

# **Leeds Building Society**

Interim Financial Report  
For the period ended 30 June 2011



**Leeds Building Society**  
**Half yearly financial information**

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## Half-yearly financial report for the period ended 30 June, 2011

### Business Review

Leeds Building Society has delivered a very strong overall performance in the first half of 2011, despite continuing uncertainty in the UK and European economies.

The retail savings environment remains challenging, partly because of the relative lack of cost effective wholesale funding, and intense competition from taxpayer funded banks and National Savings & Investments. Notwithstanding this background, the Society has grown its retail savings balances by £127m to a record £7.15bn. This half year performance was significantly above our natural building society market share<sup>1</sup> and 21,000 new members were attracted by the security and value we provide. Service to customers is crucial and 95% of those independently surveyed were satisfied with the award winning products and service that Leeds Building Society provides.

With our above market share retail savings performance, the Society's reliance on wholesale funding has reduced further, from 20% of shares and borrowings at the end of 2010 to 18.5% at the end of June, 2011. During the first six months of this year, the Society has been successful in raising £395m of new long term wholesale funds and this has enabled us to repay all our Bank of England Special Liquidity Scheme (SLS) funding ahead of its contractual maturity date.

In line with our strategy, mortgage lending has significantly increased in the first half of 2011. Our wide range of competitive mortgage products, and award winning service, has enabled many customers, including first time buyers, to buy their own homes, or to remortgage, with new lending totalling £642m in the first six months up by 61% (£400m, 30 June, 2010). We estimate that this performance is nearly double the Society's natural share of the overall mortgage market. The quality of this new lending is demonstrated by the average loan-to-value ratio of only 52% (30 June, 2010: 53%).

As we forecast, and not unexpectedly in view of the pressures in the economy, some of our residential borrowers are experiencing difficulties in meeting their mortgage repayments. We are continuing to work with these customers through this period. Our residential arrears (2.5% or more of outstanding mortgage balances) have improved to 2.29% from 2.32% at 30 June, 2010.

We continue to work closely with our commercial loan borrowers and the level of arrears (2.5% or more of outstanding mortgage balances) increased to 10.2% from 8.9% at 30 June, 2010. Appropriate provisions are made for all cases in arrears. Commercial loans only represent 7% of total mortgage assets (8%, 30 June, 2010).

The charge for impairment losses and provisions from commercial and residential loans reduced slightly to £23.2m in the first half of 2011 (£24.0m, 30 June, 2010). Total balance sheet mortgage loss provisions increased to £78.7m at 30 June, 2011 from £65.4m at 31 December, 2010.

After accounting for loan losses, the Society significantly increased pre-tax profit by 49% to £26.9m (£18.0m, 30 June, 2010). The main reason for the increase in the pre-tax profit was the improvement in the Society's net interest margin.

Continued strong profitability has enabled capital and reserves to increase from an already solid position to a record £553m (£515m, 30 June, 2010) and the Society's capital is significantly in excess of regulatory requirements.

The Society's superior efficiency is of great importance and is demonstrated by the cost to income ratio, which has improved further to 31% (down from 35% in the half year ending 30 June, 2010). The cost asset measure increased slightly to 47 pence per £100 of assets (up from 45 pence per £100 of assets at 30 June, 2010). These are very favourable compared to the average of the major building societies, which were 67% and 89p, respectively, at the end of 2010. Our efficiency ratios are influenced by the Society's continued vigorous cost control and strong earnings.

The Society maintained its strong long term deposit 'A' credit rating with Fitch and Moody's despite the very challenging economic environment. In June, 2011 Fitch said, "The ratings of Leeds Building Society reflect its resilient revenue generation, excellent cost management and strong capital position."

Ian Ward will be retiring as Chief Executive on 9 August, having held the position for almost 16 years. Also, David Pickersgill, Deputy Chief Executive and Finance Director, retired as a director, after 25 years service, following a prolonged period of ill health on 30 June, 2011. The Board is greatly appreciative of the enormous contribution made by Ian and David to the success of the Society over very many years. Peter Hill, the Society's Operations Director, will succeed Ian on 10 August and become only the seventh Chief Executive in the Society's 136 year history. The Board is, therefore, confident that this will be a seamless transition, particularly as we have such a stable and experienced Senior Management Team. The Society is highly efficient, has a well capitalised balance sheet and will continue to focus on delivering good value for money products backed up by excellent service to our members. Leeds Building Society is well positioned to maintain its successful, sustainable business model.

