

Annual Report & Accounts 2013

Leeds
Building Society

Financial Highlights

For the year ended 31 December 2013

£11.2 billion
TOTAL ASSETS

£64.2 million
PRE-TAX PROFITS

£8.6 billion
MEMBER SAVINGS BALANCES

£2.16 billion
NEW MORTGAGE LENDING

£661 million
CAPITAL AND RESERVES

Leeds

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Board of Directors

Robin J. Ashton, BA, ACA
(Chairman)

Robert W. Stott
(Vice Chairman)

Peter A. Hill, ACIB
(Chief Executive)

Philippa A. Brown

Susan Cooklin

David Fisher

Philip A. Jenks

Robin S.P. Litten, BA (Hons), ACMA
(Finance Director)

Leslie M. Platts, BA, FCA

Abhai Rajguru, BSc (Hons),
FCMA, CDir, FloD

Kim L. Rebecchi, BA (Hons), FCIB
(Sales and Marketing Director)

Ian Robertson, CA, CCMI

Karen R. Wint, ACIB
(Operations Director)

Chief Risk Officer and Secretary

Andrew J. Greenwood, LLB

Chairman's Statement

For the year ended 31 December 2013



In my first year as Chairman, I am pleased to report another strong performance and a good set of financial results. Throughout 2013, Leeds Building Society made significant progress as we continued to develop the business to meet the ever changing needs of our members and a dynamic market place.

Our assets are now £11.2bn, an increase of 9% from a year ago, and we have more members than at any time in our history. A good profit performance gives us the ability to reinvest in the Society and increase our capital and reserves so that we can continue to grow whilst remaining well placed to deal with any economic shocks that may arise.

These results clearly demonstrate the continued effectiveness of our business model and the important role building societies have in UK financial services.

ECONOMIC BACKGROUND

In 2013, the UK economy experienced higher than expected GDP growth, rising house prices and falling unemployment.

During the year, Government initiatives such as the Funding for Lending and Help to Buy Schemes helped to improve the cost and availability of residential mortgages. The latest estimates from the Council of Mortgage Lenders show the number of residential property transactions in 2013 exceeded one million for the first time since 2007, but this remains subdued when compared to pre-recession levels of 1.7 million transactions in 2006 and 1.6 million in 2007.

Building societies have maintained their share of a growing UK savings market. In 2013, household deposit balances increased by 3.7% to over £1.2 trillion.ⁱ

REGULATION AND INDUSTRY DEVELOPMENTS

The busy regulatory agenda continued in 2013. The Financial Services Authority's (FSA) Retail Distribution Review, which relates to the sale of regulated investment products, came into effect at the beginning of the year. This fundamentally changed the market for long-term savings products and, in 2012, prompted us to review our own arrangements in this area. We wanted to ensure that members would be able to continue to benefit from advice on investments and retirement planning in our branches, which is why we established our partnership with Legal & General.

In April, the FSA was replaced by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). The FCA focuses on consumer protection and the PRA on financial stability. In December 2013, the Financial Services (Banking Reform) Act became UK law, following recommendations made by the Independent Commission on Banking. It is anticipated that implementation of the Act will commence in 2014. This will introduce a number of changes aimed at creating a safer banking sector.

At the start of 2014, a package of reforms to EU legislation, known as CRD IV, applies to the Society. One of the objectives of CRD IV is to improve the amount and quality of capital held by financial institutions. We are well placed for this legislation with a Core Tier 1 Capital Ratio of 14.4% and a Leverage Ratio of 5.4%ⁱⁱ, both of which are in excess of the current minimum requirements of 8% and 3% respectively.

From 26 April 2014, the Mortgage Market Review (MMR) rules come into effect, with the most significant change applying to the assessment of the affordability of a mortgage. We are already making all the necessary changes to our processes to ensure we are ready for implementation and will continue to offer mortgage advice to our members.

