Interim Financial Report

30 June 2015

Leeds Building Society

CHIEF EXECUTIVE INTRODUCTION

I am pleased to report a very good set of financial results driven by record growth in mortgage lending, favourable funding conditions and a reduction in impairment provisions and charges. Our assets are now £12.7bn, the highest in our 140 year history.

Strong levels of profit have enabled us to increase capital and reserves to record levels, which significantly exceed the regulatory minimum.

During the first half of 2015, we successfully upgraded our core administration system. This has created the platform for material improvements in our proposition and our members will see benefits from these enhancements in the next 12 months. We have also created 120 new roles as we further increase our capacity and improve our products and services.

New residential mortgage lending was significantly above our market share and increased by 22% to record levels. We have also worked hard to deliver value to savers and paid 0.53%[1] more than the rest of the market average.

Bank Base Rate remains at an historical low and the Governor of the Bank of England, Mark Carney, indicated last month that interest rates may start to rise slowly, perhaps as early as the turn of this year.

We anticipate a modest increase in the size of the mortgage market for 2015 and expect competition for new business to intensify as established lenders and new entrants look to achieve market share.

Despite this, and the uncertainty in the Eurozone, we remain very well placed to deal with any economic shocks, deliver our investment programme, further develop our service proposition and continue to provide value to our members.

Peter Hill

Chief Executive

[1] Savings stock data from CACI's Current Account and Savings Database (CSDB), April 2015 (latest data available) – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market.

INTERIM BUSINESS & FINANCIAL REVIEW

Key performance indicators

Secure	
Operating profit before exceptional item	Increased by 42% to £55.0m (June 2014: £38.6m) and represents 0.89% of mean assets (June 2014: 0.66%)
Net interest margin	Improved to 1.66% compared to 1.57% in the six months to June 2014
Regulatory Capital	Common Equity Tier 1 capital increased to £746m (June 2014: £665m) CET 1 capital ratio of 15.5% (June 2014: 15.3%) Leverage ratio of 5.6% (June 2014: 5.5%)
Credit rating	Maintained long term credit rating from Fitch (A-) and secured a ratings upgrade from Moody's (A2)
Customer focused	
New residential lending	Increased by 22% to £1,448m (June 2014: £1,189m)
Net residential lending	Record net residential lending of £668m (June 2014: £446m)
Net savings balances	Maintained at £9.2bn (June 2014: £9.1bn)
Change in membership	Membership increased to almost 724,000 in 2015 (June 2014: 722,000)
Service driven	
Customer satisfaction	Maintained at 92% (June 2014: 92%) based on the last external quarterly data (Q1 2015)
Number of days from mortgage application to offer	14 days which continues to be better than our internal target
% of customer administration processing completed on the day it is received	Reduced to 78% (June 2014: 88%). This reflects the significant increase in volume of customer administration as a result of the exceptional demand for the Society's ISA products
Colleague engagement	Colleague engagement remains high at 77% based on interim internal scores (December 2014: 76%)
Efficient	
Cost to income ratio	Expenses as a proportion of income has increased slightly to 34% (June 2014: 33%)
Cost to mean assets ratio	Expenses as a proportion of mean assets increased to 0.60% (June 2014: 0.55%)
Colleague turnover	15.8% which is in line with our internal target (June 2014: 18.6%)

For glossary of terms see the 2014 Annual Report & Accounts page 113.

Interim Business & Financial Review (continued)

for the six months ended 30 June 2015

Income statement

Following a very successful year in 2014, in the first half of 2015 the Society increased its pre-tax profit by 42% to £55.0m (June 2014: £38.6m). The key features of this financial performance are:

- Net interest income increased by £11.4m to £103.3m and the margin improved from 1.57% to 1.66%. The improvement results from strong growth in high quality residential mortgage assets and a reduction in the cost of funding as a consequence of the continuing low interest rate environment.

- Management expenses increased to £37.0m (June 2014: £32.1m), reflecting the continued impact of the Society's investment programme, which is key to achieving our aim of becoming Britain's most successful building society. In the first half of the year, we created 120 new roles in the Society and also successfully concluded the transition of our core administration system to a new IT service provider. The Society still maintains strong efficiency ratios with a cost/income ratio of 34% (June 2014: 33%) and cost/mean asset ratio of 0.60% (June 2014: 0.55%), which continue to compare favourably against our peer group.

