressing and succession planning.

More than 200 colleagues achieved professional qualifications during the year and a number of secondment opportunities (internal and external) provided additional development for people with high potential.

Adeel Qureshi, Natalie Ogden and Wayne Langan received the Certificate in Supervising in a Regulated Environment.

Apprentices, career academy interns and graduate programme

The Society's apprenticeship scheme, now in its fourth year, continues to provide another group of young people with industry recognised professional qualifications while acquiring on-the-job training. Nearly all apprentices (83%) who completed the programme have taken a permanent position with the Society.

The Society also offers six-week Career Academy placements to A level students each year, providing valuable work experience and CV evidence, and a Graduate Programme, which offers a combination of on-the-job learning, professional qualifications and leadership development.

Feedback

All colleagues are invited to take part in annual 'Your Voice' feedback surveys, the results of which help to identify what the Society is doing well and where it could improve. In 2015 the Engagement Index was 76% (well above the industry benchmark). The results of these surveys are shared with all areas of the business and action plans are developed to improve where needed.

As well as the Best Companies accreditation, the Society's Investors in People status was reaccredited during 2015.

The Values

These underpin the Society's strategic pillars and all colleagues are encouraged to live the Values and corresponding behaviours. This is also recognised through the Excellence in Action awards scheme and annual performance reviews.

Wellbeing

The health and welfare of colleagues is very important to the Society.

During 2015 a Wellbeing Hub was launched on the Society's Intranet which provides information and advice covering physical, nutritional, mental and financial health and wellbeing. Three wellbeing weeks were held during the year, with practical activity sessions and information from internal and external experts. The site and the activity weeks proved popular and some of the activities were extended beyond the actual wellbeing weeks.

Facts and figures:

- 150 new roles created.
- Colleague engagement score of 76%, above the financial services benchmark.
- Achieved Best Companies accreditation at first attempt.
- Reaccredited by Investors in People.
- Average length of service was six years and nine months, with 23.5% of colleagues having 10 years' service or more.

Corporate Responsibility Report

Year ended
31 December 2015

Continued

Communities

Supporting the communities within which the Society operates is at the very heart of the organisation, so a number of schemes are in place to accomplish this. These include the Leeds Building Society Charitable Foundation, the Community Fund and national partner charities which benefit from member donations through the 'Your Interest... In Theirs' [i] and 'Caring Saver' [ii] schemes. Colleagues are also helped to fundraise for and support the causes they are passionate about, with initiatives such as the Colleague Charity Group, Matched Funding and Volunteering.

Community support is part of the Society's 'business as usual', and through all these initiatives the overall value of donations to local and national charities in 2015 was more than £330,000.

Facts and figures:
- Community Fund – over £14,000 donated to local causes.
- Charitable Foundation – £102,000 in grants donated to 124 charities.
- Partner Charities – £104,000 donated to partner charities through Your Interest... In Theirs and Caring Saver.
- Colleague Charity Group – raised £66,700 for colleague chosen charities.
- Matched Funds – £52,600 raised by colleagues, with £14,800 donated in matched funds
- Around 10% of colleagues took part in volunteering.

Charitable Foundation

The Charitable Foundation supports community based projects which provide relief from suffering, hardship or poverty, or their direct consequences. The Foundation received a donation of £100,000 from the Society in 2015 and made grants totalling over £102,000 to 124 charities. Since its inception the Foundation has shared more than £1.4m between over 1,800 charities located near branches or offices.

The Charitable Foundation supported The Ahoy Centre in London.

Partner charities

The Society's partner charities, Age UK, Marie Curie and Variety the Children's Charity, together with the Leeds Building Society Charitable Foundation, received donations totalling £104,578 through the 'Your Interest... In Theirs' and 'Caring Saver' schemes. The Society also makes a donation for each vote cast at the AGM and members can choose from a number of charities to benefit. A total of over £70,000 has been donated to charity since this scheme started.

Towards the end of 2015, the Society conversed with members through TalkingPoint, the online member forum, to understand what types of charities were important to them. The results of this were used to select charities for the 2016 AGM, providing a better fit with members' expectations.

Community Fund and matched funding

The Community Fund enables the Society to support a wide range of smaller charities and community groups around our network of branches. During 2015 around £14,100 was donated by the Society to local community organisations.

The matched funding scheme looks to support everyone at the Society with their fundraising for charities. In 2015 colleagues raised over £50,000 (2014: £33,000) for charity which was 'matched' by a further £14,800.

Colleagues raised £95,000 for charities through their own fundraising, matched funding and Colleague Charity Group activities

i. Your Interest... In Theirs scheme is where savers have agreed to donate the pence interest from their accounts once a year.
ii. Caring Saver account scheme is where the Society donates an amount equivalent to 1% of the total balances in Caring Saver products each year.

"All colleagues are encouraged to take up to seven hours paid leave each year to volunteer in their local communities."

Colleague Charity Group
The Colleague Charity Group, now in its seventh year, has continued to raise funds for charities chosen by colleagues, currently Hollybank Trust, Alzheimer's Society, Yorkshire Air Ambulance and Great North Air Ambulance. Almost £67,000 was raised in 2015, more than twice that in 2014. As part of this, inspired by the Society's 140th anniversary, business areas were asked to each raise at least £140 for the Colleague Charity Group. This challenge alone contributed over £36,000 to the final total.

Climbing the Yorkshire Three Peaks for the 140 challenge.

Volunteering
All colleagues are encouraged to take up to seven hours' paid leave each year to volunteer in their local communities. During 2015 more than 120 people participated in the scheme and even more people will be encouraged to use their volunteering leave during 2016.

Volunteering at the BBC's DIY SOS Big Build.

Environment
As a responsible business, the Society continues to seek ways to protect the environment in the communities in which it operates. Initiatives during 2015 have included recycling, monitoring energy usage, incorporating energy efficient technologies during office refurbishments wherever possible and looking at how 'green' office supplies are.

Energy
All of the electricity used by the Society is obtained from renewable 'green' sources and our energy efficiency is continuously monitored to reduce or eliminate excessive use. The Energy Savings Opportunity Scheme audit at the end of 2015 identified potential ways to make energy savings, which will be reviewed during 2016.

Facts and figures:
- 100% of electricity obtained from renewable 'green' sources.
- 100% of paper waste recycled.
- Around 50% of office supplies were 'green', and we aim to increase this during 2016.

Recycling
Active waste management programmes enable the Society to recycle as much as possible, including 100% of paper waste. Dry mixed recycling at all Society locations means that all non-paper waste is separated so that plastic, card and cans from all sites can be reused. The Society works proactively with a waste management company to ensure that general and recyclable waste is separated and disposed of correctly.

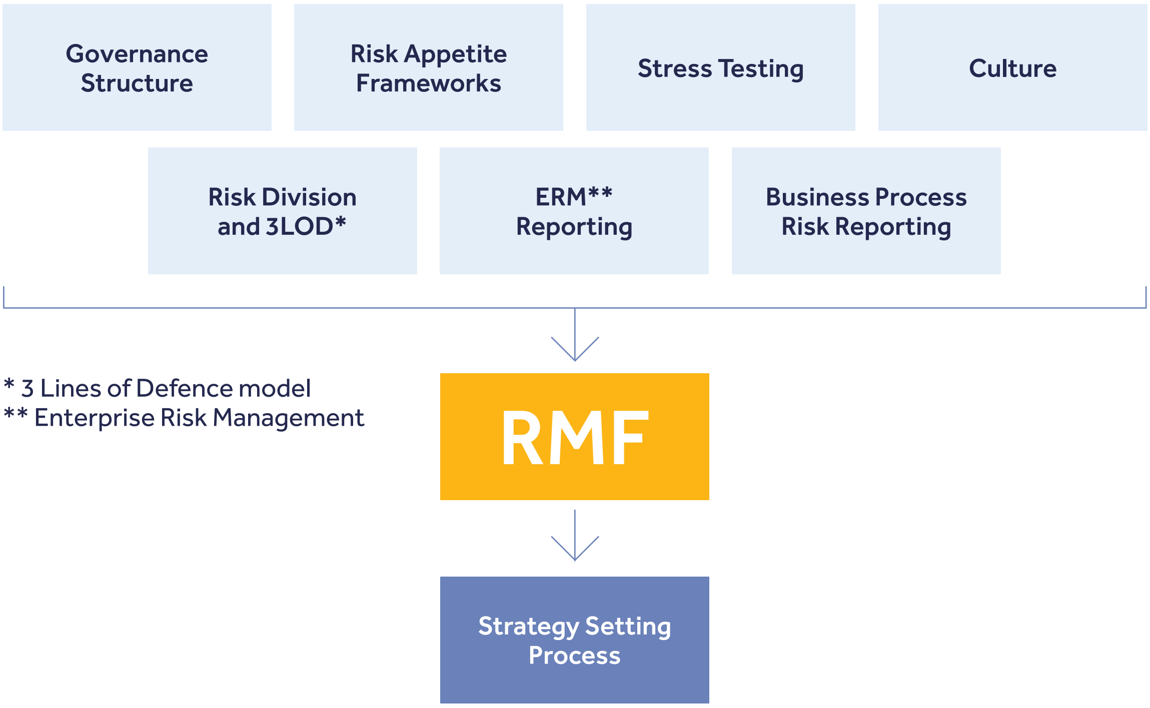
Office supplies
Working closely with a stationery supplier, the Society identified and switched to 'greener' alternatives, such as recycled and Forest Stewardship Council (FSC) paper. This approach will continue in 2016, with plans to roll out the use of 100% recycled plain paper in all printer and copier devices across the Society during the first half of 2016.

Sustainable travel
All colleagues are encouraged to make sustainable travel choices and offered support to enable them to do this. They receive help to purchase discounted annual travel passes for both rail and bus and during 2015 the Society signed up to the Government's Cycle to Work scheme, which has been taken up by colleagues across the network. Additional cycle racks were installed at central Leeds offices for the increase in cyclists.

Cyclist at Head Office.

Risk Management Report

Year ended
31 December 2015



Purpose

The purpose of this report is to:

- Highlight the key aspects of the Society's Risk Management Framework;
- Provide a summary of capital management and capital adequacy; and
- Set out the principal risks and uncertainties facing the Society.

Risk Management Framework

The Risk Management Framework (RMF) explains how the Society deploys a structured approach to risk management and an integrated and holistic view of risks across the Society. This ensures an aligned and consistent approach to the aggregation and management of all risks, which are integrated into business management and decision making, at both strategic and operational levels.

The RMF is an integral part of the Society's strategy, providing a framework for the long term viability of the Society. The Board Risk Committee conducts an annual review of the Framework, on behalf of the Board, and the Chief Risk Officer (CRO) has responsibility for the effectiveness of its implementation.

Risk governance

The Society maintains a robust governance framework which:

- Allows the Board to maintain oversight of the risk universe;
- Promotes independent challenge from non-executive directors;
- Delegates appropriate powers and mandates to committees and individuals;
- Clearly cascades and articulates Board risk appetite through tiered policies and standards;
- Promotes personal accountability; and
- Ensures that corporate objectives are delivered within agreed risk appetite.

Risk infrastructure

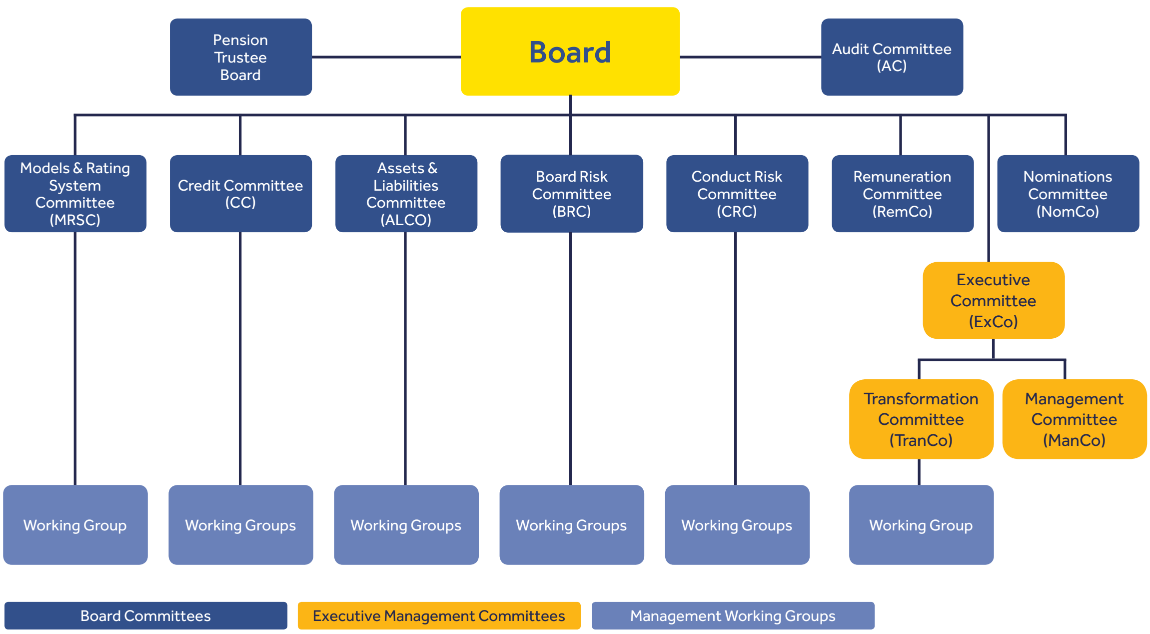
The risk governance infrastructure of the Society is supported by three tiers:

Tier	Infrastructure
Tier 1: Board Governance Infrastructure	• Board Terms of Reference (ToR) and Directors' Information Manual • Board level committee ToR for: – Board Risk Committee (BRC); – Assets & Liabilities Committee (ALCO); – Credit Committee (CC); – Conduct Risk Committee (CRC); – Remuneration Committee (RemCo); – Audit Committee (AC); – Nominations Committee (NomCo); and – Models and Rating Systems Committee (MRSC).
Tier 2: Executive management governance infrastructure	• List of Board delegated authorities • Executive management level committee ToR for: – Executive Committee; – Management Committee; and – Transformation Committee.
Tier 3: Supporting Risk Management Infrastructure Documentation	• Management level working groups' ToR • Risk Management Framework • Standardised committee reporting/management information • Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Liquidity Contingency Plan (LCP) and Recovery Plan and Resolution Information Pack • Society policies

Committee structure

During 2015, the Society successfully completed the initial phase of its committee structure migration. This has resulted in a 'transitional' structure where board committees are supported by management working groups, rather than executive management committees. The final phase of the migration will be implemented in early 2016, making BRC the Society's primary risk-based board level committee.

The current committee structure is as follows:



Risk Management Report

Year ended
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Continued

The Corporate Governance Report (pages 44 to 52) outlines the activities of the committees detailed above. The Directors' Remuneration Report is set out on pages 60 to 73.

Risk Function

The Risk Function is independent from the operational business divisions. It ensures the Society follows an integrated approach to risk management and is led by the CRO, who reports directly to the Chief Executive Officer and is accountable to the Chairman of the BRC. There are specialist teams aligned with each of the key risk categories to drive good practice throughout the Society.

Three lines of defence model

In order for the RMF to operate effectively:

- Risk is owned by first line management and integrated with business processes; and
- Appropriate supporting arrangements exist to ensure independent risk expertise and assurance are available.

Risk management is a partnership between the operational business areas, the Risk Function and Internal Audit Function. The Society follows a 'three lines of defence' model for risk management:

Management
– 1st line of defence –
Day to day risk ownership, identification, assessment and management, through implementation of the RMF.

Oversight
– 2nd line of defence –
Risk governance, frameworks and oversight of the 1st line.

Assurance
– 3rd line of defence –
Internal Audit provide independent assurance of the adequacy and effectiveness of 1st and 2nd line risk management.

Strategic Risk Appetite

A key element of the RMF is Strategic Risk Appetite (SRA). This comprises qualitative statements and quantitative metrics to provide the boundaries the Society must operate within. The Society's SRA is cascaded via policies and standards to ensure consistency and alignment to Board defined parameters.

The Board has defined SRA across six key areas, ensuring a broad suite of metrics is in place to cater for all Society stakeholders (including members, regulators, rating agencies and colleagues). The metrics are reviewed by the Board annually and are stress tested to ensure the long term viability of the Society under severe, but plausible scenarios. They are reported on a forward looking basis, within the corporate planning process.

The Board receives monthly management information on risk exposures and the Society has developed appropriate early warning indicators and escalation procedures, to address any deterioration in risk profile.

Risk culture

A sound risk culture is a key element of effective risk management. The Society's risk culture is built on the following pillars:

- Tone from the top – The Board and senior management are responsible for articulating the Society's values, demonstrating through action desired behaviours, holding staff accountable for their behaviour and monitoring behaviour throughout the Society.
- Accountability – All colleagues understand the core values of the Society and its approach to risk management, are capable of performing their prescribed roles and are aware they are held accountable for their actions.
- Effective communication and challenge – An environment of open communication and effective challenge exists in which decision making processes encourage a range of views.
- Incentives – Performance and talent management encourages and reinforces maintenance of the Society's desired risk management behaviour.

"Capital is held by the Society to protect its retail members and wholesale customers by ensuring that liabilities are fully covered by assets in the event of a severe stressed scenario."

Stress Testing Framework

The Society's Stress Testing Framework (STF) is a risk management process that supports decision making at strategic and operational levels. Stress and scenario testing is an intrinsic component of risk governance and the Society's Board has ultimate responsibility for its application and ensuring it is embedded throughout the Society.

The STF provides the following:

- Better understanding of internal and external influences on the Society;
- Enhanced risk management and complementary stress testing approaches/scenario analyses (including reverse stress testing);
- Assistance in strategic business planning and the setting of the SRA; and
- Better management of capital and liquidity resources against SRA and regulatory expectations.

The Society has developed an annual programme of stress testing activity, which informs the planning process and the calibration of SRA. The key deliverables of the STF are as follows:

Activity	Description
Corporate planning	Sensitivity analysis and alternative scenarios are used to assess the Corporate Plan under a range of severe, but plausible, stresses.
ICAAP	An internal assessment of whether the Society has sufficient capital to withstand a severe stress.
ILAAP	An internal assessment of whether the Society has sufficient liquidity to withstand a severe stress.
Recovery plan	Scenario analysis is used to inform the development of a suite of capital and liquidity recovery actions, to be used under extreme stresses.
Reverse Stress Testing	An assessment of the stress scenarios under which the Society would potentially become unviable. This identifies weaknesses in the Society's business model under extreme events so that mitigating actions can be implemented.

Capital management

Capital is held by the Society to protect its retail members and wholesale customers by ensuring that liabilities are fully covered by assets in the event of a severe stressed scenario.

The Society assesses its capital adequacy through an ICAAP, at least annually. This process is used to determine the level of capital the Society needs to support current and future business activities. The ICAAP assesses the Society's risk universe and ensures that it meets regulatory capital requirements, under business as usual and stressed scenarios.

Following Board approval, the ICAAP is periodically considered by the Prudential Regulation Authority (PRA) as part of its Supervisory Review and Evaluation Process. This process is used to determine an Internal Capital Guidance (ICG) requirement for the Society. During 2015, the Society remained strongly capitalised and significantly above the PRA prescribed ICG.

The Board receives monthly management information on the Society's capital position, in relation to appetite and regulatory requirements. In addition, BRC reviews a refresh of the ICAAP quarterly, to make sure capital requirements remain commensurate with risk.

The introduction of CRD IV in 2014, from a capital perspective, transformed the regulatory landscape. The main changes impacting the Society were:

- Stricter definitions of the components of capital. The Society's outstanding Permanent Interest Bearing Shares (PIBS) will no longer qualify as eligible Tier 1 capital under CRD IV and are being transitioned into Tier 2 capital. These instruments constituted 3% of total capital at the year end (2014: 3%);
- The introduction of a supplementary, non-risk based leverage ratio. This backstop measure assesses the relationship between Tier 1 capital and total exposures. The expected implementation date for the introduction of the leverage ratio is 2018. As at 31 December 2015, the Society's leverage ratio stood at 5.5% (2014: 5.6%), significantly higher than the 3% minimum proposed by the Bank of International Settlements;
- The implementation of additional capital buffers. These comprise a capital conservation buffer of 2.5% of Risk Weighted Assets (RWAs) to be phased in between 2016 and 2019, and macro-prudential countercyclical buffers (currently 0%).

Risk Management Report

Year ended
31 December 2015

Continued

The Society has considered the impact of the introduction of these rules on future levels of capitalisation, including under stress testing as part of its ICAAP process, as outlined above.

The Bank of England (BoE) released a consultation paper in December 2015 detailing proposals in relation to Minimum Requirements for Own Funds and Eligible Liabilities (MREL). These new requirements seek to ensure that financial institutions have enough liabilities to absorb losses in the event of failure. The BoE intends to make use of the transition period allowed by the European Bank Recovery and Resolution Directive, as well as MREL regulatory technical standards, proposing that institutions comply with MRELs from 1 January 2020. In this regard, the Society continues to monitor developments and potential future implications.

Further information on capital and leverage is included in the Society's Pillar 3 Disclosures, available on the Society's website.

Principal risks

During 2015 there has been no change in the classification of principal risks inherent within the Society's business model. The Society's principal risks are:

Credit risk

Credit risk is the risk that customers or counterparties will not meet their financial obligations when they are due. The Society faces this risk from its lending operations to retail mortgage customers, commercial mortgage customers, and wholesale counterparties.

Retail credit risk

Background and outlook

The key driver of retail credit risk within the Society is the performance of the UK economy. Deterioration in the UK economic environment could result in increased levels of unemployment, an erosion of real household income and reductions in the value of residential property. The combination of these factors may lead to increased levels of mortgage arrears and, in some cases, losses.

During 2015, the UK economy performed steadily. As a result, unemployment declined and real wage inflation started to gain momentum. These economic conditions, coupled with low interest rates, have continued to be supportive of housing market activity.

The current outlook for the UK economy in 2016 remains positive, with economic growth forecast to be broadly in line with 2015. However, uncertainties remain that could impact UK economic performance, such as increasing levels of household debt, the timing and speed of interest rate increases, the outcome of the forthcoming EU referendum, and the implementation of initiatives to reduce the UK's budget deficit. As a consequence, the Society retains a prudent stance to new retail mortgage lending.

Retail credit risk within the Society is also influenced by the performance of the Irish and Spanish economies through legacy residential lending portfolios (less than 2% of total loan balances). During 2015, both the Irish and Spanish economies experienced improvements in economic performance. Whilst the economic outlook for each country is positive, recoveries within both remain fragile.

Retail credit risk mitigation

Exposure to this risk is managed by the Operations Function and overseen by a specialist Retail Credit Risk Function, reporting to the CRO. Further oversight is provided by dedicated working groups, the CC and BRC.

The Society's Credit Policy is formally approved annually by the CC and, reviewed on an ongoing basis. This Policy details current limit structures for mortgage lending and reflects the Board's current risk appetite. The CC receives management information highlighting the performance of the Society's mortgage portfolio.

Retail credit risk for new lending is managed using the following tools:

- credit scorecard assessment;
- affordability assessment based on income and expenditure under current and stressed interest rates;
- credit data (reviewing the credit history of an individual);
- independent expert appraisal of the suitability and value of a property; and
- underwriting systems, which are a combination of quantitative scoring systems and suitably qualified underwriters.

“Wholesale credit risk emanates from the Society’s assets held within the liquidity portfolio and derivative exposures.”

The Society’s Credit Risk Function monitors the performance of the portfolio, including stress testing, on an ongoing basis. This identifies trends which help build an understanding of the portfolio, to assess whether the current risk appetite remains appropriate or, if not, what changes may be required.

If a borrower’s financial situation starts to deteriorate, the Society has established procedures to respond appropriately. A dedicated Collections Function engages with customers at an early stage to discuss financial difficulties. The Society is able to offer customers an appropriate range of forbearance options including: an extension of the mortgage term; a temporary change to interest only; deferral of interest; reduced monthly repayments; transfer to an alternative product; or a special interest rate (subject to meeting criteria). Forbearance options are determined on a case by case basis, with the aim of working with borrowers to clear arrears. After all other options have been exhausted; the Society may take possession of the mortgaged property.

Oversight of the Society’s arrears management activity is provided by a dedicated working group and the CC. In addition, the Risk Function also conducts regular assessments to ensure that customers are treated appropriately.

An analysis of the Society’s residential portfolio and forbearance activity is used to inform the provisioning policy to ensure losses are recognised in accordance with accounting policies.

Commercial credit risk

Market background and outlook

The UK economic environment also affects the performance of the Society’s legacy commercial loan portfolio. Following the financial crisis, reduced demand for UK goods and services led to lower levels of rental demand and, as a consequence, lower commercial property prices. The economic recovery has partly reversed these reductions, although the extent of reversal depends on sector and geography.

The Society stopped advancing new commercial loans in 2008 and has successfully deployed a strategy to reduce its exposure to this area. In 2015, the portfolio reduced by a further £75m to £194m, exclusive of provisions. The Society is seeking to further reduce its commercial asset exposure in 2016, supported by current economic forecasts.

Commercial risk mitigation

Following the closure of commercial lending operations to new customers in 2008, the Society has retained a team of appropriately skilled colleagues to implement its exit strategy. This team is supported by the Risk Function, which provides second line oversight of the performance and management of the portfolio.

Portfolio performance is monitored closely and overseen by a working group and the CC, with monthly reporting to the Board. All loans are assessed on a case by case basis, using a broad range of potential impairment indicators. If a loan is deemed impaired then the Society uses a combination of formal recovery actions and appropriate forbearance, including loan extensions, restructures or property sales, to reduce the size of the loan book and minimise losses.

The performance of the commercial portfolio and forbearance measures inform the Society’s provisioning judgements.

Wholesale credit risk

Background and outlook

Since the onset of the financial crisis, global financial markets and economies across the world have experienced significant levels of volatility and stress. Although economic data suggests that the UK recovery is becoming established, recoveries in many other countries have been prolonged with legacy issues, such as high unemployment, high levels of government debt and depressed property values, acting as a barrier to sustainable economic growth. In order to stimulate growth, a number of central banks have continued to loosen monetary policy, though the unwinding of this support could be a source of potential stress in the future.

The Society has no direct wholesale credit exposure to sovereign or financial institutions in Cyprus, Greece, Ireland, Italy, Portugal, Spain, or Russia.

Wholesale credit risk mitigation

Wholesale credit risk emanates from the Society’s assets held within the liquidity portfolio and derivative exposures.

Liquidity portfolio

Following the financial crisis, the Society significantly tightened its wholesale counterparty credit criteria. This resulted in limits and exposures being mainly UK centric, with limits extended to only a small number of highly rated counterparties based outside the UK. The Society’s UK exposure is diversified through holdings of UK Government securities, holdings in highly rated financial institutions and asset backed securities, along with deposits at the BoE.

Risk Management Report

Year ended
31 December 2015

Continued

Every wholesale counterparty is subject to a full review on at least an annual basis. This ensures that counterparty exposures remain compliant with Board approved wholesale credit limits and policy. Established credit lines are based on a combination of internal assessment, credit default swap spreads, jurisdiction in which the counterparty is domiciled and other market intelligence.

Operationally, a dedicated resource within the first line Treasury Function monitors the Society's exposures on a daily basis, reporting market developments as appropriate. Oversight is provided by the Risk Function and a dedicated working group, which reviews wholesale credit exposures. ALCO also receives management information about wholesale credit exposures at each meeting.

Derivative exposures

The Society only enters into derivative contracts for hedging market risk, not for trading or speculative purposes. The same credit assessment and limit structure as operated for the liquidity portfolio is applied to assess the creditworthiness of a derivative counterparty.

In recent years, the Society has sought to reduce its derivative counterparty exposures through the centralised clearing of interest rate swaps. Derivative exposures arising from swaps that are not currently eligible for clearing are mitigated through netting arrangements, allowing the Society to net off individual transactions in the event of a default. Credit Support Annexes limit potential exposures, through the exchange of collateral between the Society and its swap counterparties.

Market risk

Market risk is the risk that the value of, or income coming from, the Society's assets and liabilities changes adversely due to movements in interest rates or foreign currency rates.

Background and outlook

In recent years, the UK has experienced a low interest rate environment. During 2015, the ongoing uncertainty about the timing of Bank Base Rate increases resulted in fluctuations in swap rates. It is expected that markets will continue to fluctuate throughout 2016 due to the ongoing uncertainty in the global economy.

Interest rate risk mitigation

The Society is exposed to interest rate risk due to the differing interest rate characteristics and maturity profile of its mortgage and savings products. From an earnings perspective, in the event of an upward or downward movement in interest rates, the Society is exposed to net interest income variances, the extent of which depends on the interest rate characteristics of the balance sheet at the time of any rate change.

The Society converts fixed cash flows to a variable rate basis, where appropriate, through interest rate derivatives so that cash flows follow the general movements in interest rates and reduce the risk exposure.

The Society is also exposed to other variations of interest rate risk. This includes basis risk (as a consequence of changes in the relationship between different interest rates, which have similar but not identical characteristics for example Libor and the Bank Base Rate) and product option risk (as a consequence of customer behaviour, arising from certain product features).

All interest rate exposures are managed through the use of Board approved limits, offsetting assets and liabilities, and the use of financial derivative instruments, such as interest rate and basis swaps. Board limits are reviewed annually and ALCO receives management information on interest rate risk exposures. Operationally, the Treasury Function is responsible for managing the Society's interest rate risk exposures. This is overseen by the Risk Function.

Foreign currency risk mitigation

Currency risk is the risk of loss emanating from movements in foreign exchange rates. The Society is exposed to appreciation in the value of foreign currency denominated liabilities or depreciation in foreign currency denominated assets. Whilst the Society's assets and liabilities are mainly denominated in sterling, these exposures arise from the Society's wholesale funding operations and legacy Irish and Spanish residential lending portfolios.

Foreign currency risk is managed through board approved limits, offsetting assets and liabilities, and the use of derivative financial instruments, such as foreign currency derivatives. The Treasury Function is responsible for managing the Society's foreign currency risk exposures, with oversight provided by the Risk Function.

"As a mutual, the Society is predominately funded through retail deposits. During 2015, the Society's savings portfolio continued to grow, accounting for 80% of total funding by the year end."

A subset of foreign currency risk is redenomination risk. This is the risk of loss resulting from a reduction in the value of foreign currency denominated assets, which is not matched by a reduction in the value of foreign currency liabilities, for instance if a country were to leave the euro and change its currency. The Society is exposed to this risk through its legacy lending operations in Ireland and Spain. During 2015, the Society reduced its exposure to redenomination risk by completing a retained securitisation, which can be used to provide funding from the European Central Bank (ECB) in the event of such a scenario. ALCO is primarily responsible for managing this risk, which is also subject to oversight from BRC.

Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they fall due, or can only do so at excessive cost.

Background and outlook

During 2015, the UK savings market remained buoyant following the launch of pensioner bonds and an increased appetite for retail savings from challenger banks. Wholesale funding markets continued to perform strongly in 2015, although spreads were wider than those seen in 2014.

As a mutual, the Society is predominately funded through retail deposits. During 2015, the Society's savings portfolio continued to grow, accounting for 80% of total funding by the year end. The Society also accesses funding via the UK and international wholesale markets. During 2015, the Society issued €500m of senior unsecured debt, a £300m covered bond, and a £325m residential mortgage backed securitisation (Albion No. 3 Plc). It is anticipated that wholesale markets will remain open to the Society in 2016, although they remain susceptible to volatility and uncertainty.

The introduction of CRD IV requires the Society to be compliant with new liquidity standards. These include a requirement to maintain a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR), to underpin the quality and quantity of liquidity under stressed conditions and the stability of the Society's funding profile. Implementation of these measures will be phased in between October 2015 and 2018. As at 31 December 2015, the Society's LCR stood at 194% (2014: 196%) and NSFR 133% (2014: 136%), both significantly above the regulatory minima.

Liquidity risk mitigation

This risk is managed through Board approved limits and policy to determine the overall level, composition and maturity of liquidity and funding balances. The Treasury Function is responsible for the day-to-day management of liquidity and wholesale funding with policy compliance being monitored daily by the Finance and Risk Functions. This is reported at each meeting of ALCO and the Board.

The Society also manages liquidity risk through the use of sale and repurchase agreements (repo). This is where treasury assets are lent in return for cash, to ensure they can provide readily realisable liquidity. The Society has pre-positioned collateral with the BoE and ECB, to provide additional contingent liquidity, which can be drawn upon if required.

The adequacy of the Society's liquidity is determined through its annual ILAAP. This determines the minimum level of liquid assets required under multiple stressed environments. These liquid assets, known as 'buffer assets', are of very high credit quality (for example, UK Government securities and deposits held with the BoE). This ensures they can be readily and easily converted to cash as liabilities fall due. The Board approved the most recent ILAAP in September 2015 and concluded that the amount and composition of the Society's liquid resources was adequate and covered the assumed effects of a prolonged severe stress. At the end of 2015, the Society's liquid buffer eligible assets totalled £1.6bn (2014: £1.4bn) and accounted for 93% of total liquidity (2014: 90%).

