Leeds Building Society

Annual Report & Accounts 2014

Leeds Building Society

Building Futures Together

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Financial highlights

Total assets	£12.1 billion
Operating profit before exceptional item	£80.9 million
Member savings balances	£9.2 billion
New mortgage lending	£2.7 billion
Net residential lending	£1.1 billion
Capital and reserves	£731 million

Contents

Board of Directors
Robin Ashton
(Chairman)
Peter Hill
(Chief Executive)
Philippa Brown
Susan Cooklin
David Fisher
Andrew Greenwood
Philip Jenks
Robin Litten
Les Platts
Abhai Rajguru
Kim Rebecchi
Ian Robertson
Karen Wint

Chairman's Statement

Year ended
31 December 2014

"I am pleased to report that we have had a successful year in 2014 and delivered another strong set of results. The significant increase in new mortgage lending led to a record level of profit, which enabled us to further increase our capital and reserves and establish a solid platform for future growth."

We have also invested in the business to develop our people, technology and processes to improve the customer experience and worked hard to provide both savers and borrowers with long-term value in this historically low interest rate environment.

As a result, our assets have increased by 8% to £12.1bn. We have helped more people than ever before to buy their own homes and savings balances are higher than at any time in our 140 year history.

Economic Background

The UK economy continued to grow in 2014. Unemployment fell, inflation remained below the 2% target and consumer confidence improved. Elsewhere however, global economic growth was sluggish, particularly in the Eurozone.

Gross mortgage lending grew by 14% in 2014 and the number of residential property transactions exceeded one million for the second consecutive year. House prices also rose but the rate of increase slowed in the last quarter. The stamp duty reforms announced in the Chancellor's Autumn Statement should support the housing market but the General Election in May could create some uncertainty, especially in the event of a hung parliament.

Whilst Bank Base Rate did not reduce last year, increased competition for mortgages resulted in a reduction in the average new mortgage rate. As a result, market rates paid to savers have also reduced.

However, during this difficult environment we have continued to pay 0.81%[i] more on average to savers across our range than our competitors. During 2014, total household deposits in the UK increased by 4.4% to more than £1.2 trillion[ii].

Regulation and Industry Developments

At the start of 2014, a package of reforms to EU legislation, known as CRD IV, came into effect. A key requirement is that financial institutions have a minimum Total Solvency Ratio of 8%, and a Leverage Ratio of 3%. I can report that our ratios are well above, at 16.4% and 5.6% respectively.

The Mortgage Market Review (MMR) rules came into effect in April 2014. We were well prepared and had already implemented the key changes required to the assessment of the affordability of a mortgage and, as a result, we delivered record mortgage completions of £2.7bn.

The busy regulatory agenda shows no sign of abating. The Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) believe that holding individuals to account is a key component of effective regulation, and published a consultation paper on Strengthening Accountability in Banking. The proposals reflect the recommendations of the Parliamentary Commission on Banking Standards and we anticipate these will come into effect later this year.

Publication of the final rules for the European Mortgage Credit Directive (MCD) is expected shortly, before it comes into force in March 2016.

Its aim is to standardise customers' experience of the mortgage market across the EU and the consumer protection they receive. Despite the FCA's efforts to align recent MMR changes to the MCD regime, there is still some divergence and this will result in further regulatory change for the mortgage industry.

Board Composition and Corporate Governance

We maintain a high level of skill and expertise on the Board and, under the Society's rules, directors need to be re-elected once every three years. However, in line with best practice recommended by the UK Corporate Governance Code, the Nomination Committee agreed to adopt a requirement that all directors be re-elected by our members on an annual basis.

[i] CACI Data, October 2014 – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market.
[ii] Source – Building Societies Association.

> "Our assets have increased by 8% to £12.1bn. We have helped more people than ever before to buy their own homes and savings balances are higher than at any time in our 140 year history."

Therefore, all the Executive and Non-Executive Directors are subject to re-election this year. A summary of their details can be found on pages 30 and 31. I ask you to support the nominations.

We strengthened the Board with the appointment of Andrew Greenwood as Risk Director in January this year. Andrew first joined the Society in 1998, and has been a member of the Senior Management Team for over a decade, as well as leading the Risk function as Chief Risk Officer since 2011.

Abhai Rajguru will retire from the Board at the AGM. Abhai, who is a member of both the Assets and Liabilities and Audit Committees, and a Trustee of Leeds Building Society Pension Scheme, has served as a Non-Executive Director for more than seven years and I extend my thanks to him for his valuable contribution to the Society during his time on the Board.

Summary

We now employ more than 1,100 colleagues who have been instrumental in delivering excellent service to our members throughout 2014. These results could not have been achieved without them and, on behalf of the Board, I would like to thank all our colleagues for their hard work and dedication.

As we celebrate our 140th anniversary this year, we will continue to help our members by providing competitive savings products and mortgages to support home ownership. The way we do this is evolving as we adapt and develop our proposition to meet the ever-changing needs of all of our members.

Robin Ashton
Chairman
24 February 2015

Chief Executive's Review

Year ended
31 December 2014

2014 Business Highlights:

- New mortgage lending increased by 24% to £2.7bn, significantly above our market share[i]
- Net residential lending of £1.1bn is our best ever performance
- Operating profit before exceptional item rose by 26% to a record £80.9m
- Savings balances grew by £560m to £9.2bn, the highest level in our history
- Assets increased by 8% to a record £12.1bn
- 69,000 new members were attracted, taking total membership to a record 721,000
- Capital and reserves increased to a record £731m

In this our 140th year, I am proud to report a record set of results driven by the growth in lending and a reduction in impairment provisions and charges. As a result, assets are now £12.1bn and our success over many decades has helped millions of members to build their future together with our support.

We have made a significant investment in our colleagues and technology in 2014 to further develop our service proposition and provide long-term value to members. This, combined with our new brand proposition and award-winning product innovation, means we remain as relevant today as when we were founded 140 years ago.

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 are retained in the business to build a solid platform for growth and continuing financial security.
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 have outlined the progress that has been made throughout 2014 against each of these:

Supporting the Aspirations of Borrowers and Savers

Bank Base Rate (BBR) has been at the historic low of 0.5% since March 2009 and we do not currently anticipate any increase until 2016. Whilst this has benefited mortgage customers, I am mindful that the current economic climate is particularly challenging for savers.

During 2014, we have worked hard to provide competitive returns to our savers and taken a number of steps to achieve this. Following member feedback, we re-launched the popular 10 Year Fixed Rate Bond, which pays interest monthly, and provided a competitive ISA range.

We also increased the interest rate on 151,000 accounts and as a result, all savers receive a minimum return of 0.5%, which is equivalent to the current BBR. Additionally, we simplified our legacy savings products from over 260 to fewer than 50, and improved the access terms on these to reduce complexity.

As a consequence of the market rate environment and in common with other providers, we have reduced rates on some of our accounts, but delayed taking this action for as long as we could in order to maintain higher rates for as long as possible. Based on the latest figures available, we continue to pay 0.81%[ii] more to savers than the rest of market average.

To support our members and recognise our 140th year, we have also launched a Fixed Rate Anniversary Account. This pays a competitive rate of interest with unlimited access to all of the funds at any time, providing members with complete flexibility to review their savings decision, should the interest rate environment change.

This combination of above-market returns and award-winning savings accounts[iii] meant that we attracted over £2.2bn of retail savings deposits and savings balances are now £9.2bn, the highest level in our 140 year history.

Savers provide the funds to support lending growth and we were able to help a record number of borrowers achieve their aim of home ownership. In 2014, we provided £2.7bn of mortgages, which is a 24% increase on the year before and significantly more than our market share.[i] This included helping more than 7,800 first time buyers purchase their homes, which accounted for over 33% of our total lending by value, and £250m more than we extended to this important segment in 2013.

Our focus on supporting borrowers who are not well served by the wider market continued and we were active in the Shared Ownership, Interest Only and Help to Buy segments. We have also increased our penetration of the Buy to Let market. This, combined with our mainstream lending, means that we achieved record mortgage lending across a balanced product range.

We continue to innovate and have launched our Contractor proposition designed to provide mortgages to professional contractors. This was recognised when we received Mortgage Finance Gazette's 'Innovation Award for Lenders' for the second year running.

As a result of this success in our core markets of savings and mortgages, membership grew to a record 721,000.

Continuing Financial Security

Achieving good levels of profit is how we build our financial strength and ability to invest in the business. Operating profit before exceptional item increased by 26% to £80.9m as a result of record mortgage lending and a reduction in impairment charges. Closure of our defined benefit pension scheme to future accrual also resulted in an accounting adjustment and took total profit before tax to £87.9m. This enabled us to increase capital and reserves to a record £731m.

Total assets are now £12.1bn and we remain well-placed to continue to fund lending growth. Furthermore, the credit ratings agencies, Moody's and Fitch, both continue to assign long term 'A' ratings to the Society as a result of our very strong financial performance.

The improving UK economy has meant fewer borrowers are experiencing financial difficulty and residential arrears (1.5% or more of outstanding mortgage balances) reduced from 2.28% in 2013 to 1.88% in 2014.

[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] CACI Data, October 2014 – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market.
[iii] Best Regular Savings Account Provider from Savings Champion. Highly commended Best No Notice Account Provider from Moneyfacts.

Continued

Impairment charges on loans to customers fell by £8.4m to £39.5m. The majority of this relates to the action we took to reduce our commercial balances by 25% to £269m, which now represents only 3% of total mortgage balances.

Delivering Outstanding Personal Service

We carry out regular independent member surveys to ensure we deliver what our members need. Whilst overall customer satisfaction remained high, at 92%, we are not complacent. The world is changing, particularly as a result of technological advances, at an ever increasing rate and our members tell us we need to respond.

We have developed our brand proposition, following extensive member research, to a more contemporary image and plan further improvements to our digital proposition to make it easier for members to access the information and services they want, as and when they need them.

Our colleagues are vital to our success and we now employ over 1,100 people. Regular surveys show that they are highly engaged and this is clear from the feedback we receive from our members. The average length of service is almost seven years and over a quarter of our colleagues have been working for the Society for 10 years or more.

I am also delighted that Leeds Building Society was the first financial services organisation to secure the new Service Excellence accreditation launched in 2014 by the independent National Skills Academy. This accreditation reflects our commitment to providing a high-quality, professional service through well-trained colleagues.

We started our Apprenticeship scheme two years ago and the first intake recently completed their training and moved into full-time permanent jobs. I would like to congratulate them and all of my colleagues for their success this year in delivering excellent customer service to our members.

Investing in the Business

As in 2013, we created a further 100 new roles at the Society as we continue to increase our capacity and improve our products and services. We also carried out a benchmarking exercise across all existing roles to ensure that every colleague is fairly rewarded as we look to retain the best talent, which is at the heart of our People Strategy.

In addition to developing our colleagues' key skills, we have invested in IT infrastructure, delivered a number of key projects and refurbished branches to increase our capacity and further improve the service we offer. As a result, our cost to asset ratio increased slightly to 57p (2013: 52p) per £100 of assets, and our cost to income ratio increased to 33% (2013: 31%). Despite the modest increases, those ratios remain among the lowest in the building society sector.

Our strong profitability and sustainable business model mean we are well-placed to reinvest in the Society. This transformational change will continue at pace throughout 2015 and improvements to our core system will deliver an enhanced digital offering, and the ability to support more borrowers and savers who are not well served by the wider market.

Summary and Outlook

The UK's strengthening economic recovery in 2014 contrasted with sluggish growth in Europe and beyond, while inflation remained well below the 2% target and unemployment fell.

Leeds Building Society had a very successful year with savings, mortgage balances and membership at record levels. Strong profit performance also means that our capital and reserves are at their highest-ever level, underpinning our continuing investment programme and consolidating our financial strength and security to deal with any economic shocks.

Consumer confidence will be a key factor in 2015 and the General Election in May could create some uncertainty. Housing will be an important policy area for all parties and it is not untypical for consumers to delay major financial decisions in the run up to an election as they wait to see what unfolds. Bank of England Base Rate also looks set to remain low until at least 2016.

Against this background, we will continue to strive to deliver value and service to you, our savings and mortgage members, and help you build your future together with us. I would like to thank you for your continued support during 2014.

Peter Hill
Chief Executive
24 February 2015

We will continue to strive to deliver value and service to you, our savings and mortgage members, and help you build your future together with us.

Strategic Report

Year ended
31 December 2014

The strategic report reviews the Society's mission, business model and strategy, together with its performance in 2014 and future outlook.

We borrow from	As well as:	We lend to	We are financially stable:	We invest to:	We are financially secure:
Savers via: Branch Online Post	Raising long term, stable and diverse funds from the wholesale markets.	Mortgage borrowers: First Time Buyers Shared Ownership Prime Mortgages Buy to Let	Maintaining liquid investments with strong credit rated institutions and central banks.	Continually improve the products and services we offer to help existing members and attract new members.	Making sufficient profit to maintain a strong capital base.

The Society's Mission

As a member owned mutual building society our mission is to help people save and have the home they want. The Society continually adapts to anticipate our members' changing needs and by doing the things we do well, we will help our members get on with life.

The Society's Business Model

The Society's business model reflects our mission and how we aim to differentiate ourselves. It has been developed to ensure resilience and to drive success in a competitive market environment.

The Society provides mortgages secured on residential property, for owner occupation, including shared ownership and for buy to let purposes. Mortgage business is sourced through the Society's approved network of mortgage brokers, which represents the majority of new lending, as well as via our branch network, online and our direct telephone service. As well as serving the mainstream residential property lending market the Society also supports the aspirations of borrowers who are not well served by the wider market, taking a segmental approach to lending to satisfy the needs of a wide range of customers. The Society is a responsible lender and undertakes segmental lending within its appetite for losses.

As a building society, we are required to fund the majority of mortgage lending with members' savings. We offer savings products in branches, by post and online. The balance of funding required for lending and maintaining an appropriate level of liquidity is obtained from the wholesale money markets. It is mortgage interest on loans and treasury investments, offset by interest payable on savings and wholesale funding, which generates net interest income for the Society.

In addition to providing mortgages and savings the Society also offers a complementary range of mortgage related insurance products and other investment services. The Society is investing in its digital capability to enable savers to more easily access products and manage their savings through the internet and mobile devices, as well as through our existing channels.

From a financial perspective it is important that the Society generates sufficient profit to maintain a strong capital position, and to continue investment to enhance our customer proposition. This requires strong focus on cost efficiency and management of the net interest margin so we can price competitively to provide value to existing members and attract new borrowers and savers.

The Society's Strategy

The Society's strategy has been designed to deliver our vision which is to be Britain's most successful building society. It is built upon four strategic pillars which enable us to deliver value to our growing membership as follows:

Customer Focused	Secure	Service Driven	Efficient
To support the aspirations of a wide range of borrowers and savers, in particular those who are not well served by the wider market.	To generate strong levels of profit which are retained in the business to build a solid platform for growth.	To deliver outstanding personal service to all our members.	To continue to invest in the business to improve efficiency, whilst being intolerant of waste.

"During the year the Society has undergone a brand refresh and implemented a People Strategy designed to ensure that we continue to attract and retain the best people to deliver our goals."

The Society has made solid progress against each of the strategic pillars during 2014. During the year the Society has undergone a brand refresh and implemented a People Strategy designed to ensure that we continue to attract and retain the best people to deliver our goals. We are also making strong progress with our Intermediary Strategy, building presence in this market; and we continue to implement changes that will enhance our customer experience.

In addition, we have a number of strategic initiatives that will run in 2015 and beyond. These will create further strong lending growth, support our retail franchise and enhance our customer experience. They include:

- Further development of our segmental lending capability, supported by improved technology and processes.
- Developing our seamless, simple and secure operating model to better respond to customer needs.
- Developing our enterprise wide IT capability to achieve greater agility and speed to market.
- Continuing to develop our Risk Management capability.

Key Performance Indicators

The Society monitors a number of key performance indicators which support the four strategic pillars and these are shown in the following table.

Secure	
Operating profit before exceptional item	Increased by 26% to £80.9m and represents 0.69% of mean assets (2013: 0.60%)
Net interest margin	Improved to 1.58% from 1.52%
Regulatory capital	Increased to £740m (2013: £676m) Core tier 1 ratio of 15.6% (2013: 14.4%) Leverage ratio of 5.6% (2013: 5.3%)
Credit rating	Maintained a long term A credit rating from Moody's and Fitch

Customer focused	
New residential lending	Increased by 24% to £2.7bn
Net residential lending	Increased by 14% to £1.1bn
Net savings balances	Increased by 6% to £9.2bn
Change in membership	Membership increased by 7,000 to 721,000

Service driven	
Customer satisfaction	92% of those responding to our survey expressed satisfaction (2013: 93%)
Number of days from mortgage application to offer	13 days, which is better than our internal target (2013: 16 days)
% of customer administration processing completed on the day it is received	89% which is in line with our target (2013: 84%)
Colleague engagement	Increased to 76% from 70%

Efficient	
Cost to Income ratio	Expenses as a proportion of income increased to 33% from 31% in 2013
Cost to mean assets	Expenses as a proportion of mean assets higher at 0.57% compared to 0.52% in 2013
Colleague turnover	17%, which is below our target (2013: 19%)

Strategic Report

Year ended
31 December 2014

Continued

Financial Performance

Profit Before Tax

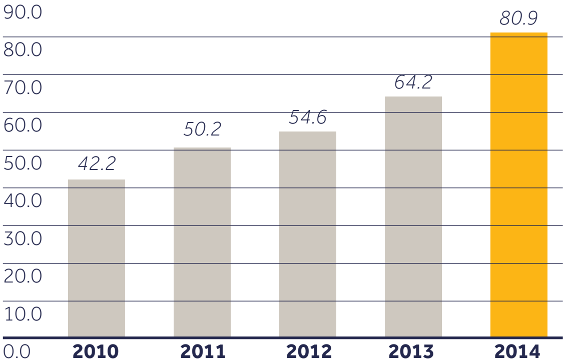
The Society's profit is its only source of new capital and is essential in ensuring the long term security of the Society for its members and meeting the Regulator's capital requirements. The level of profit generated by the Society is sufficient to support its on-going capital requirements.

The Society's operating profit before exceptional item for 2014 has increased by 26% to £80.9m. Operating profit before exceptional item excluded a one off pension curtailment gain which resulted from closing the Society defined benefit pension scheme to future accrual. Operating profit as a percentage of mean assets improved to 0.69% from 0.60%.

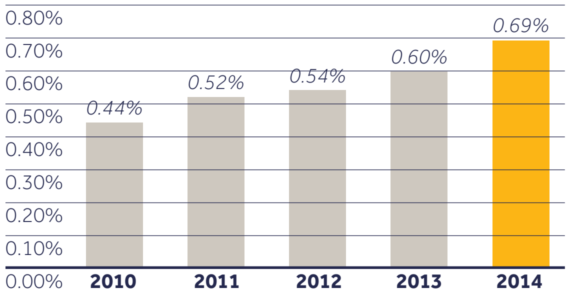
	2014 £m	2013 £m	Change %
Net interest income	184.8	163.2	13%
Other income/fair value	13.6	14.1	(4%)
Total income	198.4	177.3	12%
Administrative expenses	(66.2)	(55.5)	19%
Impairment losses and provisions	(51.3)	(57.6)	(11%)
Operating profit before exceptional item	80.9	64.2	26%
Pension curtailment gain	7.0	–	–
Profit before tax	87.9	64.2	37%

Strong profit performance continued in 2014 and was driven by growth in net interest income, resulting from net lending growth combined with lower funding costs and a reduction in impairment provisions. The strong financial performance enabled us to continue our Society wide investment programme.

Operating profit before exceptional item £m



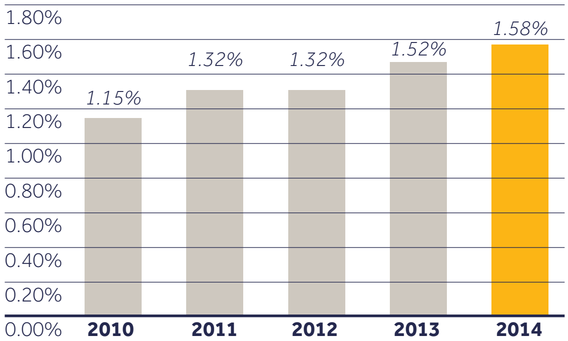
Operating profit before exceptional item as % of mean assets



Net Interest Income

Net interest income increased by £21.6m to £184.8m and the net interest margin improved to 1.58% from 1.52%. Net interest is the Society's main source of income and we continue to balance the need to offer attractive rates to savers and borrowers whilst generating sufficient profit to maintain a financially secure future for the Society.

Net interest income as % of mean assets



The key features of the increase in net interest income in 2014 are:

- Interest income from mortgages increased due to the growth in residential mortgage balances as the Society's gross lending increased to a record £2.7bn compared to £2.2bn in 2013 and total mortgage balances increased by £1.1bn to £10.3bn. The additional interest income from higher lending was partially offset by a reduction in the average rate on mortgage completions as competition increased.
- Savings rates in the market reduced further in 2014 and whilst the Society continued to pay higher savings rates than the market, the overall interest cost of savings balances fell;
- The Society is paying an average rate of 2.15%[i] on its savings products, compared to a market average of 1.34%.

i CACI Data, October 2014 – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market.

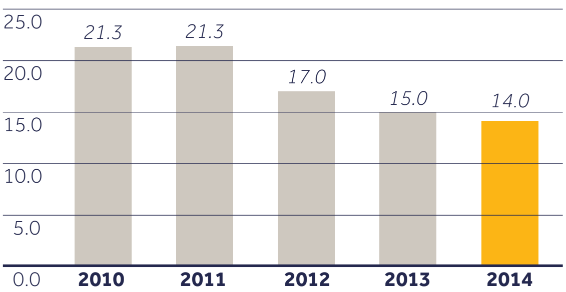
“Efficiency is one of the Society’s four strategic pillars and continuing to maintain a low cost base whilst improving efficiency remains a key focus.”

A compelling product proposition has meant retail savings balances increased a further £0.6bn and the Society attracted 37,000 (2013: 43,000) new savings members.

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

In 2014 other income reduced to £14.0m from £15.0m due to a fall in the amount of income on sales of investment products and lower commission on general insurance products. The Society has a number of partnerships, including with Legal & General and Aviva, and continues to develop new product propositions, for example, with the launch of a range of pre-paid funeral plans with Dignity Funeral Plans.

Other income £m



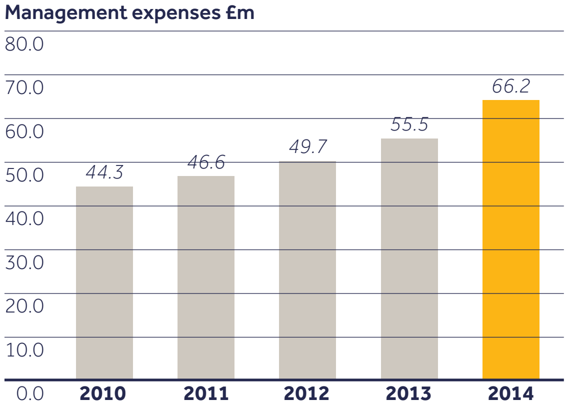
Administrative Expenses
Efficiency is one of the Society’s four strategic pillars and continuing to maintain a low cost base whilst improving efficiency remains a key focus. As customer needs are becoming more sophisticated, the infrastructure demands associated with a highly regulated business continue to grow. In this respect, the Society has continued its investment programme and as a result management expenses increased in 2014 from £55.5m to £66.2m. The cost to income ratio increased to 33% (2013: 31%) and the cost to mean assets ratio increased to 0.57% (2013: 0.52%). Notwithstanding the cost increases, the Society’s expense ratios remain among the lowest in the building society sector.

The main features of the increase in management expenses are:

- The need to increase capacity to support continuing growth resulted in increased staff and infrastructure costs;
- The continuing need to attract and retain the best talent;
- The continuing investment in risk capacity and increasing costs of regulation; and
- Increasing IT costs as we re-platform the core IT system with Hewlett Packard (HP).

The cost increases over recent years are expected to slow in the medium term as the Society realises efficiencies from the investment programme. The trend in the Society’s overall costs is shown in the following graph.

Management expenses £m



Fair Value Gains and Losses from Derivative Financial Instruments
Fair value movements result from 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 2014 resulted in a loss of £0.4m compared to a loss of £0.9m in 2013.

Impairment Losses
The Society has achieved a significant reduction in the charge for losses in 2014. This reflects continuing actions to reduce the commercial loan exposure and the improving economic outlook which has resulted in a lower level of residential losses.

Strategic Report

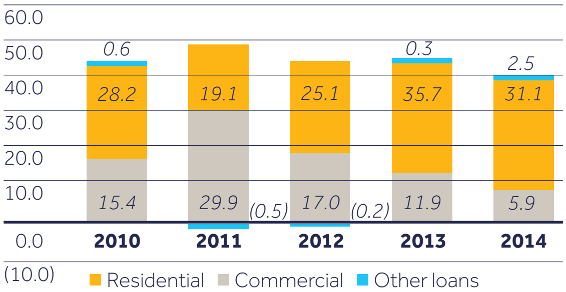
Year ended
31 December 2014

Continued

The loan impairment losses and provisions made in the year are set out below:

Impairment Losses:	2014 £m	2013 £m
Residential loans	5.9	11.9
Commercial loans	31.1	35.7
Other loans	2.5	0.3
Total	**39.5**	**47.9**
FSCS levy	6.4	5.7
Investment property impairment	0.0	1.3
Freehold property impairment	0.0	0.8
Other provisions	5.4	1.9
Total impairment and provisions	**51.3**	**57.6**

Impairment provision charge £m

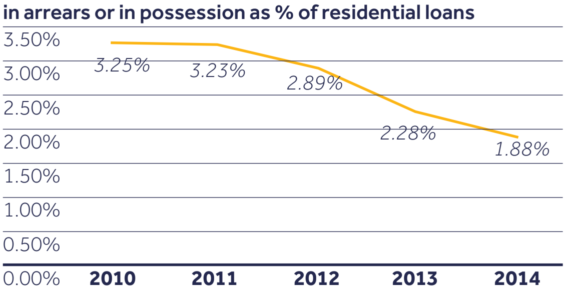


Residential Loan Losses and Impairment

Total losses and impairment charges for residential loans decreased to £5.9m from £11.9m. This reflects further improvement in the arrears ratio (measured as those either in possession or arrears of more than 1.5% of the balance), which reduced to 1.88% compared to 2.28% at the end of 2013.

The Society's arrears ratio on the UK portfolio was lower at 1.62% (2013: 1.94%). The arrears ratio on the legacy overseas portfolio, reduced to 12.28% (2013: 13.09%).

Residential loans with payments more than 1.5% in arrears or in possession as % of residential loans



The Society has total balance sheet loan loss provisions against residential mortgages of £29.6m (2013: £38.1m). The specific provision of £19.8m as a percentage of arrears and possession loan balances is 10.6% (2013: 12.9%).

Commercial Loan Losses and Impairment

Commercial loan balances reduced by 25% during the year to £269m (2013: £360m). This largely reflects the continuing action taken to reduce exposure to commercial loans. The commercial loan loss charge has reduced by £4.6m to £31.1m.

The Society has balance sheet loan loss provisions against commercial mortgages of £25.0m (2013: £36.4m). The specific provision of £18.5m as a percentage of impaired loans is 15% (2013: 19%). The negative equity within the impaired portfolio has reduced to £13m and is now fully covered by provisions.

FSCS Levy

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. Leeds Building 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, increased to £6.4m (2013: £5.7m). The increase reflects an increase in the Society's share of industry deposits and a higher interest rate on the interest element.