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<sup>1</sup> Based on the Society's retail savings balances as a proportion of the total building society sector balances.

## **Principal risks and uncertainties**

### **Principal Risks**

The principal risks that arise from the Society's operations are classified as credit, treasury, operational, strategic and external and 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 that 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 can be found on pages 8 and 9 of the 2010 Annual Report and Accounts.

### **Uncertainties**

The principal uncertainties faced by the Society are associated with the difficulties within the European Union (EU), the UK economy as a whole and the outlook for financial markets.

Three EU countries, Greece, Ireland and Portugal, have received emergency funding from the EU and the International Monetary Fund (IMF). The problems in Greece have continued into 2011 and the EU and IMF have recently agreed the release of further funding subject to ratification. Other countries in the EU, principally Spain and Italy, are also considered to be at risk of requiring some form of support. The Society has gradually reduced its counter-party exposures in all these countries with no exposure to Greece and only a small number of legacy positions in the other countries, which all mature between 2011 and 2014. The weighted average maturity of the exposures is eight months. The Society's counter-party exposure in Ireland, Portugal, Spain and Italy was £68m at June 2011 compared to £81m at June 2010.

The difficulties in the EU have also resulted in some speculation over the long term future of the Euro. The Society has less than 4% of its commercial assets in Ireland and Spain. These are denominated in Euros but the currency risk is protected through derivative instruments. The economic conditions in Ireland have had an adverse impact on the performance of the Society's lending to Irish residents and with the expectation of rising interest rates in the EU the position is expected to deteriorate further in the future. In response to this, the Society has increased the collective provision for potential future losses in respect of the Irish residential mortgage portfolio.

The UK economic recovery is slow and fragile and conditions remain challenging. The impact of the Government's spending review is likely to lead to increases in unemployment but this is expected, in part, to be offset by growth in employment in the private sector. In this context interest rates are expected to remain at historically low levels, albeit gradually increasing. A more rapid increase in interest rates, inflation or unemployment will impact on the ability of the Society's borrowers' ability to maintain their mortgage payments, which will result in higher than expected arrears, possessions and mortgage losses. House prices are expected to be broadly flat in 2011 but a more rapid fall would increase the level of losses on possessions.

The uncertain economic conditions also mean that the outlook for the commercial property sector remains challenging and any further slowdown could place pressure on the Society's borrowers' ability to fulfil their future commitments.

Although there has been some improvement in the wholesale funding markets, the uncertainties in the EU could impact the availability and cost of funding, particularly long term funds, in the second half of the year. The Society was successful in raising all its 2011 and 2012 long term funding requirements in the first half of the year and this means that the Society's net lending target for the whole of 2011 is now pre-funded.

There will inevitably be more regulation and this will impact on the whole financial sector. In addition, the Society's regulator, the Financial Services Authority, is being split into two and it is still unclear how the two new authorities will interact.

There is also some uncertainty about the basis of funding the FSCS liabilities, following the banking failures in 2008 and 2009, when the current arrangements expire on 31 March 2012. If new arrangements are put in place before the end of the current financial year, the Society, along with other banks and building societies, will need to provide for the liability covering the period 1 April 2012 to 31 March 2013. This could depress the profit in the second half of the year but due to the uncertainty over the new arrangements it is not possible to evaluate the extent of the potential levy.

All these developments will continue to be monitored over the second half of the year but the Board is satisfied that the Society's successful and sustainable business model means that it remains well placed to deal with these uncertainties.

### **Forward looking statements**

This half-yearly 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 and 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. Therefore actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

## Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting (amended)';
- the interim management 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 management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

The directors are responsible for the maintenance and integrity of the corporate 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.