- During the first half of the year the Society's impairment charge for loans and advances to customers reduced by 69% to £5.5m (June 2014: £17.8m). This reflects a lower charge for commercial loans as the size of the portfolio continues to reduce as well as an improvement in arrears performance on residential lending. The Society also continues to bear the cost of the FSCS levy, which was £6.3m (June 2014: £6.2m).

Balance sheet

Overall the Society's total assets increased to £12.7bn (June 2014: £12.1bn), driven by growth in new lending.

- Strong residential lending has continued in the first half of 2015, with gross lending of £1,448m (June 2014: £1,189m), which is significantly above the Society's natural market share. Net residential lending increased to £668m (June 2014: £446m). Total residential mortgage balances are now £10.4bn (June 2014: £9.1bn), which is a record for the Society.

- We continue to manage down our commercial lending assets and the portfolio of loans secured on commercial property now stands at £230m (June 2014: £337m). Commercial loans now represent less than 2.5% of total loans (June 2014: 3.5%).

- The Society's main source of funding continues to be retail savings and balances have remained stable in the first half of 2015 at £9.2bn (June 2014: £9.1bn).

- The Society also makes use of wholesale funding to complement its retail savings activity. In May 2015 the Society raised €500m through the Medium Term Note Programme in addition to £300m raised through a Covered Bond issue in February. The non retail funding ratio increased to 21.5% (June 2014: 19.2%).

Interim Business & Financial Review (continued)

for the six months ended 30 June 2015

- The Society maintains a level of liquidity to ensure it can meet its financial obligations as they fall due under normal and stressed scenarios and which is also in excess of the regulatory requirements. During the second half of 2014 the Society reduced liquidity, as planned, to reflect improved access to other contingent liquidity sources and the total liquidity ratio[2] at 31 December was 16.2%. At 30 June 2015 the total liquidity ratio was 16.9% (June 2014: 22.9%).

- Total impairment provisions are £55.9m at 30 June 2015 compared to £57.1m at 31 December 2014 and £82.9m at 30 June 2014 reflecting lower arrears balances. Residential mortgage provisions of £26.1m represent 15% of arrears and possession balances (June 2014: 18%). Residential arrears (1.5% or more of outstanding mortgage balances) have reduced to 1.62% (June 2014: 2.12%), reflecting the higher quality of our residential mortgage book. Commercial mortgage provisions of £27.3m represent 26% of impaired balances (June 2014: 32%).

Capital

A strong capital position has been maintained in 2015 with all capital ratios significantly in excess of regulatory minima.

- Common equity tier 1 capital, which largely consists of accumulated profits and is the strongest form of capital, has increased to £746m (June 2014: £665m). The CET 1 ratio of 15.5% (June 2014: 15.3%) is in excess of the regulatory minimum of 8%.

- The leverage ratio, which also includes off balance sheet exposures, was 5.6% (June 2014: 5.5%), which is significantly in excess of the current regulatory minimum of 3%.

- The capital ratios have been calculated in accordance with the Society's current interpretation of CRD IV on a transitional basis.

Members

Delivering outstanding personal service to all our members is one of the Society's four strategic pillars. The highlights of performance against this in the first half of 2015 were:

- The most recent quarterly external survey of customer satisfaction (Q1 2015) achieved a combined score of 92% (June 2014: 92%), following the trend of recent scores which have all been in excess of 90%.

- The total number of members increased to almost 724,000 (June 2014: 722,000) as the Society's product proposition continues to attract new customers.

- We remain committed to providing good value to our members and on average the Society pays 0.53%[1] above the rest of the market on retail savings accounts.

[1] Savings stock data from CACI's Current Account and Savings Database (CSDB), April 2015 (latest data available) – CACI is an independent company that provides Financial Services benchmarking data and covers 85% of the high street cash savings market.

[2] Total liquidity including on and off balance sheet liquidity expressed as a percentage of shares, deposits and liabilities.