Risk Management Report

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Continued

Operational risk

Operational risk is the risk of financial or reputational loss, as a result of inadequate or failed processes, people and systems, or from external events. The table below details some of the key operational risk drivers at the Society:

Risk driver	Overview of risk
Legal and regulatory	Failures arising out of internal regulatory, statutory or legal non-compliance, including codes of conduct and associated risks from engagement with third parties.
Business continuity	Failure to establish resilient processes, adequate business continuity, and recovery arrangements.
People	Inability to attract, retain and develop people resources appropriately for the delivery of customer expectations and Society objectives.
IT and information security	Failure to establish, develop and maintain an IT environment that secures customer data and Society information.
Financial crime	Internal or external financial crime events relating to money, financial services or markets including: offences involving fraud or dishonesty (including bribery), handling the proceeds of crime, or the financing of terrorism.
Process	Financial or opportunity loss arising out of the failure to develop and maintain an effective infrastructure and processes to support the delivery of Society objectives, as well as adequately identifying and implementing business change programmes.

Background and outlook

Legal and regulatory

The volume and scale of regulatory change continues to shape the Society's operating environment. During 2015, the Society made significant preparations for the Mortgage Credit Directive (MCD) and the Senior Managers Regime (SMR), both of which will come into force during the first half of 2016. The pace of change in prudential and conduct related regulation looks set to continue throughout 2016.

The Society remains firmly committed to complying with its regulatory and legal responsibilities. A working group, reporting to the BRC, is responsible for identifying regulatory developments and assists colleagues in the delivery of required regulatory changes, within requisite timescales.

Business continuity

The development of business continuity plans is an integral component of the Society's operational risk control environment. The Risk Function works with colleagues to develop appetite, continuity plans and testing strategies, to allow for the management of unexpected events, for example the loss of business critical systems.

During 2015, the Society conducted several simulation exercises to test management's response to such events. Business continuity is overseen by a working group that reports to BRC.

People

During 2015, the Society continued to embed its people strategy. The Society aims to mitigate people risk through a rigorous recruitment process, new colleague inductions, and internal training. Personal development plans are put in place to ensure colleagues continue to develop their expertise and experience throughout their employment with the Society. Resilience to people risk is achieved through documented succession plans, which supports the delivery of the Society's goals.

"The Society has a dedicated financial crime team within the Risk Function. In recent years, the Society has made significant investments in people and systems to enhance its financial crime prevention capabilities."

IT and information security

The Society continues to invest in its technology infrastructure, so that it can maintain and develop services suitable for the evolving needs and expectations of members in the financial services markets in which it operates.

During 2015, the Society outsourced its IT service provision for its core system to Hewlett Packard Enterprise (HPE). Under the combined oversight of HPE and Society senior management, the Society is developing short, medium and longer term technology strategies that will ensure customer facing services will be available in a well-controlled environment, aligned to our members' needs, aspirations and expectations.

Whilst there is a strong focus on the development of customer interfaces and services, the Society is also fully aware of external threats, in particular cybercrime attacks designed to deny access to systems and compromise, or misuse, the data and assets held on Society systems. The Society has dedicated first and second line Security functions, with specific responsibilities to protect Society and members' assets. Independent exercises are also undertaken, designed to test the Society's defences and to ensure that cyber controls continuously evolve, in line with the ever changing complexity of cybercrime.

In recognising the specialist nature of IT, information security, data governance and business resilience risks, the Society's RMF incorporates various senior management led working groups, which oversee specific elements of the Society's risk universe and the suitability of the associated control environment. Each working group reports directly to BRC.

Financial crime

Financial crime is a concern for all financial institutions. In 2015, as a result of increasing levels of financial crime and control failures at financial institutions, the Financial Conduct Authority (FCA) highlighted the prevention of financial crime as an area of increased focus.

The Society has a dedicated financial crime team within the Risk Function. In recent years, the Society has made significant investments in people and systems to enhance its financial crime prevention capabilities. During 2015, a dedicated working group was established, to make further improvements to the financial crime control environment across the Society. Additional oversight is provided by the BRC.

Process

Process risk includes business change risk, management information risk, model risk, corporate insurance risk, outsourcing risk, systems and control risk, data risk and infrastructure risk. During 2015, the Society continued to improve the control environment for process risks, supported by a suite of new risk appetite statements. This has been facilitated by the Operational Risk Function, which continues to embed the operational components of the RMF, for example, monthly incident and breach reports, as well as control effectiveness assessments. In addition, significant incident reports and risk and control self-assessments have been introduced, allowing a further understanding of process risk exposures. Process risk is managed by the first line, with oversight provided by the Risk Function. Further oversight is provided by BRC and the AC.

Operational risk mitigation

In addition to the specific mitigants outlined above for the key operational risk drivers, the Society has implemented a bottom up and top down reporting approach to support the adoption of enterprise wide risk management. This encourages first line ownership of risk management and reporting, with the second line performing more of a co-ordination, aggregation, challenge and oversight role. Independent reporting and analysis is undertaken when appropriate.

The Operational Risk Function engages with each area of the business to maintain departmental risk registers; this includes an assessment of the effectiveness of key controls as well as relevant mitigating actions. This is complemented by a significant incident process, which escalates material control failures to senior management. The Society conducts risk control self-assessments twice yearly, which validate the risk and control environment.

As the Society continued to embed and strengthen its RMF in 2015, the BRC received reports on the outcome of the internal risk management reporting processes, which provide reasonable assurance over the operation of key controls.

Risk Management Report

Year ended
31 December 2015

Continued

Risk reporting is linked to strategic and corporate objective risks, as well as operational and business continuity risks to inform independent challenge by BRC. The Board receives monthly operational risk reporting, including a Strategic Heat Map, covering internal events and external developments. This enables the Society to maintain a focus on managing current and future key risks which could result in poor delivery against corporate objectives.

Conduct risk

Conduct risk (a form of operational risk) is the risk that actual or potential customer detriment arises, or may arise, from the way the Society conducts its business. The Society has an extremely limited tolerance for conduct risk events, although it is recognised that operational risk failures may create isolated incidents.

Background and outlook

Financial institutions continue to bear the cost of poor customer conduct and unfair customer outcomes. Given the longevity of many financial products, it is likely that issues will continue to arise in the market.

From a conduct perspective, the FCA and European Banking Authority (EBA) continue to shape the industry. Key regulatory changes in the coming year are:

- The introduction of the European MCD in March 2016. This aims to enhance existing consumer protection, already provided through the current mortgage regulatory framework. The Society is well prepared and will meet the regulatory timeframes;
- The SMR comes into force in March 2016. This outlines requirements for senior managers, introduces certified roles (for example mortgage advisers), and establishes new conduct requirements. Businesses have a further year, until March 2017, to issue certificates under the certification regime, and prepare for the wider application of the 'junior' conduct rules, for example to colleagues outside the senior management and certification regimes. The Society is well prepared to meet the SMR timeframes;
- In July 2015, the FCA released new rules on complaint handling. The majority of the new rules apply from June 2016 and focus on complaint reporting to the FCA and the timeframes for handling complaints. The Society is updating its systems and processes to accommodate the new requirements.

Conduct risk mitigation

In line with its stated appetite, the Society restricts its activities to areas where appropriate expertise is in place.

Customer facing and operational departments provide first line management of conduct risk. All colleagues complete mandatory conduct risk training and there is a Board approved Conduct Risk Policy in place. Dedicated teams undertake first line quality assurance activity, along with independent second line compliance monitoring, with both areas overseeing and reporting on conduct risk. Detailed conduct risk management information is submitted for review and discussion to the CRC, with actions and outcomes being appropriately monitored and subsequently incorporated into BRC and Board reporting.

It has been widely reported by the FCA that sales incentive schemes were a contributing cause of customer detriment. Colleagues employed by the Society do not operate to sales targets but, instead, are measured against a number of competencies and quality metrics.

The Society maintains a Product Governance Framework. This framework delivers an ongoing research and review process for new and existing products, ensuring the Society offers products that meet the needs of members.

Business risk

Business risk represents the risk of changes in the external environment that have the potential to affect negatively the Society's business model. These include major regulatory changes, increased levels of competition, or macroeconomic conditions.

Background and outlook

During 2015, the competitive environment heightened as a consequence of supportive macroeconomic conditions and an increased number of providers in the UK savings and mortgage markets, following the emergence of challenger banks. It is expected that increased competition will continue into 2016.

The potential for an EU referendum during 2016 will provide further uncertainly in the external environment. In this regard, the directors are currently assessing the potential consequences for the Society.

"The Board is provided with regular updates on the Society's key strategies to ensure these are consistent and remain within the Board's risk appetite."

Business risk mitigation

The Society addresses business risks within its Corporate Plan, which is reviewed annually by the Board and is considered in the context of the Society's SRA. This includes stress testing of the Society's business model across a range of severe but plausible scenarios. The Board is provided with regular updates on the Society's key strategies to ensure these are consistent and remain within the Board's risk appetite.

Pension obligation risk

The Society has funding obligations for a defined benefit pension scheme, which is closed to future accrual. Pension risk is the risk that the value of the scheme's assets will be insufficient to cover obligations over the remaining life of the scheme. The return on the scheme's assets will vary, depending on the movement in the value of its investments, whilst the projection of the scheme's liabilities is based on estimates of mortality and inflation. In practice, the actual outcome may differ to the estimates and any shortfall will be borne by the Society.

Background and outlook

During 2015 and in line with legal requirements, the Society completed its triennial review of assets and liabilities, to determine the pension scheme's funding position. Based on this valuation, the scheme remains relatively well funded, with a plan agreed to recover the deficit, by 2019. This funding plan is an extension of existing arrangements and, as such, does not represent a commercial stress to the Society. Given the inherent volatility of valuation assumptions, the Society is aware that future liabilities may change positively, or negatively and a range of alternative funding strategies is being considered to limit future volatility.

Pension obligation risk mitigation

This risk is managed through regular meetings of the Pension Trustee Board. The Pension Trustee Board receives quarterly investment monitoring updates, prepared by the scheme's independent advisers and annual actuarial updates, which may lead to a course of appropriate action, such as altering asset allocations. The Society conducts annual stress testing of the scheme's assets and liabilities under various severe but plausible scenarios as part of the ICAAP.

David Fisher
Chairman of the Board Risk Committee
23 February 2016

Board of Directors

Robin Ashton
Chairman (58)

I joined the Board as a non executive director in April 2011 and became Chairman in March 2013.

As Chairman, I attend most Board committees. I'm a strong supporter of the building society sector and the mutual business model, which plays an important role in UK financial services. I am a Chartered Accountant and spent my executive career in retail financial services. I'm also a non executive director of Shawbrook Group Plc, its subsidiary Shawbrook Bank Ltd and Non-Standard Finance Plc. I'm married with three children and I enjoy reading and motorsports.

Peter Hill
Chief Executive Officer (54)

I have over 35 years' experience in financial services, specialising in a range of disciplines.

I entered the mutual sector in 2001, joining the Society as General Manager of Sales before moving into Operations. I was appointed Operations Director in 2006 and Chief Executive Officer in 2011. I'm Chairman of the Council of Mortgage Lenders, Chairman of the Northern Association of Building Societies, an Associate of the Chartered Institute of Bankers and a fellow of the Royal Society of Arts. I'm married with two sons and a keen follower of Leeds Rhinos Rugby League Club.

Philippa Brown (49)

I joined the Board as a non executive director in January 2013, bringing a strong consumer and marketing perspective to the role.

I'm also a member of the Conduct Risk and Remuneration Committees. Putting our members' interests at the heart of the Society is important to me and integral to our business. I've been employed in marketing and advertising for over 25 years and I'm Chief Executive Officer of leading UK media agency Omnicom Media Group UK. Outside work I enjoy swimming and have two children. I also support Breast Cancer Now and Future Dreams charities.

Susan Cooklin (55)

I joined the Board as a non executive director in February 2014 and I'm also a member of the Board Risk and Audit Committees.

I'm the Route Services Director at Network Rail Infrastructure Ltd, having previously joined as their Group Chief Information Officer. Prior to this I was a senior executive at Barclays Bank within operations and technology. I spent my early career in the building society sector and now I'm proud to have rejoined a mutual organisation where our members' interests are central to our business. Outside work, I enjoy spending time with my family and swimming.

Richard Fearon (37)

I joined the Board as Chief Commercial Officer in February 2016.

I'm responsible for the strategy and direction of the Society across product development, marketing and brand, digital, customer insight and distribution. I started my career at Oliver Wyman & Company and spent the last ten years at Lloyds Banking Group in a number of senior roles. I'm delighted to have joined a mutual organisation which puts members' interests first and which has been so successful during a challenging period in financial services. I'm married with two (soon to be three) children and enjoy spending time with my family and, if there's ever a quiet moment, reading.

David Fisher (57)

I joined the Board in March 2012. I chair the Pension Trustee Board and the Board Risk Committee.

I'm also a member of the Conduct and Remuneration Committees. I started my financial services career with Halifax Building Society 26 years ago. Prior to joining the Society, I was Chief Executive of Sainsbury's Bank. I also undertake a number of advisory roles. I'm delighted to return to my mutual roots and join a Board that's totally committed to mutual status. Outside work, I'm married with two daughters and a keen alpine walker and runner. I completed my first marathon in 2012.

Andrew Greenwood (46)

I joined the Board as Risk Director in 2015 and I am proud to be a member of the Society.

I started my career as a solicitor in private practice and I've worked for the Society since 1998 in a variety of legal, compliance and risk-focused roles. My role is to lead the Risk Division, which comprises a number of specialist teams that monitor key risks in the context of business activities. I also attend all of the Society's board committees which focus on risk management.
I live near York with my wife and two young children, and enjoy watching sport and spending time with family and friends.

Gareth Hoskin (55)

It is a great privilege to serve the members of the Leeds Building Society as I believe strongly in its mutuality and social purpose.

Having joined the Board in November 2015, I chair the Audit Committee and serve on the Board Risk Committee. Over my 30 year career, I've gained extensive UK and international financial services experience as a director of Legal & General Plc and CEO of its International Division, and previously as a Chartered Accountant at Price Waterhouse. I support Diabetes UK Ltd as a non executive director, trustee and Audit Committee Chair and I'm also an adviser to Green Park Partners Ltd. I'm married with two children and enjoy playing golf, travelling and spending time with my family.

John Hunt (61)

I joined the Board as a non executive director in April 2015.

I chair the Models and Rating System Committee and I'm a member of the Assets & Liabilities and Credit Committees. I began my 38 year banking career with Yorkshire Bank in Leeds. Since then, I've held senior posts in a number of major banks and was a founder member of the Global Credit Data Consortium. The past few years have been turbulent in the financial services world and I'm pleased to join a Society that's fully committed to mutuality, with its members' best interests at heart. I'm married with two sons.

Philip Jenks (65)

I joined the Board in March 2012. I chair the Society's Credit Committee and I'm a member of the Society's Board Risk and Models and Rating System Committees.

With over 40 years' experience in the financial sector, I'm Chairman at Charter Court Financial Services Group and I've worked as a consultant for organisations including the Government on housing related projects. I fully appreciate the value of mutuality and I'm proud to be a director at a society that's focused on getting things right for its members. I'm married with three children and enjoy walking, watching sport and going to the theatre.

Robin Litten (52)

I joined the Society in 2012 as Chief Financial Officer having spent the last 13 years in the mutual building society sector.

I have held senior roles at Barclays Bank, Skipton and Scarborough Building Societies. My role is to ensure that the Society remains financially secure and is able to fund continuing growth and investment for the benefit of our members. As a member of the Executive Committee, I lead the Society's Finance, Treasury and Strategy teams and I'm Chairman of the Assets & Liabilities Committee. Outside work, I enjoy spending time with my family, playing squash and cycling.

Les Platts (62)

I joined the Board in 2010 and I'm the Vice Chairman and Senior Independent Director.

I also chair the Remuneration Committee and I'm a member of the Audit, Nominations and Assets & Liabilities Committees. The Society, with its proud history and firm commitment to mutuality, is a very strong part of Leeds' business community. As a Chartered Accountant, I was the Senior Partner for Deloitte in their Leeds office. Now I'm Chairman of an investment administration business and Honorary Treasurer of Lancashire County Cricket Club. Outside work, I'm married with two children and I support the NSPCC.

Karen Wint (50)

As Chief Operating Officer I am responsible for ensuring that we have the right people, processes and technology in place to continue to deliver great service and value to our members.

That includes continuing to change and update how we do things to meet new customer expectations in a rapidly changing world. I am a member of the Executive, Conduct Risk and Credit Committees. I am a Chartered Banker and enjoy walking and spending time in the Yorkshire Dales.

Directors' Report

Year ended
31 December 2015

The directors have pleasure in presenting their Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 December 2015.

Information on the Group's vision, strategy and business performance is given in the Strategic Report on pages 8 to 23.

Profit and capital position
The profit and capital position is set out in the Strategic Report on pages 8 to 23.

Mortgage arrears
At 31 December 2015, there were 304 (2014: 341) mortgage accounts 12 months or more in arrears. The total mortgage arrears, in these cases, was £4.2m (2014: £4.6m) and the total of principal loans outstanding was £44.0m (2014: £54.3m).

Charitable and political donations
In 2015 the Group made a donation of £100,000 to the Leeds Building Society Charitable Foundation. The Caring Saver Account provided further donations of £22,000 to be made to specified charities. Other charitable donations in the year amounted to £23,000 (2014: £18,000).

Other charitable contributions from colleagues and members totalled £181,000, taking total donations to charity to £326,000 (2014: £275,000). No political donations were made during the year (2014: £nil).

Creditor payment policy
The Group's policy is to agree terms and conditions with suppliers that: outline the way in which business is to be transacted, ensure that suppliers are aware of the terms of payment, and to pay in accordance with contractual and other legal obligations.

The creditor days stood at 21 days at 31 December 2015 (2014: 19 days).

Colleagues
Information on colleague policies and performance are included in the Strategic Report on pages 8 to 23.

Principal risks and uncertainties
The principal risks and uncertainties faced by the Group (and its approach to managing them) are set out in the Risk Management Report on pages 28 to 39.

Corporate governance
Statements on corporate governance and directors' responsibilities are set out on pages 44 to 52 respectively.

Pillar 3 disclosures
The disclosures required under Pillar 3 are published on the Society's website on the same date as the Annual Report and Accounts.

Environmental policy
The Environmental Policy is summarised in the Corporate Responsibility Report on page 27.

Directors' responsibilities in respect of the preparation of the accounts
This statement is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report. It should be read in conjunction with the statement of the auditor's responsibilities on page 77.

The directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, annual accounts that give a true and fair view of the income and expenditure of the Society and the Group for the financial year and of the state of affairs of the Society and the Group as at the end of the financial year and that provide details of directors' emoluments in accordance with Part VIII of the Act and regulations made under it. The Act states that references to International Financial Reporting Standards (IFRS) accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing annual accounts, directors are required to:

- Select appropriate accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the annual accounts have been prepared in accordance with IFRS; and
- Prepare the annual accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors consider that the Annual Report and Accounts are fair, balanced and understandable, when taken as a whole, and provide the information necessary for members to assess the Society's and Group's performance, business model and strategy.

In addition to the annual accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its subsidiary undertakings.

Directors' responsibilities for accounting records and internal control

The directors are responsible for ensuring that the Society and its subsidiary undertakings:

- Keep accounting records in accordance with the Building Societies Act 1986; and
- Take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000. The rules are now overseen by the Prudential Regulation Authority under the Financial Services Act 2012.

The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance of the corporate and financial information included on the Society's website. Legislation in the UK, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

Going concern

The directors are required to prepare financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Society will continue in business.

The Board undertakes regular, rigorous assessments of whether the Group is a going concern, in light of current economic and market conditions, and all available information about future risks and uncertainties. The directors consider that:

- The Group maintains an appropriate level of liquidity that is sufficient to meet both the normal demands of the business and the requirements which might arise in stressed circumstances;
- The availability and quality of liquid assets are structured to ensure funds are available to repay any maturing wholesale funds and exceptional demand from retail investors. These assets are principally invested with banks and building societies which meet the requirements of the Group Financial Risk Management Policy. This Policy is regularly reviewed and updated to take into account changes to the credit risk assessment of each counterparty.
- The Group's other assets are primarily in the form of mortgages on residential property. Regular assessment of the recoverability of all mortgage assets is undertaken and provision made, where appropriate, so that the Group is not exposed to losses on these assets which would affect its decision to adopt the going concern basis.
- Reasonable profits have been generated in order to keep gross capital at a suitable level to meet regulatory requirements. Having reviewed future plans and forecasts, the directors consider the Group is able to generate sufficient profit to maintain capital in excess of regulatory requirements.

Therefore, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and so continue to adopt the going concern basis in preparing the financial statements.

In addition, the directors have assessed the Society's prospects over a longer period than the 12 months required by the 'going concern' provision and this assessment is included on page 23 in the Strategic Report.

Directors

The names of the directors of the Society who served during the year are included in the Corporate Governance Report on pages 44 to 52 (along with their roles and membership of board committees). In line with best practice all the executive and non executive directors offer themselves for re-election by the members at the Annual General Meeting. Richard Fearon, John Hunt and Gareth Hoskin are seeking election to the Board having been appointed since the 2015 AGM. None of the directors holds any beneficial interest in shares in, or debentures of, any subsidiary undertakings of the Society.

Auditor

The external auditor, Deloitte LLP, has expressed its willingness to continue in office and in accordance with Section 77 of the Building Societies Act 1986, a resolution for its reappointment as auditor will be proposed at the Annual General Meeting.

Post balance sheet events

The directors consider that no events have occurred since the year end to the date of this Report that are likely to have a material effect on the financial position of the Group as disclosed in the Annual Accounts.

Andrew J. Greenwood.

Andrew J Greenwood
Chief Risk Officer & Secretary

23 February 2016

Corporate Governance Report

Year ended
31 December 2015

Chairman's statement

Under my chairmanship, the Board is responsible for ensuring that the Society maintains high standards of corporate governance. The Society applies the provisions of the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council, for reporting periods beginning on or after 1 October 2014, in so far as they are relevant to a building society.

Leeds Building Society seeks to operate to the highest standards of corporate governance and the Board is committed to making sure this happens. The governance structure underpins the Society's ability to deliver its strategy, grow the business and create long term value for members.

This report explains how the Society manages corporate governance and applies the principles and provisions of the Code. It sets out the details of the main board committees and the attendance records for those committees.

The role of the Board

The Board's role is to provide leadership for the Society, within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board considers a strong system of governance essential to ensure the business runs smoothly, aid effective decision making and support the achievement of the Society's objectives.

The Board is collectively responsible for:

- safeguarding members' interests;
- directing strategy;
- ensuring sufficient resources are in place to meet the Society's objectives;
- ensuring the existence of robust financial and internal controls;
- ensuring a robust risk management system is in place;
- monitoring the performance of the executive team; and
- the long term success of the business.

The Board follows an annual planning cycle (considering the development of the business model in the context of the wider business environment), as well as a clear process for undertaking corporate and strategic planning.

There is a formal schedule of matters which are reserved solely for the Board's decision and the Board delegates some of its duties to its committees. The Schedule of Matters Reserved for the Board, along with the terms of reference for each committee, is available on the Society's website: leedsbuildingsociety.co.uk/your-society/about-us/

A framework of management focused delegated authorities is in place and is documented in the Delegated Authorities Manual. It is reviewed and approved annually by the Board. The most recent review was completed in September 2015.

Board composition

At 31 December 2015, the Board comprised four executive directors and eight independent non executive directors. This complies with the Code Provision B.1.2, which states that at least half the Board, excluding the Chairman, should be made up of independent non executive directors. The directors' biographies are set out in the Board of Directors section of the Annual Report and Accounts, detailed on pages 40 to 41.

Where appropriate, the advice and services of the Secretary and access to independent professional advice, at the Society's expense, are available to enable directors to fulfil their roles and responsibilities.

The Board considers that the directors' skills and expertise complement each other and provide an appropriate balance which helps to ensure members' interests are protected and the business has appropriate leadership and direction. The Board is satisfied that all non executive directors are independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of their judgement. The independence of the non executive directors who have served on the Board for more than six years is subject to a rigorous review, to make sure individuals remain independent in character and judgement, with the ability to constructively challenge and help develop proposals on strategy. Ian Robertson had been a non executive director since 2008 and in December 2014, following review, it was agreed to extend his directorship until 31 December 2015. Ian retired from the Society on 31 December 2015.

"The role of the non executive directors is to bring independent judgement to board debates and decisions and constructively challenge the work and proposals of the senior leadership team."

The Society announced the retirement of Abhai Rajguru from the Society as a non executive director on 25 March 2015 after six years on the Board and Kim Rebecchi stepped down from the Board on 30 June 2015, having served for five years as Distribution and Marketing Director.

The role of the non executive directors is to bring independent judgement to board debates and decisions and constructively challenge the work and proposals of the senior leadership team. The responsibilities of the Senior Independent Director and the non executive directors are summarised below.

Senior Independent Director (Les Platts)	Non executive directors
Act as intermediary for the other directors when necessary. Provide support and be a sounding board for the Chairman. Support the Chairman in leading and managing the Board, deputising where appropriate. Lead meetings in the Chairman's absence.	Represent the interests of current and future members. Bring independent judgement and perspective to the overall running of the Society. Constructively challenge, provide input to, and help develop strategy. Scrutinise performance of management in meeting agreed objectives of the Society and monitor the reporting of performance of the business.
Lead discussions on the performance of the Chairman. Be available to key stakeholders and other non executives to address concerns.	Set the Society's risk appetite, and ensure the integrity of financial information and that controls are robust and fit for purpose. Participate in appropriate induction and ongoing training sessions designed to enhance skills and knowledge of the Society's business and financial industry awareness. To act as ambassadors for the Society.

It is anticipated that after induction, non executive directors may be required to commit, on average, up to 36 days per annum in the discharge of their duties.

The non executive directors meet at least twice a year, without the executive directors being present, to discuss relevant matters and assess the performance of the executive directors.

Non executive directors are appointed for a three year period. They are usually expected to serve two terms. These terms are subject to ongoing performance evaluations and to annual re-election by the members of the Society. They may also be proposed for a third term, up to a maximum of a further three years.

Copies of all non executive directors' letters of appointment are available on request from the Society's Secretary.

The roles of Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are distinct and held by different individuals. The division of responsibilities between the two roles is reviewed annually by the Nominations Committee. The Chairman's principal role is to lead the Board. He is not involved with the day-to-day management of the Society. The Chief Executive Officer focuses on the running of the Society and implementing strategy.

Chairman (Robin Ashton)	Chief Executive Officer (Peter Hill)
Lead the Board and effectively run board meetings. Ensure that important issues are on the board agenda and that directors receive all appropriate documentation in a timely manner with the focus remaining on strategic, rather than routine matters.	Lead the Society through the executive directors and senior leadership team. Run the Society's business, maintaining a regular dialogue with the Chairman. Propose and direct the Society's strategy and overall objectives, implementing the decisions of the Board.
Ensure effective communication with the Society's members.	Lead the communication process with members, colleagues and key stakeholders.
Initiate change and succession planning in board appointments, to retain and build an effective and complementary skill set on the Board.	Provide information and advice on succession planning.
Formally and rigorously evaluate the performance of the Chief Executive Officer and the Board as a whole.	Conduct appraisals for the executive directors and provide input to the wider Board evaluation process.
Ensure all directors receive appropriate induction, plus ongoing training and development. Promote the highest standards of integrity, probity and corporate governance.	Ensure the development and training needs of executive directors are identified and met. Promote and conduct the affairs of the Society with the highest standards of integrity, probity and corporate governance.

Corporate Governance Report

Year ended
31 December 2015

Continued

Secretary

Andrew Greenwood is the Society's Secretary. He was a solicitor in private practice before joining the Society in 1998. Since joining the Society, Andrew has been employed in a number of legal, compliance and risk roles. Andrew was appointed Chief Risk Officer in 2011 and Executive Director in 2015. The Secretariat Team has skills, qualifications and experience in the fields of secretariat, compliance, internal audit and legal.

Succession planning

Succession planning and the appointment of all new directors are considered regularly by the Nominations Committee.

The Committee reviews the size and composition of the Board, and regularly considers the requirements for new skills and experience. This ensures the Board continues to have the requisite balance of capabilities to carry out its duties effectively.

Members of the Society are entitled to nominate candidates for election to the Board. Each director must meet the tests of fitness and propriety prescribed by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Roles that fall into the Senior Managers Regime must also receive regulatory approval.

Board diversity

The Board Diversity Policy is detailed below:

Board Diversity Policy

Leeds Building Society firmly believes in the importance of a diverse Board membership in its broadest sense and promotes an inclusive culture across the organisation, in line with our Values. We believe the diversity of skills, experience, backgrounds and other distinctions including gender and race strengthens the capability of the Board and, therefore, the effectiveness of its independence, judgement and decision making.

All Board appointments will be based on merit against objective criteria, the skills and experience of the Board as a whole, and with regard to the benefits of diversity.

The Nominations Committee reviews and assesses Board composition on behalf of the Board on an annual basis and recommends the appointment of directors. The Committee also oversees the conduct of the annual review of Board effectiveness.

The Nominations Committee will agree annually the measureable objectives for Board diversity and recommends them to the Board for adoption. Currently, the objectives are to:

- Proactively aim for female representation of 25% on the Board;
- Only engage executive search firms which have signed up to the voluntary Code of Conduct for gender diversity and best practice. External advertising is to be considered as part of the attraction methods utilised; and
- Provide enhanced disclosure on the Board appointment process and the consideration of diversity as part of the Board evaluation process.

The Nominations Committee will report annually in the corporate governance section of the Leeds Building Society Annual Report and Accounts, on the agreed objectives and the progress against these objectives and other initiatives taking place which promote gender and other forms of diversity.

"The Society will continue to attract a diverse Board and focus on the promotion of diversity, having an inclusive culture and more detailed disclosures."

The Society currently has three female directors, representing 23% of all board members. The Society is broadly in line with its objective of 25% and is ahead of the FTSE 250 composite of 18%. The Board gives consideration to all aspects of diversity, including gender, and will continue to follow the principle that all appointments should be based on the skills, experience and expertise that an individual can bring.

The Society will continue to attract a diverse Board and focus on the promotion of diversity, having an inclusive culture and enhanced disclosures. Focus will also be placed on the development of internal talent for senior positions and providing specific support for women and broader diversity groups.

Annual re-election of directors

Following a decision by the Nominations Committee, under delegated authority of the Board, it was agreed that all directors should be elected annually, in accordance with best practice. This took effect from the AGM in March 2015.

Appointments to the Board

On 8 January 2015, the Society was pleased to announce that Andrew Greenwood, Chief Risk Officer, had been appointed to the Board.

On 29 April 2015, the Society announced the appointment of John Hunt as non executive director. John replaced Abhai Rajguru and chairs the Models & Rating System Committee. He also sits on the Assets & Liabilities and the Credit Committees. The Zygos Partnership provided support in this appointment, which predominantly took place during 2014.

As part of ongoing non executive director succession planning, the Board appointed Warren Partners to assist in the search for further suitable non executive and executive director candidates. The Zygos Partnership and Warren Partners follow the Executive Search Firms Voluntary Code of Conduct, an industry standard code to redress gender balance and promote best practice. The search and appointment process was comprehensive, involving open advertising, long and short listing, as well as a range of interviews, tools and techniques to assess candidate suitability.

This process resulted in the appointment of Gareth Hoskin, on 16 November 2015. Gareth replaced Ian Robertson who retired from the Board on 31 December 2015 after seven years of service. Gareth chairs the Audit Committee.

On 1 September 2015, the Society also announced the appointment of Richard Fearon as Chief Commercial Officer. Richard replaces Kim Rebecchi who stepped down from the Board on 30 June 2015. Richard took up his duties in February 2016.

Board meetings

The Board operates through meetings of the full Board, as often as is necessary for the proper conduct of business. The Board normally meets ten times every year, though during 2015 it met 11 times. The Board also operates through a number of committees, which are detailed on pages 48 to 51.

Accurate, timely and clear information to assist the Board with its deliberations and decision making is essential. The papers are normally circulated to the board members at least one week in advance of the meetings. The Chairman ensures that the information is considered appropriately by all members of the Board.

Board committees

To fulfil its role, the Board delegates some of its duties to committees. As well as the recommended committees prescribed by the Code, the Board has established committees to oversee business specific matters, including: the Assets & Liabilities Committee, Credit Committee, Conduct Risk Committee and Models & Rating System Committee. The committees receive timely and clear information to assist with their deliberations and decision making. This is circulated one week in advance to ensure the information is considered appropriately by all members of the committees.

Internal governance arrangements have been reviewed during 2015 to ensure appropriate alignment with the new regulatory Senior Accountability In Banking regime, which comes into force under a phased approach from March 2016.

Corporate Governance Report

Year ended
31 December 2015

Continued

The interaction between the Board and its committees can be summarised below:

The Board

Credit Committee

Provides credit risk oversight; monitors credit risk models and oversees the running of commercial lending portfolio.