Other Provisions

The charge relating to customer redress payments has increased to £5.4m (2013: £1.9m).This is to cover a recent voluntary customer redress exercise relating to certain structured product accounts, as well as the on-going volume of speculative cases, primarily relating to PPI claims, and the associated costs involved in dealing with them. Further information on customer redress is set out within the Risk Management Report, on page 28.

Taxation

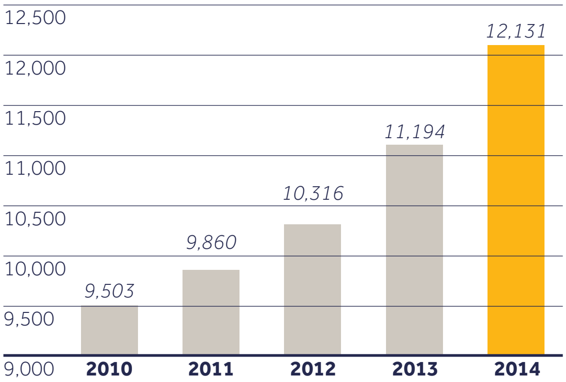
Income tax expense of £18.5m (2013: £15.2m) represents 21% (2013: 24%) of profit before tax and is in line with the prevailing rate of corporation tax.

"The Society maintains liquid assets, principally cash and government debt, of an appropriate level and quality, to ensure the Society can meet its financial obligations as they fall due under normal and stressed scenarios."

Balance Sheet

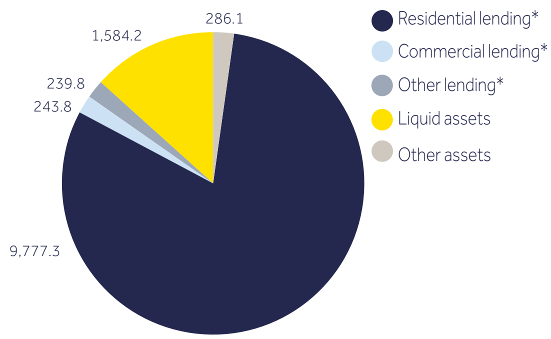
Total balance sheet assets increased by £0.9bn to £12.1bn, representing a rise of 8%.

Total assets £m



The composition of balance sheet assets is:

Balance Sheet assets 2014 £m

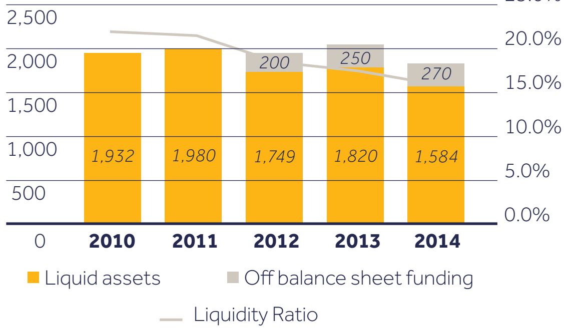


*Lending is stated net of provisions

Liquid Assets

The Society maintains liquid assets, principally cash and government debt, of an appropriate level and quality, to ensure the Society can meet its financial obligations as they fall due under 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 the earnings on liquid assets are typically lower than the cost of funding. During 2014 the Society maintained a level of liquidity in excess of the regulatory minimum but reduced the actual level of on balance sheet liquidity as planned.

Liquidity £m / %

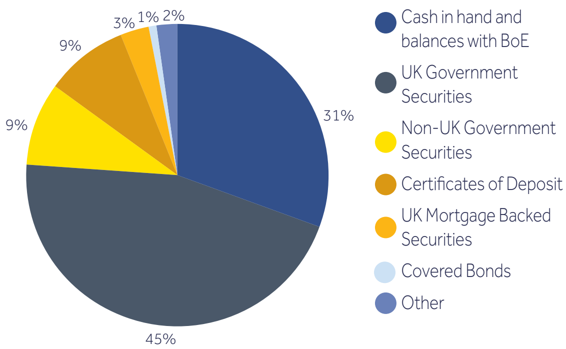


Liquid assets at the end of 2014 were £1.6bn (2013: £1.8bn) representing 14.2% of share and deposit liabilities (SDLs) compared to 17.6% at the end of 2013. This included £1.4bn of Liquid Asset Buffer (LAB) investments (2013: £1.6bn) which are considered to be the highest quality investment instruments, readily realisable as cash when required. The credit quality of the liquid asset portfolio is high with 99% of assets rated 'A' or better (2013: 99%).

As well as liquid assets on the balance sheet, the Society also has access to additional contingent liquidity through the Bank of England's contingent liquidity facilities. The Society had drawn down £270m (2013: £250m) at the end of 2014. Total liquidity, including on and off balance sheet liquidity was 16.2% (2013: 19.4%) of SDLs.

A breakdown of the liquid assets is shown below:

Liquidity Portfolio 2014 %



The Society has no direct wholesale credit exposure to sovereign or financial institutions in Ireland, Portugal, Spain, Greece or Cyprus. The Society also has no direct exposure to the Swiss Franc.

Strategic Report

Year ended
31 December 2014

Continued

As part of the CRD IV package of regulatory reforms two new measures of liquidity were introduced for monitoring purposes by the PRA in 2014. The measures are the Liquidity Coverage Ratio (LCR), a measure of the amount of liquidity the Society needs to hold to cover a short term stress, and the Net Stable Funding Ratio (NSFR), a measure which compares the available amount of stable funding to the amount of assets which require stable funding. Implementation of these measures will be phased in between October 2015 and 2018. Based on the current interpretation of the rules the Society's LCR and NSFR were in excess of the regulatory minimum as at 31 December 2014.

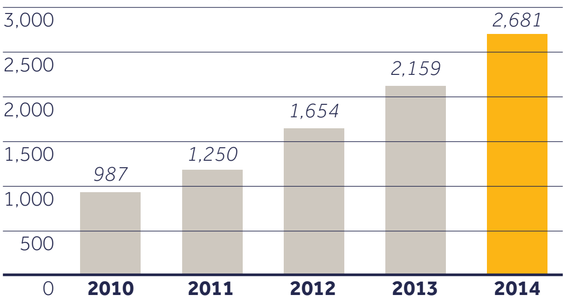
Loans and Advances to Customers

Total loans and advances to customers increased by £1.1bn to £10.3bn, consisting of residential mortgages of £9.8bn, commercial lending of £0.2bn and £0.3bn of other loans. The key features of the growth over 2014 are:

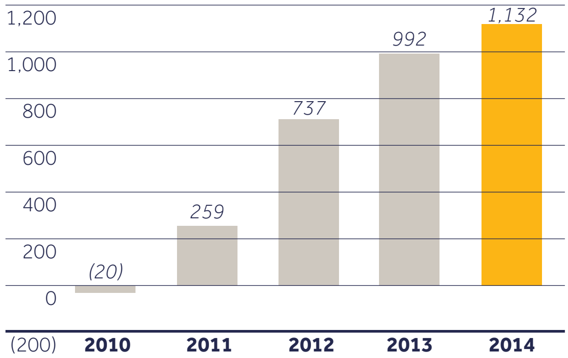
- Gross new residential lending of £2.7bn, an increase of £0.5bn from 2013.
- Net residential lending of £1.1bn, an increase of £0.1bn from 2013.
- The Society's share of new mortgage lending was 1.31% (2013: 1.22%) which is significantly higher than its natural market share of 0.73% (2013: 0.69%) (based on mortgage data from the Council of Mortgage Lenders).
- Redemptions increased by £0.4bn to £1.6bn which reflected both the increased size of the loan book and increased competition in the market.
- The commercial loan portfolio reduced by £91m to £269m from £360m in 2013. Commercial loans now represent 2.6% of total mortgage balances (2013: 3.9%).

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 to continue to strengthen its proposition for existing and future members.

Gross residential lending £m

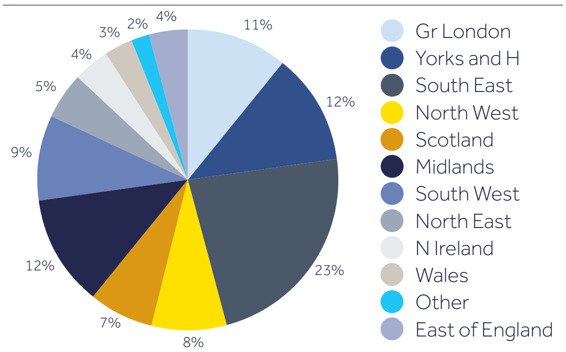


Net residential lending £m



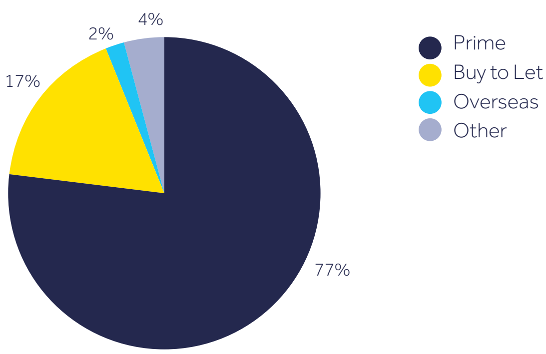
The Society's residential portfolio by region, product type and loan to value (LTV) percentage is shown in the following charts.

2014 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 Yorkshire heartland.

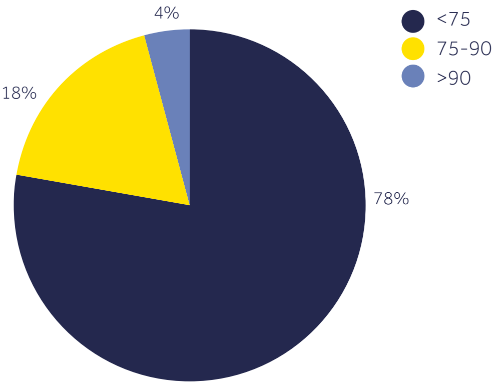
2014 residential mortgage balances by type



The majority of the Society's mortgages are secured on prime owner occupied residential property, including shared ownership lending. The Society also continues to be active in the buy to let market. The overseas balances relate to historic lending activity and the Society is no longer active in this market.

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

2014 residential mortgage balances by LTV



The Society has a conservative lending policy which is reflected in the distribution of loan to value (LTV) ratios. The overall indexed average LTV of the mortgage portfolio is 46% (2013: 50%).

Fixed Assets

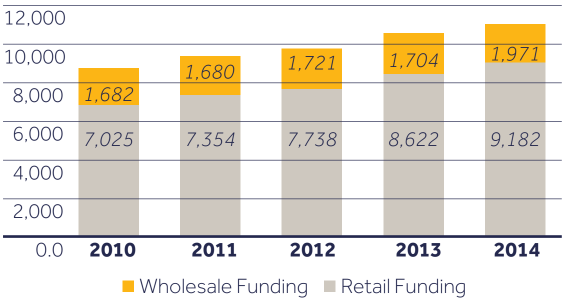
Fixed assets, which represent land and buildings and office and computer equipment, were £29.9m compared to £28.4m at the end of 2013. The Society spent £3.1m on office and computer additions during 2014.

In line with the Society’s policy, the property portfolio is revalued every three years and the most recent valuation was in 2013.

Retail Savings and Wholesale Funding

Achieving an appropriate level, mix and duration of retail savings and wholesale funding is essential in ensuring the Society has the necessary resources to meet its lending growth aspirations. The graph below shows the Society’s funding mix:

Funding profile £m



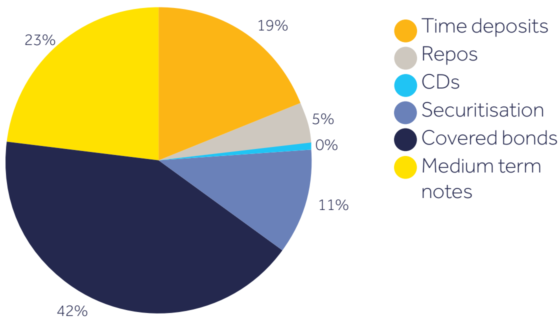
Savings balances increased to a record £9.2bn from £8.6bn in 2013. This strong performance reflected the competitive savings rates the Society has continued to offer.

The Society continues to be able to access wholesale markets which means we have benefited from favourable funding conditions leading to a lower cost of funding. The Society’s non-retail funding ratio increased to 18.0% (2013: 16.9%), as the Society continued to balance funding from both retail savings and wholesale funding. During 2014 we re-entered the Euro wholesale funding market by issuing €500m of senior unsecured debt. This exposure to Euros has been hedged back to sterling. Throughout the year the Society maintained access to the Bank of England’s Sterling Monetary Framework.

The proportion of wholesale funding which is categorised as long term (with more than 1 year remaining to maturity) reduced to 66% (2013: 81%) as a tranche of longer term funding moved to within one year of maturity during the year.

At 31 December 2014 the composition of the wholesale funding portfolio was:

Wholesale funding portfolio



The Society maintains strong credit ratings from the key credit rating agencies. The short term and long term ratings for the Society were reaffirmed by the agencies and are:

	Long Term	Short Term	Outlook
Moody’s	A3	P-2	Stable
Fitch	A-	F1	Stable

Capital

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

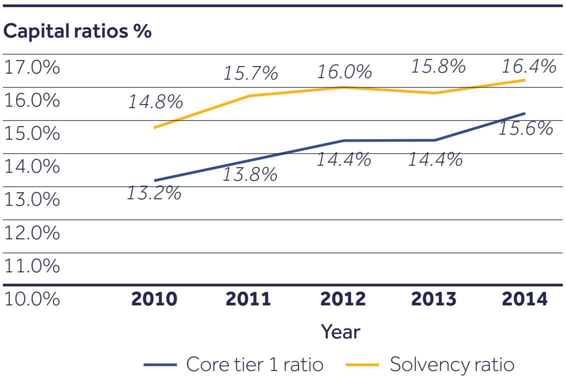
The new capital standards for banks, collectively referred to as CRD IV, came in to force at the beginning of 2014. CRD IV increases the quality and quantity of capital financial institutions are required to hold and introduces a new capital measure in the form of the leverage ratio.

Strategic Report

Year ended
31 December 2014

Continued

The full impact of CRD IV will be implemented over the next five years and there are a number of transitional rules which apply over this period.



The core tier 1 capital ratio at the end of 2014 was 15.6% (2013: 14.4%). Core tier 1 capital is the strongest form of capital and, in the most part, represents the Society's accumulated post-tax profit (general reserves) built up over time. The core tier 1 ratio expresses core tier 1 capital as a proportion of risk weighted assets (RWA). The total solvency ratio, which includes other eligible capital items, was 16.4% (2013: 15.8%), which is in excess of the current regulatory minimum of 8%.

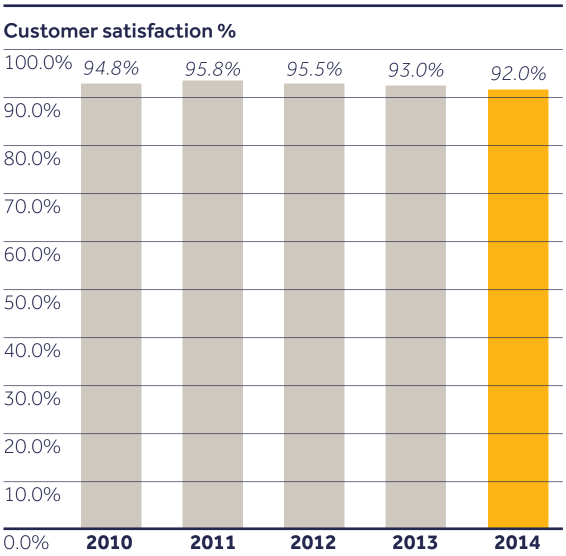
The new leverage ratio measures tier 1 capital as a proportion of the Society's relevant total assets. The measure of assets includes off balance sheet exposures, such as mortgage offers. At the end of 2014 the Society's leverage ratio was 5.6% (2013: 5.3%), which is in excess of the current regulatory minimum of 3%.

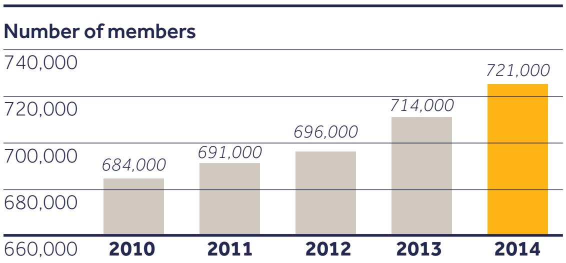
Members

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

Member satisfaction is measured through our quarterly independent survey. The Society also measures the total number of members, as a growing membership base is a reflection of the attraction of our customer proposition.

The Society continues to achieve high customer satisfaction compared to other financial service companies, with scores consistently over 90%. In addition, the total membership of the Society increased by over 7,000 to 721,000.





Colleagues

Recruiting and retaining the best talent is key to delivering the Society's vision and is reflected in the Society's people strategy. The continued growth over 2014 has meant the Society has again increased the number of colleagues employed. The total number of colleagues employed at the end of the year now stands at 1,152, which is an increase of 98 compared to 2013.

The Society has maintained and developed systems during the year for effective communication with our 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 that affect their employment and, in addition, there is a regular colleague survey. In the 2014 survey, the overall colleague engagement result was 76% (2013: 70%). Colleague turnover for the year reduced to 17% compared to 19% in 2013. The results represent a strong performance when taken with 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.

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

The Society runs an apprentice scheme and in 2014 a graduate development programme was launched. We remain committed to training and career development for all colleagues demonstrated by our continuing Investors in People accreditation.

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 re-assignment, race, religion or belief, colour, nationality, ethnic or national origin, disability or age, pregnancy, trade union membership, or part-time or fixed term status.

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:

		2014 Females	**2014 Males**	2013 Females	2013 Males
Colleagues	Number	711	390	651	355
	Percentage	65%	35%	65%	35%
Managers	Number	15	32	12	24
	Percentage	32%	68%	33%	67%
Directors	Number	4	9	3	9
	Percentage	31%	69%	25%	75%

The ethnic diversity is shown below:

		2014 Ethnic minority employees	2013 Ethnic minority employees
Colleagues	Number	64	66
	Percentage	6%	6%
Managers	Number	–	–
	Percentage	–	–
Directors	Number	1	1
	Percentage	8%	8%

Outlook

2014 has been another record year for the Society and represents 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 improvement in the economic environment during 2014 looks set to continue, though a number of risks and uncertainties continue to create volatility.

The mortgage market is becoming increasingly competitive as the big banks complete their work to restore their capital bases. This may impact margins and the Society's appetite for growth. The Society will continue to grow as market conditions allow it to do so profitably. The overriding objective is to deliver sufficient profit to support growth whilst maintaining the financial security of the Society.

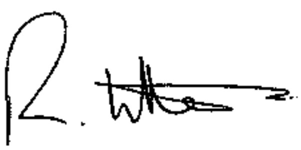
Further information regarding the principal risks and uncertainties faced by the Society, together with a summary of mitigating controls, are set out in the separate Risk Management Report on pages 22 to 29.

Against this backdrop, the Society plans to further increase its net residential lending funded through growing member's savings balances and accessing wholesale funding. The Society will also continue its investment programme to enable continuing delivery of the key initiatives required to achieve the Society vision and deliver its 10 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 our members' confidence.

Approval

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



Robin S. P. Litten
Finance Director
24 February 2015

Corporate Responsibility Report

Year ended
31 December 2014

Building Futures Together
We aim to deliver the best for our members by taking time to understand their needs. Our success has been built on listening, adapting and developing the competitive products and services our members need and so we constantly invite feedback.

We carry out regular independent surveys and our satisfaction scores remain consistently high. The latest overall satisfaction level was 92% (2013: 93%).

Product Development
We take time to understand the genuine needs of members and prospective members alike. We seek to provide innovative solutions, even in segments of the market which other lenders may ignore because the opportunity lacks scale or is slightly more complex. By focusing our development on the underlying needs of our members we continue to help more members save and/or buy a home of their own.

Our approach to product development continues to be recognised by industry commentators, resulting in several awards for innovation, including Mortgage Finance Gazette's 'Innovator of the Year' for the second consecutive year.

Award Winning Society
We were delighted that our approach was recognised in a number of key industry awards during 2014 including:

Savings Champion Awards
Best Regular Savings Account Provider

Moneywise Magazine Mortgage Awards
Innovator of the Year for our Welcome Mortgage, which allows borrowers to pay 0% interest for the first few months of their term so they can free up cash to help them settle into their new home.

Mortgage Finance Gazette Awards
- Best Intermediary Lender
- Innovation Award (Lenders) (both for the second consecutive year)
- Best Use of Technology (Lenders)
- Leadership Award – Peter Hill

Nominate a Star
Our 'Nominate a Star' scheme, now in its fourth year, encourages members to recommend a colleague or a team that has delivered outstanding customer service.

Annual Star of Stars Award winners Natasha Kaur, John Cole and Anne-Marie Forster, with Peter Hill (second from right).

We were delighted by the response in 2014, receiving 470 nominations from members, providing excellent feedback about colleagues across the Society.

Our People
Our colleagues play a vital role in our success and we continue to focus on recruiting and retaining the best talent.

Colleague Surveys
Each year we invite our colleagues to participate in the 'Your Voice' survey, which is carried out by an independent company. In 2014, our Engagement Index was 76% (up from 68% in 2013).

People Strategy
Our 'People Strategy' supports our overall 10 year vision to be Britain's most successful building society. The key elements are:

Fair Reward for All
To have a total remuneration framework, which provides a range of valued benefits and attracts and retains the colleagues needed to deliver our vision. This includes the Society's commitment to paying the Living Wage.

Investing in Talent
To attract and proactively develop and retain talented colleagues who share our values, have high aspirations and a desire to achieve our business objectives.

Organisational Effectiveness
To ensure our people structures, processes, technologies and policies support the achievement of our goals.

"We are a successful independent building society owned by our members. We try to take a responsible approach to everything we do and conduct our business so that we can balance the interests of all our key stakeholders, including the wider community."

Develop a High Performance Culture

To have a culture which supports our passion for performance – so that our people prosper, make the right decisions and do the right thing, wherever they are in the business.

Customer Adviser of the Year, Andrew Wallace (centre) with (left to right) Martin Richardson, Peter Hill, Kim Rebecchi and Trevor Garside.

Leadership and Capability

To maintain a sustainable competitive advantage by having leaders in the business able to make appropriate judgements and to guide, empower and develop our colleagues to maximise their contribution.

Apprentices

Our apprenticeship scheme is now in its third year, with another intake of young people opting to work towards industry-recognised professional qualifications with us while acquiring on-the-job training.

Apprentices – Eloise Hall (centre) pictured with second year apprentices Charlotte Dawson (left) and Abby Landells.

Eloise Hall, Telephone Business Development Manager, said: "Having now qualified and completed my apprenticeship, I've received an NVQ in Financial Services and am currently undertaking a CMI course in First-Line Management, delivered in the workplace and accredited through Leeds Beckett University."

Service Excellence

We were pleased to be the first financial services business to secure the new Service Excellence accreditation.

This was launched in 2014 by the National Skills Academy for Financial Services, which supports financial services businesses in recruitment, induction and workforce skills and development. This accreditation reflects our commitment to providing a high-quality, professional service through well-trained colleagues.

Service Excellence – Sylvia Perrins, Chief Executive of the National Skills Academy for Financial Services, presents a plaque to Karen Wint and Peter Hill.

Long Serving Colleagues

The average length of service for our colleagues is just over seven years.

Over half have been with the Society for more than three years, with 108 colleagues having 20 years' service or more, and a further seven colleagues exceeding 40 years.

Corporate Responsibility Report

Year ended
31 December 2014

Continued

Supporting our communities

As the UK's fifth largest building society, we have a national presence and our network of branches and processing centres plays an important role in local communities.

(Left to right) Vicky Sleight, Vicki Bell and Samantha Hadaway from Blyth branch supporting Children in Need.

We have therefore developed our charity and community support to provide a sustainable contribution both to small local causes and large national charities.

Charitable Foundation

The Leeds Building Society Charitable Foundation received a donation of £90,000 direct from the Society and, since its inception, has shared more than £1.3m between over 1,700 charities, located within fifteen miles of our branches and offices. Each donation looks to support community-based projects which aim to provide relief from suffering, hardship or poverty, or their direct consequences. In 2014 the Foundation made donations totalling over £110,000 to 144 charities.

Partner Charities

We continue to support our partner charities, Age UK, Marie Curie Cancer Care, Variety – the Children's Charity and Leeds Building Society Charitable Foundation through our 'Your interest…in theirs' scheme, where members donate the pence amount of any interest they earn on their savings.

The Society also makes a donation for each vote cast at our AGM and members can choose from a number of charities to benefit. In 2014 at total of £9,480 was donated through this scheme.

Dianne Hughes and Hannah Saxon (far left and second left) from Marie Curie, receiving a donation through the Caring Saver and 'Your interest…in theirs' schemes from Kim Rebecchi, David Walker and Michelle Capell.

Colleague Charity Group

Our Colleague Charity Group continued to organise various fundraising activities throughout the year for St. Gemma's Hospice, Martin House Children's Hospice and Hollybank Trust in Yorkshire, and Tiny Lives Special Care Babies charity in the North East. In 2014 a record £31,000 was raised by our colleagues.

A team of colleagues participated in the Great Yorkshire Bike ride for Hollybank Trust. Pictured, back row (left to right) Oliver Stowe, Jeanette Cartwright, Kevin Mowles, James Boldy, Paul Inman, Tom Tinkler and Robin Litten. Front row, Paul Smith and Gary Mitchell.

Community and Sponsorship Fund

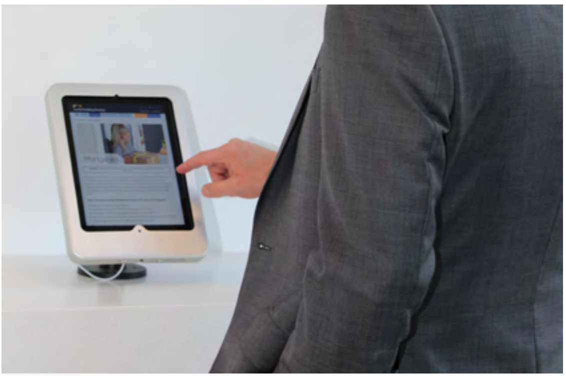
Through our Community Fund we have donated almost £24,000 to local charities and community groups. The 'Matched Funding' scheme, which looks to support everyone at the Society with their charitable fundraising, also has been very successful. In 2014 our colleagues raised over £33,000 (2013: £27,500) for charity and we contributed a further £8,300 in matched funds (included in the £24,000 total donations above).

Through all these initiatives, both local and national charities have benefitted from more than £310,000 during the year.

Rob Savin cycled from London to Istanbul raising funds for the Pancreatic Cancer Research Fund.

Environment

The Society recognises it has a responsibility to protect the environment for its members and communities and appreciates the impact its activities may have on the environment.



Use of new technology in refurbished branches.

The Society therefore seeks to identify and sympathetically consider environmental issues where possible across all areas of the business.

Recently refurbished Newcastle branch.

Key Initiatives

As part of this commitment, initiatives we support include:

- Continuously reviewing our energy sources and energy efficiency with a view to eliminating excessive or unnecessary consumption. Following a review in 2014, we have extended our commitment to purchasing renewable energy until October 2016 and now use entirely renewable 'Green' electricity.