Principal risks & uncertainties

The principal risks that arise from the Society's operations are classified as credit, liquidity, market, operational, conduct, strategic and pension obligation. These are common to most financial services firms in the UK. In order to ensure that the interests of members are adequately protected at all times, the Society has embedded a robust governance structure and risk management framework. These are designed to identify, manage, monitor and control the major risks exposed in the delivery of the Society's strategic objectives. Full details of the risks faced by the Society, which the Directors consider are unchanged, can be found on pages 22 to 29 of the 2014 Annual Report and Accounts.

Outlook

Leeds Building Society has continued to progress towards its vision of being Britain's most successful building society. The Society has delivered strong growth and profitability during the first six months of 2015, whilst maintaining financial strength.

The improvement in the economy is expected to continue over the remainder of the year. Notwithstanding the outline approval of the Greek bailout fund, uncertainty remains in the Eurozone which could impact the UK. Interest rates remain at an historical low driven by monetary policy designed to support sustainable economic growth. The prolonged low interest rate environment and a lack of competition in the market continue to impact savers. We anticipate an increase in competition, which, coupled with a short to medium term increase in interest rates, will increase savings rates over time. We also expect the competition for mortgage business to increase over the second half of 2015 which could further reduce margin and constrain growth.

The rapid rate of regulatory change is expected to continue in the future. A significant number of regulatory changes and consultations have been released in the first half 2015. These include the introduction of the Senior Persons Regime and changes to bank recovery and resolution, liquidity measurement and monitoring and the future of capital adequacy assessment. In addition, in his Summer Budget, the Chancellor announced a new levy on bank and building society profits as well as changes to taxation in relation to interest on Buy to Let mortgages and inheritance tax on family properties.

Against these political, economic and competitive conditions, the Society will continue to invest in developing the business which will support the Society's vision.

Interim Business & Financial Review (continued)

for the six months ended 30 June 2015

Cautionary statement

This Interim Financial Report has been prepared solely to provide additional information to members to assess the Group's financial position and the potential for its strategies to succeed. These statements should not be relied on by any other party or for any other purpose. The Interim Financial Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting';
- the Interim Financial Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and,
- the Interim Financial Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

Signed on behalf of the Board of Directors:

Robin J. Ashton
Chairman

Peter A. Hill
Chief Executive

Robin Litten
Finance Director

6 August 2015

Condensed Consolidated Income Statement

	Notes	**Six months to 30 June 2015 (Unaudited) £m**	Six months to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Interest receivable and similar income		**196.0**	196.8	397.5
Interest payable and similar charges		**(92.7)**	(104.9)	(212.7)
Net interest receivable		**103.3**	91.9	184.8
Fees and commissions receivable		**5.6**	6.1	13.8
Fees and commissions payable		**(0.5)**	(0.1)	(0.7)
Fair value gains less losses from financial instruments		**(0.5)**	-	(0.4)
Other operating income		**0.1**	0.4	0.9
Total income		**108.0**	98.3	198.4
Administrative expenses		**(36.1)**	(31.3)	(64.6)
Depreciation		**(0.9)**	(0.8)	(1.6)
Operating profit before impairment, provisions and exceptionals		**71.0**	66.2	132.2
Impairment losses on loans and advances to customers	2	**(5.5)**	(17.8)	(39.5)
Provisions	3	**(7.1)**	(9.8)	(11.8)
Investment property fair value movement		**(3.4)**	-	-
Operating profit before exceptional item		**55.0**	38.6	80.9
Pension curtailment gain		**-**	-	7.0
Profit before tax		**55.0**	38.6	87.9
Tax expense	4	(11.1)	(8.4)	(18.5)
Profit for the period		**43.9**	30.2	69.4

All amounts relate to continuing operations.