Signed on behalf of the Board by



Robin A. Smith  
Chairman



Ian W. Ward  
Chief Executive

**Leeds Building Society**  
**Half-yearly financial report**  
**for the period ended 30 June 2011**

**Independent Review report**

We have been engaged by the Leeds Building Society (“Society”) to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, the condensed consolidated statements of comprehensive income, the condensed consolidated statements of financial position, the condensed consolidated statements of changes in members’ interests, the condensed consolidated statements of cash flows and related notes 1 to 18. We have read the other information contained in the half-yearly 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 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

As disclosed in note 2, 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 half-yearly report has been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting (amended)’, 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 half-yearly 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 half-yearly financial report for the six months ended 30 June, 2011 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 Services Authority.

*Deloitte LLP*

Deloitte LLP  
Chartered Accountants and  
Statutory Auditor  
Leeds, United Kingdom

*8 August 2011*

**Leeds Building Society**  
**Half yearly financial information**

**Condensed Consolidated Income Statements for the period ended 30 June 2011**

	Notes	<b>Unaudited</b> <b>Six months to</b> <b>30 June 2011</b>	<b>Unaudited</b> <b>Six months to</b> <b>30 June 2010</b>	<b>Audited</b> <b>Year to</b> <b>31 December 2010</b>
		£M	£M	£M
<b>Continuing operations</b>				
Interest receivable and similar income	5	161.2	139.0	294.5
Interest payable and similar charges	6	(98.6)	(88.8)	(185.4)
<b>Net interest receivable</b>		<b>62.6</b>	<b>50.2</b>	<b>109.1</b>
Fees and commissions receivable	7	8.9	9.7	19.7
Fees and commissions payable	7	-	-	(0.1)
Fair value gain less losses from derivative financial instruments		0.2	0.5	(1.6)
Other operating income	8	1.3	0.4	1.7
<b>Total income</b>		<b>73.0</b>	<b>60.8</b>	<b>128.8</b>
Administrative expenses	9	(22.0)	(21.0)	(43.3)
Depreciation	9	(0.5)	(0.5)	(1.0)
Impairment losses on loans and advances to customers	11	(23.2)	(24.0)	(44.2)
Gains on securities available for sale		-	3.0	3.2
Provisions for liabilities and charges	12	(0.4)	(0.3)	(1.0)
Impairment losses on land and buildings		-	-	(0.3)
<b>Profit before tax</b>		<b>26.9</b>	<b>18.0</b>	<b>42.2</b>
Tax expense	10	(7.1)	(5.0)	(11.3)
<b>Profit for the period</b>		<b>19.8</b>	<b>13.0</b>	<b>30.9</b>

**Condensed Consolidated Statements of Comprehensive Income for the period ended 30 June 2011**

	Notes	<b>Unaudited</b> <b>30 June 2011</b>	<b>Unaudited</b> <b>30 June 2010</b>	<b>Audited</b> <b>31 December 2010</b>
		£M	£M	£M
<b>Continuing operations</b>				
Profit for the period		19.8	13.0	30.9
<b>Other comprehensive income</b>				
Property revaluation		-	-	(5.3)
Available for sale investment securities				
Fair value changes taken to reserves		(0.1)	(0.3)	(1.1)
Amortisation/disposals post 1 July 2008		2.1	2.0	1.9
Cash flow hedges				
(Loss) taken to reserves		-	(1.6)	(1.9)
Actuarial gain/(loss) on retirement benefit obligations		0.5	(3.0)	0.9
Tax relating to components of other comprehensive income		(0.6)	0.8	1.7
<b>Other Comprehensive income net of tax</b>		<b>1.9</b>	<b>(2.1)</b>	<b>(3.8)</b>
<b>Total Comprehensive income for the period</b>		<b>21.7</b>	<b>10.9</b>	<b>27.1</b>

Segmental information is shown in note 18.

The notes on pages 11 to 18 form an integral part of this condensed consolidated half-yearly financial information.