Nominations Committee

Reviews the structure, size and composition of the board; oversees succession planning and identifies candidates to fill Board vacancies; responsible for ensuring compliance with good corporate governance.

Remuneration Committee

Sets the framework for remuneration of the Chairman, chief officers and directors of functional areas.

Board Risk Committee

Reviews the Society's exposure to risk and oversees the Risk Management Framework, to ensure that it is appropriate to mitigate current and prospective risks; oversees risk related reviews; develops strategic risk appetite and the Society's ICAAP for Board approval.

Audit Committee

Monitors the integrity of external financial reporting, reviews the effectiveness of the systems of internal control and assesses the effectiveness, performance and independence of the Internal Audit Function and the external auditor.

Chief Executive Officer

Responsible for the management of the Society's business, other than Matters Reserved for the Board.

Conduct Risk Committee

Provides oversight on conduct risk matters; assesses new and existing products to ensure they are appropriate for members' needs.

Models & Rating System Committee

Oversees the development and performance of the Society's ratings system; reviews its compliance with prudential regulation.

Assets & Liabilities Committee

Oversees treasury policy, financial risk management, wholesale funding and liquidity; recommends the Society's ILAAP for Board approval.

Audit Committee

Detailed information about the Audit Committee is set out in the Audit Committee Report on pages 54 to 59.

Board Risk Committee (BRC)

The BRC comprises four non executive directors and, during 2015, met six times. In accordance with the requirement of the Capital Requirements Directive 4 (CRD IV), membership is limited to non executive directors. However, invitations to attend meetings are extended to the executive directors and the Chief Internal Audit Officer.

The Chairman of the Board Risk Committee is David Fisher. The other members of the Committee, during 2015, were Susan Cooklin, Philip Jenks and Ian Robertson.

During the year, the Committee appraised the Society's exposure to risk, through the development and oversight of the Risk Management Framework and strategic and operational Risk Appetite Statements. It also provided oversight to the calculation and allocation of the Society's capital requirements, as well as recommending the ICAAP outputs to the Board.

Commentary on the types of risk faced by the Society, together with details of how these risks are managed, are set out in the Risk Management Report on pages 28 to 39 and in the Notes to the Accounts.

Assets & Liabilities Committee (ALCO)

ALCO oversees the Society's treasury strategy and operations and ensures that these are conducted within the framework of control, set out in the Board approved Financial Risk Management Policy (FRMP).

The main duties of the Committee include monitoring the Society's exposure to funding and liquidity risks, market risk, and wholesale counterparty credit risk, approving the Society's treasury related ICAAP inputs and Funds Transfer Pricing Policy as well as reviewing and recommending the following documents to the Board for approval: the FRMP, Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution Plan (RRP).

ALCO is chaired by Robin Litten and, during 2015, met six times. Other Committee members (during all, or part of 2015) included: John Hunt, Les Platts, Peter Hill, Andrew Greenwood, Kim Rebecchi and Abhai Rajguru.

Nominations Committee

The Nominations Committee is comprised solely of non executive directors and is chaired by Robin Ashton. In the year ended 31 December 2015, the other member of the Committee was Les Platts.

The main responsibilities of the Committee are to ensure the Board and its committees consist of directors with the appropriate balance of skills, experience and knowledge to discharge their duties, ensure the Society meets the principles of the Code and other appropriate requirements, and to give consideration to succession planning for the Board and the senior leadership team.

The Committee reviews the Board Diversity Policy annually and agrees or recommends measureable objectives to the Board, for adoption.

Prior to any individuals being recommended to the Board, candidates' aptitude, qualifications and experience were assessed by the Committee. All appointments to the Board were made on merit and against objective criteria.

The Committee considers that all directors comply with Article 91 of CRD IV, which came into effect in July 2014, have sufficient time to discharge their duties at the Society and do not hold more than the prescribed number of directorships.

Credit Committee

The Credit Committee has oversight of the Society's credit risk management processes, including assessing the Society's credit risk appetite. During the year ended 31 December 2015, the Committee approved and monitored adherence to a number of policies including the Lending Policy and Arrears Management and Forbearance Policy. It also seeks to ensure that the Society observes best practice on an ongoing basis.

During 2015, the Committee was chaired by Philip Jenks and met five times. Other members, for all or part of the year, included: Peter Hill, Robin Litten, Ian Robertson, John Hunt, Kim Rebecchi, Karen Wint, Andrew Greenwood and David Fisher.

Remuneration Committee

Detailed information about the Remuneration Committee is set out in the Directors' Remuneration Report on pages 60 to 73.

Corporate Governance Report

Year ended
31 December 2015

Continued

Models & Ratings System Committee

The Models & Ratings System Committee is the designated Internal Ratings Based Committee and it currently supports the Board in fulfilling its oversight responsibilities for the ratings system and general credit modelling. These responsibilities include overseeing the development of the ratings system and its performance, in addition to its compliance with prudential regulation requirements.

The Committee, formed in May 2015, is chaired by John Hunt and met six times. Other director members of the Committee, for all or part of the year, included: Philip Jenks, Robin Litten and Andrew Greenwood.

Conduct Risk Committee

The Conduct Risk Committee is responsible for ensuring that the Society meets the objectives of the conduct risk and complaints policies. It is authorised to suspend the sale of a product, if it considers there may be a risk that the product is not suitable for the needs of the Society's members, or that it may be detrimental to their interests.

In 2015, the Committee reviewed and approved new product types to ensure they would deliver good outcomes and meet the required regulatory standards. Reviews of the ongoing appropriateness and performance of existing products were undertaken through the product governance lifecycle and scrutiny of management information. The Committee also assessed lessons learned, following changes to savings interest rates and sought updates on service pressures, following high business volumes.

The Committee is chaired by Karen Wint who took over from Kim Rebecchi in April 2015. Other Board members for all or part of 2015 were Andrew Greenwood, Philippa Brown, David Fisher and Philip Jenks. In 2015, the Committee met five times.

Board and board committee membership attendance record

Director	Board	Audit Committee	Remuneration Committee	Nominations Committee	Credit Committee	Assets and Liabilities Committee	Conduct Risk Committee	Models & Rating System	Board Risk Committee
Robin Ashton	11(11)			4(4)					
Peter Hill *	11(11)				5(5)	6(6)			
Robin Litten *	11(11)				5(5)	6(6)		5(6)	
Karen Wint *	11(11)				5(5)		5(5)		
Les Platts	11(11)	6(6)	4(4)	4(4)		6(6)			
Susan Cooklin	11(11)	5(6)							6(6)
Ian Robertson (retired 31/12/15)	11(11)	6(6)			5(5)				5(6)
Philippa Brown	10(11)		4(4)				4(5)		
David Fisher	11(11)		4(4)		2(2)		4(4)		6(6)
Philip Jenks	11(11)				5(5)		1(1)	6(6)	5(6)
Andrew Greenwood*	11(11)				5(5)	5(6)	5(5)	6(6)	
Kim Rebecchi* (stepped down 30/6/15)	7(7)				3(3)	3(3)	3(3)		
Gareth Hoskin (joined 16/11/15)	1(1)	1(1)							
Abhai Rajguru (retired 25/3/15)	3(3)	2(2)				2(2)			
John Hunt (joined 29/4/15)	7(7)				2(3)	4(4)		6(6)	

*Executive directors

(The number in brackets is the maximum number of scheduled meetings that the director was eligible to attend).

Executive management committees

Powers are delegated from the Board to the CEO and through him to the senior leadership team, via documented delegated authorities. These set out the responsibilities, decision making and approval powers of managers at different levels of the Society. There are two executive management Committees to support the CEO in managing the business:

Executive Committee (ExCo)

The primary purpose of the ExCo is to enable the executive directors to manage the Society in a coordinated way providing a broad view of key issues and priorities so that individuals can exercise their authority in the context of the wider picture.

The ExCo monitors performance against corporate objectives and a balanced scorecard to facilitate early identification of divergence from plan and agree and monitor remedial action.

The Society's Chief Executive Officer, Peter Hill, chairs the ExCo, which meets fortnightly. The ExCo has formal terms of reference, which are reviewed as appropriate and were last reviewed in November 2015.

The ExCo is responsible for formulation of strategy for approval by the Board and, in particular, has ownership of the People Strategy and the Customer Strategy. The ExCo is supported by a number of supporting committees.

The ExCo does not have a formal role in the Society's risk governance structure other than in the context of strategy and planning.

Management Committee (ManCo)

The primary purpose of the ManCo is to enable the senior leadership team to manage the Society in a coordinated way providing a broad view on key issues and priorities so that individuals can exercise their authority in the context of the wider picture. The ManCo has formal terms of reference, which are reviewed as appropriate and were last reviewed in November 2015.

In support of the ExCo, the ManCo monitors performance against corporate objectives and the balanced scorecard to facilitate early identification of divergence from plan and agree and monitor remedial action. It also provides input into the formulation of strategy with a particular emphasis on the People Strategy and the Customer Strategy and assists in the coordination and implementation of strategic change programmes.

Conflicts of interest

Directors have a statutory duty to avoid actual and potential conflicts of interest. Where these occur, or could occur, the Board may authorise the conflict under a documented procedure on such terms as it may decide. When a director is aware that a conflict of interest has arisen, or may arise, he or she must notify the Board of the situational or transactional conflict as soon as possible, prior to the conflicted item being discussed at the Board. Directors have a continuing duty to gain approval from the Board for any new (or changes to) external appointments, which are also reviewed annually, as a further check.

No director had a material interest to declare, in relation to the Society's business, at any time during the year ended 31 December 2015.

Auditor

The Audit Committee has approved a policy on the Society's use of the external auditor for non-audit work, to ensure the continued independence and objectivity of the external auditor. The external auditor, Deloitte LLP, undertook a number of non-audit related assignments during 2015, conducted in accordance with this policy. The Board considers that they are consistent with the professional and ethical standards expected of an external auditor and are in the Society's best interests. Details of the fees paid to the external auditor for audit and non-audit services are set out in note 6 on page 89.

Directors' development and performance evaluation

During 2015, and in accordance with the annual review cycle, the Chairman conducted a formal evaluation of each of the non executive directors on behalf of the Nominations Committee. Board committees reviewed their own performance and the Chairman's performance was assessed and formally evaluated by the Board in his absence, with feedback provided to him by Les Platts, Senior Independent Director.

Continuous professional development for each non executive director is identified through both relevant Board committees and the performance evaluation process.

Gareth Hoskin and John Hunt, as newly appointed directors, undertook, or are undertaking, comprehensive induction programmes. Each programme has been personally tailored to the director's requirements, based upon his previous experience and knowledge.

Corporate Governance Report

Year ended
31 December 2015

Continued

Executive directors were evaluated within the performance evaluation framework for employees and by the Remuneration Committee, with regard to their remuneration.

In April 2015, in accordance with best practice, a Board effectiveness review was undertaken by an external firm, Praesta Partners LLP. Praesta is independent of the Society and has not performed any other services for the Society. The review included individual interviews with all the directors, as well as an observation of a Board meeting. It concluded that the Board was effective, unitary and is enabled to exercise vigilance in its guidance and oversight of the Society.

Member engagement

During 2015, feedback from members took a number of forms, including a monthly customer satisfaction survey. All members are encouraged to attend the AGM to question the Board about the Society's activities and throughout the year, feedback has been received through the Nominate a Star page on the website. This allows members to nominate a colleague who has gone above and beyond to make their experience with the Society special. In addition, in 2015, an online members' forum was created, which allows participating members to provide input into Society matters.

Terms of reference

The terms of reference for the committees are updated on an annual basis, or more frequently, if required to guarantee they remain up-to-date and relevant. All terms of reference are available to view on the Society's website or by writing to the Secretary at Leeds Building Society, 105 Albion Street, Leeds LS1 5AS.

Approved by the Board of Directors and signed on behalf of the Board.

Robin Ashton

Robin Ashton
Chairman
23 February 2016

The Board's role is to provide leadership for the Society, within a framework of prudent and effective controls, which enables risk to be assessed and managed.

Audit Committee Report

Year ended
31 December 2015

Purpose and constitution

Acting with authority delegated to it by the Board, the Audit Committee's primary purpose is to:

- Monitor the integrity of the externally reported financial statements of the Society;
- Review the effectiveness of internal controls and risk management systems;
- Oversee the effectiveness and performance of the Society's Internal Audit Function; and
- Assess the independence, performance and objectivity of Deloitte, the Society's external auditor.

Composed solely of independent non executive directors the Committee's membership includes Les Platts, Senior Independent Director, and Susan Cooklin. The Chairman of the Committee was Ian Robertson until his retirement on 31 December 2015, at which point Gareth Hoskin, who joined the Society as a non executive director on 16 November 2015, took over from Ian as Chairman.

During the year, the Committee held six meetings, three of which focused on interim and year-end financial reporting matters. At the invitation of the Committee, meetings were attended by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and the Chief Internal Audit Officer. The lead audit partner of the external auditor was also in attendance, as were representatives from the Finance Function and other business areas.

The Committee held two private sessions with each of the external auditor and the Chief Internal Audit Officer, which were not attended by management.

Committee's main activities

Financial statements of the Society

As part of its work of reviewing the financial statements of the Society, the Audit Committee received and discussed reports from the external auditor on the results of its audit work on both the interim and full year financial statements of the Society.

When preparing these financial statements it is necessary for management to make certain assumptions, use estimates and form judgements, some of which can be of material significance. The Committee, with appropriate input from the external auditor, examined and challenged those key areas affecting the financial statements and a summary of the Committee's work in this area is set out below.

Area of focus	Reporting matter	Role of the Audit Committee	Conclusion/action taken
Impairment provisions – residential and commercial mortgages	This is inherently an area of accounting estimate and judgement. The level of impairment provisions required in the residential mortgage books is based on statistical models, which incorporate historical default and loss experience information, and management judgement to determine expected economic conditions. As the commercial loan book has reduced in size, the use of statistical models has become less appropriate and, for impaired loans, assessments are made on a loan by loan basis, paying particular attention to collateral valuations.	Received, challenged and approved the Impairment Provisioning Policy. The Committee reviewed reports from management on the basis of the calculation of the impairment provisions and considered the outcome of the detailed discussions and challenges to management by the Credit Committee. Members of the Committee attended the Credit Committee discussions on the matter as observers. The Committee paid particular attention to the prudency and adequacy of post model adjustments made by management where current best estimates of losses diverge from empirical historic trends and the impact of forbearance.	Following consideration of this information, the Committee concurred with the Credit Committee's view that management's proposals for the level of impairment provisions, including post model adjustments, are reasonable.

Area of focus	Reporting matter	Role of the Audit Committee	Conclusion/action taken
Effective interest rate	Interest income is recognised in the Income Statement by reflecting a constant yield over the expected behavioural life of the mortgage loan. The rate of revenue recognition is derived from models which are maintained by management. These models are most sensitive to assumptions on the life of the mortgage loan including any prepayment of the loan.	Reviewed the assumptions made in the model and considered the change made in respect of the estimated life of the residential mortgage portfolio to reflect the shortening of the lives arising from a higher level of redemptions compared to previous experience.	The Committee concluded that the methodology and assumptions used by management, including the shortening of the lives, are reasonable.
Hedge accounting	The Society holds derivative financial instruments in order to mitigate various business risks, including interest rate and foreign exchange risk. International Financial Reporting Standards require changes in the value of these instruments to be recognised in the Income Statement unless it can be proven that they are offset by the fair value of the underlying items being hedged.	Continued to oversee management's control activities in applying the rules of IAS 39. This included review and discussion of the external auditor's report on hedge effectiveness testing and internal reporting.	The Committee has satisfied itself that amounts recognised by management in the Income Statement are fairly stated and appropriate disclosures have been made.
Retirement benefit obligation/ surplus	The Society has a defined benefit pension scheme, which was closed to new entrants in January 2000 and was closed to future service accrual on 31 December 2014. The amounts recognised in the financial statements are sensitive to a number of assumptions, including inflation, the rate of increase in salaries and pensions, the rate used to discount scheme liabilities, the expected return on scheme assets and mortality rates.	Reviewed the assumptions supported by a report from the Society's actuary on the assumptions used and confirmation from management that these, together with the disclosures in the Annual Report and Accounts, were consistent with the prior year and IAS 19. Also considered the appropriateness of recognising the pension fund asset on the balance sheet.	The Committee noted that the assumptions adopted by management were consistent with the actuary's report, a view confirmed by the external auditor, and was satisfied with the position reported within the Annual Report and Accounts and the recognition on the balance sheet of the pension fund asset.
Provisions for liabilities and charges	The Society has set aside provisions for liabilities and charges including those for the FSCS levy and for the potential cost of customer redress, such as Mortgage Payment Protection Insurance and buildings and contents insurance premia. The level of these provisions is dependent on a number of assumptions and estimates.	Reviewed and challenged reports from management, which set out the basis of the provision. Considered the quantum of the proposed provisions in the context of actual claims experience, projections for future claims, associated costs and the proportion of claims upheld by the Financial Ombudsman.	The Committee concluded that the overall level of provisions, which included additional amounts raised for the Society's buildings and contents insurance product, was reasonable.

Audit Committee Report

Year ended
31 December 2015

Continued

Area of focus	Reporting matter	Role of the Audit Committee	Conclusion/action taken
IT infrastructure costs	During the year, the Society invested significantly in its IT capability, including replacing the core systems service supplier with a new provider and investing in its digital capability. Judgement is required in ensuring that the key elements of this expenditure are accounted for as an expense for the year or capitalised in accordance with the relevant accounting standards.	Received management's paper setting out the nature of the costs incurred and their proposed treatment. Considered whether the allocations made between revenue and capital expenditure were appropriate. Requested further information to assess the treatment of upfront payments made to the new provider and the rationale for the creation of an intangible asset for the work on the digital proposition and appropriate amortisation period.	Following receipt of the additional information, and following discussion with the external auditor the Committee agreed with the treatment of the up front payment, the amount recognised as an intangible asset, the associated accounting policy and the amortisation period.
Going concern	The Board is required to confirm whether the going concern assumption is appropriate for the Society to use as a basis for the preparation of its Annual Report and Accounts and has delegated this assessment to the Audit Committee.	Considered a detailed report prepared by management which covered the Society's business performance, profitability, capital and liquidity forecasts, as well as the key operational risks faced by the Society. The report also referenced the detailed stress testing undertaken as part of the annual liquidity and capital adequacy assessments. Reviewed and challenged this analysis and requested further information in respect of the IT risks facing the Society and the processes and plans to mitigate these risks. Also had regard to the outcome of the viability review undertaken by the Board Risk Committee.	After reviewing the report and the additional information, the Committee concluded that the adoption of the going concern assumption to prepare the 2015 Annual Report and Accounts remained appropriate.
Fair, balanced and understandable	The Society is required to ensure that its external reporting is fair, balanced and understandable and the Board has delegated this assessment to the Audit Committee.	Satisfied itself that there was a robust process of review and challenge at different levels within the Society to ensure balance and consistency which included: • guidance issued to those involved in drafting or reviewing the Annual Report and Accounts; • a thorough internal verification process of the factual content of the reports; and • a range of reviews of drafts of the Annual Report and Accounts to ensure consistency of disclosures and an appropriate level of balance. Also considered other information, including a review of the Society's performance for the year.	After consideration of relevant information, the Committee was satisfied that, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable.

"The Board recognises the importance of sound systems of internal control in the achievement of its objectives and the safeguarding of member and Society assets."

Effectiveness of internal controls and risk management systems

The Board recognises the importance of sound systems of internal control in the achievement of its objectives and the safeguarding of member and Society assets. It is the responsibility of management to design, operate and monitor internal controls that adhere to the Board's policies on risk and control. The Society operates a Risk Management Framework that encourages a culture of sound risk management and internal control. All colleagues have a responsibility for internal control as part of their respective roles and accountabilities and this is emphasised within the Society's induction processes. Further details on the Society's Risk Management Framework can be found on pages 28 to 31.

In monitoring the effectiveness of the Society's internal control systems the Audit Committee sought assurance from the work of the Internal Audit Function, the Enterprise Risk Function and the external auditor as set out below.

Internal audit assurance

The Committee received regular reports provided by the Internal Audit Function informing the Committee on key themes and control weaknesses arising from delivery of the agreed Internal Audit Plan, together with an update on the resolution of recommended actions to improve controls. This work was designed to provide a risk based assessment of the internal control environment, but it also included work on particular areas of importance and interest to the Committee, including:

- Funding, liquidity risk and capital management (including the ILAAP and ICAAP);
- Processes underlying Pillar 3 disclosures;
- Effectiveness of the control environment in the Financial Operations Function;
- Preparation for the Society's application to apply the Internal Ratings Based approach to credit risk management;
- Oversight and progress of a range of internal transformation projects;
- Provisioning methodologies; and
- Culture.

The Internal Audit Function confirmed that management had responded positively to resolve identified control weaknesses. In areas where higher priority recommendations were raised, the Committee requested management to report back regular updates until matters were fully resolved.

In response to matters raised in an Internal Audit report, the Committee retained oversight of operational developments within the Society's Finance Operations Function, which included the strengthening of the organisational structure, IT systems and the recruitment of additional technical, specialist roles to create a stronger platform to deliver the future needs of the Society.

The annual report from the Chief Internal Audit Officer summarised the 2015 audit findings focusing on key observations, root causes and the themes arising from their work. The report also mapped audit findings against the principal risks of the Society identified by management, which confirmed good audit coverage. Furthermore, this report concluded that the Internal Audit Function had not identified any issues that they consider would materially impact the accuracy and completeness of the financial statements.

Enterprise Risk assurance

As the Society continued to embed its risk management practices during the year, the Committee has received increased assurance from the Enterprise Risk Function over the operation of key controls. This included receiving reports on the Risk and Control Self Assessment (RCSA) process, which is now conducted twice a year and summarises the results of management's self assessment of control effectiveness, with material deficiencies and remediation activities being tracked accordingly. The 2015 RCSA exercises reflected a relatively stable risk profile and control effectiveness environment with a significant reliance on largely manual controls. There were no previously unreported material weaknesses identified by this work.

The Committee is also encouraged by management plans to progress the risk management framework still further during 2016, with greater specificity on positive controls assurance from all three lines of defence over key risks.

External audit assurance

During the year the external auditor provided the Committee with reports on its assessment of internal controls arising from their external audit work. No high priority findings were identified from the 2014 year end audit, or the 2015 interim and 2015 year end audit.

During 2015, the Committee requested the external auditor to benchmark the Society's governance processes against its peer group and best practice. The outcome of this benchmarking exercise indicated that, in most regards, the Society was performing as expected or above

Audit Committee Report

Year ended
31 December 2015

Continued

average, whilst noting continuing areas of development, such as the Society's Corporate Responsibility Strategy, Policy Framework, regulatory reporting processes and process mapping.

Effectiveness and performance of the Society's Internal Audit Function
The Board recognises fully the importance of the Internal Audit Function in delivering a reliable third line of defence and delegates to the Audit Committee the role of overseeing the effectiveness and performance of the Internal Audit Function. The Committee noted the continued progress being made by the Internal Audit Function and:

- Received, assessed and approved the Internal Audit planning methodology and the risk-based audit plan;
- Received and discussed regular updates on the progress of its work against this audit plan;
- Received, debated and approved the Internal Audit Charter, which details the scope, purpose authority and responsibilities of the Internal Audit Function;
- Satisfied itself that the Internal Audit Function was adequately resourced, with the necessary skills and access to external co-sourcing as appropriate;
- Oversaw the ongoing development of the skills, competencies and qualifications within the Internal Audit Function; and
- Held two private meetings with the Chief Internal Audit Officer to discuss audit planning priorities, methodologies and ongoing developments within the Internal Audit Function.

In addition, during the year a full independent External Quality Assurance (EQA) review of the Internal Audit Function was undertaken by KPMG LLP. The Committee was pleased to note that the EQA review identified significant improvement since its previous report in 2013 and concluded that the Function benchmarks favourably with its peer group and complies fully with the Institute of Internal Auditors' Standards across all areas and with the Financial Services Code.

Independence, performance and objectivity of external auditor
During 2015, in exercising its oversight of the relationship with the external auditor and their effectiveness in the external audit process, the Audit Committee:

- Received, challenged and approved the external audit planning methodology and audit plan;
- Reviewed and approved the audit engagement letter and fee;
- Reviewed the letters of representation made by the Board;
- Satisfied itself as to the ongoing independence of the external auditor and oversaw the lead audit partner rotation during the year;
- Assessed the effectiveness of the external auditor through a client services assessment conducted by the external auditor and an internal assessment conducted by the Society's management;
- Reviewed and approved the policy on non-audit services. The external auditor undertook a number of non-audit assignments during the year including work in connection with the Society's application to apply the Internal Ratings Based approach to credit risk management. These assignments were conducted in compliance with the approved policy. In 2015, non-audit fees, including one off items, represented 103% of the annual audit fee. The Committee is mindful of the EU audit reforms regarding non-audit fees; and
- Held two private meetings to discuss any issues and concerns arising from the external auditor's work.

Based on the above work the Committee is satisfied that the external auditor is effective and independent and recommended to the Board that Deloitte LLP be re-appointed for 2016, at the Society's Annual General Meeting.

Other matters addressed by the Committee

External audit tender
Deloitte LLP was first appointed as external auditor to the Society in 2005 following a competitive tender process. In line with recent EU audit reforms, which highlight the corporate governance benefits of regularly evaluating the external auditor relationship, the Committee has decided to re-tender the audit engagement for the 2017 financial year end.

Speak Up Policy
The Committee reviewed and approved the Society's Speak Up Policy and discussed the number and nature of reports submitted, none of which was deemed to be significant or concerning.

Viability report
The Committee received a report on the review of the Society's viability statement undertaken by the Board Risk Committee and following discussion of its findings concurred with the approach and disclosures.

Pillar 3
The Audit Committee approved the Pillar 3 Policy and reviewed the 2015 disclosures and findings of the Internal Audit report on the preparation of the Pillar 3 disclosures. Based on this work the Committee recommended them for approval by the Board.

Audit Committee effectiveness and training
The Committee undertook a self assessment exercise to monitor its effectiveness. The review was performed using anonymous questionnaires completed by all members and regular attendees at meetings. The review concluded that the Committee had operated effectively and in accordance with its Terms of Reference. The Terms of Reference were also reviewed, found to be up to date, fit for purpose and were approved.

All Committee members were required to undertake relevant training as part of their overall development during the year. The Committee members also receive training, as a whole, on relevant topics from both internal and external sources. In 2015 training for the Committee comprised updates on financial reporting, specifically IFRS9, IFRS15 and the Leasing Exposure Draft. Other areas included current regulatory focus, updates in corporate governance reporting and cyber security.

G.J. Hoskin

Gareth Hoskin
Chairman of the Audit Committee
23 February 2016

Directors' Remuneration Report

Year ended
31 December 2015

Annual Statement

Dear member

This report has been produced in line with the disclosure regulations for publicly listed companies, the UK Corporate Governance Code and the FCA Remuneration Code. It details our annual report on remuneration for the Society's executive directors and other Material Risk Takers (MRTs) for the year ended 31 December 2015.

The report is presented in two sections:

- The Remuneration Policy, which remains unchanged from when it was approved by members at the AGM in April 2014.
- The Annual Report on Remuneration which explains how we put our policy into practice in 2015 and outlines our approach for 2016.

Our members will have the opportunity to vote, on an advisory basis, on the Directors' Remuneration Report at the AGM.

2015 performance and awards

The Board has agreed an ambitious strategy for the Society. It aims to balance the generation of profit to build a solid platform for growth, with continued investment in the business to allow it to support the aspirations of a wide range of borrowers and savers, through outstanding products and service. Successful delivery ensures that we continue to run a thriving, sustainable and relevant business.

In this context, the Remuneration Committee set four specific objectives for 2015 for the executive directors. These cover growth, profit before tax, business transformation and risk management.

Earlier sections of the Annual Report and Accounts report that the Society delivered a very strong financial performance in 2015. The Society's net lending of £1.4bn (2014: £1.1bn) was substantially ahead of our plan and in a smaller market than we expected. Profit before tax at £108.5m (2014: £87.9m) was also significantly above the objective set and a record for the Society.

The executive directors are running a number of projects to improve risk management, IT systems and operational processes to ensure that our products and services evolve to meet our members' changing needs. In 2015, we successfully migrated our core system and made good progress in developing our omni channel approach. However, the introduction of paperless accounts will now be concluded in 2016. Transformation of lending systems and processes was also delayed. Systems for savings account opening and new mortgage application processing are on track to be available for members and brokers to use in 2016. We also met our risk management improvement objectives. Superior levels of colleague engagement relative to external benchmarks are critical to the Society's future success and the target set in 2015 was significantly exceeded.

The Committee, having received and reviewed the evidence, considered that the strong financial achievements combined with progress on the key technology and risk projects demonstrated a very positive performance against the objectives set. A breakdown of the outturn against corporate and personal objectives is provided on page 70.

Against that background, annual bonuses of between 41.7% and 64.5% have been awarded to the executive directors. This represents between 81% and 86% of the maximum award available.

The Remuneration Policy includes a risk assessment process, under which the Committee considers a range of factors and input from the Board Risk Committee. These include whether the executive directors have operated within agreed risk appetite, exposure of the business to any significant regulatory or control failings and any financial exposure resulting from inappropriate management behaviour.

The risk assessment process determined that no financial adjustment was required.

40% of the bonus award for the executive directors will be deferred and paid in equal instalments over the following three years.

Kim Rebecchi, the Distribution and Marketing Director, left the business on 30 June 2015, after a long and successful career with the Society. A loss of office payment was made in line with the Remuneration Policy in respect of her contractual entitlements and statutory rights. She remains eligible for a bonus award for 2015. The details are provided on page 68.

The basic salaries of the executive directors increased by 2.5% in April 2015, as did the Chairman's fee. The basic salary increase for other colleagues ranged from 0% to 5% with an average of 3.54%.

In addition to the executive directors, a small number of other colleagues are considered to be MRTs. These include senior managers whose actions have a material impact on the risk profile of the Society. The average basic salary increase for this group in 2015 was 3.7%.

Salaries are reviewed in April each year for all colleagues in the context of pay settlements in the UK and independent benchmarking. In line with our Remuneration Policy, following external benchmarking, the Remuneration Committee decided that, in April 2016, the Chief Executive Officer's salary will increase by 14.3% and the Chief Risk Officer's salary will increase by 4.7%. The salaries of the other executive directors will increase by 2.5% in line with market conditions.

Other matters considered by the Committee

The main role of the Committee is to set the Society's Remuneration Policy including pay, bonuses and other benefits for executive directors and other senior managers. Our aim is to maintain market competitive salaries and other benefits. This is to ensure that we are able to attract and retain the best people to deliver the Society's goals. The objective is the same for both executive talent and for the whole colleague population.

I chair the Committee which has two other non executive director members: David Fisher and Philippa Brown. The Chairman, Chief Executive Officer and other senior managers may be invited to attend meetings but are not members. The Director of People, Becky Hewitt, is the Committee Secretary.

There were four meetings in 2015, which dealt with the annual review of compliance with the Remuneration Code, consideration of a number of regulatory changes on remuneration, the setting and review of performance against objectives and oversight of the general colleague bonus scheme and pay award.

In addition, the Committee commissioned a review of the variable pay element of executive reward. There were three objectives of the review:

- to consider whether the balance between fixed and variable (at risk) remuneration remains appropriate to incentivise and reward stretching performance for the executive team;
- to ensure that the Remuneration Committee has the means to deal with any inappropriate management behaviour and poor performance; and
- to ensure that the Scheme is aligned to the Society's longer term growth plans and the evolving regulatory landscape on remuneration matters, including deferral of bonus payments.

We concluded that the current split between fixed and variable pay and the design of the bonus scheme is appropriate for 2016. It is an annual scheme with a maximum potential of 75% for executive directors (50% maximum for the Chief Risk Officer), with no additional medium or long term incentive element. Further work will, however, be undertaken in 2016 to review the underlying measures of success.

Richard Fearon joined the Society as Chief Commercial Officer on 19 February 2016. Consequently, Richard forfeited any bonus/share payments from his previous employer, Lloyds Banking Group (LBG), for his performance in 2015 and deferred elements from previous years. To compensate for this, payments which honour those lost earnings with LBG have been awarded, payable in line with the appropriate vesting periods, which were applicable under the LBG schemes. A personal performance underpin will be applied to any payments in respect of these awards, which is linked to a requirement of a satisfactory performance rating.

Summary

I hope that you will find this report informative. The Committee recommends that members vote in favour of the Directors' Remuneration Report at the AGM.

Les Platts
Chairman of the Remuneration Committee

23 February 2016

Directors' Remuneration Report

Year ended
31 December 2015

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Directors' Remuneration Policy

The Society's Remuneration Policy is designed to provide competitive remuneration packages which support the long term interests of the Society and which attract, reward and retain talented colleagues, to enable the delivery of business objectives to support the Society's strategy, whilst providing value for members.