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 June 2015 (Unaudited) £m	Six months to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Profit for the period	**43.9**	30.2	69.4
Items that may subsequently be reclassified to profit and loss:			
Available for sale investment securities (loss)/gain	**(2.8)**	1.3	10.1
Cash flow hedges	**-**	-	-
Tax relating to items that may subsequently be reclassified	**0.5**	(0.3)	(2.1)
Items which may not subsequently be reclassified to profit and loss:			
Actuarial (loss)/gain on retirement benefit obligations	**(1.7)**	(0.8)	(7.4)
Tax relating to items which may not be reclassified	**0.4**	0.2	0.6
Total comprehensive income for the period	**40.3**	30.6	70.6

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2015 (Unaudited) £m	30 June 2014 (Unaudited) £m	31 December 2014 (Audited) £m
Assets				
Cash in hand and balances with the Bank of England		**637.6**	1,476.7	503.4
Loans and advances to credit institutions		**115.6**	103.1	75.7
Derivative financial instruments		**119.2**	115.9	120.4
Loans and advances to customers				
Loans fully secured on residential property		**10,393.5**	9,029.2	9,777.4
Other loans		**433.8**	513.4	483.5
Investment securities				
Available for sale		**807.6**	737.2	975.6
Loans and receivables		**29.0**	59.4	29.5
Property, plant and equipment		**30.7**	29.0	29.9
Investment properties		**1.0**	4.4	4.4
Retirement benefit surplus	5	**0.8**	-	1.3
Deferred income tax asset		**2.8**	2.1	1.4
Other assets, prepayments and accrued income		**153.7**	79.3	128.7
Total assets		**12,725.3**	12,149.7	12,131.2
Liabilities				
Shares		**9,191.0**	9,098.4	9,181.6
Derivative financial instruments		**173.0**	102.4	155.7
Amounts owed to credit institutions		**132.5**	176.5	143.2
Amounts owed to other customers		**610.7**	520.0	483.0
Debt securities in issue		**1,765.8**	1,432.4	1,344.8
Current tax liabilities		**12.2**	16.6	9.3
Deferred tax liabilities		**3.2**	3.2	2.6
Other liabilities and accruals		**55.4**	94.5	75.4
Provision for liabilities and charges	3	**10.9**	14.1	4.4
Retirement benefit obligations	5	**-**	0.4	-
Subordinated liabilities		**-**	0.9	0.9
Subscribed capital		**25.0**	25.0	25.0
Total liabilities		**11,979.7**	11,484.4	11,425.9
Reserves				
Cash flow hedge reserve		**-**	-	-
Available for sale reserve		**1.6**	(3.1)	3.9
Revaluation reserve		**12.4**	12.4	12.4
Other reserve		**14.3**	14.3	14.3
General reserve		**717.3**	641.7	674.7
Total equity attributable to members		**745.6**	665.3	705.3
Total liabilities and equity		**12,725.3**	12,149.7	12,131.2

Condensed Consolidated Statement of Changes in Members' Interest

	General reserve	Cash flow hedge reserve	Available for sale reserve	Revaluation reserve	Other reserve	Total equity attributable to members
	£m	£m	£m	£m	£m	£m
Six months to 30 June 2015						
At 1 January 2015 (Audited)	**674.7**	**-**	**3.9**	**12.4**	**14.3**	**705.3**
Comprehensive income for the period	**42.6**	**-**	**(2.3)**	**-**	**-**	**40.3**
At 30 June 2015 (Unaudited)	**717.3**	**-**	**1.6**	**12.4**	**14.3**	**745.6**

Six months to 30 June 2014						
At 1 January 2014 (Audited)	612.1	-	(4.1)	12.4	14.3	634.7
Comprehensive income for the period	29.6	-	1.0	-	-	30.6
At 30 June 2014 (Unaudited)	641.7	-	(3.1)	12.4	14.3	665.3

Year to 31 December 2014						
At 1 January 2014 (Audited)	612.1	-	(4.1)	12.4	14.3	634.7
Comprehensive income for the period	62.6	-	8.0	-	-	70.6
At 31 December 2014 (Audited)	674.7	-	3.9	12.4	14.3	705.3