**Leeds Building Society**  
**Half-yearly financial information**

**Condensed Consolidated Statements of Financial Position as at 30 June 2011**

	Notes	<b>Unaudited</b> <b>30 June 2011</b> £M	<b>Unaudited</b> <b>30 June 2010</b> £M	<b>Audited</b> <b>31 December 2010</b> £M
<b>Assets</b>				
Cash in hand and balances with the Bank of England		96.2	194.6	115.9
Loans and advances to credit institutions		68.7	96.4	84.8
Derivative financial instruments		47.4	132.3	126.4
Loans and advances to customers				
Loans fully secured on residential property		6,795.5	6,521.0	6,607.3
Other loans		695.6	727.9	707.1
Investment securities				
Available for sale		1,300.1	1,259.4	1,296.6
Loans and receivables		358.7	474.9	434.8
Other investments		-	0.1	0.1
Retirement benefit surplus		0.5	-	-
Property, plant and equipment		26.8	32.7	26.9
Investment properties		7.0	7.0	7.0
Deferred income tax assets		2.2	4.4	2.8
Other assets, prepayments and accrued income		114.1	114.5	93.4
<b>Total assets</b>		<b>9,512.8</b>	<b>9,565.2</b>	<b>9,503.1</b>
<b>Liabilities</b>				
Shares	13	7,151.8	7,034.1	7,025.2
Derivative financial instruments		141.2	152.0	143.9
Amounts owed to credit institutions		325.6	527.2	482.6
Amounts owed to other customers		446.7	669.8	439.4
Debt securities in issue		815.3	522.5	760.1
Current income tax liabilities		6.6	5.4	4.2
Deferred income tax liabilities		2.0	3.8	2.0
Other liabilities and charges		65.4	123.6	108.9
Provision for liabilities	12	5.4	6.8	5.0
Retirement benefit obligations		-	5.1	0.7
Subordinated liabilities	15	0.9	0.9	0.9
Subscribed capital		25.0	25.0	25.0
		<b>8,985.9</b>	<b>9,076.2</b>	<b>8,997.9</b>
<b>Reserves</b>				
Cashflow hedge reserve		-	0.2	-
Available for sale reserve		(8.0)	(8.8)	(9.4)
Revaluation reserve		13.2	16.9	13.2
Other reserve		14.3	14.3	14.3
General reserve		507.4	466.4	487.1
<b>Total reserves</b>		<b>526.9</b>	<b>489.0</b>	<b>505.2</b>
<b>Total reserves and liabilities</b>		<b>9,512.8</b>	<b>9,565.2</b>	<b>9,503.1</b>

The notes on pages 11 to 18 form an integral part of this condensed consolidated half-yearly financial information.



Leeds Building Society  
Half-yearly financial information

Condensed Consolidated Statements of Changes in Members' Interest for the period ended 30 June 2011

Unaudited  
30 June 2011

	General Reserve	Available for Sale Reserve	Cash Flow Hedge Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2011	487.1	(9.4)	-	13.2	14.3	505.2
Comprehensive income for the period	20.3	1.4	-	-	-	21.7
<b>Balance at 30 June 2011</b>	<b>507.4</b>	<b>(8.0)</b>	<b>-</b>	<b>13.2</b>	<b>14.3</b>	<b>526.9</b>

Unaudited  
30 June 2010

	General Reserve	Available for Sale Reserve	Cash Flow Hedge Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2010	455.5	(10.0)	1.4	16.9	14.3	478.1
Comprehensive income for the period	10.9	1.2	(1.2)	-	-	10.9
<b>Balance at 30 June 2010</b>	<b>466.4</b>	<b>(8.8)</b>	<b>0.2</b>	<b>16.9</b>	<b>14.3</b>	<b>489.0</b>

Audited  
31 December 2010

	General Reserve	Available for Sale Reserve	Cash Flow Hedge Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2010	455.5	(10.0)	1.4	16.9	14.3	478.1
Comprehensive income for the year	31.6	0.6	(1.4)	(3.7)	-	27.1
<b>Balance at 31 December 2010</b>	<b>487.1</b>	<b>(9.4)</b>	<b>-</b>	<b>13.2</b>	<b>14.3</b>	<b>505.2</b>

The notes on pages 11 to 18 form an integral part of this condensed consolidated half-yearly financial information.