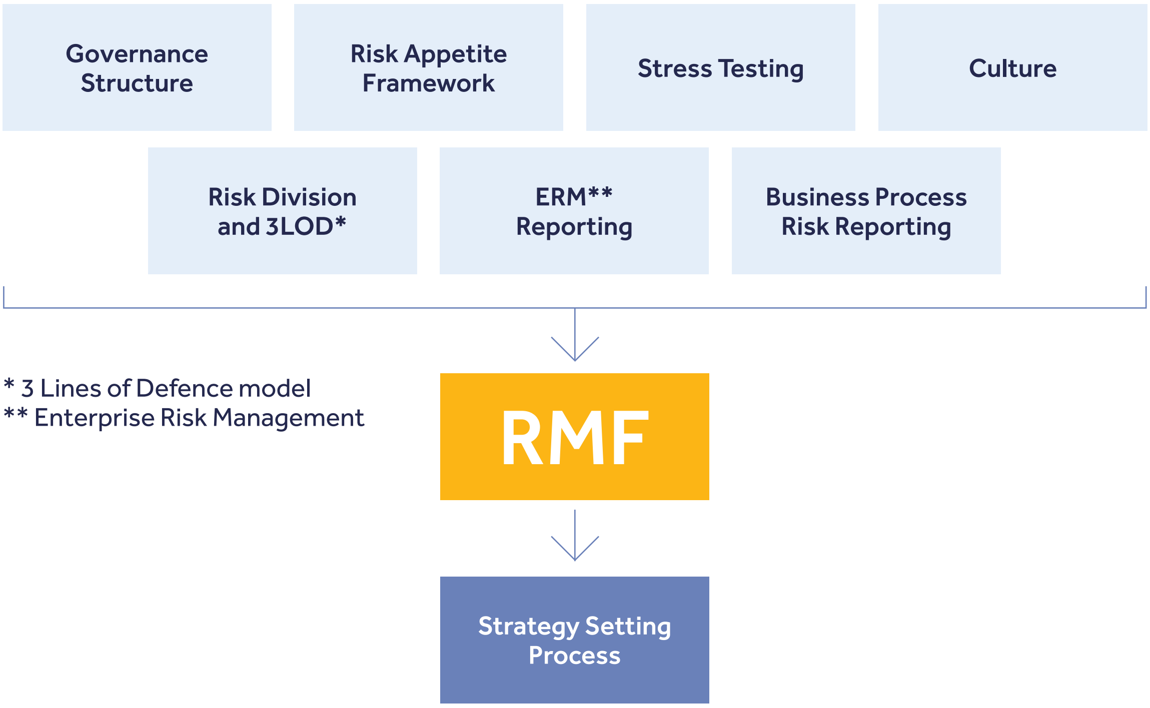
- Incorporating energy-efficient, renewable and low carbon technologies such as low energy lighting and occupancy sensors during premises' refurbishments and upgrades, wherever possible.

- An active recycling and waste management policy – 100% of paper is recycled and we separate all our non-paper waste to ensure that plastics, tins and cardboards from all our sites are recycled. Under consolidated waste management arrangements, we have dry mixed recycling at all Society locations, which has helped to recycle more and move us towards our aspiration of eliminating waste destined for landfill.

- Offering members the opportunity to receive AGM communications by email to reduce the amount of paper used each year.

Risk Management Report

Year ended
31 December 2014



Purpose

The purpose of this report is to:

- Explain the Society's Risk Management Framework;
- Highlight the risk governance arrangements; and
- Set out the principal risks and uncertainties facing the Society.

Risk Management Framework

The Risk Management Framework (RMF) details how Leeds Building Society deploys a structured approach to risk management and an integrated and holistic view of risks across the Society. This ensures a joined-up and consistent approach to aggregation and management of all risks, which are integrated into business management and decision making at both strategic and operational levels. The Society's RMF is depicted above.

The RMF is owned by the Risk Director and is subject to an annual appraisal by the Group Risk Committee (GRC), on behalf the Board. The Risk Director manages the independent Risk function, reporting directly to the Society's Chief Executive Officer. In addition, the Risk Director is also accountable to the Chairman of the GRC.

The Risk function seeks to support sustainable achievement of the Society's long term strategy and comprises specialist teams that provide in depth analysis and oversight of each of the constituent risks faced by the Society. These areas comprise Credit, Treasury, Operational, Information Security and Conduct Risk (including Compliance and Financial Crime) teams.

In order for the RMF to operate effectively, it is critical that:

- Risk is owned by line management and integrated within business processes;
- Appropriate oversight arrangements exist to ensure independent risk expertise and assurances are available; and
- Risk management is a partnership between the Risk function and frontline business functions.

To apply these principles, the Society operates a '3 Lines of Defence' model:

- 1st Line of Defence (day to day ownership of risk management): being line management within the business which, through the implementation of the organisation's risk management framework, identifies, assesses and manages risk.

“The Risk function seeks to support the sustainable achievement of the Society’s long term strategy.”

- 2nd Line of Defence (oversight and challenge of the 1st line): comprising independent risk focused teams and risk based committees. These functions/committees challenge, monitor, guide and support the business in managing its risk exposure.
- 3rd Line of Defence (independent assurance): provided by Internal Audit, is designed to give independent assurance to the Board (via the Audit Committee) of the adequacy and effectiveness of control systems operating within the 1st and 2nd lines in terms of identifying and managing risk.

Risk Governance Arrangements

A high level summary of the Society’s governance controls and committee structure is set out opposite and below.

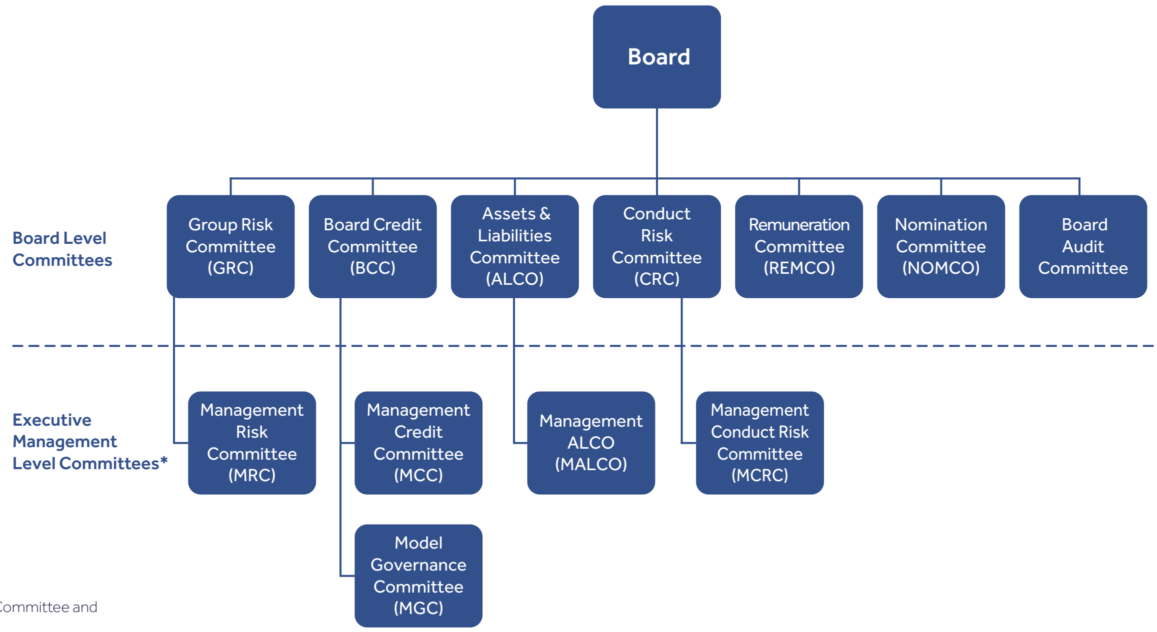
Governance Controls

The governance infrastructure is supported by three tiers, with the following controls underpinning each level:

Tier	Controls
Tier 1 Board Governance Infrastructure	• Board Procedures Manual • Board level committee Terms of Reference (ToR) for: – Group Risk Committee; – Board Audit Committee; – Assets and Liabilities Committee; – Board Credit Committee; – Conduct Risk Committee; – Remuneration Committee; and – Nomination Committee
Tier 2 Executive Management Governance Infrastructure	• List of Board delegated authorities • Executive/Management level committee ToR for; – Executive Committee (ExCo); – Management Committee (ManCo); – Management Risk Committee; – Management Credit Committee; – Model Governance Committee; – Management Conduct Risk Committee; and – Management Assets and Liabilities Committee
Tier 3 Risk Management Infrastructure	• Risk Management Frameworks • Risk Policies • Risk Appetites • Committee Reporting/MI • Internal Capital Adequacy Assessment Process, Individual Liquidity Assessment, Recovery Plan and Resolution Information Pack

Committee Structure

The structure of management and Board Committees is set out below:



*The Society also operates an Executive Committee and Management Committee at this level.

Risk Management Report

Year ended
31 December 2014

Continued

Further details of the activities of the GRC, BCC, ALCO, CRC and NOMCO are set out in the Corporate Governance Report on pages 34 to 39. The Remuneration Report is outlined on pages 44 to 55.

Principal Risks and Uncertainties

The scope of the RMF extends to all risk types faced by the Society. Although, the Society identifies, manages and reports against all categories of risk, seven principal risks have been articulated, in the sections below, which integrate into regulatory reporting, capital planning requirements or represent areas of significant stakeholder focus.

Credit Risk

Credit Risk represents the risk that customers or counterparties will not meet their financial obligations as they fall due. The Society faces this risk from its lending operations to retail mortgage customers, commercial lending customers and wholesale counterparties. The market background/uncertainties and how the Society mitigates each of these risks is as follows:

Market Background and Uncertainties

The key driver of credit risk within the Society is the performance of the UK economy. Specifically, a deterioration of the UK economy 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. Whilst the UK economy is expected to improve further in 2015, with lower levels of unemployment and more stable house prices, the Society retains a prudent stance with regard to new residential mortgage lending.

The UK economic environment also affects the performance of the Society's legacy commercial loan portfolio. In recent years, reduced demand for UK goods and services has resulted in lower levels of rental demand, and as a consequence lower commercial property prices. The Society ceased new commercial lending in 2008 and since this time has successfully deployed a strategy to reduce its exposure to this asset class. In 2014, the portfolio reduced by a further £91m to £269m. The Society is seeking to reduce its commercial asset exposure further in 2015.

Credit risk within the Society is also influenced by the performance of the Irish and Spanish economies, through legacy Irish and Spanish residential lending portfolios (2.3% of total loan balances). Whilst both economies have started to demonstrate elements of stability, economic outlooks for these countries remain fragile.

Although wholesale markets have recently been less volatile than during the financial crisis, the Society has retained a low appetite for counterparty credit risk. The Society has no direct wholesale credit exposure to sovereign or financial institutions in Ireland, Portugal, Spain, Greece, Italy or Cyprus. The Society also has no exposure to the Swiss Franc.

Residential Risk Mitigation

This risk is overseen by a specialist retail Credit Risk function, reporting to the Risk Director, with oversight from BCC.

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

With regard to new lending, residential credit risk is managed using the following tools:

- Credit scorecard assessment;
- Affordability assessment based on income and expenditure;
- Stressed interest rates;
- Access to credit data, which reviews the credit history of an individual;
- Independent expert appraisal of the suitability and value of a property; and
- Underwriting systems, which are a hybrid of computer systems and suitably qualified underwriters.

The Society's retail Credit Risk function monitors the performance of the portfolio, including stress testing, on an ongoing basis. This identifies trends and facilitates an understanding of the portfolio, which is used to assess whether the current risk appetite remains appropriate.

If a borrower's financial situation starts to deteriorate, the Society has established procedures to respond appropriately. The Society has a dedicated Collections function, which seeks to engage with customers, at an early stage, to discuss potential financial difficulties. Forbearance options are determined on a case by case basis, with the aim of working with borrowers to clear arrears. The Society is able to offer customers an appropriate range of options, “During 2014, the Society issued its first senior unsecured debt since the financial crisis, raising €500m.”

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). After all other options have been exhausted, the Society may take possession of the mortgaged property.

Analysis of the Society's residential portfolio and forbearance activity is used to inform the provisioning policy. This ensures that the Society properly recognises losses, in accordance with its accounting policies.

Commercial Risk Mitigation

Although the Society closed its commercial lending operations to new business in 2008, management has retained a team of appropriately skilled colleagues, to implement the exit strategy from this asset class. This function is also supported by the Risk function, which provides 2nd line oversight of the performance and management of the portfolio.

Portfolio performance is monitored closely and overseen by BCC, with monthly reporting to the Board. All loans continue to be 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 action and appropriate forbearance, through loan extensions, restructures or property sales, to reduce the risk and minimise losses.

Similar to residential credit exposures, analysis of the commercial portfolio and forbearance measures informs the Society's provisioning policy. Over recent years, the Society has made significant provisions against its commercial portfolio, which has ensured that impairment and losses have been recognised, in accordance with its accounting policies.

Wholesale Credit Risk Mitigation

As a consequence of the financial crisis, the Society significantly tightened its wholesale counterparty credit criteria. This has resulted in limits and exposures being UK centric, but with limits also extended to 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 financial institutions and asset backed securities, along with deposits at the Bank of England.

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

Operationally, a dedicated resource within the 1st line Treasury function monitors the Society's exposures on a daily basis, and reports market developments, as appropriate. Oversight is also provided by the Risk function and also the Treasury Credit Risk Committee, which convenes monthly to review wholesale credit exposures. ALCO also receives management information regarding wholesale credit exposures at each meeting.

Liquidity Risk

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

Market Background and Uncertainties

Wholesale funding markets performed strongly in 2014, characterised by narrow spreads and supported by a shortage of supply versus investor appetite. The cost of secured and unsecured funding remained relatively low and demonstrated a strong resilience, even as deflationary fears emerged out of the Eurozone in the final quarter of the year. Markets remain focused on key events for signs of volatility and uncertainty.

Whilst the core source of funding emanates from retail depositors (82%), the Society has remained active in the international wholesale markets. During 2014, the Society issued its first senior unsecured debt since the financial crisis, raising €500m.

The introduction of Basel III requires the Society to be compliant with new liquidity standards. These new measures include a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR), which will focus on the quality and quantity of liquidity under stressed conditions and the stability of the Society's funding profile. Implementation of these indicators will be phased in between October 2015 and 2018. As at 31 December 2014 the Society's LCR and NSFR were in excess of the regulatory minimum.

Risk Management Report

Year ended
31 December 2014

Continued

Liquidity Risk Mitigation
This risk is managed through Board approved limits and policy, which determine the overall level, composition and maturity of liquidity and funding balances. Operationally, the Society's Treasury function is responsible for the day-to-day management of liquidity and wholesale funding. Compliance with policy is monitored daily by the Finance and Risk functions and is reported to ALCO and the Board at each meeting.

The Society also manages liquidity risk through the use of sale and repurchase agreements ('repo'), whereby treasury assets are lent in return for cash thus ensuring that these assets remain liquid and readily realisable.

The Society determines the adequacy of its liquidity through its annual Individual Liquidity Adequacy Assessment (ILAA). This process determines a minimum level of liquid assets required under multiple stressed environments and is subject to review by the Prudential Regulation Authority (PRA). These liquid assets, known as 'buffer assets', are of very high credit quality, for example UK Government securities and deposits held with the Bank of England. This ensures they can be readily and easily converted to cash as liabilities fall due. The Board approved the most recent ILAA in September 2014 and concluded that the Society's liquid asset buffer holdings comfortably covered the assumed effects of a prolonged severe stress. As at the end of December 2014, the Society's liquid buffer eligible assets totalled £1.4bn and accounted for 88% of total liquidity.

Market Risk
Market Risk is the risk that the value of, or income emanating from, the Society's assets and liabilities changes adversely, as a consequence of movements in interest rates and foreign currency rates.

Market Background and Uncertainties
During 2014, market interest rates fluctuated due to the uncertainty surrounding the timing of bank base rate rises, as a consequence of an emerging deflationary economic environment, changes in central bank rhetoric and heightened levels of geopolitical risk. It is expected that these uncertainties will remain during 2015.

Interest Rate Risk Mitigation
The Society is susceptible 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 could be susceptible to net interest income variances, depending on the interest rate characteristics of the balance sheet at the time of any rate change. In addition, provision of fixed rate mortgage and fixed rate savings products gives rise to a market value risk under different interest rate scenarios.

In addition, basis risk, which is a subset of interest rate risk, arises as a consequence of changes in the relationship between different interest rates, which have similar but not identical characteristics e.g. LIBOR and the Bank of England Bank Rate.

Through the transaction of interest rate derivatives, the Society converts fixed cash flows to variable rate basis so that cash flows follow the general movements in interest rates and reduce the risk exposure. The Society only transacts derivative contracts for hedging purposes. It does not transact derivative contracts for trading or speculative purposes.

These risks are managed through the use of Board 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 and basis risk exposures. Operationally, Treasury is responsible for managing the Society's interest rate and basis risk exposures and this is overseen by the Treasury Risk function and ALCO.

Foreign Currency Risk Mitigation
Currency Risk is the risk of loss emanating from movements in foreign exchange rates. Here, the Society would be susceptible 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, the Society is exposed to foreign exchange movements through its wholesale funding operations and legacy Irish and Spanish loan portfolios.

Similarly to interest rate risk, foreign currency risk is managed through Board limits, offsetting assets and liabilities and the use of financial derivative instruments such as foreign exchange swaps. Again, from an operational perspective, Treasury is responsible for managing the Society's foreign currency risk exposures, with oversight provided by the Treasury Risk function.

A subset of foreign currency risk is redenomination risk. This is the risk of loss as a result of 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 jurisdiction were to leave the Euro and alter its currency. The Society could be exposed to

"Overall, the Society has extremely limited tolerance 'for' or 'to' conduct risk events, and in line with its stated appetite, restricts its activities to areas where appropriate expertise is in place."

this risk through its legacy lending operations in Ireland and Spain. Since the year end, the Society has completed a retained securitisation, which will provide contingent collateral for such a scenario in Ireland. ALCO is responsible for managing this risk, which is also subject to oversight from GRC.

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 Society acknowledges that operational risks are inherent to, or in, its business activities. The Board has agreed an overarching risk appetite for operational risk, which is monitored by Management and reported to the GRC and the Board.

Market Background and Uncertainties

Management recognises that it operates in an environment dominated by established large firms, with additional competitive pressure arising from a stable Building Society peer group and new market entrants.

Strategically, the Society has chosen to develop its core UK business activities of residential lending, savings products and associated retail financial services. Whilst the Society has no planned diversion from these activities, the Board has recognised that changes to the availability of the Society's products and services through its distribution channels would enhance competitiveness and maintain success. As a consequence, a strategic priority is to develop and implement an omni-channel approach to distributing products and services, alongside a segmental lending strategy. The Society has assigned resources dedicated to the delivery of these activities, with the Board receiving regular progress updates.

The Society is expected to complete the migration of its IT Systems service provision to Hewlett Packard in the first half of 2015. This new relationship will enhance the technological environment and support management in developing systems to deliver its strategic objectives.

Cybercrime represents an increasing challenge to all businesses. With vulnerabilities identified and exploited in a number of high profile institutions, the Society recognises the heightened threat to its business, members, colleagues and external stakeholders. Accordingly, IT security arrangements are reviewed to ensure they remain appropriate. The Society is also reviewing its Business Resilience appetite and framework in order to strengthen its ability to quickly adapt to disruptions, whilst maintaining continuous operations and safeguarding people, assets and its overall brand.

Operational Risk Mitigation

The Society has implemented a bottom up/ top down reporting approach to support the adoption of an enterprise wide risk management approach, which encourages 1st line ownership of risk management and reporting, with the 2nd line performing more of a co-ordination, aggregation and oversight role.

The Operational Risk function engages with each area of the business to maintain departmental risk registers, which include a dynamic assessment of the effectiveness of key controls as well as relevant mitigation actions.

Risk reporting is linked to strategic and corporate objective risks as well as operational and business resilience risks and informs debate at Risk Committees.

There are annual risk monitoring plans in place covering internal events and external developments. This enables management to maintain a focus on managing current and future key risks which could result in the failure of the business delivering against corporate objectives.

Conduct Risk

Conduct 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' or 'to' conduct risk events, although it is recognised that operational risk failures may create isolated exposures.

Market Background and Uncertainties

In April 2014, the Mortgage Market Review (MMR) was implemented. The new mortgage rules were the most significant regulatory development with regard to conduct risk for 2014, and overhauled the existing mortgage rules and guidance which had been in place since 2004.

The industry is now preparing for the European Mortgage Credit Directive, with many of the proposals already having been implemented through the MMR rules. The Directive aims to further enhance consumer protection and the industry is working with the Regulators to, where possible, align the proposals with the current regime.

Risk Management Report

Year ended
31 December 2014

Continued

During 2014, the Society completed a voluntary redress exercise for five tranches of structured deposits originated between 2009 and 2010. Following the publication of an Enforcement Notice in relation to two other firms, the Society, proactively, opted to contact relevant structured deposit customers. The contact programme focused on customers who had received marketing literature, which had some similarities with the literature referenced in the Enforcement Notice. All the impacted customers received a number of letters explaining the options open to them. The cost of the redress exercise is fully recognised in the 2014 Income Statement.

Conduct Risk Mitigation

Overall, the Society has extremely limited tolerance 'for' and 'to' conduct risk events, and in line with its stated appetite, restricts its activities to areas where appropriate expertise is in place.

Customer facing and operational areas provide 1st line management of conduct risk, monitoring standards and customer outcomes against agreed standards. In 2014, a revision to the Society's structure saw the introduction of a new Business Support function. This department has assumed 1st line responsibility for quality assurance over the key operational areas. It is envisaged that the new structure will allow all 1st line quality assurance monitoring to be aligned and to better enable good practice to be shared across the Society. Monthly management information is provided to a dedicated 2nd line Conduct Oversight function, which undertakes independent assurance over the 1st line activity. Detailed conduct risk management information, from both the 1st and 2nd line, is prepared for review by the CRC at each meeting, with actions and outcomes being appropriately monitored. Key aspects of this report are subsequently incorporated into monthly Board reporting.

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. Examples of business risk are the major regulatory changes impacting liquidity, capital, competition or the conduct of business.

Business Risk Mitigation

The Society addresses business risks within its Corporate Plan, which is reviewed annually by the Board and considered in the context of Strategic Risk Appetite. In addition, the Board is provided with regular updates on the Society's key strategies to ensure these are consistent and remain within risk appetite.

Pension Obligation Risk

The Society has funding obligations for a defined benefit pension scheme, which was closed to new entrants on 31 December 1999 and closed for future accrual (for existing employees who were already members of the scheme as at 31 December 1999) on 31 December 2014. 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 equity markets and interest rates, 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.

Pension Obligation Risk Mitigation

This risk is managed through regular meetings of the Pension Trustee Board and an Investment Sub-Committee. 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.

Capital Management

The Society assesses its capital adequacy through an Internal Capital Adequacy Assessment Process (ICAAP), at least annually. This process is used to determine the level of capital required to support the Society's current and future business activities. The ICAAP ensures that the Society meets regulatory capital requirements under business as usual and stressed environments, over a five year time horizon.

"During 2014, the Society remained strongly capitalised significantly above the PRA prescribed levels of capital."

Following Board approval, the ICAAP is periodically considered by the PRA as part of its Supervisory Review and Evaluation Process. This process is used to determine an Individual Capital Guidance (ICG) requirement for the Society. During 2014, the Society remained strongly capitalised significantly above the PRA prescribed levels of capital. The Society expects its capital position to remain strong in 2015.

The implementation of Basel III, in 2014, introduced stricter definitions of the components of capital. Instruments which do not meet these definitions, including the Society's outstanding £25m Permanent Interest Bearing Shares (3% of total capital), are being gradually de-recognised for capital purposes, over a period of time. This commenced in 2014.

In addition, Basel III has also introduced a supplementary non-risk based leverage ratio. This backstop measure assesses the relationship between tier one capital and total assets. The expected implementation date for the introduction of the leverage ratio is 2018. As at 31 December 2014, the Society's leverage ratio stood at 5.6%, which is significantly higher than the current regulatory minimum of 3%. This excess would also allow the Society to absorb the impact of supplementary leverage buffers, proposed by the Financial Policy Committee during 2014, which may apply at a future date.

The Society has considered the impact of the introduction of these rules on future levels of capitalisation, including under stress testing. The directors consider that the Society will continue to remain well capitalised and there is currently no requirement to issue additional capital instruments although the Society will continue to monitor market developments closely. Further information on capital and leverage is included in the Society's Pillar 3 Disclosure which is available on the Society's website.

David Fisher
Chairman of the Group Risk Committee
24 February 2015

Board of Directors

Robin Ashton
Chairman (57)

I joined the Board as a Non-Executive Director in April 2011 and became Chairman in March 2013.

In my role as Chairman, I attend most Board Committees. I am 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 am also a Non-Executive Director of Shawbrook Bank Ltd. and Non-Standard Finance plc. I am married with three children and my interests include reading and motorsports.

Peter Hill
Chief Executive (53)

I joined the Society in 2001 as a Senior Manager and was appointed to the Board, as Operations Director, in 2006. I became Chief Executive in 2011.

My role is to lead the Society's Executive Team; set the tone in respect of the Society's culture; develop strategy, and deliver a balanced business performance in the long-term interests of our members. I am an active contributor to the Leeds and Yorkshire business community, Deputy Chairman of the Council of Mortgage Lenders, Chairman of the Northern Association of Building Societies and a Fellow of the Royal Society of Arts. I am married with two sons at secondary school.

Philippa Brown (48)
Having joined the Board as a Non-Executive Director in January 2013, I bring a strong consumer and marketing perspective to the role.

I am also a member of the Conduct Risk and Remuneration Committees. Putting the interests of the members at the heart of the business provides a strong point of difference and one of the reasons why the Society has been so successful. I have been employed in marketing and advertising for over 25 years and am Chief Executive Officer of a leading UK media agency, Omnicom Media Group UK. Outside of work I enjoy swimming and have two children. I also support Breakthrough Breast Cancer and Future Dreams charities.

Susan Cooklin (54)
I am delighted to have joined the Board in February 2014. I am a member of the Risk and Audit Committees.

I am currently Group Chief Information Officer at Network Rail Infrastructure Ltd. Prior to this I was a senior executive at Barclays Bank within operations and technology. Having spent over 20 years in financial services, I am proud to have joined a mutual organisation where the interests of members are core to our business. Outside of work I enjoy spending time with my family and swimming.

David Fisher (56)
I joined the Board in March 2012. I chair the Board of the Staff Pension Scheme as well as chairing the Risk Committee.

I am also a member of the Credit and Remuneration Committees. I started my financial services career with Halifax Building Society 24 years ago. Prior to joining Leeds Building Society I was Chief Executive of Sainsbury's Bank. I am delighted to have been given the opportunity to return to my mutual roots and to join a Board totally committed to mutual status. I hold a number of other directorships and advisory roles. Outside of work, I am married with two daughters. I am a keen runner and completed my first marathon in 2012.

Andrew Greenwood (45)
I am proud to work for the Society, and joined the Board as Risk Director in 2015.

I started my career as a solicitor in private practice and have 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 live near York with my wife and two young children.

Philip Jenks (64)
I joined the Board in March 2012. I chair the Society's Credit Committee and I am also a member of the Society's Risk and Conduct Risk Committees.

I have almost 40 years' experience in financial services, with extensive knowledge of mortgages and savings. I am Chairman at Chartercourt Financial Services Group and work as a consultant for a number of organisations, including the Government on housing-related projects. I fully appreciate the importance of mutuals and am proud to be a director where the focus is on getting things right for members. I am married with three children and outside of work I enjoy walking, going to the theatre and watching sport.

Robin Litten (51)
I have spent my career in retail and financial services, and for the last 12 years in the mutual building society sector, joining the Society in 2012 as Finance Director.

I have held senior roles at Barclays Bank and Skipton and Scarborough Building Societies. My role at Leeds Building Society is to ensure 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 am Chairman of the Assets and Liabilities Committee. Outside work, I enjoy spending time with my family, playing squash and cycling.

Les Platts (61)
I joined the Board in 2010 and am the Vice Chairman and Senior Independent Director.