Condensed Consolidated Statement of Cashflows

	Six months to 30 June 2015 (Unaudited) £m	Six months to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Profit before tax	**55.0**	38.6	87.9
Adjusted for changes in:			
Impairment provision	**(1.2)**	8.4	(17.4)
Provision for liabilities and charges	**6.5**	9.5	(0.2)
Depreciation and amortisation	**0.9**	0.8	1.6
Change in value of investment property	**3.4**	-	-
Interest on subscribed capital	**1.7**	1.7	3.3
Cash generated from operations	**66.3**	59.0	75.2
Changes in net operating assets and liabilities:			
Loans and advances to customers	**(565.1)**	(399.1)	(1,091.6)
Derivative financial instruments	**18.5**	(14.2)	34.6
Other operating assets	**(25.1)**	8.6	(40.8)
Shares	**9.4**	476.4	559.6
Amounts owed to credit institutions and other customers	**117.0**	124.9	54.6
Debt securities	**421.0**	301.5	220.8
Other operating liabilities	**(20.9)**	2.4	(24.4)
Taxation paid	**(9.1)**	(0.2)	(17.5)
Net cash inflows/(outflows) from operating activities	**12.0**	559.3	(229.5)
Returns from investments and servicing of finance	**(1.2)**	(2.7)	(13.2)
Purchase of securities	**(444.9)**	(274.8)	(1,020.8)
Proceeds from sale and redemption of securities	**610.8**	287.1	833.5
Purchase of property and equipment	**(1.7)**	(1.4)	(3.1)
Net cash flows from investing activities	**163.0**	8.2	(203.6)
Redemption of subordinated liabilities	**(0.9)**	-	-
Net cash flows from financing activities	**(0.9)**	-	-
Net increase/(decrease) in cash and cash equivalents	**174.1**	567.5	(433.1)
Cash and cash equivalents at beginning of the period	**579.1**	1,012.2	1,012.2
Cash and cash equivalents at end of the period	**753.2**	1,579.7	579.1

Notes to the Accounts

1. General information

Reporting period

The Interim Financial Report is for the six months to 30 June 2015 and is unaudited.

Basis of preparation

The condensed consolidated set of financial statements have been prepared in accordance with the International Accounting Standard ("IAS") 34 'Interim Financial Reporting', as adopted by the European Union. They do not include all the information required by International Financial Reporting Standards ("IFRS") in full annual financial statements and should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2014 which were prepared in accordance with IFRS as adopted by the EU.

In the current half year accounts, the Society has adopted the following IASB pronouncements. These do not have a material impact on these interim condensed consolidated financial statements.

- IAS19 Defined benefit plans: Employee Contributions: The treatment of netting of employee contributions against service cost has been clarified. There is no impact on the Society as the defined benefit pension scheme has been closed and there are no further employee contributions.

- Annual Improvements to IFRSs 2010-2012 Cycle: Included minor changes and clarifications to seven accounting standards, none of which materially impacts the Society's financial statements.

- Annual Improvements to IFRSs 2011-2013 Cycle: Included minor changes and clarifications to four accounting standards, none of which materially impacts the Society's financial statements.

Otherwise the accounting policies, presentation and methods of computation are consistent with those applied by the Society in its latest audited annual financial statements.

An overview of pronouncements that will be relevant to the Society in future periods is provided in its latest audited annual financial statements. The Directors do not expect these standards to have a material impact on the financial statements of the Group in future periods, except for IFRS 9 Financial Instruments. This standard changes the current incurred loss basis 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 policies and judgements

With the exception of the changes to accounting standards set out above the accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements.

Going concern

The Directors have reviewed the Society's plans and forecasts including giving due consideration to the ongoing economic environment in the UK and Eurozone. In this context the Directors consider that the Society has adequate liquidity to meet both the normal demands of the business and the requirements which might arise in stressed circumstances for the foreseeable future. The Directors also consider that reasonable profits continue to be generated in order to keep gross capital at a suitable level to meet regulatory requirements. Accordingly, the going concern basis has been adopted in the preparation of the Interim Financial Report.