**Leeds Building Society**  
**Half-yearly financial information**

**Condensed Consolidated Statements of Cash Flows for the period ended 30 June 2011**

	Notes	<b>Unaudited</b> <b>Six months to</b> <b>30 June 2011</b>	<b>Unaudited</b> <b>Six months to</b> <b>30 June 2010</b>	<b>Audited</b> <b>Year to</b> <b>31 December 2010</b>
		£M	£M	£M
Profit before tax		26.9	18.0	42.2
Adjusted for changes in:				
Impairment provision		13.3	18.0	6.3
Provision for liabilities and charges		0.4	0.4	(1.5)
Depreciation and amortisation		0.5	0.5	1.0
Interest on subscribed capital		1.7	1.7	3.3
Interest on subordinated debt		-	0.5	-
<b>Cash generated from operations</b>		<b>42.8</b>	<b>39.1</b>	<b>51.3</b>
Changes in net operating assets and liabilities				
Loans and advances to customers		(190.0)	66.7	12.9
Derivative financial instruments		76.3	18.4	16.0
Loans and advances to credit institutions		(2.4)	(9.0)	(1.5)
Other operating assets		(20.6)	(5.2)	15.9
Shares		126.6	254.1	245.2
Credit institutions and other		(149.7)	-	(326.3)
Debt securities		56.6	(202.9)	85.4
Other operating liabilities		(44.2)	(12.9)	(29.1)
Taxation		(4.1)	(5.0)	(10.8)
<b>Net cash flows from operating activities</b>		<b>(108.7)</b>	<b>143.3</b>	<b>59.0</b>
Returns from investments and servicing of finance		(3.4)	(6.0)	(6.4)
Purchase of securities		(1,831.7)	(2,118.7)	(4,045.1)
Proceeds from sale and redemption of securities		1,906.0	1,760.0	3,688.6
Purchase of property and equipment		(0.4)	(0.2)	(0.9)
Proceeds from the sale of property and equipment		-	-	0.4
<b>Net cash flows from investing activities</b>		<b>70.5</b>	<b>(364.9)</b>	<b>(363.4)</b>
Redemption of subordinated liabilities		-	(39.1)	(39.1)
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>(39.1)</b>	<b>(39.1)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(38.2)</b>	<b>(260.7)</b>	<b>(343.5)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>195.8</b>	<b>539.3</b>	<b>539.3</b>
<b>Cash and cash equivalents at end of the period</b>	16	<b>157.6</b>	<b>278.6</b>	<b>195.8</b>

The notes on pages 11 to 18 form an integral part of this condensed consolidated half-yearly financial information.

**Notes to the condensed consolidated financial statements**

**1. General Information**

1.1 The half-yearly financial information set out above, which was approved by the Board of Directors on 8th August 2011, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.

1.2 The financial information for the 12 months to 31 December 2010 has been extracted from the accounts for that year which has been filed with the Financial Services Authority and on which the auditors gave an unqualified opinion. The audit opinion for the 31 December 2010 annual statutory financial statements included no reference to any matter on which the auditor is required to report by exception.

1.3 The half-yearly information for the 6 months to 30 June 2011 and 30 June 2010 is unaudited.

1.4 Copies of the announcement will be available on the Society's website, [www.leedsbuildingsociety.co.uk](http://www.leedsbuildingsociety.co.uk).

**2. Basis of preparation**

The condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with International Accounting Standard ("IAS") 34 'Interim Financial Reporting', as adopted by the European Union.

**3. Accounting policies and Judgements**

The same accounting policies and judgements are followed in this condensed set of financial statements as applied in the Group's latest annual audited financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. During the interim period, with the exception of the economic assumptions in respect of the potential losses arising from the Irish residential loan portfolio, there have been no material changes made to the underlying assumptions used where key estimates have been included in the financial statements. The Group has adopted IAS 34 (amended): Interim Financial Reporting during the period. Where applicable any additional disclosures have been included in the half yearly financial information.