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

Abhai Rajguru (49)
Having spent my career in the financial services sector, I joined the Board in 2008.

I hold a number of directorships and am also a member of the HM Treasury Audit Committee. I serve on the Society's Audit and Assets & Liabilities Committees. I am proud to be a member of the Board of the Society, which, as a mutual, has remained focused on delivering value to its members. Much of my time outside work is taken up by my young son, and I also enjoy music, films and motorsports.

Abhai will be retiring from the Board at the 2015 AGM.

Kim Rebecchi (48)
I joined the Board in 2009 and chair the Society's Conduct Risk Committee.

I am a member of the Executive, and Assets & Liabilities Committees. My role is to lead the Distribution & Marketing Division to ensure we continue to deliver outstanding personal service to our members. This includes making sure we support the aspirations of our borrowers and savers, deliver competitive products and provide long-term value to our members.

Outside work I am an active Rotarian involved in local community and charitable activities. I am married with two children and enjoy walking, sailing and watching Leeds Rhinos.

Ian Robertson (67)
I am Chairman of the Audit Committee, and a member of the Risk and Credit Committees. I have been on the Board since 2008.

I am proud to work with such a highly regarded institution and to help further enhance its reputation as a leading example of the benefits of mutuality. I was President of the Institute of Chartered Accountants of Scotland in 2004/5. I am a Director of the Homes and Communities Agency for England and a member of the Audit Committee of the Department for Communities and Local Government. Outside work, I am a keen reader and love music.

Karen Wint (49)
I have been Operations Director since late 2012.

My responsibilities are to ensure that we have the right people, processes and technology in place to continue to deliver great service and value to our members. That includes updating 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 2014

The directors have pleasure in presenting their Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 December 2014.

Information on the Group's vision, strategy and business performance is given in the Strategic Report on pages 8 to 17.

Profit and Capital Position
The profit and capital position is set out in the Strategic Report on pages 8 to 17.

Mortgage Arrears
At 31 December 2014, there were 341 (2013: 372) mortgage accounts 12 months or more in arrears. The total mortgage arrears in these cases was £4.6m (2013: £6.6m) and the total of principal loans outstanding was £54.3m (2013: £66.4m).

Charitable and Political Donations
The Group made a donation of £90,000 to the Leeds Building Society Charitable Foundation. Our Caring Saver Account enabled further donations of £24,000 to be made to charities. Other charitable donations in the year amounted to £18,000. No political donations were made during the year (2013: £nil). Other charitable contributions from colleagues and members totalled £143,000, taking total donations to charity to £275,000.

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

The creditor days stood at 19 days at 31 December 2014 (2013: 12 days).

Colleagues
Information on colleague policies and performance are included in the Strategic Report on page 16 to 17.

Principal Risks and Uncertainties
The principal risks and uncertainties faced by the Group and the approach to managing them are set out in the Risk Management Report on pages 22 to 29.

Corporate Governance
Statements on Corporate Governance and Directors' Responsibilities are set out on pages 34 to 39 respectively.

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

Environmental Policy
The Environmental Policy is set out in the Corporate Responsibility Report on pages 18 to 21.

Directors' Responsibilities in Respect of the Preparation of the Accounts
The following statement, which should be read in conjunction with the statement of the Auditor's responsibilities on page 59, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, annual accounts which 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 which 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 those Annual Accounts, the 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 Accounts, taken as a whole, are fair, balanced and understandable 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 regulated 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The directors are required to prepare these financial statements on the 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 the 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, 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 so as 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. The 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. The directors consider that the Group is not exposed to losses on these assets which would affect their decision to adopt the going concern basis; and
- Reasonable profits have been generated in order to keep gross capital at a suitable level to meet regulatory requirements. In the current environment, profitability is affected by increased impairment losses on loans and advances to customers. Having reviewed its plans and forecasts for the future, the directors consider that the Group is able to generate sufficient profit to maintain capital in excess of regulatory requirements.

The directors, therefore, consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors

The names of the directors of the Society who served during the year, their roles and membership of Board committees are described in the Corporate Governance Report on pages 34 to 39. In line with best practice all the Executive and Non-Executive Directors, with the exception of Abhai Rajguru, offer themselves for re-election by the members at the Annual General Meeting. Andrew Greenwood is also seeking election to the Board having been appointed in January 2015. None of the directors hold 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 Event

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
Risk Director & Secretary
24 February 2015

Corporate Governance Report

Year ended
31 December 2014

Introduction

The Society continues to apply 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 2012, in so far as its provisions are relevant and applicable to a Building Society rather than a listed company.

The Board is committed to high standards of corporate governance which provide a strong platform on which to base the Society's strategy and its long term success, as well as supporting the effective monitoring of management by the Board. The Board also recognises the importance of good corporate governance in meeting the requirements of our members, to whom the Society is ultimately accountable.

This report explains the Society's approach to corporate governance and how it applies the principles and provisions of the Code. Details of the principal Board committees, together with attendance records for those committees are also set out below.

The Role of the Board

The Society is led by a Board of Directors, which is collectively responsible for the overall success of the Society.

The Board's primary role is the overall management and direction of the Society's affairs. The Board is responsible for ensuring that there is an effective governance system and an appropriate culture. Setting and overseeing implementation of the Society's strategy, reviewing business performance and risk management, and overseeing the maintenance of sound systems of internal control are also primary responsibilities. The Board follows an annual planning cycle, which considers the development of longer term strategy in the context of the wider business environment and meets twice a year to specifically discuss the Society's strategic requirements and corporate planning.

The Board has a formal Schedule of Matters which are reserved solely for the Board's decision and it has also delegated certain authorities to a number of Board sub-committees. The Schedule of Matters, along with the terms of reference for each Board committee, is available on the Society's website – leedsbuildingsociety.co.uk/your-society/about-us/. A framework of management focused delegated authorities is also in place, through a formal Delegated Authorities Manual, which is reviewed and approved by the Board annually. The most recent review took place in September 2014.

Board Composition

At 31 December 2014, the Board comprised four executive and eight non-executive directors.

Biographical details of all directors are set out in the Board of Directors section of this report. All directors have access to the advice and services of the Secretary and to independent professional advice at the Society's expense, if appropriate, in order to fulfil their responsibilities as directors.

The Board considers that the directors' skills and expertise complement each other, to provide an appropriate balance, in terms of protecting members' interests and addressing the requirements of the business. The Board is satisfied that all of the non-executive directors are independent.

The role of the non-executive directors is to bring independent judgement to Board debates and decisions and to challenge the work and recommendations of senior management. The main role of Senior Independent Director is undertaken by the Vice-Chairman and is to support the Chairman in leading and managing the Board. The Chairman consults with the Vice-Chairman, the Society's Secretary and the Chief Executive on matters relating to the Code. Les Platts was appointed as the Senior Independent Director in March 2014 following the retirement of Bob Stott.

The non-executive directors meet at least once a year, without the executive directors being present, to discuss any relevant matters and the performance of the executive team.

Non-executive directors are usually expected to serve two, full, three year terms, subject to satisfactory performance evaluations after each term and re-election by members. They may also be proposed for a third term, up to a maximum of a further three years.

At the 2015 Annual General Meeting (the AGM), Ian Robertson will have served six years as a non-executive director. However, the Board and Ian have agreed to extend his term of office until December 2015.

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

The Roles of Chief Executive and Chairman

The roles of Chairman and Chief Executive are distinct in their purposes and are held by different individuals. The division of responsibilities between the Chairman and the Chief Executive is reviewed annually by the Nomination Committee.

"The Board also recognises the importance of good corporate governance in meeting the requirements of our members, to whom the Society is ultimately accountable."

The Chairman is principally responsible for leading the Board and is not involved in the day to day management of the Society. The Chief Executive's responsibilities are focused on running the Society and implementing strategy.

Succession Planning

Succession planning and the appointment of all new directors and senior management is considered regularly by the Nomination Committee.

The Committee reviews the size and composition of the Board and regularly reviews the requirements for new skills, experience and refreshing of the Board, to ensure it continues to have the requisite balance of skills and experience to carry out its duties effectively.

Members of the Society are also 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) and must be approved by the regulators.

The Society currently has 31% female representation on the Board and therefore exceeds the recommendations of the Davies Report which, for diversity purposes, has set a minimum target of 25% female representation.

Annual Re-election of Directors

The Society's rules require directors to be re-elected once every three years. However, in seeking to further apply the provisions of the Code, the Nomination Committee, under delegated authority from the Board, agreed to adopt the requirement that all directors be re-elected, on an annual basis, with effect from the Society's AGM in March 2015.

Board Meetings

The Board operates through meetings of the full Board, as often as necessary for the proper conduct of business, normally 10 times a year, and through its sub-committees which are detailed on pages 37 and 38.

The Board and its committees are supplied with accurate, timely and clear information and it is the responsibility of the Chairman to ensure that this information is considered appropriately. Ordinarily, papers are circulated to all Board and sub-committee members one week in advance of the meetings.

Board and Board Committee Membership Attendance Record

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Credit Committee	Assets and Liabilities Committee	Conduct Risk Committee	Group Risk Committee
Robin Ashton	10(10)			5(5)				
Les Platts	10(10)	7(7)	5(5)	4(4)		5(5)	1(1)	
Bob Stott (retired 25.3.14)	2(2)		2(2)	1(1)				
Peter Hill *	10(10)				6(6)	7(7)		
Robin Litten *	10(10)				6(6)	7(7)		
Kim Rebecchi *	9(10)				5(6)	6(7)	6(6)	
Karen Wint *	10(10)				6(6)		6(6)	
Susan Cooklin (appointed 25.2.14)	8 (8)	5(5)						4(4)
Ian Robertson	10(10)	7(7)			6(6)			6(6)
Abhai Rajguru	10(10)	7(7)				6(7)		2(2)
Philippa Brown	9(10)		3(3)				5(5)	1(2)
David Fisher	10(10)		5(5)		6(6)	2(2)		4(4)
Phil Jenks	10(10)				5(6)		6(6)	6(6)

*Executive Directors

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

Corporate Governance Report

Year ended
31 December 2014

Continued

The structure of the Board and its committees is set out below:

The Board

Board Credit Committee

Provides credit risk oversight, monitors credit risk models and oversees the run-off of the commercial lending portfolio.

Nomination Committee

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

Remuneration Committee

Sets the framework for remuneration of the Chairman, Executive Directors and Senior Managers.

Group Risk Committee

Reviews the Society's exposures to risk and oversees the risk management framework to ensure that it is appropriate to mitigate current and prospective risks. Undertakes risk related reviews. Develops strategic risk appetite and the ICAAP for Board approval.

Board Audit Committee

Monitors the integrity of the annual results. Reviews and assesses the annual internal audit plan and monitors the findings of the Internal Audit function. Assesses the independence and objectivity of the external auditor and oversees the quality of audit work.

Chief Executive

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 to ensure fairness to members. Assesses new and existing products to ensure they are appropriate to the members needs.

Assets & Liabilities Committee

Oversees Treasury policy, financial risk management, wholesale funding and liquidity and recommends the Society's ILAA for Board approval.

"The Society currently has 31% female representation on the Board and therefore exceeds the recommendations of the Davies Report."

Board Sub Committees

Internal Control and the Audit Committee

The Board is responsible for setting the Society's risk appetite, and for determining the overall strategies for control and risk management. Senior management is responsible for designing, operating and monitoring robust and effective internal control and risk management processes. The Audit Committee, on behalf of the Board, regularly receives reports on the adequacy and effectiveness of these processes from the objective and independent Internal Audit function. This has operated throughout the year.

The systems of control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable assurance as to the safeguards protecting the business against the risk of material error, loss or fraud.

Through its meetings, the Audit Committee has reviewed the effectiveness of the Society's systems of internal control for the year ended 31 December 2014, on behalf of the Board, and has taken account of any material developments that have taken place since the year end. The Board Audit Committee Report is detailed on pages 40 to 43.

Group Risk Committee

The Group Risk Committee comprises four non-executive directors and met six times in 2014. The attendance records for each meeting are shown on page 35. Membership of the Committee for the whole year was restricted to non-executive directors only, in accordance with the requirements of CRD IV. The current Chairman of the Committee is David Fisher. The other Board members of the Committee during all or part of the year were Susan Cooklin, Ian Robertson, Abhai Rajguru, Phil Jenks and Philippa Brown.

The Committee reviewed the Group's exposure to risk and the appropriateness of the risk management framework in place. It also provided oversight of the calculation and allocation of the Group's capital requirements and recommended to the Board, the Society's Internal Capital Adequacy Assessment Process (ICAAP). The Committee also oversaw the development of an Information Security Oversight Framework, the refresh of Strategic Risk Appetite Statements and received reports from management on risk focused topics.

Details of 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 22 to 29 and the Notes to the Accounts.

Assets and Liabilities Committee

The Assets and Liabilities Committee met seven times in 2014 and oversees treasury policy, in line with the Board approved Financial Risk Management Policy. Throughout the year, the Committee has provided oversight of financial risk management, wholesale funding and liquidity investment strategies, hedging, interest rate risk management and counterparty credit criteria. It has also considered the Society's Funds Transfer Pricing Policy, the Treasury ICAAP risk assessment and following detailed consideration, recommended the Society's Individual Liquidity Adequacy Assessment (ILAA) to the Board.

The current Chairman of the Committee is Robin Litten. The other Board members of the committee during all or part of the year were David Fisher, Les Platts, Abhai Rajguru, Peter Hill and Kim Rebecchi.

Nomination Committee

The Society's Chairman, Robin Ashton, is Chairman of the Nomination Committee. The Committee, in accordance with CRD IV, comprises solely non-executive directors. The attendance records for each meeting are shown on page 35.

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

An external recruitment agency is ordinarily used, as well as open advertising, to support the search and selection process for new Board members. Before any recommendations on appointment are made to the Board, the Committee will formally assess the aptitude, qualifications and experience of individual candidates. All appointments to the Board are made on merit and against objective criteria.

During the year, the main areas of focus for the Committee included the succession plans for the Board and senior management and oversight of the commencement of a recruitment process for new

Corporate Governance Report

Year ended
31 December 2014

Continued

non-executive directors. The Society appointed Zygos Partnership to assist in this process which will be concluded in 2015. The Society has no other business connections with Zygos.

The Nomination Committee also considered and agreed to adopt the requirement that all directors be re-elected, on an annual basis, with effect from the Society's AGM in March 2015.

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

Credit Committee

The Credit Committee met on six occasions in 2014. Its Terms of Reference pertain to credit risk management oversight, including approval of various policies and monitoring of adherence to policy and risk appetite.

The Committee has considered and approved updates to the Residential Arrears Management and Forbearance Policy and the Lending Policy to ensure they continue to follow best practice.

The Committee has considered and approved recommendations from the Model Governance Committee (a Management Committee) relating to the implementation and operation of credit risk focused models and the parameters of affordability models used as the basis for residential lending. In addition, the Committee has overseen the continual run-off of the commercial lending portfolio.

The Chairman of the Committee, during the year, was Phil Jenks. Other Board members of the Committee during all or part of the year were Peter Hill, Ian Robertson, Robin Litten, Kim Rebecchi, Karen Wint and David Fisher.

Remuneration Committee

Detailed information on the work and composition of the Remuneration Committee is set out in the Directors' Remuneration Report at pages 44 and 45.

Conduct Risk Committee

The Conduct Risk Committee ensures the Society meets the aims set out in the conduct risk policy and met on six occasions during the year. The Committee reviewed and approved new product types offered to members, to ensure they deliver positive customer outcomes and meet the required regulatory standards. The Committee also oversees adherence to the Society's conduct risk appetite, and during the year reviewed the performance of existing products. It carries out this activity by overseeing the product governance life-cycle and reviewing appropriate management information. The Committee has the authority to suspend the sale of products, if it considers there may be a risk that a product is not suitable to the needs of members or may be detrimental to their interests.

In 2014, the Committee also considered reports on the FCA Complaints Thematic Review and reviewed the Society's procedures for monitoring complaints. Throughout the year, the Committee received regular updates and monitored the progress on the Society's implementation of the Mortgage Market Review.

The Chairman of the Committee, in 2014, was Kim Rebecchi and other Board members during all or part of the year were Phil Jenks, Les Platts, Philippa Brown and Karen Wint.

Auditor

The Society has a policy on the use of the external auditor for non-audit work which is overseen and approved by the Board Audit Committee. The purpose of this policy is 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 2014 and these were conducted in accordance with the policy and are considered to be consistent with the professional and ethical standards expected of the external auditor and 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 to these Accounts.

Directors' Development and Performance Evaluation

During the year and in accordance with the annual review cycle, the Society's Chairman, on behalf of the Nomination Committee, conducted a formal evaluation of each of the non-executive directors. In addition, each Board sub-committee annually reviews its own performance, which then forms part of the process for evaluating the effectiveness of each of those committees. The Chairman's performance was reviewed, in his absence, by the Board as a whole. Feedback was given to him by the Vice-Chairman. Ongoing training and development requirements for non-executive directors are identified through both relevant Board committees and the performance evaluation process.

"The Board is responsible for ensuring that there is an effective governance system and an appropriate culture."

Susan Cooklin, a newly appointed non-executive Director undertook a comprehensive induction programme which was specifically tailored to her requirements, based on her previous experience and knowledge.

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

In accordance with best practice, a Board effectiveness review is facilitated by an external firm, once every three years. The next externally facilitated review will take place in 2015.

Terms of Reference

The Terms of Reference for the Audit, Group Risk, Conduct Risk, Assets and Liabilities, Nomination, Remuneration, and Credit Committees are updated annually to ensure they remain up to date and appropriate and are available to view on the Society's website, or on written request from the Society's Secretary.

Approval

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

Andrew J. Greenwood.

Andrew J. Greenwood
Risk Director & Secretary
24 February 2015

Board Audit Committee Report

Year ended
31 December 2014

The principal role of the Board Audit Committee is to examine any matters pertaining to the financial affairs of the Society and to provide effective oversight and governance of the Society's internal control and risk management processes. The Committee's primary functions are to:

- Monitor the integrity of the financial statements of the Society including significant financial reporting issues and judgement contained in them;
- Review financial statements and significant financial returns to regulators;
- Review the integrity of the Society's systems of internal control and risk management;
- Monitor and review the performance of the Internal Audit function;
- Oversee the relationship with the external auditor; monitor the independence and objectivity of the external auditor; and consider the effectiveness of the audit process;
- Review and approve the annual internal and external audit plans;
- Monitor the provision of non-audit services provided by the external auditor; and
- Review the adequacy and effectiveness of the Society's arrangements for handling allegations arising from the Speak Up Policy.

The Committee's full Terms of Reference are available on request from the Society's Secretary or can be downloaded from the Society's website.

Membership and Attendance

The Committee comprises four of the independent non-executive directors of the Society – Ian Robertson; Les Platts; Abhai Rajguru; and Susan Cooklin, who joined the Committee on 26 March 2014. Ian Robertson, who chairs the Committee, was formerly Finance Director of Wilson Bowden plc, and has ongoing Audit Committee experience in other organisations. He is therefore considered by the Board to have relevant financial experience.

Only members of the Committee have the right to attend, however, the Committee has issued standing invitations to the Chief Executive, Finance Director, Risk Director and the Society Chairman to attend meetings. Other supporting management attend by invitation as considered appropriate.

Representatives of the external auditor, together with the Chief Internal Auditor also attend each meeting. The Committee meet with both the external auditor and, separately, with the Chief Internal Auditor on at least two occasions each year, without the presence of management.

Meeting Frequency and Reporting

The Committee met seven times during 2014 and conducted the following business, the results of which were fully reported to the Board, both by means of Committee minutes, and by verbal report of the key points by the Committee Chairman.

Main Activities

At its meetings during the year the Committee:

- Reviewed the results and draft Annual Report and Accounts for the year ending 31 December 2013 and draft press release;
- Reviewed the going concern assumptions and all key issues and areas of judgement relating to the 2013 financial statements (including the methodologies and calculations behind the residential, commercial and other provisioning undertaken by the Society and the calculation of the pension scheme deficit);
- Considered reports by the external auditor on its audit and review of the financial statements;
- Reviewed the interim financial statements and draft press release;
- Considered a report by the external auditor on its review of the interim results;
- Undertook a review of the effectiveness of the external auditor;
- Made recommendations to the Board in relation to the appointment and remuneration of the external auditor, and monitored and considered the extent to which the external auditor remained independent;
- Considered the audit strategy for 2014, with particular regard to new requirements contained in the UK Corporate Governance Code 2012;
- Received and reviewed reports from Internal Audit on regulatory returns, including the Society's Internal Capital Adequacy and Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment (ILAA), Pillar 3 disclosures, and compliance with the Building Societies Sourcebook (BSOCS);
- Reviewed and approved the Society's risk-based Internal Audit plan for the year, in respect of both content and methodology;
- Reviewed the Internal Audit Charter, and monitored and reviewed the role and mandate of Internal Audit, in the context of the Society's overall risk management systems;
- Undertook a review of the effectiveness of the Internal Audit function;
- Received and considered regular reports from the Internal Audit function and followed up on implementation of agreed actions from previously considered reports;
- Undertook action to ensure the maintenance of good awareness in the Committee of the impact of developments in financial reporting and corporate governance pertinent to its duties and responsibilities;

"The Committee reviews the effectiveness of the Society's risk management and internal control systems throughout the year to ensure their adequacy."

- Reviewed the adequacy and effectiveness of the Society's arrangements for handling allegations arising from the Speak Up Policy;
- Kept under review the adequacy and effectiveness of the Society's internal financial controls, internal control and risk management systems;
- Received and reviewed the annual statement of attestation by management on the effectiveness of operation of the Society's systems of risk management and internal control; and
- Carried out a review of the Committee's own effectiveness.

Significant Issues in relation to the Financial Statements

The Committee considers a wide range of issues in relation to the financial statements. These issues mostly relate to judgement and estimates which management have to make during the preparation of the statements. The key areas of judgement and sensitivity are considered by the Society's external auditor, and presented to the Committee in the reports received in advance of the interim and final results.

During 2014, the significant issues considered by the Committee included:

Loan Loss Provisioning – Residential Mortgages

The Society estimates the level of provisions required in the residential mortgage book using historical default and loss experience and applying judgment. The Committee reviewed and challenged the approach to calculating provisions and confirmed that the assumptions made are appropriate. The Committee also satisfied itself with the overall calculation of the impairment provision. The Committee considers that the impact of forbearance in the portfolio has been considered and appropriate disclosures made in the financial statements.

Loan Loss Provisioning – Commercial Mortgages

Oversight of the Society's commercial loan impairment provisions is provided by both the Credit Committee and the Audit Committee. The Audit Committee addressed the level of provisioning through receipt of reports setting out policies and methodologies, including triggers for impairment provisions and collateral valuations. Reports are considered from management and the external auditor, and members of the Audit Committee attend the Board Credit Committee's discussions on the matter as observers. The Committee is satisfied with the approach adopted to calculate the provision for commercial mortgages and the overall level of the provision made.

Effective Interest Rate (EIR) Methodology

The Society recognises interest income using a constant level of interest over the expected behavioural life of the mortgage loan. The Committee reviewed the basis of the EIR calculations and the outcome of the testing work performed by the external auditor. The Committee concluded the basis for EIR was appropriate.

Going Concern Assumption

Preparing the Annual Report and Accounts under the Going Concern assumption requires the Board and Board Audit Committee to be satisfied about the viability of the Group's business operations, business planning, business management and risk management. Ongoing liquidity, capital and funding budgets and forecasts, alongside capital, cash flow and business viability considerations are assessed formally at the half year and year-end to coincide with the approval of the interim and annual accounts. The Committee reviewed and challenged these and, based on that, considers the adoption of the Going Concern assumption, in preparing the accounts, to be appropriate.

FSCS Levy Provision and Provisions for Other Liabilities and Charges

The Committee reviewed and challenged the estimates and assumptions made by management when calculating provisions at the end of the reporting period. The Committee considers that the overall level of provisions is appropriate.

Calculation of the Defined Benefit Pension Plan Position

The Society has a defined benefit pension plan which was closed to new entrants from 1 January 2000 and closed to future service accrual on 31 December 2014. The Committee reviewed the methodologies and the acceptable ranges from which assumptions had been selected in calculating the latest estimate of the scheme's assets & liabilities and the curtailment gain which has been recognised in the Income Statement. This review was supported by a report provided by the Society's advisers. Noting that the assumptions adopted by management were consistent with this report, the Committee is satisfied with the position reported within the accounts.

Hedge Accounting

The Group holds derivative financial instruments in order to mitigate various risks as set out in note 36 on pages 98 to 101. Accounting standards require changes in the value of these instruments to be recognised in the Income Statement. If it can be proven that there is a hedge relationship with the underlying items being hedged then the fair value of those underlying items is offset in the Income Statement. The Committee has overseen management's control activities in this area and is satisfied that appropriate disclosures have been made.

Board Audit Committee Report

Continued

Fair, Balanced and Understandable
The Committee also reviewed the content of the Annual Report and Accounts and advised the Board that, in its view, and taken as a whole, it is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy. The Committee recommended that the Board approve the Annual Report and Accounts accordingly.

External Audit Work
The external auditor did not highlight any material control weaknesses arising from their review of key financial reporting processes and systems.

Internal Controls

System of Internal Controls
The Board recognises the importance of sound systems of internal control in the safeguarding of member and Group assets. Internal controls can also facilitate efficient and effective operations, reliable internal and external reporting, and compliance with applicable laws and regulations.

The Society operates a Risk Management Framework that engenders a strong internal control framework. It is accepted that it is the responsibility of management to design, operate and monitor internal controls which adhere to the Boards policies on risk and control. All colleagues have a responsibility for internal control as part of their respective role and accountabilities and this is emphasised within the Society's induction process.

The Committee reviews the effectiveness of the Society's risk management and internal control systems throughout the year to ensure their adequacy.

Risk Management
Risk is managed, in part, through a comprehensive system of risk registers which form part of an Enterprise Wide Risk Management Framework. The Board receives and reviews reports on strategic risk and top level operational risks. The Board Credit Committee, Group Risk Committee, and Conduct Risk Committee all receive comprehensive reports covering risks associated with their areas of remit. The documentation identifies key risks; risk appetite; ownership of individual risks; mitigating actions; and any breaches of appetite.

The Risk Division provided oversight and assurance to the Committee and the Board on the effectiveness of the internal control framework. The assurance included a requirement for all members of senior management to certify that they had identified, reviewed, assessed and reported the key risks and controls within their respective business areas and that any remediation action had been taken, where necessary, to improve the control environment. The subsequent report received and considered by the Committee provided reasonable assurance that, during 2014, there were no material breaches of control and that the Society had maintained an adequate control framework to meet the principles of the Code.

Further details on the Society's Risk Management Framework can be found on pages 22 to 29.

Internal Audit
The Committee reviews and approves the Internal Audit function's risk based annual audit plan. During 2014 an updated methodology for the annual planning process was reviewed and approved. This incorporated a 'heat map' for the risk assessment and prioritisation of all auditable areas against a set of principal risks applied across all business functions within the Divisions. The Committee and the Chief Internal Auditor regularly reprioritise planned activities throughout the year to deal with changes in circumstances.

Regular reports are provided to the Committee throughout the year by Internal Audit which set out their view of the control environment. Each report is graded by reference to the significance of any weaknesses identified during the audit. Remedial actions are agreed with management, together with a timetable for delivery which is monitored by the Committee.

Internal Audit was able to report that management had acted upon to control weaknesses identified within agreed timescales and that resolution continued to be strong.

Pillar 3 Disclosures
During 2014, Internal Audit reviewed the 2013 Pillar 3 disclosures and reported that a limited number of instances were found where additional disclosures were needed to ensure full compliance with the requirements of the Capital Requirements Regulation. These had all been addressed satisfactorily and the Committee approved the disclosures.