Notes to the Accounts (continued)

2. Impairment of loans and advances to customers

	Six months to 30 June 2015 (Unaudited) £m	Six months to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Loans fully secured on residential property	**2.6**	4.1	5.9
Loans fully secured on land	**2.9**	13.2	31.1
Other loans	**-**	0.5	2.5
Total impairment charge for the period	**5.5**	17.8	39.5
Loans fully secured on residential property	**26.1**	34.9	29.6
Loans fully secured on land	**27.3**	47.5	25.0
Other loans	**2.5**	0.5	2.5
Impairment provision at the end of the period	**55.9**	82.9	57.1

The Society continues to use forbearance arrangements to assist its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. This includes the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, including or excluding arrears balances. The Society's approach to forbearance is described on page 96 of the 2014 Annual Report & Accounts and remains materially unchanged.

3. Provisions

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

	Six months to 30 June 2015 (Unaudited) £m	Six months to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Provision charge			
FSCS levy	**6.3**	6.2	6.4
Customer redress and other related provisions	**0.8**	3.6	5.4
Total provisions charge	**7.1**	9.8	11.8
Liabilities			
FSCS levy	**9.4**	9.1	3.1
Customer redress and other related provisions	**1.3**	4.6	1.0
Commission clawback	**0.2**	0.4	0.3
Provisions at the end of the period	**10.9**	14.1	4.4

Based on publicly available information, the FSCS levy charge and the contribution to the capital shortfall for 2015 are expected to be in the region of £6.3m. The Society follows IFRIC 21 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market'. Based on this interpretation, the expected full year cost of the FSCS levy is recognised on 1 April each year.

Notes to the Accounts (continued)

4. Taxation

An effective rate of 20.25% (Half year ended 30 June 2014: 21.5%, Full year ended 31 December 2014: 21.5%) has been applied to the Group's profit. This is in line with the standard corporation tax rate of 20.25% for the period (Half year ended 30 June 2014: 21.5%, Full year ended 31 December 2014: 21.5%).

The Finance Act 2013, which provides for reductions in the main rate of UK corporation tax from 21% to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. As such, the average standard rate of corporation tax applicable to the Group for the period is 20.25%. The deferred tax balances have been calculated at 20% as it is expected that these balances will mostly reverse after 1 April 2016.

In the July 2015 Budget, it was announced that the main rate of corporation tax will reduce to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In addition, a surcharge of 8% on the profits of banking companies (including building societies) was announced, which will take effect from 1 January 2016. These changes were not substantively enacted by 30 June 2015 and are not therefore reflected in these accounts. We expect to include an assessment of the impact of these changes on the Group's deferred tax assets and liabilities in our accounts for the year ended 31 December 2015.

5. Retirement benefit surplus/(deficit)

	Six months to 30 June 2015 (Unaudited) £m	Six months to 30 June 2014 (Unaudited) £m	Year to 31 December 2014 (Audited) £m
Present value of pension scheme's liabilities	**(103.9)**	(98.1)	(103.7)
Assets at fair value	**104.7**	97.7	105.0
Pension scheme surplus/(deficit)	**0.8**	(0.4)	1.3

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

6. Related party transactions

The Group had no related party transactions outside the normal course of business in the six months ended 30 June 2015.

7. Financial commitments

The Society has commitments of £15.4m (2014: £nil) payable under executory contracts over a period of 10 years which relate to the ongoing investment programme. This amount is inclusive of value added tax.

Notes to the Accounts (continued)

8. Fair value

The table below compares the carrying and fair values of the Society's financial instruments not held at fair value at the reporting date. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

	30 June 2015 (Unaudited)		30 June 2014 (Unaudited)		31 December 2014 (Audited)	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:						
Cash in hand and balances with the Bank of England	**637.6**	**637.6**	1,476.7	1,476.7	503.4	503.4
Loans and advances to credit institutions	**115.6**	**115.6**	103.1	103.1	75.7	74.1
Loans and advances to customers	**10,583.3**	**10,796.0**	9,281.4	9,778.2	9,998.0	10,512.9
Investment securities						
Loans and receivables	**29.0**	**27.9**	59.4	58.4	29.5	28.3
	11,365.5	**11,577.1**	10,920.6	11,416.4	10,606.6	11,118.7
Financial liabilities:						
Shares	**9,191.0**	**9,277.1**	9,098.4	9,167.4	9,181.6	9,062.6
Amounts owed to credit institutions	**132.5**	**132.5**	176.5	176.5	143.2	143.3
Amounts owed to other customers	**610.7**	**610.7**	520.0	520.0	483.0	483.0
Debt securities in issue	**1,765.8**	**1,883.8**	1,432.4	1,537.2	1,344.8	1,478.2
Subordinated liabilities	**-**	**-**	0.9	0.9	0.9	0.9
Subscribed capital	**25.0**	**25.0**	25.0	25.0	25.0	25.0
	11,725.0	**11,929.1**	11,253.2	11,427.0	11,178.5	11,193.0