**4. Going Concern basis**

The directors have reviewed the plans and forecasts for the period including giving due consideration to the ongoing challenging environment in the UK, as well as the economic difficulties being experienced in the Euro zone, especially in relation to Ireland and Spain. 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. They also consider that the Society is able to generate adequate profits to enhance its capital to improve its solvency in the future. Accordingly, the going concern basis has been adopted in the preparation of the half-yearly financial information.

**5. Interest Receivable and Similar Income**

	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2011</u></b> <b>£M</b>	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2010</u></b> <b>£M</b>	<b>Audited</b> <b>Year to</b> <b><u>31 December 2010</u></b> <b>£M</b>
On loans fully secured on residential property	168.1	164.8	335.0
On other loans	16.9	18.9	36.1
On debt securities			
Interest and other income	9.1	8.8	16.5
On other liquid assets			
Interest and other income	1.2	1.4	2.5
Net expense on financial instruments	(34.1)	(54.9)	(95.6)
<b>Total interest income</b>	<b>161.2</b>	<b>139.0</b>	<b>294.5</b>
Interest received on amounts included in the cost of qualifying assets:			
From instruments held at fair value through profit and loss	9.0	8.4	15.9
From instruments not held at fair value through profit and loss	152.2	130.6	278.6
<b>Total interest income</b>	<b>161.2</b>	<b>139.0</b>	<b>294.5</b>

**Leeds Building Society**  
**Half-yearly financial information**

**Notes to the condensed consolidated financial statements (continued)**

**6. Interest Payable and Similar Charges**

	<b>Unaudited Six months to <u>30 June 2011</u></b>	<b>Unaudited Six months to <u>30 June 2010</u></b>	<b>Audited Year to <u>31 December 2010</u></b>
	£M	£M	£M
On shares held by individuals	91.7	93.6	192.4
On subscribed capital	1.7	1.7	3.3
On subordinated debt	-	0.5	0.5
On deposits and other borrowings	14.9	4.3	14.1
Net income on financial instruments	(9.7)	(11.3)	(24.9)
<b>Total interest expense</b>	<b>98.6</b>	<b>88.8</b>	<b>185.4</b>
Interest expensed on amounts included in the cost of qualifying assets:			
From instruments held at fair value through profit and loss	(9.7)	(10.8)	(24.4)
From instruments not held at fair value through profit and loss	108.3	99.6	209.8
<b>Total interest expense</b>	<b>98.6</b>	<b>88.8</b>	<b>185.4</b>

**7. Fees and Commissions Receivable and Payable**

	<b>Unaudited Six months to <u>30 June 2011</u></b>	<b>Unaudited Six months to <u>30 June 2010</u></b>	<b>Audited Year to <u>31 December 2010</u></b>
	£M	£M	£M
Fees and commission receivable - at fair value	1.6	1.8	3.7
Fees and commission receivable - at amortised cost	7.3	7.9	16.0
<b>Total fees and commission receivable</b>	<b>8.9</b>	<b>9.7</b>	<b>19.7</b>
Fees and commission payable	-	-	(0.1)
	<b>8.9</b>	<b>9.7</b>	<b>19.6</b>

Notes to the condensed consolidated financial statements (continued)

**8. Other Operating Income**

	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2011</u></b> <b>£M</b>	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2010</u></b> <b>£M</b>	<b>Audited</b> <b>Year to</b> <b><u>31 December 2010</u></b> <b>£M</b>
Rent receivable	0.8	0.4	1.4
Pension fund income	0.2	0.3	0.4
Net gain/(loss) on exchange rate movements	0.3	(0.3)	(0.1)
	<b>1.3</b>	<b>0.4</b>	<b>1.7</b>

**9. Administrative Expenses**

	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2011</u></b> <b>£M</b>	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2010</u></b> <b>£M</b>	<b>Audited</b> <b>Year to</b> <b><u>31 December 2010</u></b> <b>£M</b>
Staff costs			
Wages and salaries	11.0	10.4	21.8
Social security costs	1.1	0.9	2.1
Other pension costs	1.4	1.3	2.9
Remuneration of auditor	0.1	0.1	0.3
Other administrative expenses	8.4	8.3	16.2
	<b>22.0</b>	<b>21.0</b>	<b>43.3</b>
Depreciation	0.5	0.5	1.0
	<b>22.5</b>	<b>21.5</b>	<b>44.3</b>

Administrative expenses include £0.6m in respect of D. Pickersgill's early retirement as a director due to ill health.