BSOCS Compliance
During the year, along with other market participants, an audit was performed in response to a request from the Prudential Regulation Authority (PRA) for Internal Audit to undertake a review of the Society's application and implementation of BSOCS. The review was planned around the high level scope mandated by the PRA and has comprised a review of the alignment of risk appetite, policy, limits and risk reporting against the sourcebook and the appropriateness of risk management arrangements around treasury and lending operations. No material observations were raised.

The overall opinion was that the Society's treasury and lending policies, limits and risk management arrangements are largely reflective of the guidance set out in the Sourcebook and due consideration

“The Committee regularly monitors whether Internal Audit have delivered their reports in accordance with the agreed plan, and to the expected standard.”

has been given to this guidance when establishing policy and limits. The Committee approved this report prior to submission to the PRA.

External Audit

Annually the external auditor reports on their findings regarding the Society’s internal control environment. The results are followed up at subsequent audits and, by inclusion in the risk based annual audit plan, where appropriate.

Independence and Effectiveness of External Auditor

The effectiveness of the external audit process is assessed by considering the quality of the information presented to the Committee; the timeliness of the conduct of the audit and the resultant reporting; and the effectiveness of the auditor’s relationships with management in obtaining the necessary information and dealing with the issues arising. Deloitte provide a mechanism that enables the Committee chairman to contact a dedicated Deloitte partner to discuss any performance and effectiveness issues. No such issues arose during the year.

In order to monitor and assess any threats to the independence of the auditor the Society’s Policy on Non-Audit Services is reviewed annually to ensure oversight objectivity and independence. The Committee reviews at each meeting a report on the extent of spend with the auditor on audit and non-audit items. In addition, limits have been set for the amount of spend on each item of non-audit work which can be awarded to the auditor by management without prior reference to the Committee or its Chairman. In the case of larger items the Chairman must be consulted before tendering commences. The external auditor undertook a number of non-audit assignments during the year and these were conducted within the limits set out in the policy. Details of fees paid for non-audit services are included in note 6 on page 70.

The external auditor Deloitte was appointed as auditor to the Society in 2005, following a rigorous tendering exercise. The current lead partner has been in place since the 2010 audit. A change in lead partner has therefore been arranged for 2015 and a process of induction is already under way.

The Committee is aware of the recent rulings by the EU and the Competition and Markets Authority regarding auditor rotation and will be considering the implication of this during 2015.

The Committee considered the performance of Deloitte as external auditor for 2014, and is satisfied with the objectivity, independence and effectiveness of Deloitte as external auditor and recommended that they be re-appointed at the AGM for the current year.

Oversight and Effectiveness of Internal Audit

Commencing in 2013, Internal Audit launched a programme of improvement to bring the function in line with the Chartered Institute of Internal Auditors guidelines for effective internal audit in the financial services sector. This included an assessment of the skills and experience of the team that would be required to support the Society’s corporate plan as well as a refresh of the audit methodology and reporting. The programme, which included the recruitment of several experienced internal auditors with skills and qualifications in disciplines such as IT and Finance has been overseen by the Committee and is now complete.

The Committee regularly monitors whether Internal Audit have delivered their reports in accordance with the agreed plan, and to the expected standard.

On this basis, the Committee regards the Internal Audit function to be effective.

Audit Committee Performance and Effectiveness

The Committee undertook a self-assessment exercise to monitor its effectiveness. The review concluded that the Committee had operated effectively during the year.

The Committee also reviewed and approved its Terms of Reference and no material changes were required.

All Committee members are required to undertake relevant training as part of their overall development. The Committee also receives training as a whole on any relevant topics from both internal and external sources. In 2014, this comprised training on current topical matters of pertinence to the Committee. From an accounting perspective, this included developments in financial reporting, current regulatory focus and updates in governance reporting. Other focus areas related to developments in operational and conduct risk, risk management and risk mitigation strategies and increasing oversight of the Internal Audit function.

Ian Robertson
Chairman of the Audit Committee
24 February 2015

Directors' Remuneration Report

Year ended
31 December 2014

Introduction

The report on remuneration for the year ended 31 December 2014 considers the areas set out in the UK Corporate Governance Code relating to remuneration in so far as they are considered relevant to building societies, the FCA Remuneration Code (the Code), and the disclosure requirements arising under the EU Capital Requirements Directive. It is prepared in line with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

The report includes an overview of the context of remuneration and awards prepared by the Chairman of the Remuneration Committee and the Annual Report on Remuneration. All members eligible to vote at the Society's Annual General Meeting will have the opportunity to approve the Annual Report on Remuneration, through an ordinary resolution (non-binding). The 2013 Report received a 91% positive vote (excluding abstentions).

The 2014 Directors' Remuneration Policy will remain in place for 2015 with no changes. It received a 90% positive vote (excluding abstentions).

Composition and Scope of the Remuneration Committee

The primary purpose of the Remuneration Committee, under delegated authority from the Board, is to set the Society's Remuneration Policy, including the policy on pay, bonuses and benefits for the Executive Directors and Remuneration Code Staff. All recommendations are considered by the full Board, but no Director participates in discussions when decisions relating to his or her own remuneration are made.

The Committee met five times in 2014. It comprises three Non-Executive Directors: Les Platts (Committee Chairman), David Fisher and Philippa Brown. No members of the Committee have any personal financial interest in the recommendations or conflicts of interest arising from other directorships.

The Chairman, Executive Directors and other members of senior management may be invited to attend meetings, as and when appropriate, but are not members of the Committee. Becky Hewitt, General Manager – People, acts as Secretary to the Committee.

Statement by the Chairman of the Remuneration Committee

The context for Remuneration in 2014

All remuneration awards recommended by the Remuneration Committee for 2014 are in line with the approved Remuneration Policy for Directors and colleagues covered by the Remuneration Code, which was approved at the 2014 AGM.

In considering the bonus awards and salary levels of the Executive Directors and Senior Managers, the Committee has reviewed the Society's performance for 2014. Full details are provided in the Chief Executive's Review and the Strategic Report on pages 4 to 17.

Performance Against Objectives

The Board approved stretching Corporate Objectives for the Executive Directors for 2014 aligned to the Society's long term strategy and the four pillars that underpin it:

- Sustainable financial security and growth
- Supporting the aspirations of a wide range of borrowers and savers
- Delivery of outstanding personal service
- Investing in the business

The Remuneration Committee has received, reviewed and considered detailed evidence to assess the performance of the executive against each of the objectives set at the start of the year. The Board has also tracked progress throughout the year.

The financial results are positive indicators of strong progress against the Society's strategy. These include a 26% increase in operating profit before exceptional item to £80.9m (excluding a one off gain from closing the defined benefit section of the pension scheme to future accrual) and a 24% rise in new mortgage lending to £2.68bn. This was significantly above market share – resulting in just over £1bn of net lending, the highest in the Society's history.

The Committee considered profit performance to be ahead of expectations and the growth outturn was in line with the 2014 plan.

The Executive is undertaking a number of wide ranging change projects to improve our product and service delivery. They are diverse and complex programmes covering IT systems, product development, investing in people skills and risk management. The Remuneration Committee, therefore, sets specific annual deliverables for each programme to enable progress to be objectively assessed.

- The Committee assessed that very good progress had been made with the Society's People Strategy, resulting in independently measured Colleague Engagement Scores well above the financial services industry benchmark and an upper quartile performance. The Committee considers this dimension to be critical for the long-term success of the Society and was ahead of expectations.

- Other objectives included ensuring that the Society could meet the new Mortgage Market Review (MMR) requirements with effect from April, without impacting business volumes, and delivering the next phase of our risk strategy – both of which were achieved, in line with plan.
- We had planned to complete the migration of our systems away from our current supplier to HP during 2014. This has been delayed into 2015. Therefore, the objective was missed and was reflected in the performance outturn for 2014 by the Committee.

In summary, the Committee judges the combination of the 2014 financial outturn and the progress in modernising the business to be a good performance for the Society against its strategy. A breakdown of the outturn against corporate and personal objectives and for each Executive Director is provided on page 53.

Performance Awards

The assessment of performance against objectives generated awards of between 58.5% and 59.5% of salary (between 78% and 79% of the maximum award available). These are slightly lower than in 2013 but reflect the degree of achievement against the specific objectives set for the year.

The Remuneration Policy includes a risk adjustment process for the bonus scheme under which the Committee considers a range of factors and input from the Group Risk Committee. These include whether the executive team has 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 Committee considered a report from the Risk Director on the risk adjustment process and concluded that there were no activities arising in 2014 against which a risk adjustment should apply. The Committee also received a report on historic structured product promotions in 2009/2010, and the resulting voluntary redress exercise concluded in 2014. Having considered the financial impact, absence of regulatory sanction and focus on achieving good customer outcomes, the Committee concluded that no adjustment should apply.

Other Remuneration

The basic salaries of the Chief Executive and the Executive Directors increased in August by 2.5%, as did the Chairman's fee. The average basic salary increase for the wider colleague group ranged from 0% - 5%, with an average of 2.96%.

The Remuneration Policy identifies colleagues who are considered as material risk takers or "Code Staff" as defined by the FCA Remuneration Code and other relevant regulation. In addition to the directors and general managers, this includes senior managers across the organisation. The basic salary of Code Staff increased on average by 3.85% in 2014. This partly reflected salary increases for colleagues who were promoted during the year, taking on additional responsibilities.

Other Matters Considered by the Remuneration Committee

The Remuneration Committee's activities in 2014 also included:

- Reviewing the compliance of the Remuneration Policy Statement with the FCA Remuneration Code.
- Reviewing regulatory updates and assessing the impact on the Society.
- Overseeing the defined benefit pension section consultation and reviewing the pension policy in the context of the changes to pension tax relief.
- Approving the corporate objectives for the incentive schemes for 2015.

During 2015, the Remuneration Committee will be undertaking a full review of variable remuneration ahead of designing the schemes for 2016. The annual pay review for all colleagues will be brought forward to April (from August) to align more closely with the annual performance assessment process.

Summary

The Annual Remuneration Report provides a more detailed assessment of the remuneration of the Executive Directors. The Remuneration Committee is satisfied that the outcome reflects fairly the performance against the objectives agreed for 2014.

Les Platts
Chairman of Remuneration Committee
24 February 2015

Directors' Remuneration Report

Year ended
31 December 2014

Continued

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.
- 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 Remuneration Code 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 Group Risk Committee also contributes to the policy review, to ensure it contains 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 52 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.	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) 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 executives 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 Risk Director and Chairman of the Group Risk Committee.	The 75% maximum is split between: Corporate – 30% Personal – 30% Peer group comparison – 15%. Corporate measures in 2015 include: • Profitability • Growth • Risk • Developing the Business. Personal performance objectives, appropriate to the responsibilities of the 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.	Maximum of 75% of basic salary payable with 40% of the award deferred over a three year period.
Operation of Clawback	Deferral element has been introduced to ensure 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.	Maximum 100% of the deferred bonus awards are subject to performance adjustment.

Directors' Remuneration Report

Year ended
31 December 2014

Continued

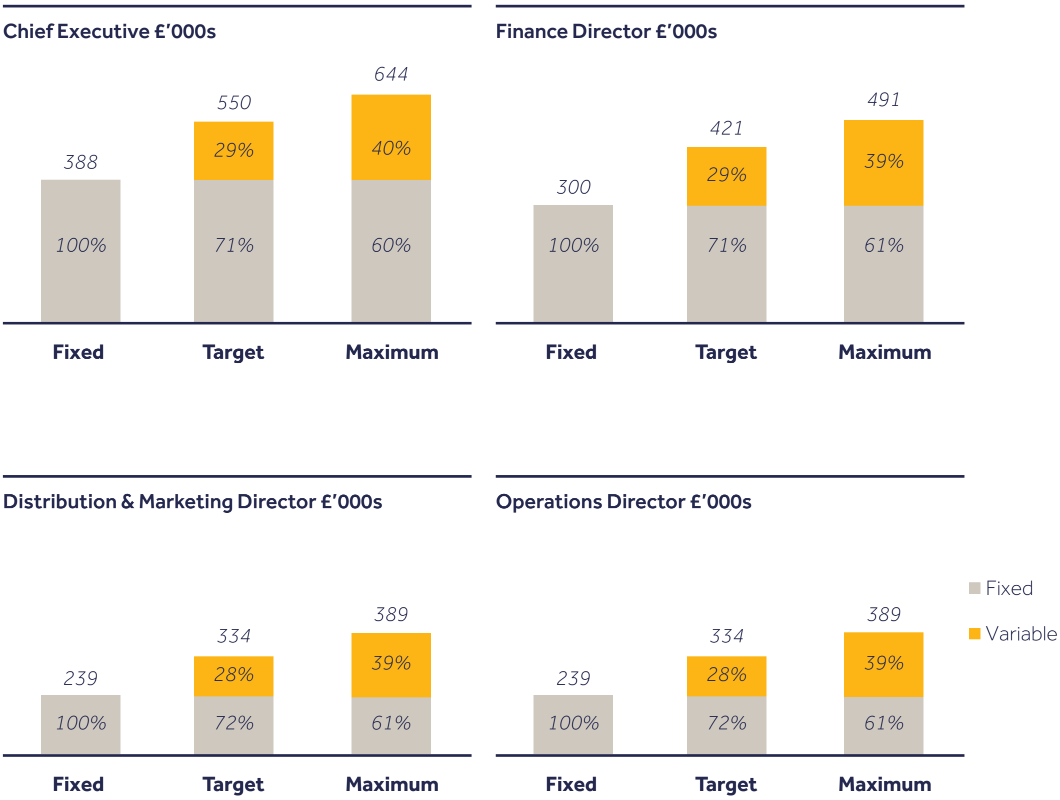
Element of Pay	Link to Strategy	Operation	Performance Measures	Minimum and Maximum Payable
Pension	Provides market competitive remuneration.	Based on membership of the Society's defined contribution section of the pension scheme. In appropriate circumstances, e.g. where contributions exceed the annual 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 e.g. for age range = or > 53, up to 23% of basic salary. Cash allowance is in lieu of employer contributions, up to 23% of basic salary.
Benefits	To align 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 e.g. relocation.	Not applicable.	Life assurance (up to 4 x 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 sub-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 chairmanship of a committee. Fee levels are normally based upon 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) 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 Executive Director under different scenarios:



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

	Consists of basic salary and pension (£'000) Basic salary is as at 31 December 2014 Pension measured as 'pension' figure in the table on page 52			
	Executive Director	**Basic Salary**	**Pension**	**Total Fixed**
Fixed	Chief Executive	341	47	388
	Finance Director	255	45	300
	Distribution & Marketing Director	200	39	239
	Operations Director	200	39	239
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.			
Maximum	Based on what a director would receive if the maximum level of performance was achieved: Annual variable element pays out at 100% of maximum available.			

Directors' Remuneration Report

Year ended
31 December 2014

Continued

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 salary to market level. Any new Executive Director's package will be consistent with our 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-rata to the number of complete months worked during that year. The maximum potential opportunity under this scheme is 75% of salary.
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 Executives on joining the Society to compensate them for forfeited remuneration from their previous employer will be compliant with the provisions of the 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 hold 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 cost 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 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 rata annual bonus award 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 as to the level of any of the above awards.
Pension	The Remuneration Committee has the right to exercise judgement as to the award of any enhanced pension benefits.

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 2014, the average basic salary increase for the wider colleague group ranged from 0% - 5%, with an average of 2.96%. Pay increases for the Executive Directors were 2.5% and for the Chief Executive 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 2015 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 2015 under incentive plans will be in line with the policy.

The Executive Directors' salaries from 1 January 2015 are as follows, compared with 2014:

	1 January 2015	1 January 2014
P A Hill	£ 341,453	£ 333,125
R S P Litten	£ 255,328	£ 249,100
K L Rebecchi	£ 199,619	£ 194,750
K R Wint	£ 199,619	£ 194,750

The annual pay review for 2015 has been brought forward to April, for all colleagues in the Society, including Executive Directors. This ensures remuneration is more closely aligned to the financial performance year of January to December and was agreed as part of the People Strategy. As such, the Executive Directors' salaries will increase by 2.5% from 1 April 2015, which is in line with the overall pay review for colleagues.

	1 April 2015
P A Hill	£ 349,990
R S P Litten	£ 261,712
K L Rebecchi	£ 204,610
K R Wint	£ 204,610

Directors' Remuneration Report

Year ended
31 December 2014

Continued

Annual Report on Remuneration (audited)

Total Remuneration Summary

The total remuneration received by Executive Directors for 2014 is detailed below, compared with 2013. The total remuneration for Executive Directors equates to 2.2% of operating profit. This information has been audited and shows remuneration for the years ending 31 December 2013 and 31 December 2014, as required to be reported under the Building Societies (Accounts and Related Provisions) Regulations 1998.

The Chief Executive 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 directors or colleagues.

Executive Directors	P A Hill		R S P Litten		K L Rebecchi		K R Wint		Total Remuneration	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Salary	336	328	252	244	197	192	197	192	982	956
Annual Bonus(1)	203	207	150	154	119	117	117	120	589	598
Pension	47(2)(6)	75(4)(6)	45(2)(6)	51(4)(6)	39(4)	50(3)(4)	39	38	170	214
Total Remuneration(5)	**586**	**610**	**447**	**449**	**355**	**359**	**353**	**350**	**1,741**	**1,768**

Notes:
(1) The annual bonus figure reflects the amount awarded in the year, 40% of which is subject to deferment.
(2) 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.
(3) This director ceased to be an active member of the defined benefit section of the pension scheme on 31 October 2013, with an accrued pension of £95,328, and elected to receive a cash allowance in lieu of the Society's pension contribution.
(4) These directors elected to receive part or all of the Society's pension contribution as a cash allowance.
(5) No director received other taxable benefits of £1,000 or above.
(6) The pension cash allowance amount for 2014 includes an adjustment in respect of prior year allowances.

Unpaid Deferred Elements of the Annual Bonus Scheme

Executive Directors	Performance Year	Due 2015 £'000	Due 2016 £'000	Due 2017 £'000	Due 2018 £'000	Total Deferred £'000
P A Hill	2012	27	27	–	–	54
	2013	28	28	28	–	84
	2014	122	27	27	27	203
	Total	**177**	**82**	**55**	**27**	**341**
R S P Litten	2012	20	20	–	–	40
	2013	21	21	21	–	63
	2014	90	20	20	20	150
	Total	**131**	**61**	**41**	**20**	**253**
K L Rebecchi	2012	16	16	–	–	32
	2013	16	16	16	–	48
	2014	71	16	16	16	119
	Total	**103**	**48**	**32**	**16**	**199**
K R Wint	2013	16	16	16	–	48
	2014	70	16	16	16	118
	Total	**86**	**32**	**32**	**16**	**166**
Total		**497**	**223**	**160**	**79**	**959**

The payment of deferred elements is subject to future performance i.e. the application of malus. The use of clawback is not currently applied (which is in accordance with the Remuneration Code). Following the annual assessments of risk and risk management by the Risk Director, the Group Risk Committee and the Remuneration Committee, no reduction has been applied to prior periods.

Performance Outcomes Against Targets for Incentive Awards

The 2014 scheme has generated awards of between 58.5% and 59.5% of salary for Executive Directors, reflecting between 78% and 79% of the maximum award available.

The scheme provides for:

- Personal Performance Measures (max. 30% opportunity, with 10% of this for superior performance on a discretionary basis).
- Corporate Measures (max. 30% opportunity, with 10% of this for superior performance) – profit performance was ahead of expectations and growth was in line with the corporate plan. The element of business development relating to colleague engagement scores exceeded expectations, with an independent measure well above the financial services benchmark. The risk strategy was further developed in line with the corporate plan. However, the migration of our system from our current supplier to HP was delayed.
- 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.

Annual Incentive

For 2014, 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 2014 30% maximum				Personal 30% maximum	Peer 15% maximum	Award in 2014 (% of salary)
	Profit (2 x weight)	Growth	Risk	Developing the Business			
P A Hill	+	>	<	>	>	+	59.5%
R S P Litten	+	>	<	>	>	+	59.0%
K L Rebecchi	+	>	<	>	>	+	59.5%
K R Wint	+	>	<	>	>	+	58.5%

Risk Adjustment

- Following input from senior risk colleagues, including the Chair of the Risk Committee, the Risk Director (RD) provides a commentary on the Corporate Objectives, which is Red/Amber/Green (RAG) rated in the context of the risk appetite statements, and any exceptional factors. Where the rating is not given as green, the RD provides additional commentary to assist the Remuneration Committee. For this year the ratings were all green.
- For each period when deferred variable payment becomes due for payment, the relevant corporate objectives for that period are resubmitted to the Committee, with an updated RAG rating, and further commentary on developments since the original report, referring to the key risk appetite measures.
- The individual performance of Code Staff, 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 / governance matters.

Directors' Remuneration Report

Year ended
31 December 2014

Continued

Remuneration for Code Staff

Code Staff 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 Code Staff 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. Code Staff are eligible for an annual bonus scheme. The bonus scheme for Code Staff in control functions is based on the achievement of non-financial objectives. In 2014, there were 30 Code Staff throughout the year.

Aggregate remuneration for Code Staff is reported in the table below.

Code Staff Remuneration

	Number of beneficiaries		Fixed pay		Current year variable pay [2]		Total	
	2014	2013	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Code Staff [1]	30	37	3,797	3,883	1,155	1,027	4,952	4,910

Notes:
(1) Code Staff who left the Society during the calendar year are included in the table above. During 2014, the cohort of Code Staff changed, resulting in fewer, more highly paid colleagues being included.
(2) £555k of variable pay is deferred for one or three years (2013: £418k). Non-Executive directors do not receive variable pay.

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. K L Rebecchi was an active member of the defined benefit section of the pension scheme to 31 October 2013 and, is entitled to a pension based on final pensionable salary and length of service. From 1 November 2013, K L Rebecchi became a deferred member of the defined benefit section and opted to receive a cash allowance in lieu of the Society's pension contribution.

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 2014.

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 2014 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 adjustment.

Non-Executive Directors

Non-Executive Directors	2014 Fees (£'000)	2013 Fees (£'000)
R J Ashton – (Chairman from 26 March 2013)	133	109
R Smith – (Chairman to 26 March 2013)	–	30
R W Stott – (Vice Chairman to 26 March 2014)	13	55
L M Platts – (Vice Chairman from 26 March 2014)	54	44
P A Brown – appointed 15 January 2013	42	39
S H Cooklin – appointed 25 February 2014	36	–
D Fisher	48	40
P A Jenks	49	43
A Rajguru	43	44
I Robertson	50	47
TOTALS	**468**	**451**

In 2014 an increase of 2.5% was agreed for the Chairman to £134,500.

Following a review of responsibilities, required time commitment and external benchmarking, the fee for the Vice Chairman was increased by 7.3% to £59,400 whilst the basic Non-Executive director's fee was increased by 7.3% to £44,000.

Note: some Non-Executive Directors fees include additional fees for chairing committees, which also increased by 2.5%.

Directors' Loans, Transactions and Related Business Activity

The aggregate amount outstanding at 31 December 2014 in respect of loans from the Society or a subsidiary undertaking to directors of the Society or persons associated with directors was £419,904, being four mortgages to directors and persons connected to directors (2013: £254,200, 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

There were no payments for loss of office in the financial year.

Percentage Change in Salary for CEO

The basic salary of the Chief Executive increased by 2.5% during 2014. This compares to an average increase of 2.96% 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 2014, compared to the year ending 31 December 2013.

	2014 £m	2013 £m	Percentage change
Profit after tax	69.4	49.0	41.6%
Colleague remuneration costs	31.6	25.6	23.4%
Headcount	1,152	1,054	9.3%

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 2014 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 connection with the Society or conflict of interest in advising the Remuneration Committee.

Independent Auditor's Report

Year ended
31 December 2014

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 2014 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 the Group and Society Income Statements, Group and Society Statements of Comprehensive Income, Group and Society Statements of Financial Positions, Group and Society Statements of Movements in Members' Interests, Group and Society Statements of Cash Flows and the related notes 1 to 38. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going Concern

We have reviewed the Directors' Report on page 33 that the Group is a going concern.

We confirm that:

- We have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- We have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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.

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 £57.1 million of impairment provisions at year-end (2013: £74.5 million) against total loans and advances to customers of £10,318.0 million (2013: £9,226.4 million). 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, especially 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 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 65 with detail about judgements in applying accounting policies and critical accounting estimates on page 68.	We evaluated the design and operating effectiveness of internal controls over the provisioning process. We challenged the appropriateness of Management's assumptions in relation to residential and commercial impairment provisions by benchmarking these to external data and comparing against historical experience. We have also assessed the completeness and validity of impairment triggers identified. In addition, we evaluated the adequacy of property valuations used, including consultation with our commercial real estate specialists as appropriate. We have also reviewed minutes from Board Credit Committee meetings and attended the meeting where the year end provisions were approved. We performed independent procedures upon source data extracted from the Society's core lending system to identify whether the data was accurate and complete.

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 66 with detail about judgements in applying accounting policies and critical accounting estimates on page 68.	We tested the design, implementation and operating effectiveness of internal controls over the hedge accounting process. We audited the population of hedge instruments on a sample basis and our internal financial instruments specialists assessed and re-performed Management's retrospective hedge effectiveness testing, and obtained evidence of the prospective effectiveness which is required under IAS 39 to evidence that the hedge relationship continues to meet certain effectiveness 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 independent procedures upon source data extracted from the Society's core treasury system to identify whether the data was accurate and complete.
Revenue recognition The calculation of Effective Interest Rate (EIR) used to allocate interest income on loans and receivables requires significant judgement in the determination of key assumptions such as the behavioural life of mortgages. 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 67 with detail about judgements in applying accounting policies and critical accounting estimates on page 68.	We tested 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. 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.
Curtailment gain The Group operates a defined benefit pension scheme, the "Leeds Building Society Staff Pension Scheme", and the defined benefit section of the Scheme has been closed for future accrual from 31 December 2014. The closure has led to a curtailment gain of £7.0 million being recognised in 2014. The key judgements in the actuarial assumptions relate to the discount rate to be applied to the liabilities and future expectations of inflation and current and future pensioner life expectancy. Management's associated accounting policies are detailed on page 67 with detail about judgements in applying accounting policies on page 68.	We tested the design and implementation of internal controls over the pensions accounting applied. We have utilised our actuarial specialists to assess and benchmark the assumptions used by Management in calculating the defined benefit liability. Our actuarial specialists have also assessed the assumptions used in calculating the curtailment gain by benchmarking to industry averages.

Independent Auditor's Report

Year ended
31 December 2014

Continued

Last year our report included one other risk which is not included in our report this year: regulatory provisions (due to the Financial Services Compensation Scheme provision being based on externally available information this risk has not been considered a key risk in the current year audit).

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 41.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual 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 £4.4m, which is 5% of reported pre-tax profit, and below 0.05% of total reserves and liabilities. This is a change of approach from 2013, where we used a materiality of £4.8m which was around 8% of profit before tax and which equates to 0.05% of total reserves and liabilities. We have changed the percentage applied to align more closely to other comparable societies.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £88,000 (2013: £83,000), 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 its subsidiaries, executed at levels of materiality applicable to each individual entity, which were lower than Group materiality, in the range of £0.03 million to £3.7 million.

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 112 for the financial year ended 31 December 2014 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's 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.

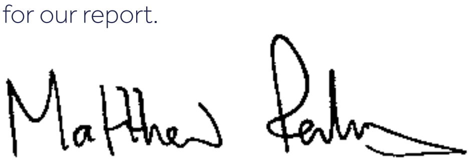
Respective Responsibilities of Directors and Auditor

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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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.