Remuneration principles

In delivering this Policy, the following principles are observed:

- Our Remuneration Policy is clearly linked to our business strategy, objectives, values and the long term interests and security of the Society;
- The Policy, procedures and practices are consistent with and promote sound and effective risk management, whilst balancing fixed and variable remuneration to create an acceptable relationship between risk and reward and not encouraging risk taking that exceeds the level of risk tolerated by the Society;
- Basic salary and total remuneration is set at a competitive level to attract, retain and motivate people of the required calibre;
- Our pay policies meet regulatory requirements, including the FCA Dual-Regulated Firms Remuneration Code, PRA Rulebook and good corporate governance practice.

Policy review

The Remuneration Policy is subject to an annual review of both its content and implementation and is approved by the Remuneration Committee. The Board Risk Committee also contributes to the policy review, to ensure it takes sufficient account of risk.

Vote

The Remuneration Policy took effect from the date of the 2014 AGM. The Society commits that a vote on the Remuneration Policy will take place annually, unless the approved policy remains unchanged. Where the policy remains unchanged, and in line with the requirements for listed companies, the Society commits to propose a similar resolution at least every three years.

Components of remuneration

The following table summarises the principal components of the executive directors' total remuneration. Details that are commercially sensitive have not been provided, but performance against target is disclosed. The Annual Report on Remuneration from page 68 provides more detailed information on the implementation of the policy.

Element of pay	Link to strategy	Operation	Performance measures	Minimum and maximum payable
Basic salary	Reflects level of accountability. Provides ability to attract and retain executives through market competitive rates of pay.	Once set, any future increases are linked to personal performance and market benchmarking. Base salaries are based on assessments of individual performance and by comparisons with roles carrying similar responsibilities, in organisations of a comparable size, complexity and diversity to the Society.	As for all colleagues, increases are based on personal performance.	Whilst there is no specified maximum, the base salaries of executive directors are reviewed as for any other colleague in accordance with the standard award matrix. The only exceptions are: (i) If benchmarking identifies remuneration is moving out of line with an appropriate peer group, from time to time the Committee may decide to operate outside the standard matrix. (ii) If there is a material increase in scope or responsibility to the executive director's role.
Annual bonus scheme	Linked to the delivery of the annual business plan targets, including the achievement of strategic objectives and personal objectives, and links to the success factors in the ten year vision. An element is related to comparative performance against our peer group.	Challenging performance objectives are aligned with our Corporate Plan, recognising short, medium and long term goals. The performance of the executive directors is assessed against a scorecard of measures, to ensure significant reward cannot be achieved by the delivery of high performance in one area, to the detriment of another. Robust risk evaluation measures are independently assessed by the Chief Risk Officer and the Board Risk Committee.	The 75% maximum is split between: Corporate – 30% Personal – 30% Peer group comparison – 15%. Corporate measures in 2016 include: • profit • value creation through growth • customer centricity • colleague engagement • risk Personal performance objectives, appropriate to the responsibilities of the executive director, are set at the start of each year and agreed by the Remuneration Committee. Peer group comparison is used to measure superior performance. Peer group is defined as organisations of a comparable size, complexity and diversity to the Society. The 50% maximum for executive directors in a control function is based on a range of personal objectives.	A maximum of 75% of basic salary is payable with 40% of the award deferred over a three year period. Executive directors in a control function have a maximum of 50% of basic salary payable with 40% of the award deferred over a three year period.
Operation of malus and clawback(i)	A deferred element has been introduced in compliance with applicable regulations and ensures the annual performance creates value sustained over the longer term.	Independent assessment takes place prior to the payment of each deferred award, which provides the Remuneration Committee with the authority to make a reduction in the level of award payable (down to zero), if appropriate. The assessment takes into account the following three key matters: • has management operated within the risk appetite of the business? • has the business been exposed to any significant regulatory or control failings? • has there been any financial exposure after the award has been made due to inappropriate management behaviour?	Not applicable.	A maximum of 100% of the deferred bonus awards is subject to malus and clawback. Clawback will be applied as required by regulation.

(i) The Remuneration Committee may apply discretion to reduce bonus awards in whole or part. The circumstances in which this might be applied include: issues with colleague behaviour or material error, where a business unit in which a colleague is engaged suffers a material downturn, a material failure of risk management, reasonable evidence of fraud or dishonesty or misstatement of audited results.

Malus – is a reduction factor which is applied to bonus payments which have not yet vested.
Clawback – is applied to seek recovery of bonus payments already paid.

Directors' Remuneration Report

Year ended
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Element of pay	Link to strategy	Operation	Performance measures	Minimum and maximum payable
Pension	Provides market competitive remuneration.	Pension contributions are on membership of the Society's defined contribution section of the pension scheme. In appropriate circumstances, for example where contributions exceed the annual or lifetime allowance, there is an option to receive a monthly cash allowance in lieu of pension contributions.	Not applicable.	A range of relevant employer contributions are payable, for example for the age range up to and including 53 years, up to 23% of basic salary is payable. Cash allowance is in lieu of employer contributions, up to 23% of basic salary.
Benefits	To align executive directors' total remuneration broadly with the market.	The principal benefits executive directors receive are: • life assurance • private medical insurance • long term health insurance Other benefits may be provided based on individual circumstances, for example relocation.	Not applicable.	Life assurance is provided (up to 4 times basic salary). Other benefits are set at an appropriate level in line with market practice.

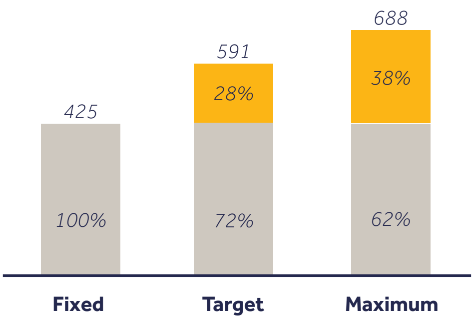
Policy for non executive directors

Element of pay	Link to strategy	Operation	Performance measures	Minimum and maximum payable
Fees	Reflects level of responsibilities and time commitment required for Board and board committee meetings.	Fees are reviewed annually with recommendations made to the Board by executive directors. Non executive directors receive a basic fee and an additional fee for chairing a committee. Fee levels are normally based on levels in other mutual financial services organisations.	Not applicable.	The fees of non executive directors are reviewed by the executive directors as for any other colleague in accordance with the standard award matrix. The only exceptions are: (i) If benchmarking identifies remuneration is moving out of line with an appropriate peer group, from time to time the Board may decide to operate outside the standard matrix. (ii) If there is a material change in responsibility to the non executive director's role.
Annual Bonus Scheme	Not eligible.			
Pension	Not eligible.			

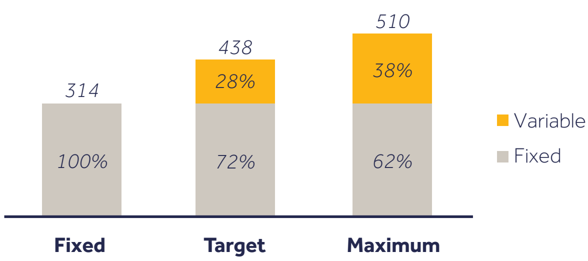
Awards under different scenarios

The charts below show the awards split between fixed pay and variable pay under the proposed arrangements for each current executive director under different scenarios:

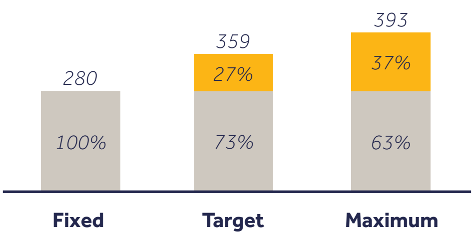
Chief Executive Officer £'000s



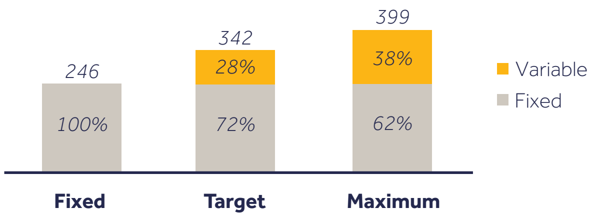
Chief Financial Officer £'000s



Chief Risk Officer £'000s



Chief Operating Officer £'000s



In developing the scenarios, the following assumptions have been made:

	Consists of basic salary and pension (£'000) Basic salary is at 31 December 2015 Pension measured as 'pension' figure in the table on page 68.			
	Executive director	**Basic salary**	**Pension**	**Total fixed**
Fixed	Chief Executive Officer	350	75	425
	Chief Financial Officer	262	52	314
	Chief Operating Officer	205	41	246
	Chief Risk Officer	225	55	280
Target	Based on what a director would receive if the target level of performance was achieved: annual variable element pays out at 63.3% of the maximum available (70% for the Chief Risk Officer).			
Maximum	Based on what a director would receive if the maximum level of performance was achieved: the annual variable element pays out at 100% of maximum available.			

Directors' Remuneration Report

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Approach to recruitment remuneration for executive directors

Component	Policy
General	The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role. A new recruit may be appointed on lower than market rate salary with phased increases to bring to market level. Any new executive director's package will be consistent with the Remuneration Policy as set out in this report. The Remuneration Policy is compliant with the provisions of the Remuneration Code. Where an executive director is appointed internally, all previous commitments relating to remuneration will be honoured, subject to meeting the relevant criteria.
Basic salary and benefits	The salary level will be set taking into account the responsibilities of the individual and by comparison with roles carrying similar responsibilities, in organisations of a comparable size, complexity and diversity to the Society. The executive director will be eligible to receive benefits as set out in the remuneration policy table.
Annual bonus	The executive director will be eligible to participate in the annual bonus scheme as set out in the remuneration policy table. The bonus award will be pro-rated to the number of complete months worked during that year. The maximum potential opportunity under this scheme is 75% of salary (50% for the Chief Risk Officer).
Pension	The executive director will be able to participate in the defined contribution section of the pension scheme or to receive a cash allowance of up to a maximum of 23% of basic salary.
Replacement awards	When replacement awards cannot be avoided, the Committee will seek to structure any such awards so that, overall, they are no more generous in terms of quantum or vesting period than the awards due to be forfeited. In determining quantum and structure of these commitments, the Committee will seek to replicate the fair value and, as far as practicable, the timing and performance requirements of remuneration foregone.
Recruitment Remuneration	Any payments made to executive directors on joining the Society to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the PRA Rulebook and the FCA Dual-Regulated Firms Remuneration Code.

Service contracts

Executive directors' terms and conditions of employment, including details of remuneration, are detailed in their individual service agreements, which include a notice period of twelve months. The standard contract is available to view at the registered office.

None of the executive directors currently holds any paid external directorships.

The non executive directors do not have service contracts with the Society.

Policy on payment for loss of office

Component	Policy
General	When determining any loss of office payment for a departing individual, the Committee will seek to minimise costs to the Society whilst seeking to reflect the circumstances in place at the time. Accordingly, the Committee retains overriding judgement to make loss of office payments appropriate to the circumstances and applying the overriding principle that there should be no element of reward for failure.
Basic salary and benefits	In the event of termination by the Society, there will be no compensation for loss of office due to misconduct or poor performance. In other circumstances, executive directors may be entitled to receive compensation for loss of office. Such payments will be based on the monthly salary that the executive director would have received if still in employment with the Society.
Annual bonus	Where an executive director's employment is terminated during or after the end of a performance year but before the payment is made, the executive may be eligible for a pro-rated annual bonus for that performance year, subject to an assessment based on performance achieved over the period and subject to risk adjustment. No award will be made in the event of misconduct. Where an executive director leaves the Society after an award is made, deferred payments will remain payable, subject to the normal rules of the scheme, including risk adjustment. The Remuneration Committee has the right to exercise judgement to the level of any of the above awards.
Pension	The executive director will be able to participate in the defined contribution section of the pension scheme or to receive a cash allowance of up to a maximum of 23% of basic salary.

Statement of consideration of conditions elsewhere in the Society
The Remuneration Committee considers the increase in general basic salary for the wider colleague population when determining the annual salary increases for the executive directors.

For 2015, the basic salary increase for the wider colleague group ranged from 0% to 5%, with an average of 3.54%. Pay increases for the executive directors were 2.5% and for the Chief Executive Officer was 2.5%.

Statement of implementation of policy in the following year
The Remuneration Policy is implemented by management. A formal review of the implementation of the policy is conducted by the Remuneration Committee on an annual basis.

The approach to senior management remuneration will remain unchanged for 2016 and the Committee will continue to monitor the approach to executive pay, considering regulatory guidance, market conditions and external benchmarking. Awards to be made in 2016 under incentive plans will be in line with the policy.

The executive directors' salaries from 1 January 2016 are as follows, compared with 2015:

	1 January 2016	1 January 2015
P A Hill	£ 349,990	£ 341,453
R S P Litten	£ 261,712	£ 255,328
K R Wint	£ 204,610	£ 199,619
A J Greenwood	£ 225,500	£ 220,000
R G Fearon (from February 2016)	£ 225,000	Not applicable

The annual pay review takes place in April for all colleagues in the Society, including executive directors. Following external benchmarking, the Chief Executive Officer's salary will increase by 14.3% and the Chief Risk Officer's salary will increase by 4.7% from 1 April 2016. The salary for the other executive directors will increase by 2.5% from 1 April 2016, which is in line with market conditions.

	1 April 2016
P A Hill	£400,000
R S P Litten	£268,255
K R Wint	£209,725
A J Greenwood	£236,000
R G Fearon	£230,625

Directors' Remuneration Report

Year ended
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Annual Report on Remuneration

Total remuneration summary

The total remuneration received by executive directors for 2015 is detailed below, compared with 2014. The total remuneration for executive directors equates to 2.1% of pre-tax profits. This information has been audited and shows remuneration for the years ending 31 December 2014 and 31 December 2015, as required to be reported under the Building Societies (Accounts and Related Provisions) Regulations 1998.

The Chief Executive Officer is the Society's highest paid colleague and no colleague earns more than any executive director. As the Society is a mutual organisation, it has no share capital and, therefore, does not offer share based remuneration to executive directors or colleagues.

2015 audited

Executive directors	Salary	Annual bonus(i)	Pension	Loss of office	Total remuneration
	£'000	£'000	£'000	£'000	£'000
P A Hill	348	226	75(iv)	–	649
R S P Litten	260	160	52(iv)	–	472
K L Rebecchi(ii)	101	65	20(iv)	224	410
K R Wint	203	129	41	–	373
A J Greenwood(iii)	224	94	55(iv)(vii)	–	373
Total remuneration(vi)	**1,136**	**674**	**243**	**224**	**2,277**

2014 audited

Executive directors	Salary	Annual bonus(i)	Pension	Loss of office	Total remuneration
	£'000	£'000	£'000	£'000	£'000
P A Hill	336	203	47(v)	–	586
R S P Litten	252	150	45(v)	–	447
K L Rebecchi	197	119	39(iv)	–	355
K R Wint	197	117	39	–	353
Total remuneration(vi)	**982**	**589**	**170**	**–**	**1,741**

Notes
(i) The annual bonus figure reflects payment of the annual bonus under all its objectives.
(ii) This director left the business on 30 June 2015. A loss of office payment was made, consisting of £136,407 paid in respect of the balance of contractual entitlement and £87,500 was paid which was reflective of an assessment of the director's statutory rights and in accordance with the Remuneration Policy. The director will remain eligible to receive a bonus award for 2015, pro-rated to reflect the period of employment during the financial year.
(iii) This director was appointed on 8 January 2015.
(iv) These directors elected to receive part or all of the Society's pension contribution as a cash allowance.
(v) These directors ceased to be active members of the defined contribution section of the pension scheme on 31 March 2014 and elected to receive a cash allowance in lieu of the Society's pension contribution. The pension cash allowance amount for 2014 includes an adjustment relating to 2013 in respect of the prior year allowances.
(vi) No director received other taxable benefits of £1,000 or above.
(vii) This director received an additional contribution into the defined contribution section, following the closure of the final salary section to future accrual on 31 December 2014.

Unpaid deferred elements of the annual bonus scheme

Executive directors	Performance year	Due 2016 £'000	Due 2017 £'000	Due 2018 £'000	Due 2019 £'000	Total £'000
P A Hill	2012	27	–	–	–	27
	2013	28	28	–	–	56
	2014	27	27	27	–	81
	2015	135	31	30	30	226
	Total	**217**	**86**	**57**	**30**	**390**
R S P Litten	2012	20	–	–	–	20
	2013	21	21	–	–	42
	2014	20	20	20	–	60
	2015	96	22	21	21	160
	Total	**157**	**63**	**41**	**21**	**282**
K L Rebecchi	2012	16	–	–	–	16
	2013	16	16	–	–	32
	2014	16	16	16	–	48
	2015	39	9	9	8	65
	Total	**87**	**41**	**25**	**8**	**161**
K R Wint	2013	16	16	–	–	32
	2014	16	16	16	–	48
	2015	78	17	17	17	129
	Total	**110**	**49**	**33**	**17**	**209**
A J Greenwood	2014	15	–	–	–	15
	2015	56	13	13	12	94
	Total	**71**	**13**	**13**	**12**	**109**
R G Fearon(i)	2013	80	2	–	–	82
	2014	3	66	4	–	73
	2015	65	4	82	78	229
	Total	**148**	**72**	**86**	**78**	**384**
Total		**790**	**323**	**255**	**166**	**1,535**

Notes:
(i) Payment to honour earnings forfeited by Richard Fearon on leaving Lloyds Banking Group.

The payment of deferred elements is subject to future performance for example the application of malus. Clawback will be applied as required by the regulations. Following the annual assessment of risk and risk management by the Risk Function, the Board Risk Committee and the Remuneration Committee, no reduction has been applied to prior periods.

Performance outcomes against targets for incentive awards

The 2015 scheme has generated awards of between 41.7% and 64.5% of salary for executive directors, reflecting between 81% and 86% of the maximum award available.

The scheme provides for:

- Personal performance measures (max. 30% opportunity, with 10% of this for superior performance);
- Corporate measures (max. 30% opportunity, with 10% of this for superior performance). Profit performance was ahead of expectations and growth was in excess of plan. The element of business development relating to colleague engagement scores significantly exceeded expectations, with an independent measure well above the financial services benchmark. Best Companies accreditation was also achieved. Other elements of business development were partly achieved. Whilst good progress was made against developing the omni channel, the introduction of paperless accounts will be completed in 2016. Transformation of lending systems and processes was also delayed. The migration of our system from our current supplier to HP was delivered without any break in service or customer impact. The risk strategy was further developed in line with the corporate plan.

Directors' Remuneration Report

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- Peer group assessment (max. 15% opportunity). These are quantitative measures, which were selected as being those most closely aligned to our long term vision. These are objectively compared to published data from our peer group, against which the Society has performed at the upper end of expectations.

For executive directors in control functions the scheme provides for:

- Personal performance measures (max 50% opportunity, with 15% of this for superior performance).

Annual Incentive

For 2015, annual incentive opportunities were based on the following performance measures and performance against these measures (designated as '<' below target, '>' between target and maximum performance, and '+' maximum performance) was as follows:

	Society performance in 2015 30% maximum				Personal 30% maximum (50% for control function)	Peer 15% maximum	Award in 2015 (% of salary)
	Profit (2 x weight)	Growth	Risk	Developing the business			
P A Hill	+	+	+	<	>	+	64.5%
R S P Litten	+	+	+	<	<	+	61.0%
K L Rebecchi	+	+	+	<	>	+	63.5%
K R Wint	+	+	+	<	>	+	63.3%
A J Greenwood[i]	n/a	n/a	n/a	n/a	>	n/a	41.7%

Notes:
(i) This Director is in a control function, therefore, is not remunerated for the achievement of Corporate Objectives.

Risk adjustment

The risk assessment process is independently managed by the Risk Function. Following completion of the risk assessment process, the Chief Risk Officer (CRO) provides an annual report on areas the Remuneration Committee should consider, in respect of whether performance or risk adjustments are necessary. The report is initially considered by the Board Risk Committee which then highlights for the Remuneration Committee any specific area for further consideration.

The report from the CRO also includes an assessment of the current year's performance, in the context of objectives for each prior year for which variable remuneration has been deferred.

The individual performance of Material Risk Takers and their teams is risk assessed by reference to a range of key dimensions, including audit findings, compliance with regulatory policies, compliance with the Society's risk appetite, and general control and governance matters.

The Committee considered the 2015 report in full and determined that no risk adjustment was appropriate.

Remuneration for Material Risk Takers

Material Risk Takers are senior managers and colleagues, including executive and non executive directors, whose actions have a material impact on the risk profile of the Society.

The basic salary of Material Risk Takers is determined to reflect the responsibilities of the role. Salaries are reviewed annually and increases are awarded based on personal performance, as for all colleagues. Material Risk Takers are eligible for an annual bonus scheme. The bonus scheme for Material Risk Takers in control functions is based on the achievement of non-financial objectives. In 2015, there were 57 Material Risk Takers throughout the year.

Aggregate remuneration for Material Risk Takers is reported in the table below.

Remuneration for Material Risk Takers (MRTs)

	Number of beneficiaries		**Fixed pay (ii)**		**Current year variable pay (iii)**		**Total**	
	2015	2014	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Senior Management (iv)	28	23	3,639	3,130	1,248	1,055	4,887	4,185
Other MRTs	29	7	2,537	702	330	100	2,867	802
Total (i)	57	30	6,176	3,832	1,578	1,155	7,754	4,987

Notes:

(i) Material Risk Takers who left the Society during the calendar year are included in the table above.

(ii) Non executive directors' fees are included under fixed pay and they do not receive variable pay.

(iii) £624k of variable pay is deferred for one or three years (2014: £555k).

(iv) Senior management MRTs comprise non executive directors, executive directors and directors. All other relevant colleagues are classified as Other MRTs.

Pensions and other benefits

P A Hill and R S P Litten were active members of the defined contribution section of the pension scheme up to 31 March 2014. From 1 April 2014, P A Hill and R S P Litten became deferred members of the defined contribution section and have opted for a cash allowance in lieu of the Society's pension contribution. K R Wint is a member of the defined contribution section of the pension scheme. A J Greenwood became a deferred member of the defined benefit section of the pension scheme on 31 December 2014. From 1 January 2015, A J Greenwood opted to receive pension benefits as part contributions to the defined contribution section and part cash allowance in lieu of the Society's pension contribution.

K L Rebecchi was a deferred member of the defined benefit section and received a cash allowance in lieu of the Society's pension contribution in 2015.

No executive director has the right or opportunity to receive enhanced benefits beyond those already disclosed, and the Committee has not exercised its discretion during the year to enhance benefits. There have been no other changes to benefits during 2015.

Long term incentive awards made in the financial year

There were no long term incentive awards made in the financial year.

Payments to former directors

A payment of £26,136 has been made in 2015 to I W Ward, the former Chief Executive who retired on 23 September 2011. This payment is in respect of an incentive award which was subject to deferral and risk assessment. The Committee determined that no adjustment was appropriate.

Directors' Remuneration Report

Year ended
31 December 2015

Continued

Remuneration for non executive directors

The fees for non executive directors are made up of a basic fee, plus a committee chair fee as appropriate. The Chairman and Vice Chairman do not receive additional fees for roles carried out other than that of Chairman and Vice Chairman respectively.

Non executive directors audited	**Basic fees (£'000s)**		**Committee chair fees (£'000s)**		**Total fees (£'000s)**	
	2015	2014	2015	2014	2015	2014
R J Ashton (Chairman)	137	133	–	–	137	133
R W Stott (Vice Chairman to 26 March 2014)	–	13	–	–	–	13
L M Platts (Vice Chairman from 26 March 2014)	61	54	–	–	61	54
P A Brown	45	42	–	–	45	42
S H Cooklin – appointed 25 February 2014	45	36	–	–	45	36
D Fisher	45	39	10	9	55	48
G J Hoskin – appointed 16 November 2015	6	–	1	–	7	–
J A Hunt – appointed 29 April 2015	30	–	7	–	37	–
P A Jenks	45	40	10	9	55	49
A Rajguru – retired 26 March 2015	10	43	–	–	10	43
I Robertson – retired 31 December 2015	45	41	10	9	55	50
Total	**469**	**441**	**38**	**27**	**507**	**468**

In 2015, an increase of 2.5% was agreed for the Chairman, to £137,000. The fee for the Vice Chairman was increased by 2.5% to £60,900 and the basic non executive director's fee was increased by 2.5% to £45,100. The committee chair fee was also increased by 2.5%.

Directors' loans, transactions and related business activity

The aggregate amount outstanding at 31 December 2015 in respect of loans from the Society or a subsidiary undertaking to directors of the Society or persons associated with directors was £352,650, (2014: £57,360) (being three mortgages to directors and persons connected to directors). These loans were at normal commercial rates. A register of loans and transactions with directors and their connected persons is maintained at the Head Office of the Society and may be inspected by members. There were no significant contracts between the Society or its subsidiaries and any Director of the Society during the year.

Loss of office payments

K L Rebecchi left the business on 30 June 2015. A loss of office payment was made, consisting of £136,407 paid in respect of the balance of contractual entitlement, and £87,500 was paid which was reflective of an assessment of the director's statutory rights and in accordance with the Remuneration Policy. The director will remain eligible to receive a bonus award for 2015, pro-rated to reflect the period of employment during the financial year.

History of remuneration of the Chief Executive Officer (CEO)

The table below shows the total remuneration of the Chief Executive Officer over the last four years, following his appointment in August 2011, together with the performance pay awarded as a percentage of the maximum possible.

	Total remuneration £'000	**Performance pay as % of maximum**
2015	649	86.0
2014[(i)]	586	79.3
2013	610	82.9
2012	581	86.0

(i) Total remuneration for 2014 includes an adjustment in respect of prior year allowances.

Percentage change in salary for the CEO

The basic salary of the Chief Executive Officer increased by 2.5% during 2015. This compares to an average increase of 3.54% in fixed pay awarded to all colleagues.

Relative importance of spend on pay

The following table sets out the percentage change in profit, and overall spend on remuneration in the year ending 31 December 2015, compared to the year ending 31 December 2014.

	2015 £m	2014 £m	Percentage change
Profit after tax	88.9	69.4	28.1%
Colleague remuneration costs	37.6	31.6	19.0%
Headcount	1,298	1,152	12.7%

External advisers to the Remuneration Committee

The Remuneration Committee seeks the advice of independent, external consultants, as required. The external advisers to the Remuneration Committee in 2015 were PriceWaterhouseCoopers LLP. The appointment of advisers is carried out on a basis of careful evaluation of potential providers against agreed criteria. PriceWaterhouseCoopers LLP does not have any other connection with the Society or conflict of interest in advising the Remuneration Committee.

Independent Auditor's Report to the Members of Leeds Building Society

Year ended
31 December 2015

Opinion on financial statements of Leeds Building Society

In our opinion the financial statements:

- Give a true and fair view, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, of the state of the Group's and the Society's affairs as at 31 December 2015 and of the Group's and the Society's income and expenditure for the year then ended; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise Group and Society Income Statements, Group and Society Statements of Comprehensive Income, Group and Society Statements of Financial Position, Group and Society Statements of Changes in Members' Interests, Group and Society Statements of Cash Flows and the related notes 1 to 40. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer term viability of the Group contained within the Strategic Report on page 8.

We have nothing material to add or draw attention to in relation to:

- The directors' confirmation within the risk management report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- The disclosures on pages 32 to 39 that describe those risks and explain how they are being managed or mitigated;
- The directors' statement on page 43 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- The directors' explanation on page 23 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Impairment provisions The Group holds £64.1m of impairment provisions at year end (2014: £57.1m) against total loans and advances to customers of £11,608m (2014: £10,318m). The calculation of impairment provisions against residential customer loans is a judgemental process, requiring the estimation of customer default rates, forced sale discounts, likelihood of repossession, and the impact of macro economic factors, including in Spain and Ireland where the outlook is more uncertain, such as house price volatility, interest rate expectations and unemployment rates. Significant judgements are made by Management in terms of determining if an impairment trigger has been reached in light of the reduction in outstanding balance and strategy for the commercial loan portfolio. In addition, valuations obtained to establish exposures can be highly subjective due to a lack of comparable properties or observable market data available to the third party valuer. Loan loss provision balances are detailed within note 8. Management's associated accounting policies are detailed on page 83 with detail about judgements in applying accounting policies and critical accounting estimates on page 87.	We evaluated the design and tested the implementation and operating effectiveness of internal controls over the provisioning process. This included reviewing minutes from key management review forums, evaluating the level of challenge and determining if appropriate action was taken. This included Credit Committee meetings, which we also attended when the year-end loan provisions were assessed. We challenged the appropriateness of Management's assumptions in relation to residential impairment provisions by benchmarking these to external data and comparing against historical experience. We assessed the completeness and validity of Management's identified impairment triggers in the commercial loan book, and tested a sample of loans in the good book to determine whether these have experienced any of the trigger events requiring specific provision. In addition we evaluated the adequacy of property valuations used in determining commercial loan provisions, including consultation with our commercial real estate specialists as appropriate. We have also assessed the appropriateness of the probabilities of default used in the collective provisioning considering the reduced number of loans to base the assumption on. For both residential and commercial provisions we assessed the appropriateness and valuation of post model adjustments made by Management which reflect the best estimate of losses incurred but which may not have been fully observed within the current arrears data. We tested the mechanical accuracy of the significant loan provisioning models, including engaging our IT specialists to test the underlying key controls, and to test data flows into the models to assess whether the data was complete and accurate.
Hedge accounting The Society employs macro hedge accounting to manage interest rate risk for fixed rate savings and mortgage products, the application of which is complex. Furthermore, the valuation of certain derivative instruments requires significant judgement in the choice of inputs such as interest rates, discount curves and counterparty credit ratings. Management's associated accounting policies are detailed on page 84 with detail about judgements in applying accounting policies and critical accounting estimates on page 87.	We evaluated the design and tested the implementation and operating effectiveness of internal controls over the hedge accounting process. We tested the population of hedge instruments and hedged items on a sample basis and our internal financial instruments specialists assessed and re-performed Management's retrospective hedge effectiveness testing. In addition, we obtained evidence of the prospective effectiveness testing which is required under IAS 39 to determine that hedge relationships continue to meet certain criteria. The specialists also independently benchmarked derivative valuations to external data and recalculated the fair value of a sample of derivative instruments, challenging the appropriateness of any inputs into the valuations such as interest rates, volatility, exchange rates, counterparty credit ratings and valuation adjustments. We also performed procedures upon source data extracted from the Society's core treasury system to identify whether the data was accurate and complete as well as reviewing confirmations received from counterparties and banks.

Independent Auditor's Report

Year ended
31 December 2015

Continued

Revenue recognition	
The calculation of the Effective Interest Rate ("EIR") used to allocate interest income on loans and receivables require significant judgement in the determination of the key assumptions which are the behavioural life of mortgages and prepayment rates. These calculations are based upon historical data and estimates of future economic conditions. Discounts, cashbacks, arrangement and valuation fees and costs directly attributable and incremental to setting up the loan are held on the balance sheet and will be amortised over the expected life of the associated loan portfolios. Management's associated accounting policies are detailed on page 85 with detail about judgements in applying accounting policies and critical accounting estimates on page 87.	We evaluated the design and implementation of internal controls over the EIR process. We challenged Management's assumptions in relation to the calculation of the EIR by reference to historical data on behavioural lives, including performing a sensitivity analysis of the average behavioural lives used in the model. We also considered the treatment of directly attributable fees and charges arising on mortgages, and independently verified the completeness and accuracy of the data used to perform the calculation. We have also reviewed new and existing products to assess whether revenue is recognised on a basis that is consistent with the Group's accounting policies and relevant accounting standards.

Last year our report included a risk in relation to the measurement and disclosure of the curtailment gain on the closure of the Society's defined benefit scheme to future accrual. This has been excluded from the current year as it was a non-recurring transaction.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 54 to 56.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £5.4m (2014: £4.4m), which is 5% (2014: 5%) of profit before tax, and below 0.05% (2014: 0.05%) of total reserves and liabilities. The accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the Group to invest in activities for its members. We have therefore selected profit before tax as the benchmark for determining materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £108,000 (2014: £88,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

As in the prior year, our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full audit of the Society and all of its trading subsidiaries, executed at levels of materiality applicable to each individual entity which were lower than Group materiality and in the range of £0.03m to £5.4m.