**10. Taxation**

An effective rate of 26.5% (Half year ending 30 June 2010: 28%, Full year ending 31 December 2010: 28%) has been applied to the Group's profit. This is in line with the standard corporation tax rate for the period.

The reduction in the corporation tax rate from 26% to 25% as substantively enacted on 5<sup>th</sup> July 2011 is expected to reduce the Group's deferred tax assets by approximately £0.3m.

Notes to the condensed consolidated financial statements (continued)

11. Impairment losses on loans and advances to customers

	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2011</u></b> <b>£M</b>	<b>Unaudited</b> <b>Six months to</b> <b><u>30 June 2010</u></b> <b>£M</b>	<b>Audited</b> <b>Year to</b> <b><u>31 December 2010</u></b> <b>£M</b>
Impairment charge for the period:			
Loans fully secured on residential property	15.5	8.7	15.4
Loans fully secured on land	8.2	14.7	28.2
Other loans	(0.5)	0.6	0.6
	<b>23.2</b>	<b>24.0</b>	<b>44.2</b>
Impairment provision at the end of the period:			
Loans fully secured on residential property	37.6	25.5	26.7
Loans fully secured on land	37.8	47.3	34.4
Other loans	3.3	4.3	4.3
	<b>78.7</b>	<b>77.1</b>	<b>65.4</b>

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.

The impairment charge of £15.5m in the first six months to 30 June 2011 includes an additional provision of £5m resulting from the change in Ireland's economic outlook, as discussed in the uncertainties section on page 4.

Notes to the condensed consolidated financial statements (continued)

12. Provisions for Liabilities and Charges

Unaudited 30 June 2011

	FSCS levy £M	Customer redress and other related provisions £M	Commission clawback £M	Total £M
Balance at 1 January 2011	4.2	0.3	0.5	5.0
Amounts paid during the period	-	-	-	-
Provision increase in the period	0.4	-	-	0.4
<b>Balance at 30 June 2011</b>	<b>4.6</b>	<b>0.3</b>	<b>0.5</b>	<b>5.4</b>

Unaudited 30 June 2010

	FSCS levy £M	Customer redress and other related provisions £M	Commission Clawback £M	Total £M
Balance at 1 January 2010	5.8	0.1	0.6	6.5
Amounts paid during the period	-	-	-	-
Provision increase in the period	0.3	-	-	0.3
<b>Balance at 30 June 2010</b>	<b>6.1</b>	<b>0.1</b>	<b>0.6</b>	<b>6.8</b>

Audited 31 December 2010

	FSCS levy £M	Customer redress and other related provisions £M	Commission Clawback £M	Total £M
Balance at 1 January 2010	5.8	0.1	0.6	6.5
Amounts paid during the year	(2.4)	(0.1)	-	(2.5)
Provision increase / (credit) in the year	0.8	0.3	(0.1)	1.0
<b>Balance at 31 December 2010</b>	<b>4.2</b>	<b>0.3</b>	<b>0.5</b>	<b>5.0</b>

**Financial Services Compensation Scheme (FSCS) Levy**

The levy represents the balance of the estimated amount payable under the FSCS for the period March 2010 to March 2012 calculated with reference to the protected deposits held at 31 December 2010.

**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.

**Commission clawback**

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

**Leeds Building Society**  
**Half-yearly financial information**

**Notes to the condensed consolidated financial statements (continued)**

**13. Shares**

	<b>Unaudited</b> <b><u>30 June 2011</u></b> £M	<b>Unaudited</b> <b><u>30 June 2010</u></b> £M	<b>Audited</b> <b><u>31 December 2010</u></b> £M
Held by individuals	7,121.6	6,977.8	6,977.4
Other shares	9.2	11.6	10.4
Fair value adjustment for hedge risk	21.0	44.7	37.4
	<b>7,151.8</b>	<b>7,034.1</b>	<b>7,025.2</b>

**14. Contingent Liabilities**

There is no material change to the Group's contingent liabilities reported in the 2010 Annual Report & Accounts.