Matthew Perkins ACA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
Birmingham, United Kingdom

24 February 2015

Income Statements

For the year ended
31 December 2014

	Notes	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Interest receivable and similar income	3	**397.5**	384.0	**393.8**	375.4
Interest payable and similar charges	4	**(212.7)**	(220.8)	**(209.4)**	(212.4)
Net interest receivable		**184.8**	163.2	**184.4**	163.0
Fees and commissions receivable		**13.8**	14.6	**13.8**	14.5
Fees and commissions payable		**(0.7)**	(0.5)	**–**	(0.1)
Fair value gains less losses from financial instruments	5	**(0.4)**	(0.9)	**1.2**	(2.9)
Income from investments in subsidiaries	13	**–**	–	**–**	7.6
Other operating income		**0.9**	0.9	**0.4**	0.4
Total income		**198.4**	177.3	**199.8**	182.5
Administrative expenses	6	**(64.6)**	(54.2)	**(64.0)**	(53.5)
Depreciation	14	**(1.6)**	(1.3)	**(1.6)**	(1.3)
Impairment losses on loans and advances to customers	8	**(39.5)**	(47.9)	**(43.9)**	(47.9)
Provisions	23	**(11.8)**	(7.6)	**(11.8)**	(8.1)
Impairment loss on land and buildings	14	**–**	(0.8)	**–**	(0.8)
Investment property fair value movement	15	**–**	(1.3)	**–**	–
Operating profit before exceptional item		**80.9**	64.2	**78.5**	70.9
Pension curtailment gain	28	**7.0**	–	**7.0**	–
Profit before tax		**87.9**	64.2	**85.5**	70.9
Tax expense	9	**(18.5)**	(15.2)	**(18.1)**	(14.4)
Profit for the financial year		**69.4**	49.0	**67.4**	56.5

All amounts relate to continuing operations.

The notes on pages 65 to 108 form part of these accounts.

Statements of Comprehensive Income

For the year ended
31 December 2014

	Notes	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Profit for the financial year		**69.4**	49.0	**67.4**	56.5
Items that may subsequently be reclassified to profit and loss:					
Available for sale investment securities gain/(loss)	12	**10.1**	(8.3)	**10.1**	(8.3)
Cash flow hedges		**–**	3.5	**–**	3.5
Property revaluation		**–**	(0.9)	**–**	(0.9)
Tax relating to items that may subsequently be reclassified	30	**(2.1)**	1.3	**(2.1)**	1.0
Items that may not subsequently be reclassified to profit and loss:					
Actuarial (loss)/gain on retirement benefit obligations	28	**(7.4)**	(2.3)	**(7.4)**	(2.3)
Tax relating to items that may not be reclassified	30	**0.6**	0.5	**0.6**	0.5
Total comprehensive income for the year		**70.6**	42.8	**68.6**	50.0

Statements of Financial Position

As at 31 December 2014

	Notes	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Assets					
Cash in hand and balances with the Bank of England	10	**503.4**	884.6	**503.4**	884.6
Loans and advances to credit institutions		**75.7**	127.6	**13.0**	44.8
Derivative financial instruments	36	**120.4**	99.5	**81.8**	78.8
Loans and advances to customers	11				
Loans fully secured on residential property		**9,777.4**	8,607.2	**9,777.4**	8,607.2
Other loans		**483.5**	544.7	**483.5**	544.7
Investment securities	12				
Available for sale		**975.6**	711.9	**975.6**	711.9
Loans and receivables		**29.5**	96.0	**29.5**	96.0
Investments in subsidiary undertakings	13	**–**	-	**121.4**	111.4
Property, plant and equipment	14	**29.9**	28.4	**29.9**	28.3
Investment properties	15	**4.4**	4.4	**–**	–
Retirement benefit surplus	28	**1.3**	–	**1.3**	–
Deferred income tax asset	16	**1.4**	2.0	**0.7**	1.4
Other assets, prepayments and accrued income	17	**128.7**	87.9	**202.9**	121.8
Total assets		**12,131.2**	11,194.2	**12,220.4**	11,230.9
Liabilities					
Shares	18	**9,181.6**	8,622.0	**9,181.6**	8,622.0
Derivative financial instruments	36	**155.7**	100.2	**153.8**	97.8
Amounts owed to credit institutions	19	**143.2**	177.6	**143.2**	177.6
Amounts owed to other customers	20	**483.0**	394.0	**616.5**	507.5
Debt securities in issue	21	**1,344.8**	1,131.9	**1,312.0**	1,119.4
Current income tax liabilities		**9.3**	8.5	**7.7**	7.7
Deferred income tax liabilities	16	**2.6**	3.0	**0.7**	0.7
Other liabilities and accruals	22	**75.4**	88.5	**73.2**	31.6
Provision for liabilities and charges	23	**4.4**	4.6	**4.4**	4.6
Retirement benefit obligations	28	**–**	3.3	**–**	3.3
Subordinated liabilities	24	**0.9**	0.9	**0.9**	0.9
Subscribed capital	25	**25.0**	25.0	**25.0**	25.0
Total liabilities		**11,425.9**	10,559.5	**11,519.0**	10,598.1
Total equity attributable to members		**705.3**	634.7	**701.4**	632.8
Total liabilities and equity		**12,131.2**	11,194.2	**12,220.4**	11,230.9

The accounts on pages 60 to 64 were approved by the Board of Directors on 24 February 2015.
Signed on behalf of the Board of Directors by:

Robin Ashton
Chairman

Peter Hill
Chief Executive

Robin Litten
Finance Director

Statements of Changes in Members' Interest

For the year ended
31 December 2014

Group 2014	**General Reserve £M**	**Cash Flow 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**

Group 2013	General Reserve £M	Cash Flow Hedge Reserve £M	Available for Sale Reserve £M	Revaluation Reserve £M	Other Reserve £M	Total Equity attributable to members £M
At 1 January 2013	564.8	(2.6)	2.2	13.2	14.3	591.9
Comprehensive income for the year	47.3	2.6	(6.3)	(0.8)	–	42.8
At 31 December 2013	612.1	–	(4.1)	12.4	14.3	634.7

Society 2014	**General Reserve £M**	**Cash Flow Hedge 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**

Society 2013	General Reserve £M	Cash Flow Hedge Reserve £M	Available for Sale Reserve £M	Revaluation Reserve £M	Other Reserve £M	Total Equity attributable to members £M
At 1 January 2013	555.9	(2.6)	2.2	13.2	14.1	582.8
Comprehensive income for the year	54.5	2.6	(6.3)	(0.8)	–	50.0
At 31 December 2013	610.4	–	(4.1)	12.4	14.1	632.8

Statements of Cash Flows

For the year ended
31 December 2014

	Notes	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Profit before tax		**87.9**	64.2	**85.5**	70.9
Adjusted for changes in:					
Impairment provision		**(17.4)**	(6.2)	**(17.4)**	(6.2)
Impairment of freehold property		**–**	0.8	**–**	0.8
Provisions for liabilities and charges		**(0.2)**	0.7	**(0.2)**	1.1
Depreciation and amortisation		**1.6**	1.3	**1.6**	1.3
Change in value of investment property		**–**	1.3	**–**	-
Interest on subscribed capital		**3.3**	3.3	**3.3**	3.3
Cash generated from operations		**75.2**	65.4	**72.8**	71.2
Changes in operating assets and liabilities:					
Loans and advances to customers		**(1,091.6)**	(870.4)	**(1,091.6)**	(870.6)
Derivative financial instruments		**34.6**	(26.3)	**53.0**	(52.1)
Loans and advances to credit institutions		**–**	4.6	**–**	1.8
Investment in subsidiaries		**–**	-	**(10.0)**	(3.8)
Other operating assets		**(40.8)**	47.9	**(81.1)**	35.7
Shares		**559.6**	883.7	**559.6**	883.7
Credit institutions and other customers		**54.6**	(212.8)	**74.6**	(219.5)
Debt securities		**220.8**	188.6	**200.5**	218.7
Other operating liabilities		**(24.4)**	15.6	**30.3**	4.7
Taxation paid		**(17.5)**	(14.1)	**(17.5)**	(14.6)
Net cash (outflows)/inflows from operating activities		**(229.5)**	82.2	**(209.4)**	55.2
Returns from investments and servicing of finance		**(13.2)**	4.7	**(13.2)**	4.7
Purchase of securities		**(1,020.8)**	(967.4)	**(1,020.8)**	(967.4)
Proceeds from sale and redemption of securities		**833.5**	1,120.1	**833.5**	1,120.1
Purchase of property and equipment		**(3.1)**	(2.9)	**(3.1)**	(2.9)
Net cash flows from investing activities		**(203.6)**	154.5	**(203.6)**	154.5
Net (decrease)/increase in cash and cash equivalents		**(433.1)**	236.7	**(413.0)**	209.7
Cash and cash equivalents at beginning of year		**1,012.2**	775.5	**929.4**	719.7
Cash and cash equivalents at the end of year	26	**579.1**	1,012.2	**516.4**	929.4

Notes to the Accounts

For the year ended
31 December 2014

1. Accounting Policies

Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 2014:

IFRS 10 –	Consolidated Financial Statements
IFRS 12 –	Disclosure of Interests in Other Entities
IAS 27 (Revised) –	Separate Financial Statements

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
IAS 19 (amendments) –	Defined Benefit Plans: Employee Contribution
IFRS 15 –	Revenue from Contracts with Customers

Annual Improvements to IFRS: 2010-2012
Annual Improvements to IFRS: 2011-2013
Annual Improvements to IFRS: 2012-2014

The directors do 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. This standard changes the current incurred loss basis to an expected loss model which would have an impact on the valuation and income recognition methods relating to the Group's Loans to Customers, Borrowings and derivative assets and liabilities. The Group has yet to conduct a full assessment of its potential impact, pending endorsement from the European Union.

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. Inter-company transactions are eliminated upon consolidation.

Investment in subsidiaries
Investments in subsidiaries are recorded in the Society balance sheet at cost less any provision for impairment.

Financial instruments
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:

(a) Loans and receivables
The Group's loans and receivables to customers are classified as 'loans and receivables', except for mortgage assets where the interest rate is linked to US interest rates and other collateralised loans which are held at fair value through profit or loss. Loans and receivables are 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, valuation fees and procuration fees and mortgage discounts are amortised over the expected life of the mortgage.

(b) At fair value through profit and loss
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured 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.

Derivatives can be designated as either cash flow or fair value hedges. In addition, mortgage assets where the interest rate is linked to US interest rates, savings bonds where the interest rate is linked to increases in the FTSE, indexed linked gilts and other collateralised loans are held at fair value through profit or loss. This is because it 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.

Notes to the Accounts

For the year ended
31 December 2014

Continued

1. Accounting Policies (continued)

(c) 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.

(d) 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, e.g. 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.

(e) 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 statement of financial position 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 method.

(f) 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 covered bonds as substantially all the risks and rewards are retained by the Group. 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.

(g) 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.

(h) 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.

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the Income Statement. Certain derivatives are embedded within other non-derivative host financial instruments to create hybrid instruments. Where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host instrument, and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the Income Statement. Depending on the classification of the host instrument, the host is then measured in accordance with the relevant IFRS standard.

Impairment of financial assets
Impairment of loans and advance to customers and investment securities
Individual assessments are made of all mortgage loans in possession and investment securities where there is objective evidence that all cash flows will not be received. Based upon these assessments an individual impairment reduction of these assets is made. In addition, a collective impairment reduction 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 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. Impairment provisions are made to reduce the value of other impaired loans and advances to the amount that is considered to be ultimately received based upon objective evidence.

Forbearance strategies exercised by the Group comprise of 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.

Notes to the Accounts

For the year ended 31 December 2014

Continued

1. Accounting Policies (continued)

Interest income and expense

Interest income and expense on financial assets and liabilities held at amortised cost is 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 expensed as part of the effective interest rate calculation. Commission may be repaid when 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.

Rent receivable

Rent receivable comprises the value of rental income receivable, including VAT. All revenue arises in the United Kingdom.

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 Directors, their residual value will not be materially different to book value.

Depreciation is calculated on all other assets 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

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

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 / obligation recognised in the balance sheet represents the fair value of Scheme assets less the present value of the defined benefit obligation.

Leases

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

Assets acquired under finance leases are capitalised at fair value at the start of the lease, with the corresponding obligations being included in other liabilities. The finance lease costs charged to the Income Statement are based on a constant periodic rate as applied to the outstanding liabilities.

Borrowings

Non-trading financial liabilities are held at amortised cost. Finance costs are charged to the Income Statement via the effective interest rate method.

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.

Notes to the Accounts

For the year ended
31 December 2014

Continued

1. Accounting Policies (continued)

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.

2. Critical Accounting Estimates and Judgements

Some asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. There is, therefore, 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, in determining 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 £1.8m (2013: £1.9m). If commercial property prices reduced by 5%, the total commercial impairment provision required would increase by £2.8m (2013: £2.6m).

Fair value of derivatives, mortgages linked to US interest rates and collateral loans
The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. A 200 basis point downward parallel shift in interest rates would reduce the fair value of instruments held by £0.1m (2013: £0.9m).

Retirement benefit obligations
The Income Statement cost and Balance Sheet liability of the defined benefit pension scheme are assessed in accordance with the advice of a qualified actuary. Assumptions are made for 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. Changes to any of the assumptions could have an impact on the Balance Sheet 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 increase the present value of the liability by £6.0m (2013: £5.3m).

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 effective interest rate 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 effective interest rate 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, premiums, 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 increase in the anticipated life of mortgage assets would result in a £0.4m (2013: £0.5m) increase in the Group's interest income.

Financial Services Compensation Scheme (FSCS)
The Society has a provision for a levy of £3.1m (2013: £2.9m) covering the period from April 2014 to March 2015. The amount has been determined by reference to the path of future interest rates applicable at the balance sheet date. Changes in interest rates over the period of the levy will impact the final amount of the payment.

The impact of a 50 basis point increase in the interest rate assumption would result in increasing the carrying value of the FSCS provision by approximately £0.6m (2013: £0.6m).

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

3. Interest Receivable and Similar Income

	Group 2014 £M	Group 2013 £M	**Society 2014 £M**	Society 2013 £M
On loans fully secured on residential property	**408.1**	385.0	**408.1**	385.1
On other loans	**23.8**	26.6	**23.8**	26.6
On debt securities				
Interest and other income	**8.3**	14.1	**8.7**	16.3
On other liquid assets				
Interest and other income	**6.6**	4.8	**6.5**	4.8
Net expense on financial instruments	**(49.3)**	(46.5)	**(53.3)**	(57.4)
Total interest receivable	**397.5**	384.0	**393.8**	375.4
Interest receivable on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	**14.1**	18.3	**10.5**	9.5
From instruments not held at fair value through profit and loss	**383.4**	365.7	**383.3**	365.9
Total interest receivable	**397.5**	384.0	**393.8**	375.4

Included within interest receivable and similar income is interest accrued on impaired financial assets of £5.9m (2013: £5.9m).

4. Interest Payable and Similar Charges

	Group 2014 £M	Group 2013 £M	**Society 2014 £M**	Society 2013 £M
On shares held by individuals	**187.2**	191.8	**187.2**	191.8
On subscribed capital	**3.3**	3.3	**3.3**	3.3
On subordinated debt	**0.1**	0.1	**0.1**	0.1
On deposits and other borrowings	**49.2**	47.2	**45.6**	38.8
Net income on financial instruments	**(27.1)**	(21.6)	**(26.8)**	(21.6)
Total interest payable	**212.7**	220.8	**209.4**	212.4
Interest payable on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	**(27.1)**	(21.6)	**(26.9)**	(21.5)
From instruments not held at fair value through profit and loss	**239.8**	242.4	**236.3**	233.9
Total interest payable	**212.7**	220.8	**209.4**	212.4

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

5. Fair Value Gains less Losses

	Group 2014 £M	Group 2013 £M	**Society 2014 £M**	Society 2013 £M
Change in fair value of financial assets designated at fair value through profit and loss	**3.9**	(10.9)	**3.9**	(10.9)
Change in fair value of financial liabilities designated at fair value through profit and loss	**(4.8)**	10.5	**(2.8)**	7.7
Change in fair value derivatives in designated fair value hedge accounting relationships	**13.5**	12.8	**(7.0)**	43.3
Adjustment to hedged items in designated fair value hedge accounting relationships	**(12.0)**	(11.4)	**8.0**	(41.3)
Derivatives in designated cash flow hedge accounting relationships	**1.0**	1.3	**1.0**	1.3
Adjustment to hedged items in cash flow hedge accounting relationships	**–**	(3.4)	**–**	(3.4)
Cross currency swap	**(2.0)**	0.2	**(1.9)**	0.4
	(0.4)	(0.9)	**1.2**	(2.9)

The fair value accounting volatility loss of £0.4m (2013: £0.9m 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 swap is composed of a fair value loss on a cross currency swap of £14.1m (2013: £1.0m loss) and an exchange gain of £16.1m (2013: £1.2m gain) on retranslation of the matched Euro liabilities. The cross currency swap was entered into to reduce the exchange risk from funding in foreign currency.

6. Administrative Expenses

	Group 2014 £M	Group 2013 £M	**Society 2014 £M**	Society 2013 £M
Staff costs				
Wages and salaries	**31.6**	25.6	**31.4**	25.3
Social security costs	**2.9**	2.3	**2.9**	2.3
Pension costs	**4.0**	3.9	**4.0**	3.9
Remuneration of auditor (see below)	**0.4**	0.5	**0.4**	0.5
Other administrative expenses	**25.7**	21.9	**25.3**	21.5
	64.6	54.2	**64.0**	53.5

There are 30 directors, senior management and other members of staff, whose actions have a material impact on the risk profile of the Society, with fixed remuneration of £3.9m and variable remuneration of £0.8m (2013: 37 individuals £3.9m and £0.8m).

The analysis of auditor's remuneration is as follows:

Group & Society	**2014 £000**	2013 £000
Fee payable to the Society's auditor for the audit of the Society's annual accounts	**132.0**	111.0
Fees payable to the Society's auditor for the audit of the Society's subsidiaries	**32.0**	32.0
Total audit fees	**164.0**	143.0
Other services:		
Tax services	**–**	18.0
Further assurance services	**150.3**	128.0
Corporate finance services	**–**	85.0
Other services	**40.5**	103.0
Total non-audit fees	**190.8**	334.0
Fees payable to the Society's auditor and its associates in respect of associated pension schemes	**7.0**	6.0

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

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

7. Staff Numbers

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

	Group & Society 2014 No	Group & Society 2013 No
Head office	719	635
Branch office	385	361
	1,104	996

8. Impairment Losses on Loans and Advances to Customers

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
	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)
	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
	29.6	25.0	2.5	57.1

In addition to the above there is an additional £4.4m impairment provision in Society only relating to the impairment of Headrow Commercial Property Services Limited intercompany loans.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

8. Impairment Losses on Loans and Advances to Customers continued

2013

Group & Society

	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
At 1 January 2013				
Collective impairment	15.5	8.8	–	24.3
Individual impairment	28.9	27.2	0.3	56.4
	44.4	36.0	0.3	80.7
Income and expenditure account				
Charge for the year				
Collective impairment	(3.3)	1.0	–	(2.3)
Individual impairment	16.0	34.9	0.3	51.2
Adjustments to impairment losses for bad and doubtful debts resulting from recoveries during the year	(0.8)	(0.2)	–	(1.0)
	11.9	35.7	0.3	47.9
Amount written off during the year				
Individual impairment	(18.2)	(35.3)	(0.6)	(54.1)
At 31 December 2013				
Collective impairment	12.3	9.8	–	22.1
Individual impairment	25.8	26.6	–	52.4
	38.1	36.4	–	74.5

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

9. Tax Expense

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits for the year	**17.3**	15.9	**17.2**	15.8
Adjustments in respect of previous years	**0.4**	(0.1)	**0.4**	(0.2)
Total current tax	**17.7**	15.8	**17.6**	15.6
Deferred tax				
Origination and reversal of timing differences	**0.9**	(0.6)	**1.6**	(1.1)
Adjustments in respect of previous years	**(0.1)**	–	**(0.1)**	(0.1)
Total deferred tax	**0.8**	(0.6)	**1.5**	(1.2)
Tax on profit on ordinary activities	**18.5**	15.2	**19.1**	14.4
Factors affecting current tax charge for the year:				
Profit on ordinary activities before tax	**87.9**	64.2	**85.5**	70.9
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 21.5% (2013: 23.25%)	**18.9**	15.0	**18.3**	16.4
Effects of:				
Expenses not deductible for tax purposes	**0.1**	0.5	**0.1**	0.3
Adjustment in respect of prior years	**0.3**	(0.1)	**0.3**	(0.3)
Rate change	**(1.2)**	(0.2)	**(0.8)**	(0.1)
Income not taxable	**0.4**	–	**0.2**	(1.9)
	18.5	15.2	**18.1**	14.4

During the year ended 31 December 2013 the Government enacted provisions further reducing the rate of corporation tax to 21.0% with effect from 1 April 2014 and 20.0% from 1 April 2015. Therefore the standard rate of corporation tax applicable to the Group for the year ended 31 December 2014 was 21.5% (2013: 23.25%), the rate for the year ending 31 December 2015 is expected to be 20.25%, and the rate in subsequent years is expected to be 20.0%. The deferred tax balances have been revalued to the lower rate of 20% in these accounts.

10. Cash in Hand and Balances with the Bank of England

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Cash in hand	**2.2**	2.3	**2.2**	2.3
Balances with the Bank of England	**501.2**	882.3	**501.2**	882.3
Included in cash and cash equivalents (see note 26)	**503.4**	884.6	**503.4**	884.6

Balances with the Bank of England do not include mandatory reserve deposits of £16.9m (2013: £15.8m) 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 2014 **Continued**

11. Loans and advances to customers

	Group 2014 £M	Group 2013 £M	**Society 2014 £M**	Society 2013 £M
(a) Loans and receivables				
Loans fully secured on residential property	**9,733.6**	8,577.4	**9,733.6**	8,577.4
Other loans				
Loans fully secured on land	**268.8**	359.9	**268.8**	359.9
Other loans	**2.5**	2.5	**2.5**	2.5
Fair value adjustment for hedge risk	**50.2**	15.8	**50.2**	15.8
	10,055.1	8,955.6	**10,055.1**	8,955.6
(b) At fair value through profit and loss				
Loans fully secured on residential property	**23.1**	52.0	**23.1**	52.0
Other loans	**239.8**	218.8	**239.8**	218.8
	262.9	270.8	**262.9**	270.8
Less:				
Impairment losses (see note 8)	**(57.1)**	(74.5)	**(57.1)**	(74.5)
	10,260.9	9,151.9	**10,260.9**	9,151.9

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 and loss. The net gain on loans and advances which are designated as fair value through profit and loss was £18.9m (2013: £12.2m loss) for both the Group and Society.

Loans and advances to customers, for both the Group and Society, include £1.5bn (2013: £1.9bn) which have been transferred from the Society to its associated secured funding vehicles. This includes £1.3bn (2013: £1.6bn) to Leeds Building Society Covered Bonds LLP, which secures £0.7bn (2013: £0.8bn) of covered bonds issued by the Society. The covered bonds have been used to secure long term funding from other counterparties. The remaining balance of £0.2bn is to Albion No. 2 plc, which secures £0.2bn (2013: £0.3bn) of residential mortgage backed securities (RMBS) issued by Albion No. 2 plc. The RMBS have been used to secure long term funding from other counterparties. The loans are retained on the Society's balance sheet as the Society substantially retains the risk and reward relating to the loans. As such, the securitisation vehicles all continue to be consolidated by the Group.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

12. Investment Securities

Group & Society

	2014 £M	2013 £M
Debt securities		
Listed	**847.0**	742.5
Unlisted	**158.1**	65.4
Total investment securities	**1,005.1**	807.9

Investment securities increased by £9.9m in 2014 (2013: reduced by £8.0m) due to changes in fair value. This movement was recorded in equity or through profit and loss. No provisions have been made against investment securities during the year, nor were there any provisions outstanding as at 31 December 2014 (2013: £nil).

	Available for sale £M	**Loans and receivables £M**	**Total £M**
2014			
Group & Society			
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**

	Available for sale £M	Loans and receivables £M	Total £M
2013			
Group & Society			
At 1 January 2013	847.4	121.2	968.6
Additions	967.4	–	967.4
Disposals (sale and redemption)	(1,093.7)	(26.4)	(1,120.1)
Change in fair value	(9.2)	1.2	(8.0)
At 31 December 2013	711.9	96.0	807.9

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 2014 was £29.5m (2013: £96.0m) and this compares with the market value of £28.3m (2013: £94.7m).

The fair value gain that would have been recorded directly in reserves if the assets had not been reclassified was £0.1m (2013: £4.3m gain). The net gain, after deferred tax, of £3.9m (2013: net loss £4.1m) previously recognised in the available for sale reserve is released to profit and loss as part of the effective interest rate based on the maturity profile of the underlying instruments. The interest rate on the mortgage backed securities and floating rate note assets was 0.8% (2013: 0.8%). At 31 December 2014, £73.8m (2013: £168.0m) of investment securities were pledged as collateral under sale and repurchase agreements.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

13. Investments in Subsidiary Undertakings

	Society 2014 £M	Society 2013 £M
(a) Shares held in subsidiary undertakings		
Cost		
At 1 January 2014	**19.6**	19.6
Repayments	**(19.6)**	–
At 31 December 2014	**–**	19.6
(b) Loans to subsidiary undertakings		
Cost		
At 1 January 2014	**111.4**	88.0
Additions	**10.0**	3.8
At 31 December 2014	**121.4**	91.8
Total investments in subsidiary undertakings	**121.4**	111.4

(c) Interest in subsidiary undertakings

The Society holds directly the following interests in subsidiary undertakings, all of which are registered in England, except for Leeds Overseas (Isle of Man) Ltd, which is registered in the Isle of Man.

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%
Leeds Overseas (Isle of Man) Ltd **	Non-trading	Ordinary £1 shares	100%
Headrow Commercial Property Services Ltd	Rental Income from Commercial Properties	Ordinary £1 shares	100%
Mercantile Asset Management Ltd **	Non-trading	Ordinary £1 shares	100%
Countrywide Rentals 1 Ltd **	Non-trading	Ordinary 50p shares	100%
Countrywide Rentals 2 Ltd **	Non-trading	Ordinary 50p shares	100%
Countrywide Rentals 3 Ltd **	Non-trading	Ordinary 50p shares	100%
Countrywide Rentals 4 Ltd **	Non-trading	Ordinary 50p shares	100%
Countrywide Rentals 5 Ltd **	Non-trading	Ordinary 50p shares	100%
Leeds Building Society Covered Bonds LLP	Provision of Mortgage Assets and guarantor of covered bonds	*	*
Albion 2 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 Standing Interpretations and Committee 12 – 'Consolidation – Special Purpose Entities'.

** These companies are currently in the process of being liquidated.

The Society received £nil in dividends from Leeds Financial Services Ltd during 2014 (2013: £7.6m).

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

14. Property, Plant and Equipment

	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 and impairment						
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**
2013						
Group & Society						
Cost or valuation						
At 1 January 2013	23.1	0.3	1.4	26.4	0.1	51.3
Additions	–	–	–	2.9	–	2.9
Decrease in value taken to other comprehensive income	(0.9)	–	–	–	–	(0.9)
At 31 December 2013	22.2	0.3	1.4	29.3	0.1	53.3
Depreciation and impairment						
At 1 January 2013	0.3	–	1.3	21.1	0.1	22.8
Charged in year	–	–	–	1.3	–	1.3
Decrease in value taken to other comprehensive income	0.8	–	–	–	–	0.8
At 31 December 2013	1.1	–	1.3	22.4	0.1	24.9
Net book value						
At 31 December 2013	21.1	0.3	0.1	6.9	–	28.4

The freehold and long leasehold premises were valued as at 31 December 2013 by Knight Frank on the basis of existing use value.