The methodology and assumptions for determining the fair value of financial assets and liabilities is included on page 103 of the 2014 Annual Report & Accounts and remains materially unchanged.

The tables on page 16 classify all assets and liabilities held at fair value according to the method used to establish the fair value.

Level 1: Relates to financial instruments where fair values are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques are used to value these instruments for which significant inputs are taken from observable market data for the asset and liability, either directly (i.e. as price) or indirectly (i.e. derived prices) other than quoted prices included in Level 1. These include valuation models used to calculate the present value of expected future cash flows, using curves from published market sources and are employed when no active market exists or when no quoted prices for similar instruments can be obtained.

Level 3: The valuation of the asset or liability is not based on observable market data (unobservable inputs). Valuation techniques include net present value and discounted cash flow methods. The assumptions used in such models include risk-free benchmark interest rates, foreign currency exchange rates, equity index prices and expected price volatilities. The objective of the valuation techniques is to determine a fair value that reflects the price of the financial instrument that would have been used by two counterparties in an arm's length transaction.

8. Fair value (continued)

As at 30 June 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivative financial assets	**-**	**119.2**	**-**	**119.2**
Loans and advances to customers	**-**	**244.0**	**-**	**244.0**
Investment securities				
Available for sale	**380.1**	**427.5**	**-**	**807.6**
Investment properties	**-**	**1.0**	**-**	**1.0**
	380.1	**791.7**	**-**	**1,171.8**
Liabilities				
Derivative financial instruments	**-**	**120.4**	**52.6**	**173.0**
	-	**120.4**	**52.6**	**173.0**

As at 30 June 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivative financial assets	-	115.9	-	115.9
Loans and advances to customers	-	261.2	-	261.2
Investment securities				
Available for sale	324.5	412.7	-	737.2
Investment properties	-	4.4	-	4.4
	324.5	794.2	-	1,118.7
Liabilities				
Derivative financial instruments	-	62.2	40.2	102.4
	-	62.2	40.2	102.4

As at 31 December 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivative financial instruments	-	120.4	-	120.4
Loans and advances to customers	-	262.9	-	262.9
Investment securities				
Available for sale	593.7	381.9	-	975.6
Investment properties	-	4.4	-	4.4
	593.7	769.6	-	1,363.3
Liabilities				
Derivative financial instruments	-	98.2	57.5	155.7
	-	98.2	57.5	155.7

Notes to the Accounts (continued)

8. Fair value (continued)

Reconciliation of Level 3 fair value measurements of financial liabilities

	Six months to 30 June 2015 (Unaudited) Fair value though profit and loss	Six months to 30 June 2014 (Unaudited) Fair value though profit and loss
	£m	£m
Balance at 1 January	**57.5**	38.5
Total (gains)/losses in the income statement	**(4.9)**	1.7
Balance at 30 June	**52.6**	40.2

There have been no transfers of assets or liabilities between the above levels of valuation.

The following table sets out details of the recurring fair value measurements of liabilities included in Level 3.

Financial assets/ financial liabilities	Fair value at 30 June 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equity release swaps	Liabilities - £52.6m (30 June 2014: £40.2m; 31 Dec 2014: £57.5m)	Level 3	Discounted cash flow. The liabilities are linked to equity release mortgages and are economically offset by movements in the corresponding mortgages. The valuations are provided by the counterparty and are based on a discounted cash flow model which uses projections of interest rates, a discount rate to reflect the counterparty risk and assumptions for future mortality.	Assumptions on future life expectancy of the customers based on best estimate life expectancy data. On this basis no reasonable alternative assumption is considered appropriate.	An increase in life expectancy will increase the value of the liability.