At the Group level we also tested the consolidation process.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- The Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- The information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Opinion on other matters prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 134 for the financial year ended 31 December 2015 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The Society financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society or the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Heaton

David Heaton
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
Leeds, United Kingdom

23 February 2016

Income Statements

For the year ended
31 December 2015

	Notes	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
Interest receivable and similar income	3	**402.7**	397.5	**392.1**	393.8
Interest payable and similar charges	4	**(195.2)**	(212.7)	**(182.8)**	(209.4)
Net interest receivable		**207.5**	184.8	**209.3**	184.4
Fees and commissions receivable		**12.3**	13.8	**12.1**	13.8
Fees and commissions payable		**(1.0)**	(0.7)	**–**	–
Fair value gains less losses from financial instruments	5	**(0.9)**	(0.4)	**(0.9)**	1.2
Income from investments in subsidiaries		**–**	–	**1.4**	–
Other operating income		**1.0**	0.9	**0.5**	0.4
Total income		**218.9**	198.4	**222.4**	199.8
Administrative expenses	6	**(77.0)**	(64.6)	**(76.3)**	(64.0)
Depreciation and amortisation	14,15	**(2.7)**	(1.6)	**(2.7)**	(1.6)
Impairment losses on loans and advances to customers	8	**(18.5)**	(39.5)	**(18.5)**	(43.9)
Provisions charge	24	**(8.8)**	(11.8)	**(8.8)**	(11.8)
Impairment losses on investments in subsidiary undertakings	13	**–**	–	**(3.1)**	–
Investment property fair value movement	16	**(3.4)**	–	**–**	–
Operating profit before exceptional item		**108.5**	80.9	**113.0**	78.5
Pension curtailment gain	29	**–**	7.0	**–**	7.0
Profit before tax		**108.5**	87.9	**113.0**	85.5
Tax expense	9	**(19.6)**	(18.5)	**(20.5)**	(18.1)
Profit for the financial year		**88.9**	69.4	**92.5**	67.4

All amounts relate to continuing operations.

The notes on pages 83 to 130 form part of these accounts.

Statements of Comprehensive Income

For the year ended
31 December 2015

	Notes	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
Profit for the financial year		**88.9**	69.4	**92.5**	67.4
Items that may subsequently be reclassified to profit and loss:					
Available for sale investment securities (loss)/gain		**(3.5)**	10.1	**(3.5)**	10.1
Tax relating to items that may subsequently be reclassified	31	**0.6**	(2.1)	**0.6**	(2.1)
Items that may not subsequently be reclassified to profit and loss:					
Actuarial (loss)/gain on retirement benefit obligations	29	**2.1**	(7.4)	**2.1**	(7.4)
Tax relating to items that may not be reclassified	31	**(0.6)**	0.6	**(0.6)**	0.6
Total comprehensive income for the year		**87.5**	70.6	**91.1**	68.6

Statements of Financial Position

As at 31 December 2015

	Notes	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society* 2014 £M
Assets					
Cash in hand and balances with the Bank of England	10	**701.0**	503.4	**701.0**	503.4
Loans and advances to credit institutions		**126.4**	75.7	**43.4**	13.0
Derivative financial instruments	37	**104.9**	120.4	**76.0**	81.8
Loans and advances to customers	11				
Loans fully secured on residential property		**11,146.0**	9,777.4	**11,146.0**	9,777.4
Other loans		**398.3**	483.5	**398.3**	483.5
Investment securities	12				
Available for sale		**821.1**	975.6	**1,655.2**	1,011.2
Loans and receivables		**28.2**	29.5	**28.2**	29.5
Investments in subsidiary undertakings	13	**–**	–	**40.4**	121.4
Intangible assets	14	**3.4**	–	**3.4**	–
Property, plant and equipment	15	**32.1**	29.9	**32.1**	29.9
Investment properties	16	**–**	4.4	**–**	–
Retirement benefit surplus	29	**5.1**	1.3	**5.1**	1.3
Deferred income tax asset	17	**0.1**	1.4	**0.5**	0.7
Other assets, prepayments and accrued income	18	**140.0**	128.7	**199.3**	183.6
Total assets		**13,506.6**	12,131.2	**14,328.9**	12,236.7
Liabilities					
Shares	19	**9,932.9**	9,181.6	**9,932.9**	9,181.6
Derivative financial instruments	37	**135.7**	155.7	**136.0**	153.8
Amounts owed to credit institutions	20	**55.9**	143.2	**55.9**	143.2
Amounts owed to other customers	21	**418.3**	483.0	**1,703.4**	818.4
Debt securities in issue	22	**2,056.8**	1,344.8	**1,599.1**	1,126.4
Current income tax liabilities		**10.0**	9.3	**9.8**	7.7
Deferred income tax liabilities	17	**2.4**	2.6	**1.8**	0.7
Other liabilities and accruals	23	**72.6**	75.4	**68.3**	73.2
Provision for liabilities and charges	24	**6.4**	4.4	**6.4**	4.4
Subordinated liabilities	25	**–**	0.9	**–**	0.9
Subscribed capital	26	**25.0**	25.0	**25.0**	25.0
Total liabilities		**12,716.0**	11,425.9	**13,538.6**	11,535.3
Total equity attributable to members		**790.6**	705.3	**790.3**	701.4
Total liabilities and equity		**13,506.6**	12,131.2	**14,328.9**	12,236.7

* Certain balances in the Society's 2014 Statement of Financial Position have been reclassified to reflect the legal structure of the Group's structured funding programmes. Further details of this reclassification are set out in note 40.

The accounts on pages 78 to 130 were approved by the Board of Directors on 23 February 2016.
Signed on behalf of the Board of Directors by:

Robin Ashton
Chairman

Peter Hill
Chief Executive Officer

Robin Litten
Chief Financial Officer

Statements of Changes in Members' Interest

For the year ended
31 December 2015

Group 2015	**General Reserve £M**	**Available for Sale Reserve £M**	**Revaluation Reserve £M**	**Other Reserve £M**	**Total Equity attributable to members £M**
At 1 January 2015	**674.7**	**3.9**	**12.4**	**14.3**	**705.3**
Comprehensive income for the year	**90.4**	**(2.9)**	**–**	**–**	**87.5**
Corporation tax paid	**–**	**(2.2)**	**–**	**–**	**(2.2)**
At 31 December 2015	**765.1**	**(1.2)**	**12.4**	**14.3**	**790.6**

Group 2014	Hedge Reserve £M	Available for Sale Reserve £M	Revaluation Reserve £M	Other Reserve £M	Total Equity attributable to members £M
At 1 January 2014	612.1	(4.1)	12.4	14.3	634.7
Comprehensive income for the year	62.6	8.0	–	–	70.6
At 31 December 2014	674.7	3.9	12.4	14.3	705.3

Society 2015	**General Reserve £M**	**Available for Sale Reserve £M**	**Revaluation Reserve £M**	**Other Reserve £M**	**Total Equity attributable to members £M**
At 1 January 2015	**671.0**	**3.9**	**12.4**	**14.1**	**701.4**
Comprehensive income for the year	**94.0**	**(2.9)**	**–**	**–**	**91.1**
Corporation tax paid	**–**	**(2.2)**	**–**	**–**	**(2.2)**
At 31 December 2015	**765.0**	**(1.2)**	**12.4**	**14.1**	**790.3**

Society 2014	General Reserve £M	Available for Sale Reserve £M	Revaluation Reserve £M	Other Reserve £M	Total Equity attributable to members £M
At 1 January 2014	610.4	(4.1)	12.4	14.1	632.8
Comprehensive income for the year	60.6	8.0	–	–	68.6
At 31 December 2014	671.0	3.9	12.4	14.1	701.4

Statements of Cash Flows

For the year ended
31 December 2015

	Notes	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society** 2014 £M
Profit before tax		**108.5**	87.9	**113.0**	85.5
Adjusted for changes in:					
Impairment provision		**7.0**	(17.4)	**7.0**	(17.4)
Provision for liabilities and charges		**2.0**	(0.2)	**2.0**	(0.2)
Depreciation and amortisation		**2.7**	1.6	**2.7**	1.6
Change in value of investment property		**3.4**	–	**–**	–
Interest on subscribed capital		**3.3**	3.3	**3.3**	3.3
Cash generated from operations		**126.9**	75.2	**128.0**	72.8
Changes in operating assets and liabilities:					
Loans and advances to customers		**(1,290.4)**	(1,091.6)	**(1,290.4)**	(1,091.6)
Derivative financial instruments		**(4.5)**	34.6	**(11.9)**	53.0
Other operating assets		**(11.3)**	(40.8)	**(15.7)**	(101.9)
Shares		**751.3**	559.6	**751.3**	559.6
Amounts owed to credit institutions and other customers		**(152.0)**	54.6	**797.8**	6.5
Other operating liabilities		**(8.3)**	(24.4)	**(6.6)**	30.0
Taxation paid		**(19.8)**	(17.5)	**(19.8)**	(17.5)
Net cash flows from operating activities		**(608.1)**	(450.3)	**332.7**	(489.1)
Cash flows from investing activities					
Returns from investments and servicing of finance		**0.5**	(13.2)	**(0.3)**	(13.2)
Purchase of investment securities		**(837.1)**	(1,020.8)	**(1,769.8)**	(1,020.8)
Proceeds from sale and redemption of investment securities		**989.2**	833.5	**1,124.1**	833.5
Purchase of property, plant and equipment		**(4.4)**	(3.1)	**(4.4)**	(3.1)
Purchase of intangible assets		**(3.9)**	–	**(3.9)**	–
Change in investment in subsidiaries*			–	**81.0**	(10.0)
Disposal of inventories		**1.0**	–	**–**	–
Net cash flows from investing activities		**145.3**	(203.6)	**(573.3)**	(213.6)
Cash flows from financing activities					
Debt securities in issue		**712.0**	220.8	**469.5**	289.7
Repayment of subordinated debt		**(0.9)**	–	**(0.9)**	–
Net cash flows from financing activities		**711.1**	220.8	**468.6**	289.7
Net increase/(decrease) in cash and cash equivalents		**248.3**	(433.1)	**228.0**	(413.0)
Cash and cash equivalents at the beginning of the year		**579.1**	1,012.2	**516.4**	929.4
Cash and cash equivalents at the end of the year	27	**827.4**	579.1	**744.4**	516.4

* Change in investment in subsidiaries has been reclassified from operating activities to investing activities.

** Certain balances in the Society's 2014 Statement of Financial Position have been reclassified to reflect the legal structure of the Group's structured funding programmes. Further details of this reclassification are set out in note 40.

Notes to the Accounts

For the year ended
31 December 2015

1. Accounting policies

Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998.

The accounts have been prepared on the going concern basis as outlined in the Directors' Report.

The particular accounting policies adopted are described below and have been consistently applied from the prior year.

The following IFRS pronouncements, relevant to the Society and Group, were adopted with effect from 1 January 2015:

IAS 19 (amendments) – Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRSs: 2010-2012
Annual Improvements to IFRSs: 2011-2013

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

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

IFRS 9 –	Financial Instruments
IFRS 11 (amendments) –	Accounting for Acquisitions of Interests in Joint Operations
IAS 16 and IAS 38 (amendments) –	Clarification of Acceptable Methods of Depreciation and Amortisation
IFRS 15 –	Revenue from Contracts with Customers
IFRS 16 –	Leases
Annual Improvements to IFRSs: 2012-2014	

The Board does not expect the adoption of the above standards to have a material impact on the financial statements of the Society and Group in future periods, except for IFRS 9 Financial Instruments. This standard changes the current incurred loss basis for credit provisions to an expected loss model which would have an impact on the valuation and income recognition methods relating to the Group's loans and advances to customers and derivative assets and liabilities. The standard also introduces new classification and measurement criteria for financial instruments. The Group is currently conducting a full assessment of its potential impact, pending endorsement from the European Union.

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

Accounting convention
The Group prepares its accounts under the historical cost convention, except for the revaluation of available for sale financial assets, financial assets and liabilities held at fair value through profit or loss, all derivative contracts, and certain freehold, long leasehold and investment properties.

Basis of consolidation
The Group accounts consolidate the accounts of Leeds Building Society and all its subsidiaries, as listed in note 13. Where subsidiaries are acquired during the period, their results are included in the Group accounts from the date of acquisition. Uniform accounting policies are applied throughout the Group. Intercompany transactions are eliminated upon consolidation.

Investment in subsidiaries
Investments in subsidiary undertakings are recorded in the Society's balance sheet at cost, less any provision for impairment.

Financial instruments
(a) Classification
Purchases and sales of financial assets are accounted for at settlement date.

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the financial instruments of the Group have been classified into the following categories:

(i) **Loans and receivables**
The Group's loans and advances to customers and credit institutions are classified as 'loans and receivables', except for mortgage assets where the interest rate is linked to US interest rates and a collateral loan which represents a pool of assets purchased from a third party for which certain, but not all, risks were transferred to the Group. These are held at fair value through profit or loss.

Loans and receivables are assets measured at amortised cost using the effective interest rate method. In accordance with the effective interest rate method, initial costs and fees such as cashbacks, mortgage premia paid on the acquisition of mortgage books, mortgage arrangement fees, valuation fees and procuration fees and mortgage discounts are amortised over the expected life of the mortgage.

(ii) **At fair value through profit or loss**
These comprise assets and liabilities which have been specifically designated as such at inception and all derivative financial instruments, including embedded derivatives. Any change in the fair value of the instrument is recognised immediately in the Income Statement. Interest income and expense are recognised on an effective interest rate basis.

Notes to the Accounts

For the year ended
31 December 2015

Continued

1. Accounting policies (continued)

Mortgage assets for which the interest rate is linked to US interest rates and a collateral loan to a third party were designated into this category at the date of inception and are held at fair value through profit or loss. This presentation provides more relevant information as it removes a measurement inconsistency that would otherwise arise from measuring assets or liabilities on a different basis. In particular, this is used for financial assets that are economically hedged but where it is not practical to apply hedge accounting.

(iii) Available for sale

Available for sale assets are non-derivative financial assets that are not classified into either of the two categories above. Changes in the fair value of available for sale assets are recognised in equity, except for impairment losses.

The premia and discounts arising from the purchase of available for sale assets are amortised over the period to the maturity date of the security on an effective yield basis. Any amounts amortised are charged or credited to the Income Statement in the relevant financial years.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market then fair value is determined using alternative valuation techniques.

(iv) Financial liabilities

All financial liabilities are measured at amortised cost using the effective interest method, except for those financial liabilities measured at fair value through profit or loss, for example derivative liabilities.

The premia and discounts, together with commissions and other costs incurred in the raising of wholesale funds and subordinated liabilities, are amortised over the period to maturity using the effective interest rate method.

(b) Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the balance sheet when substantially all of the risks and rewards of ownership remain within the Group, and the counterparty liability is included separately on the balance sheet as appropriate.

The difference between sale and repurchase price is accrued over the life of the agreement using the effective interest rate method.

(c) Derecognition of financial assets and liabilities

Financial assets are only derecognised when the contractual rights to receive cash flows from them have expired or when the Group has transferred substantially all risks and rewards of ownership. The Group has not derecognised the mortgage loans which have been used to secure its issue of debt securities as substantially all the risks and rewards are retained by the Group and the Group retains control of the assets. Financial liabilities are only derecognised when the obligation is discharged, cancelled or has expired. Failed sale assets and liabilities are recognised by the Society and its subsidiaries to reflect intra-group transfer of risks and rewards which eliminate on consolidation.

(d) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. The need for credit valuation adjustments is considered in the determination of the fair value of derivatives. All derivatives are carried as assets when their fair value is positive, and as liabilities when their fair value is negative.

All derivatives are entered into by the Group for the purpose of providing an economic hedge; however certain criteria must be met before the instruments can be allocated to accounting hedge relationships. The Group makes use of cash flow and fair value hedges to reduce volatility in the Income Statement. If derivatives are not designated as hedges then changes in fair values are recognised immediately in the Income Statement.

(i) Cash flow hedges

A cash flow hedge is used to hedge exposures to variability in cash flows, on certain financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in equity. The fair value gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recognised in the Income Statement in the periods in which the hedged item affects the Income Statement.

(ii) Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans and investment products. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the Income Statement over the period to maturity.

Notes to the Accounts

For the year ended
31 December 2015

Continued

1. Accounting policies (continued)

Impairment of financial assets

Impairment losses are recognised in the Income Statement at the point at which they are incurred. An impairment provision is maintained between the point at which the loss is incurred and the point at which it is realised, unless there is objective evidence that the loss should be reversed.

Impairment of loans and advance to customers

The Group assesses its loans and advances to customers for objective evidence of impairment at each Statement of Financial Position date. An impairment loss is recognised if, and only if, there is a loss event (or events) that have occurred after initial recognition and before the Statement of Financial Position date, which has a reliably measurable impact on the estimated future cash flows.

If evidence of impairment is identified, a provision is made to reduce the value of the impaired asset to the amount that is considered to be recovered based upon objective evidence of estimated future cash flows. In assessing the recoverable amount, factors taken into consideration include the likelihood of possession, the time taken to possess and sell, and the value of the security based on latest available information.

Impairment is categorised into either individual impairment (where individual assets have been assessed for loss) or collective impairment (where losses are assessed as being present in a portfolio of loans, but cannot be attributed to individual accounts).

Individual assessments are performed for all mortgage loans in default or possession and where there is objective evidence that all cash flows will not be received. Based upon these assessments an individual impairment provision is made against these assets as appropriate.

In addition, a collective impairment provision is made against those loans and advances to customers where objective evidence, including forbearance measures, indicates that it is likely that losses may ultimately be realised and thus a loss event has occurred. The assets are allocated into categories based on similar characteristics and the impairment value is calculated by applying various factors to each loan. These factors take into account the Group's experience of default and delinquency rate, loss emergence periods, regional house price movements, and adjustments to allow for forced sale values.

Forbearance strategies exercised by the Group comprise mortgage term extensions, transfer of mortgages (in full or in part) to an interest only or hardship product, and capitalisation of arrears once the customer has demonstrated six months of consecutive contractual payments. These strategies are only adopted where they will not give rise to customer detriment.

If a loss is ultimately realised, it is written off against the provision previously made. Any subsequent recoveries are recognised directly in the Income Statement as they arise.

Impairment of investment securities

The Group assesses its investment securities for objective evidence of impairment at each Statement of Financial Position date. This assessment includes consideration of any financial difficulties of the issuer, the nature of any supporting assets (if appropriate), any credit rating changes and the adherence to covenants, including making scheduled payments.

An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and before the Statement of Financial Position date and has a reliably measurable impact on the estimated future cash flows.

Where the Group determines that there is objective evidence of impairment, or that trigger events exist at the Statement of Financial Position date, then, in the case of available for sale instruments, the cumulative loss that had been recognised directly in reserves is removed from reserves and recognised in the Income Statement. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be related to an event occurring after the impairment loss was recognised through the Income Statement, the impairment loss is reversed, with the amount of the reversal recognised through the Income Statement. For assets classified as loans and receivables the loss, and any adjustment to or reversal of this amount, is recognised immediately in the Income Statement.

Interest income and expense

Interest income and expense on all financial instruments are recognised in interest receivable or payable in the Income Statement.

Interest income and expense on financial assets and liabilities held at amortised cost are measured using the effective interest rate method. The effective interest rate method is a method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Specifically, for mortgage assets, the effect of this policy is to spread the impact of discounts, cashbacks, arrangement and valuation fees, and costs directly attributable and incremental to setting up the loan, over the expected life of the mortgage.

Fees and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided.

Fees integral to the loan yield are included within interest income and included in the effective interest rate calculation.

Commission received by the Group from third parties may be required to be repaid if certain policies are cancelled. A provision is included in the accounts to cover the estimate of the amount of clawbacks that will become payable in the future, based on products that have been sold and commissions received prior to the year end.

Notes to the Accounts

For the year ended
31 December 2015

Continued

1. Accounting policies (continued)

Intangible assets
An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised to the extent it is probable that expected future economic benefits will flow from it and the costs can be measured reliably.

During 2015 the Group started a programme of works that met the definition of an intangible asset. This included software licenses and certain IT development costs. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once it is brought into use. The useful life of such assets is deemed to be five years.

Intangible assets are reviewed annually for indications of impairment. Impairment losses are recognised immediately as an expense.

Property, plant and equipment
Freehold and long leasehold properties are revalued every four years by an independent firm of valuers and an interim valuation is carried out in year three by either an internal or an external valuer. The fair value of the properties is determined from market based evidence.

No provision is made for depreciation of freehold and long leasehold properties as in the opinion of the Board their residual value will not be materially different to book value.

All other items of property, plant and equipment are initially recognised at cost and then depreciated. Depreciation is calculated on a straight line method to write down the cost of such assets to their residual values over the estimated useful lives as follows:

Short leasehold properties	Unexpired lease term
Improvements to properties	8 to 10 years
Office and computer equipment	3 to 5 years
Motor vehicles	3 to 5 years

Property, plant and equipment are reviewed annually for indication of impairment. Impairment losses are recognised immediately as an expense.

Investment properties
Investment properties are held for long term rental yields and capital appreciation. The properties are stated at fair value at the balance sheet date. Changes in fair value are included in the Income Statement in the period in which they arise. Depreciation is not charged on investment properties.

Pension benefits
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Method, with actuarial valuations updated at each year end. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Income Statement and presented in the Statement of Comprehensive Income.

The retirement benefit asset or obligation recognised in the balance sheet represents the fair value of Scheme assets less the present value of the defined benefit obligation. Where the fair value of the assets exceeds the present value of the liabilities, the surplus that may be recorded on the balance sheet is capped at the asset ceiling. This is the total of the future economic benefits that will flow to the Group as a result of the surplus.

Leases
Rentals under operating leases are charged to administrative expenses on a straight line basis.

Taxation
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date. Tax on the profits for the period comprises current tax and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves. Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the year end and exchange differences are dealt with in the Income Statement. All foreign currency income and expense is translated into sterling at the rate of exchange on the day of receipt or payment.

Segmental reporting
The chief operating decision maker has been identified as the Chief Executive Officer, who reviews the Group's internal reporting and is responsible for all significant decisions.

Financial information provided in note 39 is consistent with that presented to the Chief Executive Officer.

Notes to the Accounts

For the year ended 31 December 2015

Continued

2. Critical accounting estimates and judgements

Some asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. Therefore there is a risk of changes to the carrying amounts for these assets and liabilities within the next financial year.

Impairment losses on loans and advances and investment securities

The Group reviews its loan portfolios and investment securities to assess impairment at least on a quarterly basis to determine whether an impairment loss should be recorded in the Income Statement. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before such decrease in an individual loan can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status or borrower's local economic conditions, including forbearance measures (such as a transfer to interest only products and term extensions that correlate with defaults on assets in the Group). Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Management also assesses the expected loss on loans and advances as a result of the expected movement in house prices and the discount on the sale of possession properties. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience. If expected house prices reduced by 5%, the total residential impairment provision required would increase by £0.5m (2014: £1.8m). If commercial property prices reduced by 5%, the total commercial impairment provision required would increase by £1.7m (2014: £2.8m).

Retirement benefit obligation/surplus

The Income Statement cost and Statement of Financial Position surplus of the defined benefit pension scheme are assessed in accordance with the advice of a qualified actuary. Assumptions are made for inflation, the rate used to discount scheme liabilities, the expected return on scheme assets and mortality rates. Changes to any of the assumptions could have an impact on the Statement of Financial Position liability and to the costs in the Income Statement. The impact of a 0.25% decrease in the interest rate used to discount the future value of the benefit obligation would be to decrease the present value of the surplus by £4.7m (2014: £6.0m).

Effective interest rate

IAS 39 requires that financial instruments carried at amortised cost be accounted for on an effective interest rate ("EIR") basis. Revenue on financial instruments classified as loans and receivables, available for sale, or financial liabilities at amortised cost, is recognised on an EIR basis. This calculation takes into account interest received or paid, and fees and commissions paid or received that are integral to the yield as well as incremental transaction costs. The EIR is the rate that discounts the expected future cash flows over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial instrument at initial recognition.

In respect of residential mortgages, all discounts, premia, incremental fees and costs associated with the origination of a mortgage are deferred and amortised over the estimated mortgage life. Mortgage life is based upon historic observable data, amended for management's estimation of future economic conditions. The impact of a one month decrease in the anticipated life of mortgage assets would result in a £0.4m (2014: £0.4m) decrease in the Group's interest income.

Notes to the Accounts

For the year ended
31 December 2015

Continued

3. Interest receivable and similar income

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
On loans fully secured on residential property	**423.2**	408.1	**423.2**	408.1
On other loans	**18.5**	23.8	**18.5**	23.8
On debt securities				
Interest and other income	**10.0**	8.3	**17.4**	8.7
On other liquid assets				
Interest and other income	**3.8**	6.6	**3.8**	6.5
Net expense on financial instruments	**(52.8)**	(49.3)	**(70.8)**	(53.3)
Total interest receivable	**402.7**	397.5	**392.1**	393.8
Interest receivable on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit or loss	**(32.8)**	14.1	**(43.3)**	10.5
From instruments not held at fair value through profit or loss	**435.5**	383.4	**435.4**	383.3
Total interest receivable	**402.7**	397.5	**392.1**	393.8

Included within interest receivable and similar income is interest recognised on impaired financial assets of £5.2m (2014: £5.9m).

4. Interest payable and similar charges

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
On shares held by individuals	**163.7**	187.2	**163.7**	187.2
On subscribed capital	**3.3**	3.3	**3.3**	3.3
On subordinated debt	**–**	0.1	**–**	0.1
On deposits and other borrowings	**56.0**	49.2	**43.5**	45.6
Net income on financial instruments	**(27.8)**	(27.1)	**(27.7)**	(26.8)
Total interest payable	**195.2**	212.7	**182.8**	209.4
Interest payable on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit or loss	**(27.8)**	(27.1)	**(27.7)**	(26.9)
From instruments not held at fair value through profit or loss	**223.0**	239.8	**210.5**	236.3
Total interest payable	**195.2**	212.7	**182.8**	209.4

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

5. Fair value gains less losses from derivative financial instruments

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
Change in fair value of financial assets designated at fair value through profit and loss	**(18.8)**	3.9	**(18.8)**	3.9
Change in fair value of financial liabilities designated at fair value through profit and loss	**18.2**	(4.8)	**19.4**	(2.8)
Change in fair value of derivatives in designated fair value hedge accounting relationships	**9.4**	13.5	**19.9**	(7.0)
Adjustment to hedged items in designated fair value hedge accounting relationships	**(9.2)**	(12.0)	**(18.5)**	8.0
Change in fair value of derivatives in designated cash flow hedge accounting relationships	**0.7**	1.0	**0.7**	1.0
Adjustment to hedged items in designated cash flow hedge accounting relationships	**–**	–	**–**	–
Change in fair value of cross currency swap, net of retranslation, on matched euro liabilities	**(1.2)**	(2.0)	**(3.6)**	(1.9)
Total fair value gains and losses from derivative financial instruments	**(0.9)**	(0.4)	**(0.9)**	1.2

The fair value accounting volatility loss of £0.9m (2014: £0.4m loss) represents the net fair value movement on derivative instruments that are matching risk exposures on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted, or is not achievable on certain items.

The net position on the cross currency swaps is composed of a fair value loss on cross currency swaps of £15.4m (2014: £14.1m loss) and an exchange gain of £14.2m (2014: £16.1m gain) on retranslation of the matched euro liabilities. The cross currency swaps were entered into to reduce the exchange risk from funding in foreign currency; however, they are not in accounting hedge relationships.

6. Administrative expenses

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
Staff costs:				
Wages and salaries	**37.6**	31.6	**37.3**	31.4
Social security costs	**3.5**	2.9	**3.5**	2.9
Other pension costs	**3.7**	4.0	**3.6**	4.0
Remuneration of auditor (see below)	**0.4**	0.4	**0.4**	0.4
Other administrative expenses	**31.8**	25.7	**31.5**	25.3
Total administrative expenses	**77.0**	64.6	**76.3**	64.0

There are 57 directors, senior management and members of staff, whose actions have a material impact on the risk profile of the Society, with fixed remuneration of £6.2m and variable remuneration of £1.6m (2014: 30 individuals £3.9m and £0.8m).

The analysis of auditor's remuneration is as follows:

	Group & Society 2015 £000	**Group & Society** 2014 £000
Fee payable to the Society's auditor for the audit of the Society's annual accounts	**186.2**	132.0
Fees payable to the Society's auditor for the audit of the Society's subsidiaries	**25.0**	32.0
Total audit fees	**211.2**	164.0
Other services:		
Further assurance services	**141.8**	150.3
Other services	**76.3**	40.5
Total non-audit fees	**218.1**	190.8
Fees payable to the Society's auditor and its associates in respect of associated pension schemes	**7.0**	7.0

The above figures, relating to auditor's remuneration, exclude Value Added Tax.

Notes to the Accounts

For the year ended 31 December 2015

Continued

7. Staff numbers

The average number of persons employed during the year was as follows:

	Group & Society	
	2015 Number	2014 Number
Central administration	**842**	719
Branches	**381**	385
Total average number of persons employed	**1,223**	1,104

8. Impairment losses on loans and advances to customers

2015

Group & Society

	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
At 1 January 2015				
Collective impairment	9.8	6.5	–	16.3
Individual impairment	19.8	18.5	2.5	40.8
Opening impairment	29.6	25.0	2.5	57.1
Income and expenditure account				
Charge for the year:				
Collective impairment	1.0	4.2	–	5.2
Individual impairment	5.8	8.1	–	13.9
Adjustments to impairment losses for bad and doubtful debts resulting from recoveries during the year	(0.6)	–	–	(0.6)
Total income and expenditure	6.2	12.3	–	18.5
Amount written off during the year:				
Individual impairment	(9.9)	(1.6)	–	(11.5)
At 31 December 2015				
Collective impairment	10.8	10.7	–	21.5
Individual impairment	15.1	25.0	2.5	42.6
Closing impairment	25.9	35.7	2.5	64.1

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

8. Impairment losses on loans and advances to customers continued

2014

Group & Society

	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
At 1 January 2014				
Collective impairment	12.3	9.8	–	22.1
Individual impairment	25.8	26.6	–	52.4
Opening impairment	38.1	36.4	–	74.5
Income and expenditure account				
Charge/(release) for the year:				
Collective impairment	(2.5)	(3.3)	–	(5.8)
Individual impairment	9.1	34.4	2.5	46.0
Adjustments to impairment losses for bad and doubtful debts resulting from recoveries during the year	(0.7)	–	–	(0.7)
Total income and expenditure	5.9	31.1	2.5	39.5
Amount written off during the year:				
Individual impairment	(14.4)	(42.5)	–	(56.9)
At 31 December 2014				
Collective impairment	9.8	6.5	–	16.3
Individual impairment	19.8	18.5	2.5	40.8
Closing impairment	29.6	25.0	2.5	57.1

Notes to the Accounts

For the year ended 31 December 2015

Continued

9. Tax expense

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits for the year	**20.8**	17.3	**21.7**	17.2
Adjustments in respect of previous years	**(1.2)**	0.4	**(1.2)**	0.4
Total current tax	**19.6**	17.7	**20.5**	17.6
Deferred tax				
Origination and reversal of timing differences	**–**	0.9	**–**	0.6
Adjustments in respect of previous years	**–**	(0.1)	**–**	(0.1)
Total deferred tax	**–**	0.8	**–**	0.5
Tax on profit on ordinary activities	**19.6**	18.5	**20.5**	18.1
Factors affecting current tax charge for the year:				
Profit on ordinary activities before tax	**108.5**	87.9	**113.0**	85.5
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 20.25% (2014: 21.5%)	**22.0**	18.9	**22.8**	18.3
Effects of:				
Expenses not deductible for tax purposes	**0.7**	0.1	**0.7**	0.1
Adjustment in respect of prior years	**(1.2)**	0.3	**(1.2)**	0.3
Rate change	**(0.1)**	(1.2)	**(0.1)**	(0.8)
Income not taxable	**(0.5)**	0.4	**(0.5)**	0.2
Disposal of investment property	**(1.3)**	–	**(1.2)**	–
	19.6	18.5	**20.5**	18.1

The standard rate of corporation tax applicable to the Group for the year ended 31 December 2015 was 20.25% (2014: 21.5%). During the year ended 31 December 2015, the Government enacted provisions further reducing the standard rate of corporation tax to 19.0% with effect from 1 April 2017 and 18.0% from 1 April 2020. In addition, a surcharge of 8% on the profits of banking companies (including building societies) was announced, which will take effect from 1 January 2016.

The deferred tax balances have been revalued to the higher rate of 26% in these accounts.

10. Cash in hand and balances with the Bank of England

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
Cash in hand	**2.8**	2.2	**2.8**	2.2
Balances with the Bank of England	**698.2**	501.2	**698.2**	501.2
Included in cash and cash equivalents (see note 27)	**701.0**	503.4	**701.0**	503.4

Balances with the Bank of England do not include mandatory reserve deposits of £18.0m (2014: £16.9m) which are not available for use in the Group's day-to-day operations. Such deposits are included within Loans and Advances to Credit Institutions in the Statement of Financial Position.