	Group & Society 2014 £M	Group & Society 2013 £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
Long Leasehold premises	**0.1**	0.1
Net book value	**9.8**	9.8
Land and building occupied by the Group and Society for its own activities		
Net book value	**17.3**	17.3

No equipment, fixtures and vehicles were held under finance leases (2013: £nil).

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

15. Investment Properties

	Group 2014 £M	Group 2013 £M
At 1 January 2014	**4.4**	5.7
Net fair value movement	**–**	(1.3)
At 31 December 2014	**4.4**	4.4

The investment property was acquired on 31 December 2009 for £7.0m. The investment property was valued as at 31 December 2013 by DTZ Debenham Tie Leung Limited, registered chartered surveyors. The valuation was prepared in accordance with the RICS Valuation Standards Manual. The property is considered to be specialist in nature and as such no readily available market value exists for it. The site was therefore valued using a cash flow basis, that takes into account the future potential net income generated through use of the property, discounted using an appropriate discount factor. The property is currently being marketed for sale and a full revaluation was not considered necessary.

16. Deferred Income Tax

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Deferred tax				
At 1 January 2014	**(1.0)**	0.2	**0.7**	1.2
Amount recognised directly in equity	**–**	(0.6)	**–**	(0.5)
Income and expenditure movement during the year	**–**	(0.6)	**–**	–
At 31 December 2014	**(1.0)**	(1.0)	**0.7**	0.7

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Deferred income tax liabilities				
Gain on revaluation	**0.5**	0.5	**0.4**	0.5
Excess of capital allowances over depreciation	**–**	0.1	**–**	–
Pensions and other post retirement benefits	**0.3**	–	**0.3**	–
Other temporary differences	**1.8**	2.4	**–**	0.2
	2.6	3.0	**0.7**	0.7

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Deferred income tax assets				
Pensions and other post retirement benefits	**–**	0.7	**–**	0.7
Excess of depreciation over capital allowances	**0.1**	–	**0.1**	–
Other provisions	**1.3**	1.3	**0.6**	0.7
	1.4	2.0	**0.7**	1.4

Notes to the Accounts

For the year ended 31 December 2014

Continued

17. Other Assets, Prepayments and Accrued Income

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
	128.7	87.9	**202.9**	121.8

Other assets include £90.9m (2013: £79.2m) owed by credit institutions on cash collateralisation of swaps.

18. Shares

	Group & Society 2014 £M	Group & Society 2013 £M
Held by individuals	**9,140.8**	8,579.1
Other shares	**12.1**	7.3
Fair value adjustments for hedge risk	**28.7**	35.6
	9,181.6	8,622.0

Shares have either variable or fixed interest rates.

19. Amounts owed to Credit Institutions

	Group & Society 2014 £M	Group & Society 2013 £M
	143.2	177.6

All amounts owed to credit institutions have fixed interest rates.

20. Amounts owed to Other Customers

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Amounts owed to subsidiary undertakings	**–**	–	**133.6**	113.5
Other deposits	**483.0**	394.0	**482.9**	394.0
	483.0	394.0	**616.5**	**507.5**

The interest rates on deposits are a combination of fixed and variable.

21. Debt Securities in Issue

	Group 2014 £M	Group 2013 £M	Society 2014 £M	Society 2013 £M
Certificates of deposit	**6.0**	8.0	**6.0**	8.0
Covered bonds	**1,153.2**	849.0	**1,120.4**	836.5
Residential mortgage backed securities	**185.6**	274.9	**185.6**	274.9
	1,344.8	1,131.9	**1,312.0**	1,119.4

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) were the Covered Bond and RMBS programmes secured on certain loans and advances to customers.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

22. Other Liabilities and Accruals

	Group 2014 £M	Group 2013 £M	**Society 2014 £M**	Society 2013 £M
Income tax	**10.8**	8.0	**10.8**	8.0
Accruals	**17.3**	12.8	**17.0**	12.5
Other creditors	**47.3**	67.7	**45.4**	11.1
	75.4	88.5	**73.2**	31.6

Included within other creditors is a liability for financial guarantee contracts of £3.6m (2013: £3.6m).

Other creditors includes £26.3m (2013: £45.7m) owed to credit institutions on cash collateralisation of swaps.

23. Provisions for Liabilities and Charges

	FSCS Levy £M	**Customer redress and other related provisions £M**	**Commission clawback £M**	**Total £M**
2014				
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**

	FSCS Levy £M	Customer redress and other related provisions £M	Commission clawback £M	Total £M
2013				
Group & Society				
At 1 January 2013	2.9	0.6	0.4	3.9
Amounts paid during the year	(5.7)	(0.6)	(0.1)	(6.4)
Provision increase in the year	5.7	1.3	0.1	7.1
At 31 December 2013	2.9	1.3	0.4	4.6

Financial Services Compensation Scheme (FSCS) Levy

The levy represents the estimated amount payable under the FSCS for the 2014/15 scheme year, which runs from March 2014 to March 2015, and is calculated with reference to the protected deposits held at 31 December 2014. The amount payable includes the Society's share of interest payable. Refer to note 27 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, endowment policies sold by the Group and other fees and premiums charged. The charge relating to customer redress payments has increased to £5.4m (2013: £1.3m).This is to cover a recent voluntary customer redress exercise relating to certain structured product accounts, as well as the on-going volume of speculative cases, primarily relating to PPI claims, and the associated costs involved in dealing with them.

Commission clawback

This provision has been made for the potential clawback of commission on assurance policies sold.

For the year ended 31 December 2014 **Continued**

24. Subordinated Liabilities

	Group & Society	
	2014 £M	2013 £M
Subordinated debt notes 2015	**0.9**	0.9

The subordinated debt has a fixed interest rate of 4.34% (2013: 4.34%) and a maturity date of 9 March 2015. The debt is subordinated to the claims of members and all other creditors.

25. Subscribed Capital

	Group & Society	
	2014 £M	2013 £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.

26. 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 2014 £M	Group 2013 £M	**Society 2014 £M**	Society 2013 £M
Cash in hand and balances with the Bank of England (note 10)	**503.4**	884.6	**503.4**	884.6
Loans and advances to credit institutions	**75.7**	127.6	**13.0**	44.8
	579.1	1,012.2	**516.4**	929.4

27. 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 2014, the FSCS has also invoiced institutions for the second of three 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

There were no capital commitments at 31 December 2014 (2013: £nil) contracted but not provided for.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

27. Guarantees and Other Financial Commitments continued

(d) Leasing commitments

At 31 December the annual commitments under non-cancellable operating leases were as set out below:

Group & Society	2014 £M	2013 £M
Land and buildings		
Commitment expiring:		
Within one year	**0.5**	0.1
Between two and five years inclusive	**0.2**	0.8
After five years	**1.2**	0.5
	1.9	1.4
Other operating leases		
Commitment expiring:		
Within one year	**1.0**	2.2
More than five years	**4.3**	2.6
	5.3	4.8

28. Retirement Benefit Obligations

The Society operates both defined benefit and defined contribution schemes. In addition, the Society has, for one individual (2013: two individuals) in the UK, an Employer funded retirement benefits scheme. The schemes have been accounted for under IAS19 covering employee benefits. IAS19 requires disclosure of certain information about the schemes as follows.

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.

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	2014	2013	2012	2011	2010
Rate of increase in salaries	**4.80%**	5.15%	4.65%	4.80%	5.70%
Rate of increase for pensions in payment*	**2.95%**	3.20%	2.80%	3.00%	3.60%
Rate of increase for deferred pensions*	**3.05%**	3.40%	2.90%	3.05%	3.70%
Discount rate	**3.60%**	4.45%	4.50%	4.85%	5.55%
Inflation assumption RPI	**3.05%**	3.40%	2.90%	3.05%	3.70%
Inflation assumption CPI	**2.05%**	2.40%	2.20%	2.05%	3.20%

* 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 (i.e equalities 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 S1PXA, projected in line with members' years of birth. Last year future improvements in mortality allowed for in line with the CMI 2013 projection within 1% long term trend; however the directors have changed this allowance to a more up to date CMI 2014 projection with 1% long term trend. The table on page 83 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.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

28. Retirement Benefit Obligations continued

	2014		2013		2012	
	Pensioner years	**Non-Pensioner years**	Pensioner years	Non-Pensioner years	Pensioner years	Non-Pensioner years
Male	**23.9**	**25.2**	23.8	25.3	22.8	24.2
Female	**26.2**	**27.7**	26.3	27.6	25.3	26.6

Group & Society	**2014**	2013	2012	2011	2010
Category of assets					
Equities	**55.7%**	57.7%	53.0%	51.7%	53.7%
Property	**1.4%**	2.5%	4.8%	5.4%	5.5%
Government bonds	**21.7%**	19.5%	19.9%	21.3%	20.2%
Corporate bonds	**20.5%**	19.8%	21.8%	21.0%	19.9%
Cash/other	**0.7%**	0.5%	0.5%	0.6%	0.7%

Reconciliation of funded statement	**2014 £M**	2013 £M	2012 £M	2011 £M	2010 £M
Present value of pension scheme's liabilities	**(103.7)**	(97.5)	(87.7)	(78.6)	(74.6)
Assets at fair value	**105.0**	94.2	85.3	77.7	73.9
Surplus/(deficit)	**1.3**	(3.3)	(2.4)	(0.9)	(0.7)

The amounts recognised in the Income Statements are as follows:

Group & Society	**2014 £M**	2013 £M
Current service cost	**2.1**	1.9
Net interest cost and expected return	**–**	0.4
Curtailment gain	**(7.0)**	–
Settlement gain	**(1.0)**	–
Administration expenses	**0.2**	0.3
Total cost – defined benefit scheme	**(5.7)**	2.6

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.

For the year ended 31 December 2014 **Continued**

28. Retirement Benefit Obligations continued

Experience recognised in the Statements of Comprehensive Income (SOCI)

Group & Society	2014 £M	2013 £M	2012 £M	2011 £M	2010 £M
Experiences (loss)/gain on pension scheme liabilities	**(13.6)**	(7.9)	(5.3)	0.3	(2.3)
Percentage of scheme liabilities (%)	**13.1%**	8.1%	6.0%	0.4%	3.1%
Experience (loss)/gain on assets	**6.2**	5.6	3.7	(1.7)	3.2
Percentage of scheme assets (%)	**5.9%**	5.9%	4.3%	2.2%	4.3%
Total (losses)/gains recognised in SOCI during the year	**(7.4)**	(2.3)	(1.6)	(1.4)	0.9

Changes in the present value of the defined benefit obligations are as follows:

Group & Society	2014 £M	2013 £M
At 1 January 2014	**97.5**	87.7
Current service cost	**2.1**	1.9
Interest cost	**4.2**	3.9
Curtailment gain	**(7.0)**	–
Liability extinguished on settlement	**(4.0)**	–
Actuarial losses	**13.6**	7.9
Benefits paid	**(2.7)**	(3.9)
At 31 December 2014	**103.7**	97.5

Changes in the fair value of plan assets are as follows:

Group & Society	2014 £M	2013 £M
At 1 January 2014	**94.2**	85.3
Interest income	**4.2**	3.5
Actuarial gain	**6.2**	5.6
Contribution by employer	**6.3**	4.0
Administration expenses	**(0.2)**	(0.3)
Assets distributed on settlement	**(3.0)**	–
Benefits paid	**(2.7)**	(3.9)
At 31 December 2014	**105.0**	94.2

The cumulative amount of actuarial gains and losses recognised in the other comprehensive income statement since the date of transition to IFRSs is a net loss of £5.0m (2013: gain of £2.4m).

Sensitivity to change in key assumptions

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%	+ 6.0	+0.2
Increase inflation assumption by 0.25%	+ 4.9	+ 0.2
Change long term trend of increases in mortality improvement from 1% per annum to 1.25% per annum	+ 1.6	+ 0.1

Notes to the Accounts

For the year ended
31 December 2014

Continued

28. Retirement Benefit Obligations continued

Estimated contributions for 2015 financial year

	2015 £M
Estimated employer normal contributions in Financial Year 2015	**1.8**

29. 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	
	2014 £M	2013 £M	**2014 £M**	2013 £M
Loans Payable to the Society				
Loans outstanding at 1 January 2014	**91.8**	88.0	**0.2**	0.2
Net movement during the year	**29.6**	3.8	**0.2**	–
Loans outstanding at 31 December 2014	**121.4**	91.8	**0.4**	0.2
Deposits payable by the Society				
Deposits outstanding at 1 January 2014	**113.5**	120.2	**1.1**	1.4
Net movement during the year	**20.0**	(6.7)	**(0.5)**	(0.3)
Deposits outstanding at 31 December 2014	**133.5**	113.5	**0.6**	1.1

Directors' emoluments	**2014 £M**	2013 £M
Total remuneration	**2.2**	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 (2013: none). Three directors are members of the defined contribution section of the Leeds Building Society Pension Scheme (2013: three).

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

30. Tax effects relating to each component of other comprehensive income

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**

2013 Group & Society	Before tax amount £M	Tax benefit/ (expense) £M	Net of tax amount £M
Available for sale investment securities	(8.3)	1.9	(6.4)
Actuarial losses on retirement benefit obligations	(2.3)	0.5	(1.8)
Cash flow hedges	3.5	(0.8)	2.7
Property revaluation	(0.9)	0.2	(0.7)
Other comprehensive income	(8.0)	1.8	(6.2)

31. Liquidity Risk

The Group's liquidity policy is to maintain sufficient liquid resources 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 liquid assets, through committed wholesale funding facilities, 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 the ALCO. The day-to-day management of liquidity is the responsibility of Treasury with oversight from the independent Risk Function.

A series of liquidity stress tests are performed each month to confirm that the limits 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 balance sheet.

Liquidity policy is approved by ALCO and agreed with the Board. Limits on potential cash flow mismatches over defined time horizons are the principal basis 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 at England. At the year end the Group had committed facilities of £nil (2013: £nil).

Pledged assets (encumbrance)

The Group holds debt securities in issue which are secured against the Group's assets.

The Society established Leeds Building Society Covered Bond LLP in 2009. In October 2014 a private placement issue of £19.5m was made by the Covered Bond programme. Covered Bonds have been used to secure long term funding from other counterparties.

In August 2013 the Society established the Albion No.2 Plc securitisation with a £300m residential mortgage backed security (RMBS). This RMBS has been used to secure long term funding from other counterparties.

The table below illustrates the external secured funding balances after redemptions in the mortgage pool since issuance:

	2014		2013	
	Assets pledged £M	**Secured funding £M**	Assets pledged £M	Secured funding £M
Secured against loans and advances to customers	**1,478.6**	**926.6**	1,740.7	1,712.1

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

31. Liquidity Risk continued

Pledged assets include those available to Leeds Building Society Covered Bonds LLP and Albion No.2 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 originators 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 Issuer (Albion No.2 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.

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 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 and Society						
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**

31 December 2013	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 and Society						
Shares	6,124.6	330.2	628.5	1,533.0	124.0	8,740.3
Amounts owed to credit institutions	155.8	7.0	11.0	13.6	–	187.4
Other deposits	208.1	135.0	74.0	17.1	169.8	604.0
Debt securities in issue	2.5	44.2	27.8	924.7	274.4	1,273.6
Subordinated liabilities	0.9	–	–	–	–	0.9
Subscribed capital	–	–	–	–	25.0	25.0
Total liabilities	6,491.9	516.4	741.3	2,488.4	593.2	10,831.2

Notes to the Accounts

For the year ended 31 December 2014

Continued

31. Liquidity Risk continued

Contractual Maturity & Derivatives

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 2014	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	**9.8**	**13.0**	**23.5**	**53.2**	**27.6**
31 December 2013					
Swap contracts	4.2	11.5	13.4	38.9	13.2

Maturity profile of financial instruments

The table below analyses the Group assets and liabilities into relevant maturity groupings based on the remaining period between the balance sheet date and the contractual maturity date. The Society's maturity grouping is not materially different to the Group position.

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
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**
Property, plant and equipment	**29.9**	**–**	**–**	**–**	**–**	**29.9**
Investment properties	**4.4**	**–**	**–**	**–**	**–**	**4.4**
Retirement benefit surplus	**1.3**	**–**	**–**	**–**	**–**	**1.3**
Deferred income tax asset	**1.4**	**–**	**–**	**–**	**–**	**1.4**
Other assets, prepayments, accrued income and current tax	**128.7**	**–**	**–**	**–**	**–**	**128.7**
Total assets	**714.3**	**282.6**	**239.2**	**1,178.5**	**9,716.6**	**12,131.2**
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**
Current income tax liabilities	**9.3**	**–**	**–**	**–**	**–**	**9.3**
Deferred income tax liabilities	**2.6**	**–**	**–**	**–**	**–**	**2.6**
Provisions for liabilities, accruals and deferred income	**79.8**	**–**	**–**	**–**	**–**	**79.8**
Subordinated liabilities	**0.9**	**–**	**–**	**–**	**–**	**0.9**
Subscribed capital	**–**	**–**	**–**	**–**	**25.0**	**25.0**
Available for sale reserve	**3.9**	**–**	**–**	**–**	**–**	**3.9**
Revaluation reserve	**12.4**	**–**	**–**	**–**	**–**	**12.4**
General and other reserves	**689.0**	**–**	**–**	**–**	**–**	**689.0**
Total reserves and liabilities	**6,275.3**	**1,352.0**	**1,258.5**	**2,429.3**	**816.1**	**12,131.2**

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

31. Liquidity Risk continued

31 December 2013	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
Assets						
Cash and balances with the Bank of England	884.6	–	–	–	–	884.6
Loans and advances to credit institutions	–	127.6	–	–	–	127.6
Derivative financial instruments	–	2.3	14.7	66.9	15.6	99.5
Loans and advances to customers:						
Loans fully secured on residential property	9.1	7.0	35.0	357.4	8,198.7	8,607.2
Other loans	69.2	16.4	30.0	148.3	280.8	544.7
Investment securities	–	78.5	68.2	516.2	145.0	807.9
Property, plant and equipment	28.4	–	–	–	–	28.4
Investment properties	4.4	–	–	–	–	4.4
Deferred income tax assets	2.0	–	–	–	–	2.0
Other assets, prepayments and accrued income and current tax	87.9	–	–	–	–	87.9
Total assets	1,085.6	231.8	147.9	1,088.8	8,640.1	11,194.2
Liabilities						
Shares	5,995.3	125.2	957.3	1,447.8	96.4	8,622.0
Derivative financial instruments	–	0.2	5.2	42.4	52.4	100.2
Amounts owed to credit institutions	–	3.0	–	174.6	–	177.6
Amounts owed to other customers	148.6	131.2	85.0	19.1	10.1	394.0
Debt securities in issue	–	3.0	46.7	823.0	259.2	1,131.9
Current income tax liabilities	8.5	–	–	–	–	8.5
Deferred income tax liabilities	3.0	–	–	–	–	3.0
Provisions for liabilities, accruals and deferred income	93.1	–	–	–	–	93.1
Retirement benefit obligations	3.3	–	–	–	–	3.3
Subordinated liabilities	0.9	–	–	–	–	0.9
Subscribed capital	–	–	–	–	25.0	25.0
Available for sale reserve	(4.1)	–	–	–	–	(4.1)
Revaluation reserve	12.4	–	–	–	–	12.4
General and other reserves	626.4	–	–	–	–	626.4
Total reserves and liabilities	6,887.4	262.6	1,094.2	2,506.9	443.1	11,194.2

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

32. Interest Rate Risk

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 derivatives. There has been no change to the way that interest rate risk is managed during the year.

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 Group uses interest rate stress testing and gap analysis to manage its interest rate position.

The following table provides a summary of the interest rate re-pricing profile of the Group's assets and liabilities as at 31 December 2014. 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 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
Property, plant and equipment	–	–	–	–	–	–	29.9	29.9
Investment properties	–	–	–	–	–	–	4.4	4.4
Other assets	–	–	–	–	–	–	251.8	251.8
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
Other liabilities	–	–	–	–	–	–	247.4	247.4
Subordinated debt	–	–	–	0.9	–	–	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Reserves	–	–	–	–	–	–	705.3	705.3
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)	(643.3)	(2,705.2)	481.6	–	–	–
Interest rate sensitivity gap	1,244.8	(344.0)	(48.2)	(87.6)	(121.6)	(25.0)	(618.4)	–

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

32. Interest Rate Risk continued

31 December 2013	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	1,158.0	–	66.4	474.7	8.0	–	113.0	1,820.1
Loans fully secured on residential property and other loans	4,691.0	393.5	492.6	3,337.2	168.4	–	69.2	9,151.9
Property, plant and equipment	–	–	–	–	–	–	28.4	28.4
Investment properties	–	–	–	–	–	–	4.4	4.4
Other assets	–	–	–	–	–	–	189.4	189.4
Total assets	5,849.0	393.5	559.0	3,811.9	176.4	–	404.4	11,194.2

	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	5,661.5	436.1	694.2	1,705.8	28.6	–	95.8	8,622.0
Amounts owed to credit institutions, other customers and debt securities in issue	1,043.9	117.3	20.0	270.0	250.0	–	2.3	1,703.5
Other liabilities	–	–	–	–	–	–	208.1	208.1
Subordinated debt	–	–	–	0.9	–	–	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Reserves	–	–	–	–	–	–	634.7	634.7
Total liabilities	6,705.4	553.4	714.2	1,976.7	278.6	25.0	940.9	11,194.2
Effect of derivative items	1,913.2	(59.2)	(1.6)	(1,917.3)	64.9	–	–	–
Interest rate sensitivity gap	1,056.8	(219.1)	(156.8)	(82.1)	(37.3)	(25.0)	(536.5)	–

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
Other assets include derivative financial instruments, other assets, prepayments and accrued income.
Other liabilities include derivative financial instruments, other liabilities, accruals and deferred income.
The Society's interest rate re-pricing profile is not materially different to the Group position.
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 loss and other equity.

	Group and Society +200bps 2014 £M	Group and Society +200bps 2013 £M	**Group and Society -200bps 2014 £M**	Group and Society -200bps 2013 £M
Impact on equity reserves	**(0.7)**	2.8	**0.4**	7.2
Impact on profit and loss	**(4.4)**	(3.6)	**(1.6)**	3.7

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 cash flow 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.
The movements in the Society's sensitivity to a 200 basis points change in rates have been largely driven by the low interest rate environment.
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 – say 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.

Notes to the Accounts

For the year ended 31 December 2014

Continued

33. 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 Group has provided Euro denominated mortgages as well as received funding via its commercial paper programme in foreign currencies, hence exposures to exchange rate fluctuations arise. 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	
	2014 £M	2013 £M	**2014 £M**	2013 £M
Euro	**320.8**	536.9	**320.8**	536.9

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. Therefore any movement in foreign currency through profit or loss and other equity will be minimised.

34. Wholesale Credit Risk

The Society holds various investments in order to satisfy operational demand at the same time as to meet current and future liquidity regulatory requirements. Credit risk arises because of factors such as deterioration in the 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.

There has been no change in the year to the manner in which the Group manages and measures wholesale credit risk.

At 31 December 2014 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% (2013: 98.7%) 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.

The table below provides ratings details for the Group's treasury investment portfolio as at 31 December 2014:

	Group & Society	
	2014 %	2013 %
Aaa	**20.0**	42.7
Aa1-Aa3	**14.4**	10.7
A1-A3	**13.9**	9.3
Sovereign exposure to the UK	**51.5**	36.7
Other	**0.2**	0.6
	100.0	100.0

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

34. Wholesale Credit Risk continued

All wholesale exposures are to financial institutions within major industrial countries. The largest exposure to a single institution other than the UK Government was £35.1m (2013: £40.1m).

Group & Society	2014 £M	2014 %	2013 £M	2013 %
UK	**1,313.1**	**82.9**	1,599.5	87.9
Europe split into individual countries as follows:				
France	**20.3**	**1.3**	–	–
Germany	**23.1**	**1.5**	41.9	2.3
Ireland	**0.5**	**–**	0.2	–
Switzerland	**25.0**	**1.6**	–	–
Netherlands	**–**	**–**	26.6	1.5
Sweden	**20.0**	**1.3**	–	–
European Supranational	**59.0**	**3.7**	67.9	3.7
North America	**35.0**	**2.2**	47.5	2.6
Global Supranational	**52.9**	**3.3**	–	–
Australia	**–**	**–**	6.5	0.4
Far East	**35.3**	**2.2**	30.0	1.6
	1,584.2	**100.0**	1,820.1	100.0

The Society's geographical exposure is equal to the Group's, except it holds £1,250.4m (2013: £1,515.4m) 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	
	2014 £M	2013 £M	2014 £M	2013 £M
Cash in hand and balances with the Bank of England	**503.4**	884.6	**503.4**	884.6
Loans and advances to credit institutions	**75.7**	127.6	**13.0**	44.8
Investments securities	**1,005.1**	807.9	**1,005.1**	807.9
Wholesale exposures	**1,584.2**	1,820.1	**1,521.5**	1,731.3
Derivative financial instruments	**120.4**	100.2	**81.8**	97.8
Total wholesale credit risk	**1,704.6**	1,920.3	**1,603.3**	1,835.1
Investment securities, which are shown after fair value and impairment adjustments, can be further analysed as:				
UK Government securities	**616.7**	345.4	**616.7**	345.4
Certificates of deposit	**158.1**	65.4	**158.1**	65.4
Supranational bonds	**157.2**	142.3	**157.2**	142.3
Covered bonds	**19.6**	78.1	**19.6**	78.1
Permanent interest bearing shares	**1.7**	1.7	**1.7**	1.7
Fixed & floating rate notes	**–**	23.2	**–**	23.2
Bunds	**–**	17.6	**–**	17.6
Residential mortgage backed securities	**51.8**	134.2	**51.8**	134.2
Total investment securities	**1,005.1**	807.9	**1,005.1**	807.9

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

35. Credit Risk on Loans and Advances to Customers

Credit Risk Management

Experienced credit and risk functions operate within the Group and are driven by both the recognised need to manage the potential and actual risk but also by 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 movements and performance within the various loan portfolios ensures 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 at Board and Board sub-committees.

The Group has managed all types of credit risk in a consistent manner as previous years. However, the range and depth of credit risk management information has been enhanced during the year.

The Group's exposure to retail credit risk can be broken down as below:

	Group & Society	
	2014 £M	2013 £M
Retail mortgages	**9,756.6**	8,629.3
Commercial lending	**268.8**	359.9
Other loans	**184.8**	182.8
Total gross exposure (contractual amounts)	**10,210.2**	9,172.0
Impairment, fair value, EIR and hedging adjustments	**50.7**	(20.1)
Total net exposure	**10,260.9**	9,151.9

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 LTV 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.

Geographic distribution of retail mortgage balances

	Group & Society	
	2014 %	2013 %
Scotland	**6.6**	6.7
North East	**4.6**	4.8
Yorkshire and Humberside	**12.0**	13.3
North West	**7.7**	7.8
Midlands	**12.4**	11.7
East of England	**3.6**	3.2
South West	**8.7**	8.1
Greater London	**11.3**	11.6
South East	**23.2**	21.8
Wales	**3.4**	3.5
Northern Ireland	**3.6**	4.0
Southern Ireland	**1.6**	2.0
Spain	**0.9**	1.1
Other	**0.4**	0.4
	100.0	100.0

The Group's retail lending exposures are predominantly in the United Kingdom, with some exposure in Ireland and Spain. The risk characteristics of the Irish residential portfolio are no longer similar to the rest of the Group's residential portfolio because of higher average arrears rates and lower house prices caused by Ireland's weak economic situation and the severe austerity measures imposed on them. 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 2014 **Continued**

35. Credit Risk on Loans and Advances to Customers continued

Loan to value distribution of retail mortgage balance:

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

	Group & Society Residential	
	2014 %	2013 %
<70%	**67.8**	54.9
70% – 80%	**18.9**	24.4
80% – 90%	**8.0**	10.6
>90%	**5.3**	10.1
	100.0	100.0

The overall indexed loan-to-value of the residential portfolio is 46% (2013: 50%). The overall indexed loan-to-value on the lifetime mortgage portfolio is 33% (2013: 35%), and the collateral held amounts to £562m (2013: £518m).