**15. Subordinated Liabilities**

	<b>Unaudited</b> <b><u>30 June 2011</u></b> £M	<b>Unaudited</b> <b><u>30 June 2010</u></b> £M	<b>Audited</b> <b><u>31 December 2010</u></b> £M
Subordinated debt notes 2015	0.9	0.9	0.9
	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

**16. Cash and Cash Equivalents**

	<b>Unaudited</b> <b><u>30 June 2011</u></b> £M	<b>Unaudited</b> <b><u>30 June 2010</u></b> £M	<b>Audited</b> <b><u>31 December 2010</u></b> £M
Cash and balances with the Bank of England	96.2	194.6	115.9
Loans and advances to credit institutions repayable on demand	61.4	84.0	79.9
	<b>157.6</b>	<b>278.6</b>	<b>195.8</b>



Notes to the condensed consolidated financial statements (continued)

**17. Related party transactions**

The Group had no material or unusual related party transactions in the 6 months ended 30 June, 2011.

**18. Segmental information**

Segmental interest income and operating profit:

	<b>Unaudited Six months to 30 June 2011 £M</b>	<b>Unaudited Six months to 30 June 2010 £M</b>	<b>Audited Year to 31 December 2010 £M</b>
Interest receivable and similar income			
Interest receivable			
Residential loan portfolio	173.6	162.4	346.4
Commercial loan portfolio	11.3	12.9	24.4
Other	0.1	6.0	0.3
	<b>185.0</b>	<b>181.3</b>	<b>371.1</b>
Other interest income	10.3	10.3	19.0
Net expense on financial instruments	(34.1)	(52.6)	(95.6)
<b>Total interest receivable and similar income</b>	<b>161.2</b>	<b>139.0</b>	<b>294.5</b>
Operating profit before impairment losses and provisions	50.5	39.3	84.5
Impairment losses and provisions on loans and advances			
Residential loan portfolio	(15.5)	(8.7)	(15.8)
Commercial loan portfolio	(8.2)	(14.7)	(27.8)
Other	0.5	(0.6)	(0.6)
Impairment losses and provisions on loans and advances	(23.2)	(24.0)	(44.2)
Other gains	-	3.0	2.9
Provision for liabilities and charges	(0.4)	(0.3)	(1.0)
Operating profit and profit on ordinary activities before income tax	26.9	18.0	42.2
Income tax	(7.1)	(5.0)	(11.3)
<b>Profit for the financial period</b>	<b>19.8</b>	<b>13.0</b>	<b>30.9</b>

The Group does not consider its operations to be cyclical or seasonal in nature.

**Leeds Building Society**  
**Half-yearly financial information**

Notes to the condensed consolidated financial statements (continued)

**18. Segmental information (continued)**

Segmental loans and advances to customers

	<b>Unaudited</b> <b>30 June 2011</b> <b>£M</b>	<b>Unaudited</b> <b>30 June 2010</b> <b>£M</b>	<b>Audited</b> <b>31 December 2010</b> <b>£M</b>
<b>Loans and advances to customers</b>			
Residential loan portfolio	6,696.5	6,312.0	6,466.6
Commercial loan portfolio	533.6	577.1	544.8
Other	4.5	7.1	5.9
	<u>7,234.6</u>	<u>6,896.2</u>	<u>7,017.3</u>
At fair value through profit and loss	270.5	321.7	289.2
Less: impairment provisions			
Residential loan portfolio	(37.6)	(25.5)	(27.1)
Commercial loan portfolio	(37.8)	(47.3)	(34.0)
Other	(3.3)	(4.3)	(4.3)
	<u>(78.7)</u>	<u>(77.1)</u>	<u>(65.4)</u>
Fair value adjustment for hedged risk	64.7	108.1	73.3
<b>Total loans and advances to customers</b>	<b>7,491.1</b>	<b>7,248.9</b>	<b>7,314.4</b>