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

11. Loans and advances to customers

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
(a) Loans and receivables				
Loans fully secured on residential property	**11,149.1**	9,733.6	**11,149.1**	9,733.6
Other loans				
Loans fully secured on land	**194.0**	268.8	**194.0**	268.8
Other loans	**2.5**	2.5	**2.5**	2.5
Fair value adjustment for hedge risk	**26.7**	50.2	**26.7**	50.2
Total loans and receivables	**11,372.3**	10,055.1	**11,372.3**	10,055.1
(b) At fair value through profit and loss				
Loans fully secured on residential property	**1.3**	23.1	**1.3**	23.1
Other loans	**234.8**	239.8	**234.8**	239.8
Total loans at fair value through profit and loss	**236.1**	262.9	**236.1**	262.9
Less:				
Impairment loss (see note 8)	**(64.1)**	(57.1)	**(64.1)**	(57.1)
Total loans and advances to customers	**11,544.3**	10,260.9	**11,544.3**	10,260.9
Loans fully secured on residential property	**11,146.0**	9,777.4	**11,146.0**	9,777.4
Other loans	**398.3**	483.5	**398.3**	483.5

The Society has a number of residential mortgage portfolios purchased from third parties. The Society retains certain, but not all, risks arising from these loans, and as a consequence these residential mortgages have been recognised as a collateral loan to a third party within other loans at fair value through profit or loss. The net loss on loans and advances, which are designated as fair value through profit or loss, was £3.9m (2014: £18.9m gain) for both the Group and Society.

Loans and advances to customers, for both the Group and Society, include £2,764.3m (2014: £1,478.6m) of loans which have been transferred from the Society to its associated secured funding vehicles.

The following transfers have been made:

2015	**Covered Bonds LLP £M**	**Albion No. 2 Plc £M**	**Albion No. 3 Plc £M**	**Guildford No. 1 Plc £M**	**Total £M**
Loans and advances transferred from the Society to funding vehicles	**1,543.2**	**130.0**	**353.4**	**737.7**	**2,764.3**
Loan notes issued by funding vehicles	**819.3**	**142.2**	**370.4**	**620.5**	**1,952.4**

2014	Covered Bonds LLP £M	Albion No. 2 Plc £M	Albion No. 3 Plc £M	Guildford No. 1 Plc £M	Total £M
Loans and advances transferred from the Society to funding vehicles	1,276.4	202.2	–	–	1,478.6
Loan notes issued by funding vehicles	696.0	185.5	–	–	881.5

The covered bonds and residential mortgage backed securities issued have been used to secure long term funding from other counterparties. The loans are retained in the Society's Statement of Financial Position as the Society substantially retains the risk and reward relating to the loans.

Notes to the Accounts

For the year ended 31 December 2015

Continued

12. Investment securities

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society* 2014 £M
Debt securities				
Listed	**714.2**	847.0	**1,355.7**	847.0
Unlisted	**135.1**	158.1	**327.7**	193.7
Total investment securities	**849.3**	**1,005.1**	**1,683.4**	**1,040.7**

* Certain balances in the Society's 2014 Statement of Financial Position have been reclassified to reflect the legal structure of the Group's structured funding programmes. Further details of this reclassification are set out in note 40.

Investment securities held by the Group decreased by £3.7m in 2015 (2014: increased by £9.9m) due to changes in fair value. In addition to those securities held by the Group, the Society has purchased investment securities issued by other Group entities. Total investment securities held by the Society decreased by £2.8m in 2015 (2014: increased by £9.9m) due to changes in fair value. This movement was recorded in equity or through profit or loss. No provisions have been made against investment securities during the year, nor were there any provisions outstanding as at 31 December 2015 (2014: £nil).

	Available for sale £M	Loans and receivables £M	Total £M
2015			
Group			
At 1 January 2015	**975.6**	**29.5**	**1,005.1**
Additions	**837.1**	**–**	**837.1**
Disposals (sale and redemption)	**(987.7)**	**(1.5)**	**(989.2)**
Change in fair value	**(3.9)**	**0.2**	**(3.7)**
At 31 December 2015	**821.1**	**28.2**	**849.3**

	Available for sale £M	Loans and receivables £M	Total £M
2014			
Group			
At 1 January 2014	711.9	96.0	807.9
Additions	1,020.8	–	1,020.8
Disposals (sale and redemption)	(763.0)	(70.5)	(833.5)
Change in fair value	5.9	4.0	9.9
At 31 December 2014	975.6	29.5	1,005.1

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

12. Investment securities continued

	Available for sale £M	Loans and receivables £M	Total £M
2015 Society			
At 1 January 2015	**1,011.2**	**29.5**	**1,040.7**
Additions	**1,769.8**	**–**	**1,769.8**
Disposals (sale and redemption)	**(1,122.6)**	**(1.5)**	**(1,124.1)**
Change in fair value	**(3.2)**	**0.2**	**(3.0)**
At 31 December 2015	**1,655.2**	**28.2**	**1,683.4**

	Available for sale £M	Loans and receivables £M	Total £M
2014 Society			
At 1 January 2014	747.5	96.0	843.5
Additions	1,020.8	–	1,020.8
Disposals (sale and redemption)	(763.0)	(70.5)	(833.5)
Change in fair value	5.9	4.0	9.9
At 31 December 2014	1,011.2	29.5	1,040.7

As permitted by the amendment to IAS 39 issued by the International Accounting Standards Board in October 2008, the Society has reclassified (from 1 July 2008) its mortgage backed securities and floating rate note assets from the available for sale category to the loans and receivables category. The assets were reclassified as the Society considered that, due to adverse conditions in financial markets, the market for the sale and purchase of mortgage backed securities and floating rate notes had become inactive. This was evidenced by significant fluctuations in the quoted market value of these instruments and that these instruments were no longer being actively traded. The market value of the assets reclassified on 1 July 2008 was £828m, which included £15.8m fair value losses recognised during the period directly in reserves. The carrying value of the assets at 31 December 2015 was £28.2m (2014: £29.5m), and this compares to a market value of £26.6m (2014: £28.3m).

The fair value loss that would have been recorded directly in reserves if the assets had not been reclassified was £0.4m (2014: £0.1m gain). The net loss, after deferred tax, of £0.7m (2014: net gain £3.9m) previously recognised in the available for sale reserve is released to profit or loss as part of the EIR based on the maturity profile of the underlying instruments. The weighted average interest rate on the mortgage backed securities and floating rate note assets was 0.8% (2014: 0.8%). At 31 December 2015, no (2014: £73.8m) investment securities were pledged as collateral under sale and repurchase agreements.

Notes to the Accounts

For the year ended 31 December 2015

Continued

13. Investments in subsidiary undertakings

	Society 2015 £M	Society 2014 £M
a) Shares held in subsidiary undertakings		
Cost		
At 1 January 2015	–	19.6
Repayments	–	(19.6)
At 31 December 2015	–	–
b) Loans to subsidiary undertakings		
Cost		
At 1 January 2015	121.4	111.4
Additions	–	14.4
Repayments	(77.9)	–
Impairment of loan to Headrow Commercial Property Services Ltd	(3.1)	(4.4)
At 31 December 2015	40.4	121.4

(c) Interest in subsidiary undertakings

The Society holds directly the following interests in principal subsidiary undertakings, all of which are registered in England.

Name	Major Activities	Class of Shares held	Interest of Society
Leeds Financial Services Ltd	Non-trading	Ordinary £1 shares	100%
Leeds Mortgage Funding Ltd	Provision of mortgage finance	Ordinary £1 shares	100%
Headrow Commercial Property Services Ltd	Non-trading	Ordinary £1 shares	100%
Leeds Building Society Covered Bonds LLP	Provision of mortgage assets and guarantor of covered bonds	*	*
Albion No. 2 Plc	Provision of residential mortgage backed securities	*	*
Albion No. 3 Plc	Provision of residential mortgage backed securities	*	*
Guildford No. 1 Plc	Provision of residential mortgage backed securities	*	*

* The Society's interest is, in substance, equal to being a 100% owned subsidiary. Consequently it has been consolidated in the Group accounts in accordance with IFRS 10 Consolidated Financial Statements. Although the Society does not legally own these entities, it is deemed to control the subsidiaries, as it has power over the activities undertaken by the subsidiaries through the group management and operational structures in place, and it has exposure to variable returns through the purchase of loan notes, deferred consideration and intragroup loans.

The following subsidiaries underwent solvent liquidations in 2015: Leeds Overseas (Isle of Man) Ltd, Mercantile Asset Management Ltd, Countrywide Rentals 1 Ltd, Countrywide Rentals 2 Ltd, Countrywide Rentals 3 Ltd, Countrywide Rentals 4 Ltd, Countrywide Rentals 5 Ltd, Albion No. 1 Plc and Albion No. 1 Holdings Ltd.

In September 2015 the Society impaired £3.1m (2014: £4.4m) of its intragroup debt with Headrow Commercial Properties Ltd.

The Society received £0.1m in dividends from Leeds Overseas (Isle of Man) Ltd on liquidation of the company during 2015 (2014: £ nil). In addition £0.4m was received from Leeds Financial Services Ltd and £1.0m from Leeds Mortgage Funding Ltd.

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

14. Intangible assets

Group & Society	Purchased software £M	Development costs £M	Total £M
Cost			
At 1 January 2015	–	–	–
Additions	2.2	1.7	3.9
At 31 December 2015	2.2	1.7	3.9
Amortisation			
At 1 January 2015	–	–	–
Charged in year	0.4	0.1	0.5
At 31 December 2015	0.4	0.1	0.5
Net book value			
At 31 December 2015	1.8	1.6	3.4

During 2015 the Group started a programme of works that met the definition of an intangible asset. This included software licences and certain IT development costs. Amortisation of such assets is charged to the Income Statement on a straight line basis over the useful life of the asset once it is brought into use. The useful life of such assets is deemed to be five years.

Intangible assets are renewed annually for indications of impairment. No impairment (2014: £nil) has been recognised.

15. Property, plant and equipment

	Freehold premises £M	Long leasehold premises £M	Short leasehold premises £M	Office & computer equipment £M	Motor vehicles £M	Total £M
2015						
Group & Society						
Cost or valuation						
At 1 January 2015	22.2	0.3	1.4	32.4	0.1	56.4
Additions	–	–	–	4.4	–	4.4
At 31 December 2015	22.2	0.3	1.4	36.8	0.1	60.8
Depreciation						
At 1 January 2015	1.1	–	1.3	24.0	0.1	26.5
Charged in year	–	–	–	2.2	–	2.2
At 31 December 2015	1.1	–	1.3	26.2	0.1	28.7
Net book value						
At 31 December 2015	21.1	0.3	0.1	10.6	–	32.1

Notes to the Accounts

For the year ended 31 December 2015

Continued

15. Property, plant and equipment continued

	Freehold premises £M	Long leasehold premises £M	Short leasehold premises £M	Office & computer equipment £M	Motor vehicles £M	Total £M
2014						
Group & Society						
Cost or valuation						
At 1 January 2014	22.2	0.3	1.4	29.3	0.1	53.3
Additions	–	–	–	3.1	–	3.1
At 31 December 2014	22.2	0.3	1.4	32.4	0.1	56.4
Depreciation						
At 1 January 2014	1.1	–	1.3	22.4	0.1	24.9
Charged in year	–	–	–	1.6	–	1.6
At 31 December 2014	1.1	–	1.3	24.0	0.1	26.5
Net book value						
At 31 December 2014	21.1	0.3	0.1	8.4	–	29.9

The freehold and long leasehold premises were valued as at 31 December 2013 by Knight Frank on the basis of existing use value. There is nothing to suggest a material change in this valuation at 31 December 2015. In accordance with the Group's accounting policy an updated valuation is due to be undertaken on 31 December 2017.

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
The amount of freehold and long leasehold premises (included above at valuation) determined according to the historical cost convention is as follows:				
Freehold premises	**9.7**	9.7	**9.7**	9.7
Long Leasehold premises	**0.1**	0.1	**0.1**	0.1
Net book value	**9.8**	9.8	**9.8**	9.8
Land and building occupied by the Group and Society for its own activities				
Net book value	**16.4**	**17.3**	**16.4**	**17.3**

No equipment, fixtures and vehicles were held under finance leases (2014: £nil).

16. Investment properties

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
At 1 January 2015	**4.4**	**4.4**	**–**	**–**
Net fair value movement	**(3.4)**	**–**	**–**	**–**
Intragroup transfer	**–**	**–**	**1.0**	**–**
Transfer to inventories	**(1.0)**	**–**	**(1.0)**	**–**
At 31 December 2015	**–**	4.4	**–**	**–**

The investment properties carrying value of £4.4m at 31 December 2014 consisted of a commercial possession property held by Headrow Commercial Property Services Ltd. This was transferred to the Society on 16 October 2015 for £1.0m, which represented the market value on an arm's length basis. The Society was preparing the property for sale and therefore, shortly after transfer, appropriated it from investment properties to inventory. The property was subsequently sold to a third party for £1.0m on 26 November 2015.

Notes to the Accounts

For the year ended 31 December 2015

Continued

17. Deferred income tax

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
Deferred tax				
At 1 January 2015	**(1.2)**	(1.0)	**–**	0.7
Amount recognised directly in equity	**0.8**	–	**(0.8)**	–
Income and expenditure movement during the year	**(0.6)**	(0.2)	**(0.4)**	(0.7)
At 31 December 2015	**(1.0)**	(1.2)	**(1.2)**	0.0

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
Deferred income tax liabilities				
Gain on revaluation	**0.5**	0.5	**0.5**	0.4
Excess of capital allowances over depreciation	**–**	–	**–**	–
Pensions and other post retirement benefits	**1.3**	0.3	**1.3**	0.3
Other temporary differences	**0.6**	1.8	**–**	–
Total deferred income tax liabilities	**2.4**	2.6	**1.8**	0.7

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
Deferred income tax assets				
Pensions and other post retirement benefits	**–**	–	**–**	–
Excess of depreciation over capital allowances	**–**	0.1	**–**	0.1
Other provisions	**0.1**	1.3	**0.5**	0.6
Total deferred income tax assets	**0.1**	1.4	**0.5**	0.7

18. Other assets, prepayments and accrued income

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society* 2014 £M
Collateral	**128.7**	122.3	**128.7**	122.3
Accruals and prepayments	**3.6**	4.5	**3.4**	4.2
Other assets	**7.7**	1.9	**67.2**	57.1
Total other assets, prepayments and accrued income	**140.0**	128.7	**199.3**	183.6

* Certain balances in the Society's 2014 Statement of Financial Position have been reclassified to reflect the legal structure of the Group's structured funding programmes. Further details of this reclassification are set out in note 40.

Other assets include £90.2m (2014: £90.9m) owed by credit institutions on cash collateralisation of swaps.

19. Shares

	Group & Society	
	2015 £M	2014 £M
Held by individuals	**9,912.1**	9,140.8
Other shares	**10.2**	12.1
Fair value adjustments for hedge risk	**10.6**	28.7
Total shares	**9,932.9**	9,181.6

Notes to the Accounts

For the year ended
31 December 2015

Continued

20. Amounts owed to credit institutions

	Group & Society	
	2015 £M	2014 £M
Total amounts owed to credit institutions	**55.9**	143.2

21. Amounts owed to other customers

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society* 2014 £M
Amounts owed to subsidiary undertakings	**–**	–	**1,285.1**	335.4
Other deposits	**418.3**	483.0	**418.3**	483.0
Total amounts owed to other customers	**418.3**	483.0	**1,703.4**	818.4

* Certain balances in the Society's 2014 Statement of Financial Position have been reclassified to reflect the legal structure of the Group's structured funding programmes. Further details of this reclassification are set out in note 40.

22. Debt securities in issue

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society* 2014 £M
Certificates of deposit	**14.0**	6.0	**14.0**	6.0
Senior unsecured debt	**763.2**	386.6	**763.2**	386.6
Covered bonds	**846.7**	766.6	**821.9**	733.8
Residential mortgage backed securities	**432.9**	185.6	**–**	–
Total debt securities in issue	**2,056.8**	1,344.8	**1,599.1**	1,126.4

* Certain balances in the Society's 2014 Statement of Financial Position have been reclassified to reflect the legal structure of the Group's structured funding programmes. Further details of this reclassification are set out in note 40.

The interest rates on debt securities in issue are a combination of fixed and variable. The underlying security for the covered bonds and residential mortgage backed securities (RMBS) are certain loans and advances to customers (see note 11 for further detail).

23. Other liabilities and accruals

	Group 2015 £M	Group 2014 £M	Society 2015 £M	Society 2014 £M
Income tax	**10.4**	10.8	**10.4**	10.8
Accruals	**18.8**	17.3	**18.9**	17.0
Other creditors	**43.4**	47.3	**39.0**	45.4
Total other liabilities and accruals	**72.6**	75.4	**68.3**	73.2

Included within other creditors is a liability for financial guarantee contracts of £3.6m (2014: £3.6m).

Other creditors includes £18.6m (2014: £26.3m) owed to credit institutions on cash collateralisation of swaps.

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

24. Provisions for liabilities and charges

2015	**FSCS Levy £M**	**Customer redress and other related provisions £M**	**Commission clawback £M**	**Total £M**
Group & Society				
At 1 January 2015	**3.1**	**1.0**	**0.3**	**4.4**
Amounts paid during the year	**(5.8)**	**(1.0)**	**–**	**(6.8)**
Provision increase in the year	**5.5**	**3.3**	**–**	**8.8**
At 31 December 2015	**2.8**	**3.3**	**0.3**	**6.4**

2014	FSCS Levy £M	Customer redress and other related provisions £M	Commission clawback £M	Total £M
Group & Society				
At 1 January 2014	2.9	1.3	0.4	4.6
Amounts paid during the year	(6.2)	(5.7)	(0.1)	(12.0)
Provision increase in the year	6.4	5.4		11.8
At 31 December 2014	3.1	1.0	0.3	4.4

Financial Services Compensation Scheme (FSCS) Levy

The levy represents the estimated amount of interest payable under the FSCS for the 2015/16 scheme year, which runs from April 2015 to March 2016, and is calculated with reference to the protected deposits held at 31 December 2014. Refer to note 28 for the Society's contingent liability in relation to the FSCS as at the balance sheet date.

Customer redress and other related provisions

This provision is in respect of claims for redress by customers, including potential claims on payment protection insurance and property insurance sold by the Group and other fees and premia charged.

Commission clawback

This provision has been made for the potential clawback of commission on assurance policies sold.

25. Subordinated liabilities

	Group & Society	
	2015 £M	2014 £M
Subordinated debt notes 2015	**–**	0.9

The subordinated debt matured and was repaid on 9 March 2015.

It had a fixed interest rate of 4.34% (2014: 4.34%) and was subordinated to the claims of members and all other creditors.

26. Subscribed capital

	Group & Society	
	2015 £M	2014 £M
13 $^{3/8}$% permanent interest bearing shares	**25.0**	25.0

The subscribed capital, which is denominated in sterling, was issued for an indeterminate period and is only repayable in the event of the winding up of the Society.

Notes to the Accounts

For the year ended 31 December 2015

Continued

27. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	Group 2015 £M	Group 2014 £M	**Society 2015 £M**	Society 2014 £M
Cash in hand and balances with the Bank of England (note 10)	**701.0**	503.4	**701.0**	503.4
Loans and advances to credit institutions	**126.4**	75.7	**43.4**	13.0
Total cash and cash equivalents	**827.4**	579.1	**744.4**	516.4

28. Guarantees and other financial commitments

(a) Financial Services Compensation Scheme

The Society 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. Following the failure of a number of financial institutions, the FSCS has raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be largely repaid from the realisation of the assets of the failed institutions. During 2015, the FSCS has also invoiced institutions for the final annual levies to cover capital repayments to the UK Government. The principal of these borrowings which remains after the three annual levies have been paid is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates. This matter is therefore considered to be a contingent liability of the Society.

(b) Subsidiary undertakings

The Society is obliged under the Building Societies Act 1986 to discharge the liabilities of its subsidiary undertakings to the extent they were incurred before 11 June 1996 and in so far as those bodies are unable to discharge the liabilities out of their own assets.

(c) Capital commitments

The Society has commitments of £12.3m (2014: £nil) payable under executory contracts over a period of 10 years which relate to the ongoing investment programme. This amount is inclusive of value added tax.

(d) Lease commitments

At 31 December the annual commitments under non-cancellable operating leases were as set out below:

Group & Society	**2015 £M**	2014 £M
Land and buildings		
Commitment expiring:		
Within one year	**0.3**	0.5
Between one and five years inclusive	**1.0**	0.2
After five years	**0.5**	1.2
Total land and buildings operating leases	**1.8**	1.9
Other operating leases		
Commitment expiring:		
Within one year	**–**	1.0
Between one and five years inclusive	**–**	–
More than five years	**5.0**	4.3
Total other operating leases	**5.0**	5.3

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

29. Retirement benefit obligations/surplus

The Society operates both defined benefit and defined contribution schemes. In addition, the Society has, for one individual (2014: one individual) in the UK, an employer funded retirement benefits scheme. The schemes have been accounted for under IAS19 covering employee benefits.

The defined benefit section of the Scheme provides benefits based on final salary for certain employees. The assets of the Scheme are held in a separate trustee administered fund. Contributions to the defined benefit section are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The defined benefit section was closed to new entrants from 1 January 2000, and closed to future benefit accrual from 31 December 2014. As at 31 December 2015 there were 418 deferred defined benefit members (2014: 127).

Actuarial gains and losses are recognised immediately in full, through the Statements of Comprehensive Income. The major assumptions used by the Actuary were (in nominal terms):

Group & Society	**2015**	2014	2013	2012	2011
Rate of increase in salaries*	**–**	4.80%	5.15%	4.65%	4.80%
Rate of increase for pensions in payment**	**3.00%**	2.95%	3.20%	2.80%	3.00%
Rate of increase for deferred pensions**	**3.15%**	3.05%	3.40%	2.90%	3.05%
Discount rate	**3.80%**	3.60%	4.45%	4.50%	4.85%
Inflation assumption RPI	**3.15%**	3.05%	3.40%	2.90%	3.05%
Inflation assumption CPI	**2.15%**	2.05%	2.40%	2.20%	2.05%

* As the Scheme was closed to future benefit accrual from 31 December 2014 salary-based measures have ceased to apply.

** in excess of any Guaranteed Minimum Pension (GMP) element.

The expected return on the assets has been derived as the weighted average of the expected returns from the main asset class (equities and bonds). The expected return for the asset class reflects a combination of historical performance analysis, the forward looking view of the financial markets (as suggested by yields available), and the views of the investment organisations.

The most significant non-financial assumption is the assumed rate of longevity, which is based on the SAPS tables known as S2PXA (2014: S1PXA), projected in line with members' years of birth. Last year future improvements in mortality allowed for were in line with the CMI 2014 projection with a 1% long term trend; however the directors have changed this allowance to a more up to date CMI 2015 projection with a 1% long term trend. The table below shows the life expectancy assumptions used in the accounting assessments. Pensioner life expectancies are for a member currently aged 63 retiring now. Non-pensioner life expectancies are for a member retiring at age 63 currently aged 43.

	2015		2014		2013	
	Pensioner years	**Non-Pensioner years**	Pensioner years	Non-Pensioner years	Pensioner years	Non-Pensioner years
Male	**23.7**	**25.0**	23.9	25.2	23.8	25.3
Female	**25.7**	**27.2**	26.2	27.7	26.3	27.6

Notes to the Accounts

For the year ended 31 December 2015

Continued

29. Retirement benefit obligations/surplus continued

Group & Society	2015	2014	2013	2012	2011
Category of assets					
Equities	**56.5%**	55.7%	57.7%	53.0%	51.7%
Property	**1.1%**	1.4%	2.5%	4.8%	5.4%
Government bonds	**31.1%**	21.7%	19.5%	19.9%	21.3%
Corporate bonds	**10.7%**	20.5%	19.8%	21.8%	21.0%
Cash/other	**0.6%**	0.7%	0.5%	0.5%	0.6%

Reconciliation of funded statement	2015 £M	2014 £M	2013 £M	2012 £M	2011 £M
Present value of pension scheme's liabilities	**(97.7)**	(103.7)	(97.5)	(87.7)	(78.6)
Assets at fair value	**102.8**	105.0	94.2	85.3	77.7
Surplus/(deficit)	**5.1**	1.3	(3.3)	(2.4)	(0.9)

The amounts recognised in the Income Statements are as follows:

Group & Society	2015 £M	2014 £M
Current service cost	**–**	2.1
Net interest cost and expected return	**(0.1)**	–
Curtailment gain	**–**	(7.0)
Settlement gain	**–**	(1.0)
Administration expenses	**0.3**	0.2
Total cost – defined benefit scheme	**0.2**	(5.7)

Note: service cost is the Society's cost net of employee contributions and inclusive of interest to the reporting date.
The curtailment gain arose on the closure of the defined benefit scheme to future accrual on 31 December 2014.

Notes to the Accounts

For the year ended 31 December 2015

Continued

29. Retirement benefit obligations/surplus continued

The experience recognised in the Statements of Comprehensive Income is as follows:

Group & Society	2015 £M	2014 £M	2013 £M	2012 £M	2011 £M
Experience gain/(loss) on pension scheme liabilities	**4.2**	(13.6)	(7.9)	(5.3)	0.3
Percentage of scheme liabilities (%)	**4.3%**	13.1%	8.1%	6.0%	0.4%
Experience (loss)/gain on assets	**(2.1)**	6.2	5.6	3.7	(1.7)
Percentage of scheme assets (%)	**2.0%**	5.9%	5.9%	4.3%	2.2%
Total gains/(losses) recognised in SOCI during the year	**2.1**	(7.4)	(2.3)	(1.6)	(1.4)

The changes in the present value of the defined benefit obligations are as follows:

Group & Society	2015 £M	2014 £M
At 1 January 2015	**103.7**	97.5
Current service cost	**–**	2.1
Interest cost	**3.6**	4.2
Curtailment gain	**–**	(7.0)
Liability extinguished on settlement	**–**	(4.0)
Actuarial (gains)/losses	**(4.2)**	13.6
Benefits paid	**(5.4)**	(2.7)
At 31 December 2015	**97.7**	103.7

The changes in the fair value of plan assets are as follows:

Group & Society	2015 £M	2014 £M
At 1 January 2015	**105.0**	94.2
Interest income	**3.7**	4.2
Actuarial (losses)/gains	**(2.1)**	6.2
Contribution by employer	**1.9**	6.3
Administration expenses	**(0.3)**	(0.2)
Assets distributed on settlement	**–**	(3.0)
Benefits paid	**(5.4)**	(2.7)
At 31 December 2015	**102.8**	105.0

The cumulative amount of actuarial gains and losses recognised in the Statements of Comprehensive Income since the date of transition to IFRSs is a net loss of £2.9m (2014: loss of £5.0m).

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

29. Retirement benefit obligations/surplus continued

The table below gives a broad indication of the impact on the pension deficit to changes in assumptions and experience.
All figures are before allowing for deferred tax.

	Approximate impact on current deficit £M	Approximate impact on projected pension cost £M
Reduce discount rate by 0.25%	**+4.7**	**+0.2**
Increase inflation assumption by 0.25%	**+3.7**	**+0.1**
Change long-term trend of increases in mortality improvement from 1.00% per annum to 1.25% per annum	**+1.2**	**+0.0**

Estimated contributions for 2016 financial year

Group & Society	**2016 £M**
Estimated employer normal contributions in Financial Year 2016	**1.8**

30. Related party transactions

Group

The Group enters into transactions in the ordinary course of business with directors of the society and persons connected with the directors of the Society, on normal commercial terms.

Society

Details of the Society's shares in Group undertakings are given in note 13. A number of transactions are entered into with the related parties in the normal course of business. These include loans, deposits, and the payment and recharge of administrative expenses. The volumes of related party transactions, outstanding balances at the year end, and the related income and expenses for the year are as follows:

	Society subsidiaries		Directors and connected persons	
	2015 £M	2014 £M	**2015 £M**	2014 £M
Loans payable to the Society				
Loans outstanding at 1 January 2015	**121.4**	91.8	**0.4**	0.2
Net movement during the year	**(81.0)**	29.6	**–**	0.2
Loans outstanding at 31 December 2015	**40.4**	121.4	**0.4**	0.4
Deposits payable by the Society				
Deposits outstanding at 1 January 2015	**335.4**	383.5	**0.6**	1.1
Net movement during the year	**949.7**	(48.1)	**0.7**	(0.5)
Deposits outstanding at 31 December 2015	**1,285.1**	335.4	**1.3**	0.6

Directors' emoluments	**2015 £M**	2014 £M
Total remuneration	**2.6**	2.2

Directors' emoluments include those emoluments received by directors from the Society and its associated bodies. No directors are active members of the defined benefit section of the Leeds Building Society Pension Scheme (2014: none). Two directors are members of the defined contribution section of the Leeds Building Society Pension Scheme (2014: three).

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

31. Tax effects relating to each component of Other Comprehensive Income

2015 Group & Society	**Before tax amount £M**	**Tax benefit/ (expense) £M**	**Net of tax amount £M**
Available for sale investment securities	**(3.5)**	**0.6**	**(2.9)**
Actuarial gains on retirement benefit obligations	**2.1**	**(0.6)**	**1.5**
Other Comprehensive Income	**(1.4)**	**–**	**(1.4)**

2014 Group & Society	Before tax amount £M	Tax benefit/ (expense) £M	Net of tax amount £M
Available for sale investment securities	10.1	(2.1)	8.0
Actuarial losses on retirement benefit obligations	(7.4)	0.6	(6.8)
Other Comprehensive Income	2.7	(1.5)	1.2

32. Liquidity risk

Liquidity risk represents the risk that the Group is unable to meet its financial obligations as they fall due, or can only do so at excessive cost. The Society's business model is to fund long term mortgages through short term retail customer deposits. In practice, although mortgages may have long legal contractual maturities and customer deposits may have short notice periods, customer behaviour tends to shorten mortgage lives and extend retail deposits. This reduces the inherent mismatch of the Group's liquidity position, but does not eliminate the risk and therefore the Group is required to take additional steps to manage and monitor the liquidity gap.

The Group's liquidity policy is to maintain sufficient liquid resources to meet statutory, regulatory and operational requirements. These requirements are designed to allow the Group to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group, and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of high quality purchased liquid assets, through committed wholesale funding facilities (including securitisation arrangements) and through management control of the growth of the business.

It is Group policy to ensure that sufficient liquid assets are at all times available to meet the Group's statutory, regulatory and operational obligations. The development and implementation of liquidity policy is the responsibility of ALCO. The day-to-day management of liquidity is the responsibility of the Treasury Function with oversight from the independent Risk Function.

A series of liquidity stress tests are performed each month to confirm that the liquid resources remain appropriate. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group Statement of Financial Position.

Liquidity policy is approved by ALCO and agreed with the Board. Limits on potential cash flow mismatches over defined time horizons are the principal method of liquidity control. The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows and access to contingent funding from the Bank of England.

Pledged assets (encumbrance)

The Group has issued a number of debt securities which are secured against its assets, specifically the retail mortgage portfolio. These provide long term funding from other counterparties, either through cash realised from the sale of securities, or through sale and repurchase agreements.

The Society established Leeds Building Society Covered Bond LLP in 2009 and at 31 December 2015 had £819.3m in issue (2014: £706.3), including £300m issued in 2015. In addition, the Group had a further £512.6m (2014: £220.4m) of debt securities in issue through the Albion No. 2 and Albion No. 3 securitisation programmes. Albion No. 3 was established in September 2015 and raised £325m of wholesale funding.

Notes to the Accounts

For the year ended
31 December 2015

Continued

32. Liquidity risk continued

The table below illustrates the external secured funding balances after redemptions in the mortgage pool since issuance:

	2015		2014	
	Assets pledged £M	**Secured funding £M**	Assets pledged £M	Secured funding £M
Secured against loans and advances to customers – Albion No.2 Plc	**130.0**	**106.4**	202.2	220.4
Secured against loans and advances to customers – Albion No.3 Plc	**353.4**	**325.0**	–	–
Secured against loans and advances to customers – Covered Bonds LLP	**1,543.2**	**819.3**	1,276.4	706.2
Total pledged assets	**2,026.6**	**1,250.7**	1,478.6	926.6

Pledged assets include those available to Leeds Building Society Covered Bonds LLP, Albion No.2 Plc and Albion No.3 Plc to provide collateral to support external funding transactions. However, disclosed above is the funding obtained through issuance to external counterparties. It does not include self-issued bonds. As a result, the relationship shown above, between the assets pledged and level of funding, does not represent the 'haircut' applied to collateral values in determining the available level of funding. All of the assets pledged are retained in the originator's balance sheet as they substantially retain the risk and reward related to the loans.

The covered bond programme operates under a Mortgage Sale Agreement, where there is an equitable assignment of the loans from the Society to the LLP. Legal title remains with the Society and full transfer of title is not affected until the occurrence of certain 'perfection' events, such as a failure to pay or breach of obligation on behalf of the Society, or the insolvency of the Society or the LLP.

The securitisation programme operates under a Mortgage Sale Agreement, where there is an equitable assignment of the loans from the seller to the issuers (Albion No.2 Plc and Albion No.3 Plc). Legal title remains with the Society and full transfer of title is not affected until the occurrence of certain 'perfection' events such as it being directed by a regulatory authority, the courts or the Society.

An additional securitisation structure, Guildford No. 1 Plc, was established in February 2015. It operates under a Mortgage Sale Agreement, where there is an equitable assignment of the loans from the Seller to the Issuer. Legal title remains with the Society and full transfer of title is not affected until the occurrence of certain 'perfection' events such as it being directed by a regulatory authority, the Courts or the Society. The Guildford loan notes issued were sold to the Society for liquidity purposes and therefore are consolidated out of the Group's financial results.