Notes to the Accounts (continued)

9. Segmental information

Operating segments are reported in accordance with the internal reporting provided to the Board (the chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Society has three main business segments:

- Core activities – incorporating residential lending, saving, investments and protection;
- Commercial lending – primarily representing legacy loans for commercial property investment; and
- Euro lending – a legacy portfolio of euro denominated mortgages.

Central Group operations have been included in core activities and comprise risk management, funding, treasury services, finance, human resources and computer services, none of which constitute a separately reportable segment. There were no changes to reportable segments during the period. The Society does not consider its operations to be cyclical or seasonal in nature.

	Core activities	Commercial lending	Euro lending	Total
	£m	£m	£m	£m
Six months to 30 June 2015 (Unaudited)				
Interest receivable and similar income	**191.4**	**3.2**	**1.4**	**196.0**
Interest payable and similar charges	**(88.6)**	**(2.6)**	**(1.5)**	**(92.7)**
Other Income and fair value gains less losses	**9.1**	**(3.9)**	**(0.5)**	**4.7**
Total income/(expense)	**111.9**	**(3.3)**	**(0.6)**	**108.0**
Administrative expenses (incl depreciation)	**(36.6)**	**(0.1)**	**(0.3)**	**(37.0)**
Provisions and impairment	**(13.0)**	**(2.9)**	**(0.1)**	**(16.0)**
Profit/(loss) on ordinary activities before income tax	**62.3**	**(6.3)**	**(1.0)**	**55.0**
Total loans and advances to customers	**10,409.8**	**202.4**	**215.1**	**10,827.3**

	Core activities	Commercial lending	Euro lending	Total
	£m	£m	£m	£m
Six months to 30 June 2014 (Unaudited)				
Interest receivable and similar income	190.5	4.4	1.9	196.8
Interest payable and similar charges	(100.7)	(3.4)	(0.8)	(104.9)
Other Income and fair value gains less losses	5.9	-	0.5	6.4
Total income/(expense)	95.7	1.0	1.6	98.3
Administrative expenses (incl depreciation)	(31.5)	(0.3)	(0.3)	(32.1)
Provisions and impairment	(13.4)	(13.2)	(1.0)	(27.6)
Profit/(loss) on ordinary activities before income tax	50.8	(12.5)	0.3	38.6
Total loans and advances to customers	9,002.1	289.6	250.9	9,542.6

Notes to the Accounts (continued)

9. **Segmental information** (continued)

	Core activities £m	Commercial lending £m	Euro lending £m	Total £m
Year to 31 December 2014 (Audited)				
Interest receivable and similar income	385.2	8.7	3.6	397.5
Interest payable and similar charges	(203.2)	(6.9)	(2.6)	(212.7)
Other Income and fair value gains less losses	12.6	1.0	-	13.6
Total income/(expense)	194.6	2.8	1.0	198.4
Administrative expenses (incl depreciation)	(65.4)	(0.4)	(0.4)	(66.2)
Provisions and impairment	(18.9)	(31.1)	(1.3)	(51.3)
Pension curtailment gain	7.0	-	-	7.0
Profit/(loss) on ordinary activities before income tax	117.3	(28.7)	(0.7)	87.9
Total loans and advances to customers	9,793.5	243.8	223.6	10,260.9

Independent Review Report to Leeds Building Society

We have been engaged by the Leeds Building Society (the "Society") to review the condensed set of consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2015 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in members' interests, the condensed consolidated statement of cash flows and related notes 1 to 9. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Society those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the Interim Financial Report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with the International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor

Leeds, United Kingdom

6 August 2015

Other Information

The financial information set out in the Interim Financial Report, which was approved by the Board of Directors on 6 August 2015, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.

The financial information for the year ended 31 December 2014 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts have been filed with the Financial Conduct Authority.

The audit opinion for the 31 December 2014 annual statutory financial statements was unqualified and included no reference to any matter on which the auditor is required to report by exception.

A copy of the Interim Financial Report is placed on the Society's website. The Directors are responsible for the maintenance and integrity of the information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.