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 or repossession.

Fair value of collateral held for residential mortgages

	Group & Society Residential	
	2014 £M	2013 £M
Neither past due nor impaired	**9,540.1**	8,374.2
Past due but not impaired	**146.4**	150.7
Impaired	**14.7**	19.2
Total loans and advances	**9,701.2**	8,544.1

The collateral held consists of residential property. 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 provides further information on the Group's loans and advances to customers by payment due status as at 31 December 2014. The balances exclude the fair value adjustment for hedge risk and impairment losses. The table includes £46.4m (2013: £56.9m) of loans and advances secured on residential property in Ireland that are past due and £1.4m (2013: £2.2m) in possession.

Payment due status

	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**	**–**	**–**
	9,756.6	**100.0**	**184.8**	**100.0**

35. Credit Risk on Loans and Advances to Customers continued

2013	Group & Society Residential 2013 £M	Group & Society Residential 2013 %	Group & Society Other [1] 2013 £M	Group & Society Other [1] 2013 %
Not impaired:				
– Neither past due nor impaired	8,110.0	93.9	182.8	100.0
– Past due up to 3 months but not impaired	332.4	3.9	–	–
Impaired:				
– Not past due but impaired	–	–	–	–
– Past due 3 to 6 months	73.6	0.9	–	–
– Past due 6 to 12 months	41.8	0.5	–	–
– Past due over 12 months	47.3	0.5	–	–
– Possessions	24.2	0.3	–	–
	8,629.3	100.0	182.8	100.0

Note:

[1] Other loans include lifetime mortgages £181.3m (2013: £180.4m) and other loans £2.5m (2013: £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 early stages of arrears.

Forbearance strategies

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk 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.

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**
	190.1	**29.7**	**21.0**	**23.6**	**57.2**	**6.0**	**327.6**

2013	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	40.7	9.2	24.1	40.4	66.2	6.2	186.8
Past due up to 3 months	69.3	20.5	12.4	4.1	3.9	2.5	112.7
Past due more than 3 months	48.6	7.5	5.0	0.5	0.2	–	61.8
Possessions	2.1	0.3	–	0.1	–	–	2.5
	160.7	37.5	41.5	45.1	70.3	8.7	363.8

The table above provides further information on loans existing at the 2014 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 renegotiation is still in place or whether the loan has reverted to its original terms.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

35. 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. Loans secured on commercial property are split by industry type as follows:

Industry type

	Group & Society Commercial	
	Group 2014 %	Group 2013 %
Leisure and hotel	**1.1**	1.4
Retail	**35.4**	35.9
Offices	**36.9**	39.2
Commercial investment and industrial units	**20.5**	18.4
Others, including mixed use	**6.1**	5.1
	100.0	100.0

Loan to value

	Group & Society Commercial	
	2014 %	2013 %
<70%	**33.4**	9.0
70% – 80%	**6.7**	22.6
80% – 90%	**26.0**	11.9
>90%	**33.9**	56.5
	100.0	100.0

The overall indexed loan-to-value of the commercial portfolio is 79.5% (2013: 98.6%).

Payment due status

The table below provides further information on the Group's commercial loans and advances by payment due status as at 31 December 2014. The balances exclude the fair value adjustment for hedge risk and impaired losses.

	Group & Society Commercial		Group & Society Commercial	
	2014 £M	**2014 %**	2013 £M	2013 %
Not impaired:				
– Neither past due nor impaired	**197.7**	**73.5**	256.9	71.4
Impaired:				
– Not past due but impaired	**43.5**	**16.2**	79.6	22.1
– Past due up to 3 months	**3.5**	**1.3**	2.0	0.6
– Past due 3 to 6 months	**–**	**–**	–	–
– Past due 6 to 12 months	**–**	**–**	–	–
– Past due over 12 months	**–**	**–**	–	–
– Possessions	**24.1**	**9.0**	21.4	5.9
	268.8	**100.0**	359.9	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 (2013: £nil) that would be past due or impaired have had their terms renegotiated during 2014.

Fair value of collateral held

	Group & Society Commercial	
	2014 £M	2013 £M
Neither past due nor impaired	**190.1**	286.8
Past due but not impaired	**0.2**	4.2
Impaired	**44.5**	–
Total loans and advances	**234.8**	**291.0**

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

35. 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 level of collateral in 2014 reflects the reduction in the portfolio during the year.

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.

36. 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 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 foreign currency rate 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 swaps (fair value hedge)
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps (fair value hedge)
Fixed rate funding rate	Sensitivity to falls in interest rates	Receive fixed interest swaps (fair value hedge)
Fixed rate asset investments	Sensitivity to increases in interest rates	Pay fixed interest rate swaps (fair value hedge)
Equity linked investment 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)

The Group manages risk within its risk tolerance, regardless of the accounting treatment.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

36. Derivative Financial Instruments continued

Derivatives for use in hedge relationships are traded 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. 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.

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 2014			Group 2013		
	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	**8,941.1**	**86.2**	**(74.0)**	6,204.6	52.5	(53.3)
Interest rate swaps designated as cash flow hedges	**1.0**	**–**	**–**	141.0	–	(2.4)
Derivatives not designated as hedges:						
Quanto swaps	**14.5**	**–**	**–**	50.8	–	(0.1)
Equity swaps	**262.8**	**25.6**	**(57.5)**	366.8	41.4	(38.9)
Cross currency swaps	**376.5**	**7.7**	**(22.0)**	352.0	4.4	(3.4)
Floating swaps	**791.7**	**0.9**	**(1.9)**	836.2	1.2	(2.1)
Bank base rate swaps	**1,025.9**	**–**	**(1.2)**	–	–	–
Total derivatives held for hedging	**11,413.5**	**120.4**	**(155.7)**	7,951.4	99.5	(100.2)

	Society 2014			Society 2013		
	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	**8,282.9**	**47.6**	**(74.0)**	5,498.7	31.8	(54.1)
Interest rate swaps designated as cash flow hedges	**1.0**	**–**	**–**	141.0	–	(2.4)
Derivatives not designated as hedges:						
Quanto swaps	**14.5**	**–**	**–**	50.8	–	(0.1)
Equity swaps	**262.8**	**25.6**	**(57.5)**	366.8	41.4	(38.9)
Cross currency swaps	**337.7**	**7.7**	**(19.2)**	268.8	4.4	(0.2)
Floating swaps	**791.7**	**0.9**	**(1.9)**	836.2	1.2	(2.1)
Bank base rate swaps	**1,025.9**	**–**	**(1.2)**	–	–	–
Total derivatives held for hedging	**10,716.5**	**81.8**	**(153.8)**	7,162.3	78.8	(97.8)

The Group discounts its collateralised and un-collateralised positions based on OIS Sonia curves.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

36. Derivative Financial Instruments continued

The following tables analyse the derivatives by contract and residual maturity:

	Group 2014			Group 2013		
	Notional principal amount £M	**Credit risk weighted amount £M**	**Replacement cost £M**	Notional principal amount £M	Credit risk weighted amount £M	Replacement cost £M
Interest rate swaps	**11,037.0**	**62.5**	**112.7**	7,476.7	41.4	95.1
Cross currency swaps	**376.5**	**28.6**	**7.7**	474.7	8.3	4.4
	11,413.5	**91.1**	**120.4**	7,951.4	49.7	99.5
Under one year	**2,768.0**	**–**	**17.3**	1,818.0	–	17.0
Between one and five years	**6,426.8**	**35.0**	**53.9**	4,626.1	27.1	66.9
Over five years	**2,218.7**	**56.1**	**49.2**	1,507.3	22.6	15.6
	11,413.5	**91.1**	**120.4**	7,951.4	49.7	99.5

	Society 2014			Society 2013		
	Notional principal amount £M	**Credit risk weighted amount £M**	**Replacement cost £M**	Notional principal amount £M	Credit risk weighted amount £M	Replacement cost £M
Interest rate swaps	**10,378.8**	**55.2**	**74.1**	6,687.6	33.0	74.4
Cross currency swaps	**337.7**	**28.6**	**7.7**	474.7	8.3	4.4
	10,716.5	**83.8**	**81.8**	7,162.3	41.3	78.8
Under one year	**2,729.2**	**–**	**17.3**	1,776.4	–	17.0
Between one and five years	**6,176.8**	**33.8**	**39.0**	4,334.4	25.5	58.1
Over five years	**1,810.5**	**50.0**	**25.5**	1,051.5	15.8	3.7
	10,716.5	**83.8**	**81.8**	7,162.3	41.3	78.8

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

36. Derivative Financial Instruments continued

Market risk
Market risk is the risk that the value of a financial instrument will fluctuate due to movement in market factors. Market risk comprises the following types of risk: interest rate risk, currency risk, operational risk and other price risk. 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 Group Treasury. Group Treasury manages market risk 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.

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

37. Fair Values

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities by category. 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	
		Carrying value 2014 £M	Fair Value 2014 £M	Carrying value 2014 £M	Fair Value 2014 £M
Financial assets:					
Cash in hand and balances with the Bank of England		503.4	503.4	503.4	503.4
Loans and advances to credit institutions	i)	75.7	74.1	13.0	13.0
Derivative financial instruments	ii)	120.4	120.4	81.8	81.8
Loans and advances to customers					
Loans fully secured on residential property	iii)	9,777.4	10,023.2	9,777.4	10,023.2
Other loans		483.5	489.7	483.5	489.7
Investment securities	iv)				
Available for sale		975.6	975.6	975.6	975.6
Loans and receivables		29.5	28.3	29.5	28.3
Investment in subsidiary undertakings	v)	–	–	121.4	121.4
Property, plant and equipment		29.9	29.9	29.9	29.9
Investment properties		4.4	4.4	–	–
Retirement benefit surplus		1.3	1.2	1.3	1.2
Deferred income tax asset		1.4	1.4	0.7	0.9
Other assets, prepayments and accrued income		128.7	128.6	202.9	203.1
		12,131.2	12,380.2	12,220.4	12,471.5
Financial liabilities:					
Shares	iii)	9,181.6	9,062.6	9,181.6	9,062.6
Derivative financial instruments	ii)	155.7	155.7	153.8	153.8
Amounts owed to credit institutions	vi)	143.2	143.3	143.2	143.3
Amounts owed to other customers	iii)	483.0	483.0	616.5	616.5
Debt securities in issue	iv)	1,344.8	1,478.2	1,312.0	1,255.3
Current income tax liabilities		9.3	9.3	7.7	7.7
Deferred income tax liabilities		2.6	2.6	0.7	0.7
Other liabilities and accruals		75.4	75.6	73.2	73.4
Provisions for liabilities and charges		4.4	4.4	4.4	4.4
Subordinated liabilities	vii)	0.9	0.9	0.9	0.9
Subscribed capital	vii)	25.0	25.0	25.0	25.0
Reserves		705.3	705.3	701.4	701.4
		12,131.2	12,145.9	12,220.4	12,045.0

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

37. Fair Values continued

		Group		Society	
		Carrying Value 2013 £M	Fair Value 2013 £M	Carrying Value 2013 £M	Fair Value 2013 £M
Financial assets:					
Cash in hand and balances with the Bank of England		884.6	884.6	884.6	884.6
Loans and advances to credit institutions	i)	127.6	127.6	44.8	44.8
Derivative financial instruments	ii)	99.5	99.5	78.8	78.8
Loans and advances to customers					
Loans fully secured on residential property	iii)	8,607.2	8,830.2	8,607.2	8,830.2
Other loans		544.7	552.8	544.7	552.8
Investment securities	iv)				
Available for sale		711.9	711.9	711.9	711.9
Loans and receivables		96.0	94.8	96.0	94.8
Investment in subsidiary undertakings	v)	–	–	111.4	111.3
Property, plant and equipment		28.4	28.4	28.3	28.3
Investment properties		4.4	4.4	–	–
Deferred income tax asset		2.0	2.0	1.4	1.4
Other assets, prepayments and accrued income		87.9	87.9	121.8	121.8
		11,194.2	11,424.1	11,230.9	11,460.7
Financial liabilities:					
Shares	iii)	8,622.0	8,710.3	8,622.0	8,710.3
Derivative financial instruments	ii)	100.2	100.2	97.8	99.2
Amounts owed to credit institutions	vi)	177.6	177.9	177.6	177.6
Amounts owed to other customers	iii)	394.0	393.9	507.5	507.5
Debt securities in issue	iv)	1,131.9	1,207.7	1,119.4	1,236.0
Current income tax liabilities		8.5	8.5	7.7	7.7
Deferred income tax liabilities		3.0	3.0	0.7	0.7
Other liabilities and accruals		88.5	88.5	31.6	31.6
Provisions for liabilities and charges		4.6	4.6	4.6	4.6
Retirement benefit obligations		3.3	3.3	3.3	3.3
Subordinated liabilities	vii)	0.9	0.9	0.9	0.9
Subscribed capital	vii)	25.0	25.0	25.0	25.0
Reserves		634.7	634.7	632.8	632.8
		11,194.2	11,358.5	11,230.9	11,437.2

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms-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) All derivatives are all held for economic hedge purposes. The fair value of interest rate swaps is calculated via a discounted cash flow valuation model. The fair value of cross currency swaps is obtained from external counterparties.
iii) Loans and advances to customers, shares and amounts due to 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 discounted cash flow principles set out in IAS 39. This value is considered to be a good approximation of fair value.
iv) Fair values are based on quoted market prices. 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.
v) The fair value of investments in subsidiary undertakings is assumed to approximate their carrying amounts.
vi) 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.
vii) The fair value of subordinated liabilities and subscribed capital are obtained from market prices.

Notes to the Accounts

For the year ended
31 December 2014

Continued

37. Fair Values continued

The following table analyses the Group's assets and liabilities by the class of financial instrument to which they are assigned by the measurement basis:

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
Financial 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	4,790.6	–	–	4,986.8	–	–	–	9,777.4
Other loans	100.3	–	–	383.2	–	–	–	483.5
Investment securities	–	975.6	–	29.5	–	–	–	1,005.1
Non financial assets	–	–	–	–	–	–	165.7	165.7
Total assets	5,011.3	975.6	–	5,978.6	–	–	165.7	12,131.2
Financial liabilities:								
Shares	–	–	–	–	1,195.3	7,986.3	–	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	–	–	–	–	1,338.8	6.0	–	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	–	–	–	–	2,689.8	8,644.4	797.0	12,131.2

Notes to the Accounts

For the year ended 31 December 2014 **Continued**

37. Fair Values continued

The following table analyses the Group's assets and liabilities by the class of financial instrument to which they are assigned by the measurement basis:

31 December 2013	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
Financial assets:								
Cash and balances with the Bank of England	–	–	–	884.6	–	–	–	884.6
Loans and advances to credit institutions	–	–	–	127.6	–	–	–	127.6
Derivative financial instruments	99.5	–	–	–	–	–	–	99.5
Loans and advances to customers:								
Loans fully secured on residential property	2,984.1	–	–	5,623.1	–	–	–	8,607.2
Other loans	150.0	–	–	394.7	–	–	–	544.7
Investment securities	–	711.9	–	96.0	–	–	–	807.9
Non financial assets	–	–	–	–	–	–	122.7	122.7
Total assets	3,233.6	711.9	–	7,126.0	–	–	122.7	11,194.2
Financial liabilities:								
Shares	–	–	–	–	863.2	7,758.8	–	8,622.0
Derivative financial instruments	–	–	–	–	100.2	–	–	100.2
Amounts owed to credit institutions	–	–	–	–	–	177.6	–	177.6
Amounts owed to other customers	–	–	–	–	–	394.0	–	394.0
Debt securities in issue	–	–	–	–	1,123.9	8.0	–	1,131.9
Subordinated liabilities	–	–	–	–	–	0.9	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Non financial liabilities	–	–	–	–	–	–	107.9	107.9
General and other reserves	–	–	–	–	–	–	634.7	634.7
Total reserves and liabilities	–	–	–	–	2,087.3	8,364.3	742.6	11,194.2

Notes to the Accounts

For the year ended 31 December 2014

Continued

37. 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.

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 property	**–**	**4.4**	**–**	**4.4**
Financial liabilities				
Derivative financial instruments	**–**	**98.2**	**57.5**	**155.7**

2013 Group	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Financial assets				
Investment securities – available for sale	314.3	397.6	–	711.9
Derivative financial instruments	–	99.5	–	99.5
Loans and receivables	–	270.8	–	270.8
Investment property	–	4.4	–	4.4
Financial liabilities				
Derivative financial instruments	–	61.7	38.5	100.2

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 (i.e. as price) or indirectly (i.e. derived prices) other than quoted prices included in Level 1. These include valuation models used to calculate the present 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 arms-length transaction. These derivatives are used to provide an effective hedge.

Reconciliation of Level 3 fair value measurements of financial liabilities

	Fair value through profit and loss £M
Balance at 1 January 2014	**(38.5)**
Total losses in the Income Statement	**(19.0)**
Balance at 31 December 2014	**(57.5)**

The table above only includes financial liabilities. There were no financial assets subsequently measured at fair value on Level 3 fair value measurement bases.

Of the total losses for the year included in the Income Statement, £19.0m (2013: £12.0m loss) related to derivatives included within the Level 3 fair value category. These losses are included in fair value gains less losses from derivative financial instruments in the Income Statement.

Notes to the Accounts

For the year ended
31 December 2014

Continued

37. Fair Values continued

Recurring fair value measurements

Financial assets/ financial liabilities	Fair value as at 2014	Fair value as at 2013	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 – £381.9m**	Assets – £397.6m	Level 2	Quoted bid prices in an active market sourced from third party data providers.	N/A	N/A
2. Interest rate swaps	**Assets – £86.9m and Liabilities – £78.8m**	Assets – £53.7m and Liabilities – £57.9m	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 – £7.7m and Liabilities – £19.2m**	Assets – £4.4m and Liabilities – £1.0m	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
4. Equity swaps	**Assets – £25.6m and Liabilities – £nil**	Assets – £40.4m and Liabilities £0.8m	Level 2	The assets and liabilities 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 – £57.5m**	Liabilities – £38.5m	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 – 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 life expectancy data. On this basis no reasonable assumption is considered appropriate.	An increase in life expectancy will increase the value of the liability.
6. Loans and receivables	**Assets – £262.9m**	Assets – £270.8m	Level 2	The assets are valued using the valuation of the associated derivatives as all critical terms match and the conditions associated with the loans and derivatives match.	N/A	N/A
7. Investment Property	**Assets – £4.4m**	Assets – £4.4m	Level 2	Discounted cash flow. Future cashflows take into account the future net income, discounted using an appropriate discount factor.	N/A	N/A

Notes to the Accounts

For the year ended
31 December 2014

Continued

38. Operating Segments

Products and services from which reportable segments derive their revenues

The information reported to the Group's Chief Executive 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 2014 £M	Commercial Lending 2014 £M	Euro Lending 2014 £M	Total 2014 £M	Core Activities 2013 £M	Commercial Lending 2013 £M	Euro Lending 2013 £M	Total 2013 £M
Interest receivable and similar income	385.2	8.7	3.6	397.5	370.2	9.2	4.6	384.0
Interest payable and similar charges	(203.2)	(6.9)	(2.6)	(212.7)	(211.2)	(6.9)	(2.7)	(220.8)
Net interest receivable	182.0	1.8	1.0	184.8	159.0	2.3	1.9	163.2
Fees and commissions receivable	13.8	–	–	13.8	14.2	0.4	–	14.6
Fees and commissions payable	(0.7)	–	–	(0.7)	(0.5)	–	–	(0.5)
Fair value gains less losses from derivative financial instruments	(1.4)	1.0	–	(0.4)	1.3	(2.2)	–	(0.9)
Other operating income	0.9	–	–	0.9	0.9	–	–	0.9
Total income	194.6	2.8	1.0	198.4	174.9	0.5	1.9	177.3
Administrative expenses including depreciation	(65.4)	(0.4)	(0.4)	(66.2)	(54.8)	(0.3)	(0.4)	(55.5)
Impairment losses on loans and advances to customers	(7.1)	(31.1)	(1.3)	(39.5)	(10.3)	(35.7)	(1.9)	(47.9)
Provisions for liabilities and charges	(11.8)	–	–	(11.8)	(7.6)	–	–	(7.6)
Impairment losses on land and buildings	–	–	–	–	(0.8)	–	–	(0.8)
Investment property fair value movement	–	–	–	–	(1.3)	–	–	(1.3)
Pension curtailment gain	7.0	–	–	7.0	–	–	–	–
Profit before tax	117.3	(28.7)	(0.7)	87.9	100.1	(35.5)	(0.4)	64.2
Income tax expense	(24.9)	6.2	0.2	(18.5)	(23.5)	8.4	(0.1)	(15.2)
Profit for the financial year	92.4	(22.5)	(0.5)	69.4	76.6	(27.1)	(0.5)	49.0

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 2014 £M	Commercial Lending 2014 £M	Euro Lending 2014 £M	Total 2014 £M	Core Activities 2013 £M	Commercial Lending 2013 £M	Euro Lending 2013 £M	Total 2013 £M
Loans and advances to customers	9,496.1	268.8	239.9	10,004.8	8,313.7	359.9	266.2	8,939.8
At fair value through profit and loss	205.4	–	–	205.4	232.4	–	–	232.4
Total	9,701.5	268.8	239.9	10,210.2	8,546.1	359.9	266.2	9,172.2
Less: Impairment provisions	(15.8)	(25.0)	(16.3)	(57.1)	(22.5)	(36.4)	(15.6)	(74.5)
Fair value adjustment for hedge risk	107.8	–	–	107.8	54.2	–	–	54.2
Total loans and advances to customers	9,793.5	243.8	223.6	10,260.9	8,577.8	323.5	250.6	9,151.9

Annual Business Statement

For the year ended
31 December 2014

1. Statutory Percentages

	31 December 2014	Statutory Limit
Lending limit	**7.6%**	25%
Funding limit	**18.0%**	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 Balance Sheet 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 Balance Sheet less 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 2014	31 December 2013
As a percentage of shares and borrowings:		
Gross capital	**6.52%**	6.44%
Free capital	**6.36%**	6.34%
Liquid assets	**14.20%**	17.63%
Profit for the financial year as a percentage of mean total assets	**0.60%**	0.46%
Management expenses as a percentage of mean total assets	**0.57%**	0.52%

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 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 2014

Continued

3. Information Relating to the Directors and Other Officers

Name	Occupation	Date of Birth	Date first appointed
Chairman			
R. J. Ashton (Chairman)	Chairman	19.01.58	26.04.11
Vice Chairman			
L. M. Platts (Vice Chairman from 26 March 2014)	Company Director	10.02.54	26.10.10
R. W. Stott (Resigned on 26 March 2014)	Company Director	22.03.43	08.12.08
Chief Executive			
*P. A. Hill	Chief Executive	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	Risk Director	11.12.69	08.01.15
P. A . Jenks	Company Director	03.01.51	27.03.12
*R. S. P. Litten	Finance Director	11.05.63	10.01.12
A. Rajguru	Company Director	14.09.65	02.04.08
*K. L. Rebecchi	Distribution & Marketing Director	31.03.66	07.12.09
I. Robertson	Company Director	10.08.47	08.12.08
*K. R. Wint	Operations Director	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 MP), 1 City Square, Leeds LS1 2AL.

Details of Directors – Other Directorships

R. J. Ashton	Shawbrook Bank Ltd Non-Standard Finance plc
L. M. Platts	AJ Bell Holdings Ltd Lancashire County Cricket Club
P. A. Hill	None
P. A. Brown	PHD International Ltd Omnicom Media Group UK Ltd M2M International Ltd OMD International Ltd

Annual Business Statement

For the year ended 31 December 2014

Continued

3. Information Relating to the Directors and Other Officers continued

S. H. Cooklin	None
D. Fisher	Leeds Building Society Staff Pension Scheme Ltd
A. J. Greenwood	None
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 Countrywide Rentals 1,2,3,4,5 Ltd* Leeds Mortgage Funding Ltd* Leeds Overseas (Isle of Man) Ltd* Mercantile Asset Management Ltd*
A. Rajguru	Alexander Rosse Ltd Northampton College Leeds Building Society Staff Pension Scheme Ltd
K. L. Rebecchi	Headrow Commercial Property Services Ltd* Leeds Financial Services Ltd*
I. Robertson	Homes and Communities Agency for England Wetherby Arts Festival
K. R. Wint	None

Executive Management

Name	Occupation	Directorships (*Society Subsidiary)
K. G. Bassett	Chief Internal Auditor	None
T. W. Clark	Chief Information Officer	None
K. J. Green	General Manager	None
R. Hewitt	General Manager	Leeds Apprenticeship Training Agency Ltd
G. M. Mitchell	General Manager	Countrywide Rentals 1, 2, 3, 4, 5 Ltd* Headrow Commercial Property Services Ltd* Leeds Building Society Staff Pension Scheme Ltd Leeds Mortgage Funding Ltd* Leeds Overseas (Isle of Man) Ltd* Leeds Financial Services Ltd*
A. R. A. Moody	General Manager	None
M. J. Richardson	General Manager	Leeds Building Society Charitable Foundation Mercantile Asset Management Ltd*
I. P. Riley	General Manager	Leeds Building Society Staff Pension Scheme Ltd
T. A. Tinkler	General Manager	None

(*Society Subsidiary)

Country by Country Reporting

For the year ended
31 December 2014

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 fifth largest building society with 67 branches, total assets of £12.1bn and 721,000 members. The consolidated entities, their country of incorporation and their principal activities are detailed in note 13 on page 76. The Society has regulatory branches in Spain 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 2014 are analysed below. The information presented is at a full Group level of consolidation, which has been prepared under International Financial Reporting Standards. 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 £198.4m and profit before tax of £87.9m is that disclosed in the Group's Income Statement.

	UK	Spain	Republic of Ireland	Total
Total income (£m)	197.4	1.4	(0.4)	198.4
Profit before tax (£m)	88.6	(0.3)	(0.4)	87.9
Average number of employees	1,100	Nil	4	1,104

Return on assets

The return on assets, calculated as profit before tax divided by average total assets, was 0.75% for the year ended 31 December 2014.

Corporation tax paid

The Society made payments of £17.5m in respect of corporation tax during the year ended 31 December 2014. This was wholly payable to HM Revenue & Customs in the UK.

Public subsidies received

The Society received no public subsidies in the year ended 31 December 2014.

Glossary of Terms

For the year ended
31 December 2014

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 (CRV IV).

Basis point
One hundredth of a per cent (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 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) whose value is based on the underlying asset, index or reference rate it is linked to. 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 & 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 Capital 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 2014

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 Base 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)

This is a new regulatory standard ratio proposed by the Basel III reforms and is the stock of high quality liquid assets divided by the total net stresses cash outflows over the next 30 calendar days expressed as a percentage. The measure will be 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 total 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 Stable Funding Ratio (NSFR)

This is a new regulatory standard ratio proposed by the Basel III reforms and 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 2014

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 is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

Risk Weighted Assets

The Group's assets are allocated a risk weighting based on the account of capital required to support the asset.

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 proporton 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 Core Tier 1 and other Tier 1 capital. Core Tier 1 capital comprises general reserves from retained profits. The book values of goodwill and intangible assets are deducted from Core Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as PIBS are included in other Tier 1 capital (i.e. not Core Tier 1).

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 08450 505 065

We may monitor and/or record your telephone conversations with the Society to ensure consistent service levels (including staff training).

Leeds Building Society