Contractual maturity

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will be accrued to those instruments except where the Group is entitled and intends to repay the liabilities before their maturity. The subscribed capital has a fixed rate of interest of $13^3/_8$% payable semi-annually for an indeterminate period.

31 December 2015	Repayable on demand £M	Less than 3 months £M	3 months to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Group						
Shares	6,045.9	324.7	957.8	2,732.1	72.4	10,132.9
Amounts owed to credit institutions	–	56.0	–	–	–	56.0
Other deposits	–	287.5	114.4	17.9	–	419.8
Debt securities in issue	–	5.0	9.1	1,399.7	850.4	2,264.2
Subscribed capital	–	–	–	–	25.0	25.0
Total liabilities	**6,045.9**	**673.2**	**1,081.3**	**4,149.7**	**947.8**	**12,897.9**

For the year ended 31 December 2015 **Continued**

32. Liquidity risk continued

31 December 2014	Repayable on demand £M	Less than 3 months £M	3 months to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Group						
Shares	5,392.5	427.8	1,180.4	2,218.5	87.8	9,307.0
Amounts owed to credit institutions	178.7	3.9	15.1	10.5	–	208.2
Other deposits		314.7	71.6	20.8	–	407.1
Debt securities in issue	–	147.0	74.5	587.5	671.9	1,480.9
Subordinated liabilities	0.9	–	–	–	–	0.9
Subscribed capital	–	–	–	–	25.0	25.0
Total liabilities	5,572.1	893.4	1,341.6	2,837.3	784.7	11,429.1

Contractual maturity of derivative financial instruments

The following table details the Group's expected maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the conditions existing at the reporting date. For example, interest rates have been projected as illustrated by the yield curves existing at the reporting date, and where the amount varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

31 December 2015	**Not more than 3 months £M**	**More than 3 months but not more than 6 months £M**	**More than 6 months but not more than 1 year £M**	**More than 1 year but not more than 5 years £M**	**More than 5 years £M**
Swap contracts	**11.2**	**11.9**	**18.3**	**56.8**	**39.6**
31 December 2014					
Swap contracts	9.8	13.0	23.5	53.2	27.6

Maturity profile of financial instruments

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings, based on the remaining period between the date of the Statement of Financial Position and the contractual maturity date.

Group 31 December 2015	**Repayable on demand £M**	**Less than 3 months £M**	**3 months to 12 months £M**	**1 to 5 years £M**	**Over 5 years £M**	**Total £M**
Financial assets						
Cash in hand and balances with the Bank of England	701.0	–	–	–	–	701.0
Loans and advances to credit institutions	–	126.4	–	–	–	126.4
Derivative financial instruments	–	6.1	9.2	59.0	30.6	104.9
Loans and advances to customers						
Loans fully secured on residential property	13.2	5.6	34.5	355.8	10,736.9	11,146.0
Other loans	34.3	11.1	18.0	86.5	248.4	398.3
Investment securities	–	52.1	210.4	512.0	74.8	849.3
Total financial assets	**748.5**	**201.3**	**272.1**	**1,013.3**	**11,090.7**	**13,325.9**
Financial liabilities						
Shares	6,002.8	323.6	945.9	2,591.6	69.0	9,932.9
Derivative financial instruments	–	0.6	7.0	39.0	89.1	135.7
Amounts owed to credit institutions, other customers and debt securities in issue	129.3	188.1	136.7	1,304.8	772.1	2,531.0
Subordinated liabilities	–	–	–	–	–	–
Subscribed capital	–	–	–	–	25.0	25.0
Total financial liabilities	**6,132.1**	**512.3**	**1,089.6**	**3,935.4**	**955.2**	**12,624.6**

Notes to the Accounts

For the year ended 31 December 2015

Continued

32. Liquidity risk continued

Group 31 December 2014	Repayable on demand £M	Less than 3 months £M	3 months to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Financial assets						
Cash in hand and balances with the Bank of England	503.4	–	–	–	–	503.4
Loans and advances to credit institutions	–	75.7	–	–	–	75.7
Derivative financial instruments	–	4.4	14.3	53.7	48.0	120.4
Loans and advances to customers						
Loans fully secured on residential property	14.4	6.0	38.5	385.0	9,333.5	9,777.4
Other loans	30.8	15.4	24.5	129.4	283.4	483.5
Investment securities	–	181.1	161.9	610.4	51.7	1,005.1
Total financial assets	548.6	282.6	239.2	1,178.5	9,716.6	11,965.5
Financial liabilities						
Shares	5,414.0	429.0	1,175.1	2,097.4	66.1	9,181.6
Derivative financial instruments	–	0.9	6.1	61.9	86.8	155.7
Amounts owed to credit institutions, other customers and debt securities in issue	63.4	922.1	77.3	270.0	638.2	1,971.0
Subordinated liabilities	0.9	–	–	–	–	0.9
Subscribed capital	–	–	–	–	25.0	25.0
Total financial liabilities	5,478.3	1,352.0	1,258.5	2,429.3	816.1	11,334.2

Society 31 December 2015	**Repayable on demand £M**	**Less than 3 months £M**	**3 months to 12 months £M**	**1 to 5 years £M**	**Over 5 years £M**	**Total £M**
Financial assets						
Cash in hand and balances with the Bank of England	701.0	–	–	–	–	701.0
Loans and advances to credit institutions	–	43.4	–	–	–	43.4
Derivative financial instruments	–	6.1	9.2	30.1	30.6	76.0
Loans and advances to customers						
Loans fully secured on residential property	13.2	5.6	34.5	355.8	10,736.9	11,146.0
Other loans	34.3	11.1	18.0	86.5	248.4	398.3
Investment securities	–	52.1	210.4	593.6	827.3	1,683.4
Total financial assets	**748.5**	**118.3**	**272.1**	**1,066.0**	**11,843.2**	**14,048.1**
Financial liabilities						
Shares	6,002.8	323.6	945.9	2,591.6	69.0	9,932.9
Derivative financial instruments	–	0.6	7.0	35.6	92.8	136.0
Amounts owed to credit institutions, other customers and debt securities in issue	129.3	388.0	136.7	2,365.2	339.2	3,358.4
Subordinated liabilities	–	–	–	–	–	–
Subscribed capital	–	–	–	–	25.0	25.0
Total financial liabilities	**6,132.1**	**712.2**	**1,089.6**	**4,992.4**	**526.0**	**13,452.3**

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31 December 2015

Continued

32. Liquidity risk continued

Society 31 December 2014	Repayable on demand £M	Less than 3 months £M	3 months to 12 months £M	1 to 5 years £M	Over 5 years £M	Total £M
Financial assets						
Cash in hand and balances with the Bank of England	503.4	–	–	–	–	503.4
Loans and advances to credit institutions	–	13.0	–	–	–	13.0
Derivative financial instruments	–	4.4	12.9	39.0	25.5	81.8
Loans and advances to customers						
Loans fully secured on residential property	14.4	6.0	38.5	385.0	9,333.5	9,777.4
Other loans	30.8	15.4	24.5	129.4	283.4	483.5
Investment securities	–	181.1	161.9	610.4	87.3	1,040.7
Total financial assets	548.6	219.9	237.8	1,163.8	9,729.7	11,899.8
Financial liabilities						
Shares	5,414.0	429.0	1,175.1	2,097.4	66.1	9,181.6
Derivative financial instruments	–	0.9	3.3	60.1	89.5	153.8
Amounts owed to credit institutions, other customers and debt securities in issue	63.4	922.1	77.3	370.7	654.5	2,088.0
Subordinated liabilities	0.9	–	–	–	–	0.9
Subscribed capital	–	–	–	–	25.0	25.0
Total financial liabilities	5,478.3	1,352.0	1,255.7	2,528.2	835.1	11,449.3

For the year ended 31 December 2015 **Continued**

33. Interest rate risk

Market risk is the risk that the value of, or income emanating from, the Group's assets and liabilities changes adversely, as a consequence of movements in interest rates and foreign currency rates.

The primary market risk faced by the Group is interest rate risk. The net interest income and market value of the Group is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of offsetting assets and liabilities and derivatives. The Group uses interest rate stress testing and gap analysis to monitor and manage its interest rate position.

The Group does not run a trading book and therefore does not have the type of higher risk exposure run by many banking institutions. Given the Group's policy of hedging fixed rate assets and liabilities back to floating rate, outright interest rate risk arises mainly from the Board's decision to invest the Group's reserves according to a specified fixed rate maturity profile.

The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities as at 31 December 2015. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date.

The table takes account of derivative financial instruments whose effect is to alter the interest basis of Group assets and liabilities. The non-interest bearing balances have been included in a separate column.

31 December 2015	Not more than 3 months £M	More than 3 but less than 6 months £M	More than 6 months but less than 1 year £M	More than 1 but less than 5 years £M	More than 5 years £M	No specific reprice date £M	Non-interest bearing £M	Total £M
Assets								
Liquid assets	987.9	95.0	113.0	449.1	1.5	–	30.2	1,676.7
Loans fully secured on residential property and other loans	4,394.3	717.0	1,429.7	4,693.2	164.4	–	145.7	11,544.3
Total interest bearing assets	**5,382.2**	**812.0**	**1,542.7**	**5,142.3**	**165.9**	**–**	**175.9**	**13,221.0**
Non-interest bearing assets	**–**	**–**	**–**	**–**	**–**	**–**	**285.6**	**285.6**
Total assets	**5,382.2**	**812.0**	**1,542.7**	**5,142.3**	**165.9**	**–**	**461.5**	**13,506.6**

	Not more than 3 months £M	More than 3 but less than 6 months £M	More than 6 months but less than 1 year £M	More than 1 but less than 5 years £M	More than 5 years £M	No specific reprice date £M	Non-interest bearing £M	Total £M
Liabilities								
Shares	5,237.9	516.3	764.7	3,258.4	68.9	–	86.7	9,932.9
Amounts owed to credit institutions, other customers and debt securities in issue	1,121.3	74.8	39.5	501.8	736.2	–	57.4	2,531.0
Subordinated debt	–	–	–	–	–	–	–	–
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Total interest bearing liabilities	**6,359.2**	**591.1**	**804.2**	**3,760.2**	**805.1**	**25.0**	**144.1**	**12,488.9**
Non-interest bearing liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**1,017.7**	**1,017.7**
Total liabilities	**6,359.2**	**591.1**	**804.2**	**3,760.2**	**805.1**	**25.0**	**1,161.8**	**13,506.6**
Effect of derivative items	1,902.3	(226.6)	(701.3)	(1,401.6)	427.2	–	–	–
Interest rate sensitivity gap	925.3	(5.7)	37.2	(19.5)	(212.0)	(25.0)	(700.3)	–

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For the year ended 31 December 2015

Continued

33. Interest rate risk continued

31 December 2014	Not more than 3 months £M	More than 3 but less than 6 months £M	More than 6 months but less than 1 year £M	More than 1 but less than 5 years £M	More than 5 years £M	No specific reprice date £M	Non-interest bearing £M	Total £M
Assets								
Liquid assets	842.8	53.9	100.2	552.2	–	–	35.1	1,584.2
Loans fully secured on residential property and other loans	4,334.2	417.0	915.7	4,298.6	100.5	–	194.9	10,260.9
Total interest bearing assets	5,177.0	470.9	1,015.9	4,850.8	100.5	–	230.0	11,845.1
Non-interest bearing assets	–	–	–	–	–	–	286.1	286.1
Total assets	5,177.0	470.9	1,015.9	4,850.8	100.5	–	516.1	12,131.2

	Not more than 3 months £M	More than 3 but less than 6 months £M	More than 6 months but less than 1 year £M	More than 1 but less than 5 years £M	More than 5 years £M	No specific reprice date £M	Non-interest bearing £M	Total £M
Liabilities								
Shares	5,953.2	690.4	391.9	1,962.3	65.4	–	118.4	9,181.6
Amounts owed to credit institutions, other customers and debt securities in issue	922.0	48.3	29.0	270.0	638.3	–	63.4	1,971.0
Subordinated debt	–	–	–	0.9	–	–	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Total interest bearing liabilities	6,875.2	738.7	420.9	2,233.2	703.7	25.0	181.8	11,178.5
Non-interest bearing liabilities	–	–	–	–	–	–	952.7	952.7
Total liabilities	6,875.2	738.7	420.9	2,233.2	703.7	25.0	1,134.5	12,131.2
Effect of derivative items	2,943.0	(76.2)	(643.2)	(2,705.2)	481.6	–	–	–
Interest rate sensitivity gap	1,244.8	(344.0)	(48.2)	(87.6)	(121.6)	(25.0)	(618.4)	–

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

The Group uses derivatives to manage interest rate risk and reduce the Group's overall interest rate gap position. The profile of the interest flows arising from these derivatives is set out above.

The Society's interest rate repricing profile is not materially different to the Group position.

The Group monitors the impact of a range of possible interest rate changes on its assets and liabilities closely and sensitivities are reported to ALCO on a monthly basis, The following table details the Group's and Society's sensitivity to a 200 basis point change in interest rates at the year end (with all other variables held constant). A positive number indicates an increase in profit or other equity.

	Group and Society +200bps 2015 £M	Group and Society +200bps 2014 £M	**Group and Society -200bps 2015 £M**	Group and Society -200bps 2014 £M
Impact	**(5.2)**	(5.1)	**0.9**	(1.2)

Interest rate risk is managed on a Group basis. As such, the Society will differ to the overall Group position as the sensitivity would generate offsetting movements in the subsidiaries.

The above interest rate risk represents the market value movement, calculated using a discounted cashflow basis, on all of the Society's financial assets and liabilities, resulting from an immediate 200 basis points parallel shift in interest rates. All exposures include investments of the Group's reserves. Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – such as Libor and Bank of England base rate) and prepayment risk (the risk of loss arising from early repayments of fixed rate mortgages and loans) are also monitored closely and regularly reported to the ALCO.

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34. Currency risk

Foreign currency risk arises as a result of the Group's activities in raising funds and making investments in foreign currencies. This is done to ensure cost effective funding is obtained across a wider pool of providers. The Group's policy is not to run any speculative foreign exchange positions. The majority of the Group's assets and liabilities are issued in sterling; however it also issues Euro mortgages and receives funding via its commercial paper programme in foreign currencies, which give rise to exchange rate fluctuations. Cross currency interest rate swaps are utilised to reduce both the interest rate and exchange rate risk exposures that come from funding in foreign currency.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2015 £M	2014* £M	**2015 £M**	2014* £M
Euro	**1,716.2**	1,081.2	**1,711.6**	1,063.9

* Due to a change in the methodology used to calculate currency risk in 2015, 2014 figures have been represented.

At the year end the Group has hedges in place to match 100% of its foreign currency exposures, via the use of currency swaps and foreign currency forward contracts, which offset the impact of foreign exchange fluctuations. Therefore any movement in foreign currency through profit or loss and other equity will be minimised.

35. Wholesale credit risk

The Society holds various investments in order to satisfy operational demand and to meet current and future liquidity regulatory requirements. Credit risk arises because of the risk of factors such as deterioration in the individual investee's financial health and uncertainty within the wholesale market generally. Wholesale lending credit risk is managed through setting strict upper and lower limits to each type of investment that are dependent on criteria such as: time to maturity, credit rating and originating country. These limits are set by ALCO and monitored by the treasury team on a continuous basis.

Comprehensive management information on movement and performance within the wholesale portfolios ensures that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance.

At 31 December 2015 none of the Group's treasury portfolio exposure was either past due or impaired. There are no assets that would otherwise be past due or impaired whose terms have been renegotiated. 99.8% (2014: 99.8%) of the Group's treasury investments are rated single A or better. The Group has implemented a policy that initial investments in treasury assets must be grade A3 or above.

Counterparty credit ratings are used to inform the Group's assessment of wholesale credit risk. The table below provides ratings details for the Group's treasury investment portfolio as at 31 December 2015:

	Group & Society	
	2015 %	2014 %
Aaa	**32.4**	20.0
Aa1-Aa3	**13.3**	14.4
A1-A3	**11.8**	13.9
Sovereign exposure to the UK	**42.3**	51.5
Other	**0.2**	0.2
Total percentage	**100.0**	100.0

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For the year ended 31 December 2015

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35. Wholesale credit risk continued

All wholesale exposures are to financial institutions in major industrial countries. The largest exposure to a single institution other than the UK Government was £45.2m (2014: £35.1m).

In addition, the Group's exposure to counterparty concentrations is also kept under watch. Limits exist to mitigate the risk of overexposure to geographical areas, and these are continuously reviewed and updated. At 31 December 2015, the Group had exposures to the following geographical regions:

Group	**2015 £M**	**2015 %**	2014 £M	2014 %
UK	1,402.4	83.7	1,313.1	82.9
Europe split into individual countries as follows:				
France	19.9	1.2	20.3	1.3
Germany	25.8	1.5	23.1	1.5
Ireland	0.4	–	0.5	–
Switzerland	25.0	1.5	25.0	1.6
Netherlands	28.2	1.7	–	–
Sweden	10.0	0.6	20.0	1.3
European Supranational	65.5	3.9	59.0	3.7
North America	1.8	0.1	35.0	2.2
Global Supranational	52.4	3.1	52.9	3.3
Far East	45.3	2.7	35.3	2.2
Total wholesale exposures	**1,676.7**	**100.0**	1,584.2	100.0

The Society's geographical exposure is equal to the Group's except it holds £2,153.5m (2014: £1,286.0m) in the UK.

The nature of the instrument determines the level of collateral held. Loans and debt securities are generally unsecured with the exception of asset-backed securities which are secured by a collection of financial assets. The Group prefers to document its derivative activity via the International Swaps and Derivatives Association (ISDA) Master Agreement. In conjunction with this the Group has executed with some counterparties a Credit Support Annex (CSA). Under a CSA, cash is posted as collateral between the counterparties of the deal to mitigate some of the counterparty credit risk inherent in outstanding derivative positions, as well as credit risk exposure arising on sale and repurchase transactions and guaranteed equity bonds.

Transactions are usually settled on a gross basis, and therefore there is no netting in the Financial Statements. Legally the Group does have right of set-off for those transactions. Accordingly the credit risk associated with such contracts is reduced to the extent that negative mark to market valuations on derivatives will offset positive mark to market values on derivatives, subject to an absolute of zero.

Wholesale credit risk is recorded in the below extracts from the Statement of Financial Position:

	Group		**Society**	
	2015 £M	2014 £M	**2015 £M**	2014 £M
Cash in hand and balances with the Bank of England	701.0	503.4	701.0	503.4
Loans and advances to credit institutions	126.4	75.7	43.4	13.0
Investment securities	849.3	1,005.1	1,683.4	1,040.7
Wholesale exposures	1,676.7	1,584.2	2,427.8	1,557.1
Derivative financial instruments	104.9	120.4	76.0	81.8
Total wholesale credit risk	**1,781.6**	**1,704.6**	**2,503.8**	**1,638.9**
Debt securities, which are shown after fair value and impairment adjustments, can be further analysed as:				
UK Government securities	359.8	616.7	359.8	616.7
Certificates of deposit	135.1	158.1	135.1	158.1
Supranational bonds	219.1	157.2	219.1	157.2
Covered bonds	60.7	19.6	60.7	19.6
Permanent interest bearing shares	1.7	1.7	1.7	1.7
Residential mortgage backed securities	72.9	51.8	907.0	87.4
Total investment securities	**849.3**	**1,005.1**	**1,683.4**	**1,040.7**

For the year ended 31 December 2015 **Continued**

36. Credit risk on loans and advances to customers

Credit risk management

An experienced Credit Risk Function operates within the Group and is driven by both the recognised need to manage the potential and actual risk and the need to continually develop new processes to ensure sound decisions are made in the future. In this way, any variations in risk from market, economic or competitive changes are identified and the appropriate controls are developed and put in place.

Comprehensive management information on movement and performance within the various personal and wholesale portfolios ensure that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance. Group performance is also measured against the industry (where appropriate) to identify where debt default levels are out of line with that of the industry average. This management information is distributed widely across the Group and monitored within tight boundaries by the Board and its committees.

The Group has managed all types of credit risk in a consistent manner as previous years.

The Group's exposure to retail credit risk can be broken down as below:

	Group & Society	
	2015 £M	2014 £M
Retail mortgages	**11,150.6**	9,756.6
Commercial lending	**194.0**	268.8
Other loans	**183.5**	184.8
Total gross exposure (contractual amounts)	**11,528.1**	10,210.2
Impairment, fair value, EIR and hedging adjustments	**16.2**	50.7
Total net exposure	**11,544.3**	10,260.9

Retail mortgages

The Group is firmly committed to the management of this risk at all stages of the lending cycle. The Group monitors closely customer affordability and income multiples at the application stage. It employs appropriate underwriting and fraud detection techniques to minimise losses once loans have been approved, and it also takes a proactive approach to the control of bad and doubtful debt which is managed by a specialist team dedicated solely to the collections and recovery process.

The Group monitors individual borrowers but also sets and applies limits to manage concentration risk. The limits are managed through the mortgage application process and monitored throughout the life of the products to ensure that the new lending complements the risk profile of loans already within the Group's portfolio. This mitigates the risk that the Group is overexposed to borrowers with similar characteristics, for example properties in similar locations where local housing market fluctuations may arise.

The Group's geographical concentration of residential mortgage loans is as follows:

	Group & Society	
	2015 %	2014 %
Scotland	**6.5**	6.6
North East	**4.3**	4.6
Yorkshire and Humberside	**11.1**	12.0
North West	**7.6**	7.7
Midlands	**12.8**	12.4
East of England	**3.9**	3.6
South West	**9.1**	8.7
Greater London	**11.4**	11.3
South East	**24.6**	23.2
Wales	**3.4**	3.4
Northern Ireland	**3.1**	3.6
Southern Ireland	**1.3**	1.6
Spain	**0.7**	0.9
Other	**0.2**	0.4
Total percentage	**100.0**	100.0

The Group's retail lending exposures are predominantly in the UK, with some exposure in Ireland and Spain. The risk characteristics of the Irish residential portfolio are different from the rest of the Group's residential portfolio because of higher average arrears rates and higher falls in property prices since origination on the Irish portfolio. The Spanish residential portfolio, however, continues to perform in line with the UK because the majority of the properties are owned by UK residents.

Notes to the Accounts

For the year ended 31 December 2015

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36. Credit risk on loans and advances to customers continued

Loan to value distribution of retail mortgage balance

One of the key indicators of the credit risk associated with a mortgage book is the relationship between the amount of the loan made and the value of the underlying security, which is known as the loan to value percentage. In general the lower the loan to value percentage the greater the equity within the property, and the lower the losses expected to be realised in the event of default and subsequent repossession.

The Group sets strict loan to value criteria for new loans, which must be supported by an external expert valuation of the security. The loan to value profile of the Group's book is monitored closely against the limits set by the Credit Committee.

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

	Group & Society Residential	
Loan to value	**2015 %**	2014 %
<70%	**73.7**	67.8
70% – 80%	**16.4**	18.9
80% – 90%	**6.9**	8.0
>90%	**3.0**	5.3
Total percentage	**100.0**	100.0

The overall indexed loan to value of the residential portfolio is 44% (2014: 46%). The overall indexed loan to value on the lifetime mortgage portfolio is 32% (2014: 33%). The collateral held against the lifetime mortgage portfolio amounts to £576m (2014: £562m).

Fair value of collateral held for residential mortgages

The collateral held against residential mortgages consists of residential houses. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Upon initial recognition of loans and advances, the fair value of collateral is based on the sales price for the property. In subsequent periods the fair value is updated to reflect market price based on the quarterly Halifax house price index.

The table below shows the collateral held capped at 100% of the individual loan amount:

	Group & Society Residential	
	2015 £M	2014 £M
Not impaired	**10,951.4**	9,540.1
Past due and impaired	**128.0**	146.4
Possessions	**11.1**	14.7
Total collateral	**11,090.5**	9,701.2

The table below provides further information on the Group's loans and advances to customers by payment due status as at 31 December 2015. The balances exclude the fair value adjustment for hedged risk and impairment losses. The table includes £44.1m (2014: £46.4m) of loans and advances secured on residential property in Ireland that are past due and £0.9m (2014: £1.4m) in possession.

Payment due status

	Group & Society Residential		Group & Society Other [1]	
	2015 £M	**2015 %**	**2015 £M**	**2015 %**
Not impaired:				
– Neither past due nor impaired	**10,707.6**	**96.0**	**181.0**	**98.6**
– Past due up to 3 months but not impaired	**297.1**	**2.7**	**–**	**–**
Impaired:				
– Not past due but impaired	**–**	**–**	**2.5**	**1.4**
– Past due 3 to 6 months	**58.7**	**0.5**	**–**	**–**
– Past due 6 to 12 months	**41.1**	**0.4**	**–**	**–**
– Past due over 12 months	**32.7**	**0.3**	**–**	**–**
– Possessions	**13.4**	**0.1**	**–**	**–**
Total loans and advances to customers	**11,150.6**	**100.0**	**183.5**	**100.0**

Notes to the Accounts

For the year ended 31 December 2015

Continued

36. Credit risk on loans and advances to customers continued

	Group & Society Residential		Group & Society Other [1]	
	2014 £M	2014 %	2014 £M	2014 %
Not impaired:				
– Neither past due nor impaired	9,256.4	94.9	182.3	98.6
– Past due up to 3 months but not impaired	330.4	3.4	–	–
Impaired:				
– Not past due but impaired	–	–	2.5	1.4
– Past due 3 to 6 months	72.5	0.7	–	–
– Past due 6 to 12 months	40.4	0.4	–	–
– Past due over 12 months	39.9	0.4	–	–
– Possessions	17.0	0.2	–	–
Total loans and advances to customers	9,756.6	100.0	184.8	100.0

Note:

1) Other loans include life time mortgages £181.0m (2014: £181.3m) and other loans of £2.5m (2014: £2.5m).

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

Forbearance strategies

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk losses, whilst ensuring that customers are treated fairly. Such forbearance strategies include the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, including or excluding arrears balances. Forbearance strategies aim to avoid repossession.

2015	**Payment Arrangement £M**	**Concessions £M**	**Capitalisations £M**	**Transfer to interest only £M**	**Term Extensions £M**	**Other £M**	**Total Forbearance £M**
Neither past due nor impaired	**22.1**	**3.4**	**7.5**	**16.2**	**72.9**	**5.2**	**127.3**
Past due up to 3 months	**74.8**	**10.3**	**2.9**	**0.9**	**2.6**	**0.8**	**92.3**
Past due more than 3 months	**52.5**	**5.3**	**0.4**	**–**	**–**	**0.1**	**58.3**
Possessions	**0.7**	**–**	**–**	**–**	**–**	**–**	**0.7**
Total forbearance	**150.1**	**19.0**	**10.8**	**17.1**	**75.5**	**6.1**	**278.6**

2014	Payment Arrangement £M	Concessions £M	Capitalisations £M	Transfer to interest only £M	Term Extensions £M	Other £M	Total Forbearance £M
Neither past due nor impaired	32.6	6.9	12.7	20.9	55.4	4.9	133.4
Past due up to 3 months	97.7	16.1	6.9	2.2	1.8	1.1	125.8
Past due more than 3 months	58.4	6.6	1.4	0.4	–	–	66.8
Possessions	1.4	0.1	–	0.1	–	–	1.6
Total forbearance	190.1	29.7	21.0	23.6	57.2	6.0	327.6

The table above provides further information on loans existing at the 2015 reporting date by types of account renegotiations applied to our customers over the last 12 months. This includes renegotiations, regardless of whether or not our customer has experienced financial difficulty in repaying their loan with the Group. For clarity, this table includes all balances which have had their terms renegotiated in the last 12 months, regardless of whether the re-negotiation is still in place or whether the loan has reverted to its original terms.

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For the year ended 31 December 2015 **Continued**

36. Credit risk on loans and advances to customers continued

Commercial mortgages

Credit risk associated with lending to businesses is affected by similar factors that affect retail mortgages, although on average loans are generally larger than to individual customers. The Society ceased new commercial lending in 2008.

The Group monitors the profile of the commercial portfolio in much the same way as for retail mortgages, with regular review of concentration limits. As the credit risk associated with commercial loans is more closely linked to the performance of a specific industry, in addition to the loan to value, concentration risk by industry is also assessed:

	Group & Society Commercial	
	2015 %	2014 %
Leisure and hotel	**1.5**	1.1
Retail	**31.3**	35.4
Offices	**38.6**	36.9
Commercial investment and industrial units	**20.4**	20.5
Others, including mixed use	**8.2**	6.1
Total percentage	**100.0**	100.0

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

	Group & Society Commercial	
	2015 %	2014 %
<70%	**47.1**	33.4
70% – 80%	**5.8**	6.7
80% – 90%	**21.7**	26.0
>90%	**25.4**	33.9
Total percentage	**100.0**	100.0

The overall indexed loan to value of the commercial portfolio is 68% (2014: 79.5%).

The table below provides further information on the Group's commercial loans and advances by payment due status as at 31 December 2015. The balances exclude the fair value adjustment for hedge risk and impairment losses.

	Group & Society Commercial		Group & Society Commercial	
	2015 £M	**2015 %**	2014 £M	2014 %
Not impaired:				
– Neither past due nor impaired	**137.8**	**71.0**	197.7	73.6
Impaired:				
– Not past due but impaired	**42.8**	**22.1**	43.5	16.2
– Past due up to 3 months	**0.1**	**–**	3.5	1.3
– Past due 3 to 6 months	**–**	**–**	–	–
– Past due 6 to 12 months	**–**	**–**	–	–
– Past due over 12 months	**–**	**–**	–	–
– Possessions	**13.3**	**6.9**	24.1	8.9
	194.0	**100.0**	268.8	100.0

Loans in the analysis above which are less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in early stages of arrears. No loans (2014: none) that would be past due or impaired have had their terms renegotiated during 2015.

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

36. Credit risk on loans and advances to customers continued

The collateral held against commercial loans consists of commercial property. The use of such collateral is in line with terms that are usual and customary to commercial lending activities. The fair value is based on open market value or indices of similar assets. The loans and the associated collateral are monitored individually by a specialist team. The level of collateral in 2015 reflects the reduction in the portfolio during the year.

	Group & Society Commercial	
	2015 £M	2014 £M
Neither past due nor impaired	**170.6**	231.6
Past due but not impaired	**–**	0.2
Impaired	**9.7**	3.0
Total collateral	**180.3**	234.8

The table above shows the collateral held capped at 100% of the individual loan amount.

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk whilst ensuring that its corporate customers are treated fairly. Such forbearance strategies include the renegotiation of covenants and/or loan term to assist borrowers in arrears who are now able to meet agreed repayment strategies, including or excluding arrears balances.

37. Derivative financial instruments

Derivative financial instruments are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates, exchange rates or stock market indices. These types of instruments tend to have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return as cash flows and are generally settled at a future date. Derivatives are only used by the Group in accordance with Section 9A of the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors of a prescribed description which affect the business. Accordingly, such instruments are not used in trading activity or for speculative purposes. The Group utilises the following derivative instruments for hedging purposes.

Types of derivatives

The main derivatives used by the Group are interest rate swaps, interest rate options, and cross currency swaps. The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using on-balance sheet instruments or natural hedges that exist in the Group balance sheet.

Activity	Risk	Type of Derivative
Fixed rate savings products rate	Sensitivity to falls in interest rates	Receive fixed interest (fair value hedge)
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest rate (fair value hedge)
Fixed rate funding rate	Sensitivity to falls in interest rates	Receive fixed interest (fair value hedge)
Fixed rate asset investments	Sensitivity to increases in interest rates	Pay fixed interest rate (fair value hedge)
Equity linked savings products	Sensitivity to changes in equity indices	Equity linked interest rate swaps
Investment and funding in foreign currency	Sensitivity to changes in foreign exchange rates	Cross currency interest rate swaps and foreign exchange contracts (fair value hedge)
Issuance of debt securities on different interest bases	Sensitivity to divergence between interest rate bases	Pay floating receive floating interest rate swaps

The Group manages risk within its risk tolerance, regardless of the accounting treatment.

Derivatives for use in hedge relationships are entered into only when the underlying position being hedged contains the same risk features. The derivative used will match the risks of the underlying asset or liability and therefore hedge the associated market risk. Certain financial instruments (including retail products) contain features that are similar to derivatives and in these cases risk is managed by entering derivative contracts that have matching features.

All derivatives entered in to by the Group are used for hedging purposes, however not all are designated as such. Some derivatives are held as economic hedges to which IAS 39 does not need to be applied. In these cases a natural offset can be achieved; these types of hedge are only entered in to where a high degree of effectiveness can be achieved.

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For the year ended 31 December 2015 **Continued**

37. Derivative financial instruments continued

The Group utilises fair value and cash flow hedges. Fair value hedges are designated to manage the interest rate risk associated with fixed rate products (mortgages and savings). Cash flow hedges are used to convert the interest rate variability on financial instruments to a fixed rate. All hedges are supported by comprehensive hedging documentation, as per the requirement in IAS 39.

Cross currency interest rate swaps are used to reduce both the interest rate risk and exchange rate risk exposures that come from funding in foreign currency.

	Group 2015			Group 2014		
	Contract or underlying principal amount £M	**Positive market value £M**	**Negative market value £M**	Contract or underlying principal amount £M	Positive market value £M	Negative market value £M
Interest rate swaps designated as fair value hedges	**13,312.2**	**75.7**	**(47.7)**	8,941.1	86.2	(73.1)
Interest rate swaps designated as cash flow hedges	**–**	**–**	**–**	1.0	–	–
Derivatives not designated as hedges:						
Quanto swaps	**–**	**–**	**–**	14.5	–	–
Equity swaps	**198.9**	**12.6**	**(53.7)**	262.8	25.6	(57.5)
Cross currency swaps	**1,255.4**	**16.0**	**(31.5)**	376.5	7.7	(22.0)
Floating swaps	**750.0**	**0.5**	**(1.6)**	791.7	0.9	(1.9)
Bank base rate swaps	**528.8**	**0.1**	**(1.2)**	1,025.9	–	(1.2)
Total derivatives held for hedging	**16,045.3**	**104.9**	**(135.7)**	11,413.5	120.4	(155.7)

	Society 2015			Society 2014		
	Contract or underlying principal amount £M	**Positive market value £M**	**Negative market value £M**	Contract or underlying principal amount £M	Positive market value £M	Negative market value £M
Interest rate swaps designated as fair value hedges	**12,383.5**	**46.8**	**(48.0)**	8,282.9	47.6	(74.0)
Interest rate swaps designated as cash flow hedges	**–**	**–**	**–**	1.0	–	–
Derivatives not designated as hedges:						
Quanto swaps	**–**	**–**	**–**	14.5	–	–
Equity swaps	**198.9**	**12.6**	**(53.7)**	262.8	25.6	(57.5)
Cross currency swaps	**1,009.1**	**16.0**	**(31.4)**	337.7	7.7	(19.2)
Floating swaps	**750.0**	**0.5**	**(1.6)**	791.7	0.9	(1.9)
Bank base rate swaps	**528.8**	**0.1**	**(1.3)**	1,025.9	–	(1.2)
Total derivatives held for hedging	**14,870.3**	**76.0**	**(136.0)**	10,716.5	81.8	(153.8)

The Group discounts its collateralised and un-collateralised positions based on overnight interest rate curves.

For the year ended 31 December 2015

Continued

37. Derivative financial instruments continued

The following tables analyse the derivatives by contract and residual maturity:

	Group 2015 Notional principal amount £M	Group 2015 Replacement cost £M	Group 2014 Notional principal amount £M	Group 2014 Replacement cost £M
Interest rate swaps	14,790.0	88.9	11,037.0	112.7
Cross currency swaps	1,255.4	16.0	376.5	7.7
Total derivatives	16,045.4	104.9	11,413.5	120.4
Under one year	4,076.3	15.3	2,768.0	17.3
Between one and five years inclusive	9,293.7	59.0	6,426.8	53.9
Over five years	2,675.4	30.6	2,218.7	49.2
Total derivatives	16,045.4	104.9	11,413.5	120.4

	Society 2015 Notional principal amount £M	Society 2015 Replacement cost £M	Society 2014 Notional principal amount £M	Society 2014 Replacement cost £M
Interest rate swaps	13,861.2	60.0	10,378.8	74.1
Cross currency swaps	1,009.1	16.0	337.7	7.7
Total derivatives	14,870.3	76.0	10,716.5	81.8
Under one year	4,076.3	15.3	2,729.2	17.3
Between one and five years inclusive	8,456.0	30.1	6,176.8	39.0
Over five years	2,338.0	30.6	1,810.5	25.5
Total derivatives	14,870.3	76.0	10,716.5	81.8

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37. Derivative financial instruments continued

Market risk
Market risk is the risk that the value of, or income coming from, the Society's assets and liabilities changes adversely due to movements in interest rates (including interest bases) or foreign currency rates. These risks are measured and managed at Group level.

The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of member value.

The Group's exposure to market risk is governed by a policy approved by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits. Based on these aggregate limits, the ALCO assigns risk limits to all Group businesses and monitors compliance with these limits. At each meeting the ALCO reviews reports showing the Group's exposure to market and liquidity risks.

The Group's exposure to market risk is managed by the Treasury Function by using appropriate hedging instruments or by taking advantage of natural hedges within the Group's businesses. Market risk is managed within a clearly defined framework of policy limits.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, duration analysis, basis point value analysis, scenario analysis, and earnings at risk.

There has been no change in the year to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Other price risk
Other price risk is the risk resulting from the possibility that the price of a security may decline.

The Group's policy is to have no material exposure to equity markets. Any exposures arising from the Group's products are eliminated as far as it is practicable by appropriate hedging contracts.

38. Fair values

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities not carried at fair value. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest rates.

			Group		Society	
2015		**Fair Value Hierarchy Level 2015**	**Carrying value 2015 £M**	**Fair Value 2015 £M**	**Carrying value 2015 £M**	**Fair Value 2015 £M**
Financial assets:						
Cash in hand and balances with the Bank of England		Level 1	701.0	701.0	701.0	701.0
Loans and advances to credit institutions	i)	Level 2	126.4	126.4	43.4	43.4
Loans and advances to customers						
Loans fully secured on residential property	iii)	Level 2	11,146.0	11,578.4	11,146.0	11,578.4
Other loans		Level 2	162.2	164.2	162.2	164.2
Investment securities	iv)					
Loans and receivables		Level 2	28.2	26.6	28.2	26.6
Financial liabilities:						
Shares	iii)	Level 2	9,810.3	9,867.8	9,810.3	9,867.8
Amounts owed to credit institutions	vi)	Level 2	55.9	55.9	55.9	55.9
Amounts owed to other customers	iii)	Level 2	418.3	418.3	1,703.4	1,703.4
Debt securities in issue	iv)	Level 1/2*	2,056.8	2,199.8	1,599.1	1,727.8
Subscribed capital	vii)	Level 1	25.0	25.0	25.0	25.0

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

38. Fair values continued

2014		Fair Hierarchy Level 2014	Group Carrying Value 2014 £M	Group Fair Value 2014 £M	Society Carrying Value 2014 £M	Society Fair Value 2014 £M
Financial assets:						
Cash in hand and balances with the Bank of England		Level 1	503.4	503.4	503.4	503.4
Loans and advances to credit institutions	i)	Level 2	75.7	74.1	13.0	13.0
Loans and advances to customers						
Loans fully secured on residential property	ii)	Level 2	9,777.4	10,286.1	9,777.4	10,286.1
Other loans		Level 2	220.6	226.8	220.6	226.8
Investment securities	iii)					
Loans and receivables		Level 2	29.5	28.3	29.5	28.3
Financial liabilities:						
Shares	ii)	Level 2	8,987.6	8,868.6	8,987.6	8,868.6
Amounts owed to credit institutions	iv)	Level 2	143.2	143.3	143.2	143.3
Amounts owed to other customers	ii)	Level 2	483.0	483.0	818.4	818.4
Debt securities in issue	iii)	Level 1/2	1,344.8	1,478.2	1,126.4	1,255.3

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The following methods and assumptions have been applied in determining fair value:

i) The carrying amount of loans and advances to credit institutions, with a maturity of under 12 months, is assumed to equate to their fair value.

ii) Loans and advances to customers, shares, and amounts owed to other customers are calculated using the effective interest rate method, less provisions for impairment together with a fair value adjustment for the entire mortgage portfolio using the discounted cash flow principles set out in IAS 39. This value is considered to be a good approximation of fair value.

iii) Fair values are based on quoted market prices where available. For instruments where quoted market prices are not available, the market price is based on discounted cash flows using interest rates for securities with similar credit, maturity and yield characteristics.

iv) The fair value of floating rate and overnight deposits is approximately equal to their carrying amount. The estimated fair value of fixed rate loans and deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

v) The fair value of subordinated liabilities and subscribed capital are obtained from market prices.

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

38. Fair values continued

The following table analyses the Group's assets and liabilities by the class of financial instrument to which they are assigned under the measurement basis:

31 December 2015	Financial assets at fair value through Income Statement £M	Financial assets available for sale £M	Financial assets held to maturity £M	Loans and receivables £M	Financial liabilities at fair value through Income Statement £M	Financial liabilities at amortised cost £M	Non financial assets/ liabilities £M	Total £M
Assets:								
Cash and balances with the Bank of England	–	–	–	701.0	–	–	–	701.0
Loans and advances to credit institutions	–	–	–	126.4	–	–	–	126.4
Derivative financial instruments	104.9	–	–	–	–	–	–	104.9
Loans and advances to customers:								
Loans fully secured on residential property	–	–	–	11,146.0	–	–	–	11,146.0
Other loans	236.1	–	–	162.2	–	–	–	398.3
Investment securities	–	821.1	–	28.2	–	–	–	849.3
Non financial assets	–	–	–	–	–	–	180.7	180.7
Total assets	341.0	821.1	–	12,163.8	–	–	180.7	13,506.6
Liabilities:								
Shares	–	–	–	–	122.6	9,810.3	–	9,932.9
Derivative financial instruments	–	–	–	–	135.7	–	–	135.7
Amounts owed to credit institutions	–	–	–	–	–	55.9	–	55.9
Amounts owed to other customers	–	–	–	–	–	418.3	–	418.3
Debt securities in issue	–	–	–	–	–	2,056.8	–	2,056.8
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Non financial liabilities	–	–	–	–	–	–	91.4	91.4
General and other reserves	–	–	–	–	–	–	790.6	790.6
Total reserves and liabilities	–	–	–	–	258.3	12,366.3	882.0	13,506.6

Notes to the Accounts

For the year ended 31 December 2015 **Continued**

38. Fair values continued

31 December 2014	Financial assets at fair value through Income Statement £M	Financial assets available for sale £M	Financial assets held to maturity £M	Loans and receivables £M	Financial liabilities at fair value through Income Statement £M	Financial liabilities at amortised cost £M	Non financial assets/ liabilities £M	Total £M
Assets:								
Cash and balances with the Bank of England	–	–	–	503.4	–	–	–	503.4
Loans and advances to credit institutions	–	–	–	75.7	–	–	–	75.7
Derivative financial instruments	120.4	–	–	–	–	–	–	120.4
Loans and advances to customers:								
Loans fully secured on residential property	–	–	–	9,777.4	–	–	–	9,777.4
Other loans	262.9	–	–	220.6	–	–	–	483.5
Investment securities	–	975.6	–	29.5	–	–	–	1,005.1
Non financial assets	–	–	–	–	–	–	165.7	165.7
Total assets	383.3	975.6	–	10,606.6	–	–	165.7	12,131.2
Liabilities:								
Shares	–	–	–	–	194.0	8,987.6	–	9,181.6
Derivative financial instruments	–	–	–	–	155.7	–	–	155.7
Amounts owed to credit institutions	–	–	–	–	–	143.2	–	143.2
Amounts owed to other customers	–	–	–	–	–	483.0	–	483.0
Debt securities in issue	–	–	–	–	–	1,344.8	–	1,344.8
Subordinated liabilities	–	–	–	–	–	0.9	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Non financial liabilities	–	–	–	–	–	–	91.7	91.7
General and other reserves	–	–	–	–	–	–	705.3	705.3
Total reserves and liabilities	–	–	–	–	349.7	10,984.5	797.0	12,131.2

Notes to the Accounts

For the year ended
31 December 2015

Continued

38. Fair values continued

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

2015 Group	**Level 1 £M**	**Level 2 £M**	**Level 3 £M**	**Total £M**
Financial assets				
Investment securities – available for sale	**359.8**	**461.3**	**–**	**821.1**
Derivative financial instruments	**–**	**104.9**	**–**	**104.9**
Loans and receivables	**–**	**–**	**236.1**	**236.1**
Investment properties	**–**	**–**	**–**	**–**
Financial liabilities				
Shares	**–**	**122.6**	**–**	**122.6**
Derivative financial instruments	**–**	**82.0**	**53.7**	**135.7**

2014 Group	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Financial assets				
Investment securities – available for sale	593.7	381.9	–	975.6
Derivative financial instruments	–	120.4	–	120.4
Loans and receivables	–	–	262.9	262.9
Investment properties	–	4.4	–	4.4
Financial liabilities				
Shares	–	194.0	–	194.0
Derivative financial instruments	–	98.2	57.5	155.7

Level 1: Relates to financial instruments where quoted prices (unadjusted) in active markets can be found for identical assets or liabilities.

Level 2: Valuation techniques are used to value these instruments for which significant inputs are taken from observable market data for the asset and liability, either directly (market prices) or indirectly (derived prices) other than quoted prices included in Level 1. These include valuation models used to calculate the present values of expected future cash flows, using curves from published market sources and are employed when no active market exists or when no quoted prices for similar instruments can be obtained.

Level 3: The valuation of asset or liability is not based on observable market data (unobservable inputs). Valuation techniques include net present value and discounted cash flow methods. The assumptions used in such models include risk-free benchmark interest rates, foreign currency exchange rates, equity index prices, and expected price volatilities. The objective of the valuation techniques is to determine a fair value that reflects the price of the financial instrument that would have been used by two counterparties in an arm's length transaction. These derivatives are used to provide an economic hedge.

Reconciliation of Level 3 fair value measurements of financial instruments

	Financial assets £M	**Financial liabilities £M**
Balance at 1 January 2015	**262.9**	**(57.5)**
Total (losses)/gains in the Income Statement	**(3.8)**	**3.8**
Net repayment in the year	**(23.0)**	**–**
Balance at 31 December 2015	**236.1**	**(53.7)**

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

Notes to the Accounts

For the year ended 31 December 2015

Continued

38. Fair values continued

Recurring fair value measurements

Financial assets/ financial liabilities	Fair value as at 2015	2014	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1. Liquidity portfolio investment securities	**Assets – £461.3m**	Assets – £381.9m	Level 2	Quoted bid prices in an active market sourced from third party data providers	N/A	N/A
2. Interest rate swaps	**Assets – £76.3m Liabilities – £50.5m**	Assets – £86.9m and Liabilities – £78.8m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties.	N/A	N/A
3. Cross currency interest rate swaps	**Assets – £16.0m Liabilities – £31.5m**	Assets – £7.7m Liabilities – £19.2m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties. Any foreign currency amounts are translated into sterling at the contract exchange rate.	N/A	N/A
4. Equity swaps	**Assets – £12.6m**	Assets – £25.6m	Level 2	These are equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors on equity linked savings products. The derivatives are linked to the performance of specified stock market indices and have been valued by the counterparties.	N/A	N/A
5. Equity release swaps	**Liabilities – £53.7m**	Liabilities – £57.5m	Level 3	Discounted cash flow. The liabilities are linked to equity release mortgages and are economically offset by movements in the corresponding mortgages. The valuations are provided by the counterparty and are based on a discounted cash flow model which uses a projection of interest rates, a discount rate to reflect the counterparty risk and assumptions for future mortality.	Assumptions on future life expectancy of customers based on best estimate mortality data.	An increase in life expectancy will increase the value of the liability.
6. Loans and receivables	**Assets – £236.1m**	Assets – £262.9m	Level 3	The assets are linked to equity release mortgages and are valued using the valuation of the associated derivatives as all critical terms and conditions match.	Assumptions on future life expectancy of customers based on best estimate mortality data.	An increase in life expectancy will increase the value of the liability.
7. Investment property	**Assets – £nil**	Assets – £4.4m	Level 2	Discounted cash flow. Future cash flows take into account the future net income, discounted using an appropriate discount factor.	N/A	N/A
8. Shares	**Liabilities – £122.6m**	Liabilities – £194.0m	Level 2	These are equity linked savings products on which the return is linked to the performance of specific stock market indices. The liabilities are valued using the valuation of the associated derivatives as all critical terms and conditions match.	N/A	N/A

Notes to the Accounts

For the year ended 31 December 2015

Continued

39. Operating segments

Products and services from which reportable segments derive their revenues

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

Core activities
Commercial lending
Euro lending

Information regarding the Group's reporting segments is reported below.

Segment income statement

The following is an analysis of the Group's Income Statement by reportable segment:

	Core Activities 2015 £M	Commercial Lending 2015 £M	Euro Lending 2015 £M	Total 2015 £M	Core Activities 2014 £M	Commercial Lending 2014 £M	Euro Lending 2014 £M	Total 2014 £M
Interest receivable and similar income	394.6	5.8	2.3	402.7	385.2	8.7	3.6	397.5
Interest payable and similar charges	(191.0)	(3.8)	(0.4)	(195.2)	(203.2)	(6.9)	(2.6)	(212.7)
Net interest receivable	203.6	2.0	1.9	207.5	182.0	1.8	1.0	184.8
Fees and commissions receivable	12.3	–	–	12.3	13.8	–	–	13.8
Fees and commissions payable	(1.0)	–	–	(1.0)	(0.7)	–	–	(0.7)
Fair value gains less losses from derivative financial instruments	(0.7)	(0.2)	–	(0.9)	(1.4)	1.0	–	(0.4)
Other operating income	1.0	–	–	1.0	0.9	–	–	0.9
Total income	215.2	1.8	1.9	218.9	194.6	2.8	1.0	198.4
Administrative expenses including depreciation and amortisation	(79.0)	(0.3)	(0.4)	(79.7)	(65.4)	(0.4)	(0.4)	(66.2)
Impairment losses on loans and advances to customers	(8.3)	(12.3)	2.1	(18.5)	(7.1)	(31.1)	(1.3)	(39.5)
Provisions for liabilities and charges	(8.8)	–	–	(8.8)	(11.8)	–	–	(11.8)
Impairment losses on land and buildings	(3.4)	–	–	(3.4)	–	–	–	–
Investment property fair value movement	–	–	–	–	–	–	–	–
Pension curtailment gain	–	–	–	–	7.0	–	–	7.0
Profit before tax	115.7	(10.8)	3.6	108.5	117.3	(28.7)	(0.7)	87.9
Income tax expense	(21.1)	2.2	(0.7)	(19.6)	(24.9)	6.2	0.2	(18.5)
Profit for the financial year	94.6	(8.6)	2.9	88.9	92.4	(22.5)	(0.5)	69.4

Segment loans and advances to customers

The following is an analysis of the Group's loans and advances to customers by reportable segment:

	Core Activities 2015 £M	Commercial Lending 2015 £M	Euro Lending 2015 £M	Total 2015 £M	Core Activities 2014 £M	Commercial Lending 2014 £M	Euro Lending 2014 £M	Total 2014 £M
Loans and advances to customers	10,932.8	194.0	218.8	11,345.6	9,496.1	268.8	239.9	10,004.8
At fair value through profit and loss	236.1	–	–	236.1	205.4	–	–	205.4
Total	11,168.9	194.0	218.8	11,581.7	9,701.5	268.8	239.9	10,210.2
Less: Impairment provisions	(16.0)	(35.7)	(12.4)	(64.1)	(15.8)	(25.0)	(16.3)	(57.1)
Fair value adjustment for hedge risk	26.7	–	–	26.7	107.8	–	–	107.8
Total loans and advances to customers	11,179.6	158.3	206.4	11,544.3	9,793.5	243.8	223.6	10,260.9

Notes to the Accounts

For the year ended 31 December 2015

Continued

40. Presentation of securitisation balances

In 2015 the Group has continued to raise wholesale funding through its structured funding programmes. Further details of the issuances are set out in note 32. The issuances and associated balances were previously reported as part of the Society's Statement of Financial Position, as well as being included in the Group's figures, to reflect the benefit derived from the Society. In 2015 these amounts have been reclassified to reflect the legal form of the transactions, which is for issuances to be made by one of the Society's consolidated subsidiaries, with any offsetting funding now represented in an intragroup loan.

As all balances relate to the reclassification of intragroup transactions, there is no impact of this on the Group Statement of Financial Position or on either the Group or Society Income Statements or Statements of Comprehensive Income. For this reason no restatement has been made; however, the balances reclassified are as follows:

	Note	Society Original presentation 2014 £M	Movement 2014 £M	Society Represented 2014 £M
Investment securities				
Available for sale	12	975.6	35.6	1,011.2
Other assets, prepayments and accrued income	18	202.9	(19.3)	183.6
Total		**1,178.5**	**16.3**	**1,194.8**
Amounts owed to other customers	21	616.5	201.9	818.4
Debt securities in issue	22	1,312.0	(185.6)	1,126.4
Total		**1,928.5**	**16.3**	**1,944.8**

Annual Business Statement

For the year ended
31 December 2015

1. Statutory percentages

	31 December 2015	Statutory Limit
Lending limit	6.0%	25%
Funding limit	20.5%	50%

Explanation

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 (as amended by the Building Societies Act 1997).

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Group as shown in the Statement of Financial Position plus impairment provisions for loans and advances to customers, less liquid assets and tangible fixed assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and accrued interest not yet payable. This is the amount shown in the Statement of Financial Position plus provisions for impairment.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

2. Other percentages

	31 December 2015	31 December 2014
As a percentage of shares and borrowings:		
Gross capital	6.55%	6.52%
Free capital	6.44%	6.36%
Liquid assets	13.45%	14.20%
Profit for the financial year as a percentage of mean total assets	0.69%	0.60%
Management expenses as a percentage of mean total assets	0.62%	0.57%

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
- 'Gross capital' represents the aggregate of general reserve, other reserve, revaluation reserve, subordinated liabilities, and subscribed capital.
- 'Free capital' represents the aggregate of gross capital and collective impairment provisions for loans and advances to customers less tangible and intangible fixed assets and investment properties.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities.
- 'Management expenses' represent the aggregate of administration expenses, depreciation and amortisation.

Annual Business Statement

For the year ended
31 December 2015

Continued

3. Information relating to the directors and other officers at 31 December 2015

Name	Occupation	Date of Birth	Date first appointed
Chairman			
R J Ashton	Chairman	19.01.58	26.04.11
Vice Chairman			
L M Platts	Company Director	10.02.54	26.10.10
Chief Executive Officer			
*P A Hill	Chief Executive Officer	28.07.61	01.08.06
Directors			
P A Brown	Company Director	31.03.66	15.01.13
S H Cooklin	Company Director	04.04.60	25.02.14
D Fisher	Company Director	02.08.58	27.03.12
*A J Greenwood	Chief Risk Officer	11.12.69	08.01.15
G J Hoskin	Company Director	18.09.60	16.11.15
J A Hunt	Company Director	25.09.54	29.04.15
P A Jenks	Company Director	03.01.51	27.03.12
*R S P Litten	Chief Financial Officer	11.05.63	10.01.12
*K R Wint	Chief Operating Officer	02.05.65	01.12.12

(*Executive Directors)

The Society's executive director service contracts can be terminated on twelve months' notice by either the Society or the director.

Documents may be served on the above named directors at: c/o Deloitte LLP (Ref DH), 1 City Square, Leeds LS1 2AL.

Details of directors – other directorships

(*Society subsidiary)

R J Ashton	Shawbrook Bank Ltd Shawbrook Group Plc Non-Standard Finance Plc
P A Brown	PHD International Ltd Omnicom Media Group UK Ltd M2M International Ltd OMD International Ltd
S H Cooklin	None
D Fisher	Leeds Building Society Staff Pension Scheme Ltd
A J Greenwood	None
P A Hill	CML Premises Ltd
G J Hoskin	Diabetes UK Ltd
J A Hunt	JCH Associates

Annual Business Statement

For the year ended 31 December 2015

Continued

3. Information relating to the directors and other officers at 31 December 2015 continued

P A Jenks	Phil Jenks Consultancy Ltd Broadlands Finance Ltd Charter Court Financial Services Group Ltd Charter Court Financial Services Ltd Charter Court Mortgages Ltd Exact Mortgage Experts Ltd
R S P Litten	Arkose Funding Ltd Leeds Mortgage Funding Ltd*
L M Platts	AJ Bell Holdings Ltd Lancashire County Cricket Club
K R Wint	None

Executive management

Name	Occupation	Directorships (*Society subsidiary)
K G Bassett	Chief Internal Audit Officer	None
T W Clark	Chief Information Officer	North Lincolnshire Homes Ltd
K J Green	Director of Products	None
R Hewitt	Director of People	Leeds Apprenticeship Training Agency Ltd
N Marsh	Director of Communications and Digital	None
A Mellor	Director of Prudential and Enterprise Risk	None
G M Mitchell	Director of Finance Operations	Headrow Commercial Property Services Ltd* Leeds Building Society Staff Pension Scheme Ltd Leeds Mortgage Funding Ltd* Leeds Financial Services Ltd*
A R A Moody	Director of Credit Risk	None
A Port	Director of Strategy	None
M J Richardson	Director of Business Development	Leeds Building Society Charitable Foundation
I P Riley	Director of Treasury	Leeds Building Society Staff Pension Scheme Ltd
T A Tinkler	Director of Operations	None
S J Whittle	Deputy Finance Director	None

Country by Country Reporting

For the year ended
31 December 2015

The Capital Requirements (Country by Country Reporting) Regulations 2013 introduce reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

The information below has been audited in accordance with the standards required by Directive 2006/43/EC.

Nature of the Society's activities

Leeds Building Society is the UK's fifth largest building society with 67 branches, total assets of £13.5bn and 719,000 members.

The consolidated entities, their country of incorporation and their principal activities are detailed in note 13 on page 96. The Society has regulatory branches in Gibraltar and the Republic of Ireland and the results are included within the Society.

Total income, profit before tax and average number of employees

Total income and the average monthly number of employees on a full time equivalent basis during the year ended 31 December 2015 are analysed below. The information presented is at a full Group level of consolidation, which has been prepared under IFRS. Total income is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable), fair value gains less losses from derivative instruments, together with all other components of operating income.

Total income of £218.9m and profit before tax of £108.5m are disclosed in the Group's Income Statement on page 78.

	UK	Spain	Republic of Ireland	Total
Total income (£m)	217.0	0.7	1.2	218.9
Profit before tax (£m)	104.9	0.3	3.3	108.5
Average number of employees	1,086	–	3	1,089

Return on assets

The return on assets, calculated as profit before tax divided by mean total assets, was 0.85% for the year ended 31 December 2015.

Corporation tax paid

The Society made payments of £19.8m in respect of corporation tax during the year ended 31 December 2015. This was wholly payable to HM Revenue & Customs in the UK.

Public subsidies received

The Society received no public subsidies during the year ended 31 December 2015.

Glossary of Terms

For the year ended
31 December 2015

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears
A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is overdue. Such a customer can also be said to be in a state of delinquency.

Basel III
Basel III is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for Banks and Building Societies. The framework has been embedded into UK law through the European Capital Requirements Directive IV (CRD IV).

Basis point
One hundredth of a percent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.

Commercial lending
Loans secured on commercial property.

Contractual maturity
The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be repaid.

Cost income ratio
Total management expenses, including depreciation and amortisation, as a percentage of total income.

Covered bonds
Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other on-balance sheet assets solely for the benefit of the holders of the covered bonds. The Group issues covered bonds as part of its funding activities.

Credit risk
This is the risk that a customer or counterparty is unable to pay the interest or to repay the capital on a loan when required.

Credit risk weighted amount
The notional value of derivative contracts adjusted to determine their inherent credit risk using PRA predetermined risk weights.

Debt securities
Assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue
Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.

Delinquency
See Arrears.

Derivative financial instruments
A derivative financial instrument is a type of financial instrument (or an agreement between two parties) which has a value is based on the underlying asset, index or reference rate to which it is linked. The Group uses derivative financial instruments to hedge its exposures to market risks, such as interest rate, equity and currency risk.

Effective interest rate method (EIR)
The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense to produce a level yield over the relevant period.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Financial Services Compensation Scheme (FSCS)
The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FCA and PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

Forbearance strategies
Strategies to assist borrowers in financial difficulty, such as agreeing a temporary reduction in payments, extending loan terms and temporarily converting loans to an interest-only basis. Forbearance strategies aim to avoid repossession.

Free capital
The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and investment properties.

Funding limit
Measures the proportion of shares and borrowings (excluding the fair value adjustment for hedged risk) not in the form of shares held by individuals.

General reserves
The accumulation of the Society's post-tax profit since inception. It is the Society's main component of Tier 1 which is a measure of strength and stability.

Gross capital
The aggregate of general reserve, other reserve, revaluation reserve, subordinated liabilities and subscribed capital.

Impaired loans
Loans where there is objective evidence that an impairment event has occurred, meaning that the Group does not expect to collect all the contractual cash flows or expect to collect them when they are contractually due.

Glossary of Terms

For the year ended 31 December 2015

Continued

Individually/collectively assessed
Individual assessments are made of all mortgage loans where objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining group of loans and advances where objective evidence indicates that it is likely that losses may be realised.

Internal capital adequacy assessment process (ICAAP)
The Group's own assessment, as part of Basel II requirements, of the levels of capital that it needs to hold in respect of regulatory capital requirements for risks it faces under a business-as-usual scenario and a variety of stress scenarios.

International Swaps and Derivatives Association (ISDA) master agreement
A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions granting legal rights of offsetting for derivative transactions with the same counterparty.

Law of Property Act (LPA) receiver
LPA Receivers are appointed by the Society to deal with the management and disposal of commercial property held as security for loans in default.

Lending limit
Measures the proportion of business assets not in the form of loans fully secured on residential property.

Liquid assets
Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, and investment securities.

Liquidity Coverage Ratio (LCR)
A regulatory standard ratio proposed by the Basel III Reforms. It is calculated as the stock of high quality liquid assets divided by the total net stressed cash outflows over the next 30 calendar days expressed as a percentage. The measure is being phased in gradually with full compliance required by 1 January 2019.

Liquidity risk
The risk that the Group is not able to meet its financial obligations as they fall due, or will have to do so at an excessive cost. This risk arises from timing mismatches of cash inflows and outflows.

Loan to value ratio (LTV)
A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).

Loans past due/past due loans
Loans are past due when a counterparty has failed to make a payment when contractually due.

Management expenses
Management expenses represent the aggregate of administrative expenses, depreciation and amortisation. The management expense ratio is management expenses expressed as a percentage of mean assets.

Market risk
The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will create losses or decrease portfolio values.

Mean total assets
Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Member
A person who has a share investment or a mortgage loan with the Society.

Mortgage backed securities (MBS)
Assets which are referenced to underlying mortgages. They are securities that represent investor interests in a group of mortgages.

Net interest income
The difference between interest received on assets and similar income and interest paid on liabilities and similar charges.

Net promoter score
The net promoter score is a measure of customer loyalty to the Society.

Net Stable Funding Ratio (NSFR)
A regulatory standard ratio proposed by the Basel III Reforms which is the total amount of stable funding divided by the total amount of required stable funding, expressed as a percentage. The NSFR is currently an observable measure which is intended to become a minimum standard by 1 January 2018.

Notional principal amount
The notional principal amount indicates the amount on which payment flows are derived at the balance sheet date and does not represent amounts at risk.

OECD
Used to refer to member countries of the OECD (Organisation for Economic Cooperation and Development). The OECD is an international organisation of countries with highly developed economies and democratic governments.

Operational risk
The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Permanent interest bearing shares (PIBS)
Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, payables and investing members of the Group. Also known as subscribed capital.

Quanto swaps
Sterling swaps that exchange US Libor for UK Libor to hedge sterling US Libor tracker mortgages.

Replacement cost
The amount the Society would need to replace derivative contracts that are favourable to the Society, if the counterparty with whom the contract was held, were unable to honour their obligation.

Glossary of Terms

For the year ended 31 December 2015

Continued

Repurchase agreements (Repo)
A repurchase agreement that allows a borrower to use a financial security as collateral for a cash loan at a fixed rate of interest. In a repo, the borrower agrees to sell a commitment to repurchase the asset at a specified price on a given future date. For the party selling the security and agreeing to repurchase the asset in the future, it is a repo.

Residential mortgage backed securities (RMBS)
A category of asset-backed-security that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Risk appetite
The articulation of the level of risk that the Group or Society is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

Residential loans
Loans that are made to individuals rather than institutions. Residential mortgage lending is secured against residential property.

Shares
Money deposited by a person in a retail savings or current account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings
Represents the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

Solvency ratio
Measures the Society's reserves as a proportions of its risk weighted assets.

Sovereign debt
Sovereign debt is bonds issued by a national government. Historically sovereign debt has been viewed as less risky than other forms of debt issued.

Subordinated debt/liabilities
A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing members but before holders of PIBS.

Subscribed capital
See permanent interest bearing shares (PIBS).

Tier 1 capital
A measure of financial strength as defined by the PRA. Tier 1 capital is divided into Common Equity Tier 1 and other Tier 1 capital. Common Equity Tier 1 capital comprises general reserves from retained profits. The book values of goodwill and intangible assets are deducted from Common Equity Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy.

Wholesale funding
The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less balances deposited by offshore customers.

Notes

Get in touch

Find your nearest branch
leedsbuildingsociety.co.uk/branch

UK-based contact centre
7 days a week, 8am-8pm
Call 03450 50 50 77

We may monitor and/or record your telephone conversations with the Society to ensure consistent service levels (including staff training).

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