In line with an update to the Building Societies Association Model Rules issued in October 2013, we are proposing a Rule change to permit the issue of new forms of capital instruments, including Core Capital Deferred Shares (CCDS). Whilst we have no plans to raise any new capital, the Board believes that it is best practice to have the additional flexibility and security that these instruments provide, available to the Society, and I would like to encourage all members to vote on the Special Resolution at the Annual General Meeting (AGM).

BOARD COMPOSITION AND CORPORATE GOVERNANCE

We strengthened our Board with the appointment of Susan Cooklin in February 2014 as a non-executive Director. Susan has extensive experience of leading large and complex change across business and IT teams in the financial services and transport sectors, and this will be invaluable as we develop further our products and services. Our Finance Director, Robin Litten, and Kim Rebecchi, Sales and Marketing Director, together with Les Platts are all subject to re-election this year at the AGM. A summary of their details can be found on page 24 and 25. I ask you to support all their nominations at the AGM.

“ Our assets are now £11.2bn, an increase of 9% from a year ago, and we have more members than at any time in our history. ”

Bob Stott will retire from the Board at the AGM. Bob, who is Vice Chairman, Chairman of the Society's Staff Pension Scheme Trustees and a member of both the Remuneration and Nomination Committees, has served as a non-executive Director for more than five years and I extend my thanks to him for his valuable contribution to the Society over this period. It is proposed that Les Platts, who joined the Board in October 2010, will take up the position of non-executive Vice Chairman and Senior Independent Director.

SUMMARY

Leeds Building Society has again delivered another good set of results. This could not have been achieved without our dedicated and hardworking colleagues, who have consistently delivered high levels of service to our members.

We expect that 2014 will be a year of further progress as we continue to reinvest in the Society and implement our strategy to deliver long term value to our current and future members.



Robin Ashton
Chairman

25 February 2014

¹ Source – Building Societies Association, deposit balances outstanding from households.

² Leverage Ratio is calculated using the definition of Tier 1 Capital applicable from 1 January 2022.

Chief Executive's Review

For the year ended 31 December 2013



Leeds Building Society enjoyed another successful year in 2013 delivering record performance across a broad range of measures. I am particularly pleased that in our core markets of savings and mortgages we increased our market shares significantly, and our membership is at an all time high.

2013 Business Highlights:

- Pre-tax profit rose by 18% to a record £64.2m (£54.6m 2012 restatedⁱ)
- New mortgage lending increased by 31% to £2.16bn (£1.65bn 2012) which is significantly above our market shareⁱⁱ
- Net residential lending of £992m (£737m 2012) is our best ever performance
- Savings balances grew by £884m (£384m 2012) to £8.6bn, the highest level in our history
- Assets increased by 9% to a record £11.2bn (£10.3bn 2012)
- 71,000 new members were attracted, taking total membership to a record 714,000 (696,000 2012)
- Capital and reserves increased to a record £661m (£618m 2012 restatedⁱ)

As a member owned mutual building society our business model is built on providing a safe place for savings and helping more people buy homes. Our focus remains on delivering the best products and services to our members and creating long term value for future generations. We have stepped up innovation in developing new products and streamlined and improved our savings range. Our investment in the Society has increased substantially to ensure we have the right people and skills, systems and support infrastructures to be able to continue to offer outstanding personal service in a fast-changing market. This investment will continue in 2014.

Both the economy and consumer confidence improved in 2013 providing a more favourable environment in which to operate. Although this is most welcome, we remain cautious about the future and are pleased that our excellent profit performance has

enabled us to increase capital and reserves to record levels, to support our long-term sustainability.

SOCIETY VISION

Last year I outlined the strategy to deliver our vision 'To be Britain's most successful building society', which is built on four pillars, ensuring we continue to deliver value to our growing membership. These are:

1. To support the aspirations of a wide range of borrowers and savers, in particular those who are not well served by the wider market.
2. To generate strong levels of profit, which is retained in the business to build a solid platform for growth 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 am delighted to report that solid progress has been made throughout 2013 against each of these goals.

SUPPORTING THE ASPIRATIONS OF BORROWERS AND SAVERS

Membership grew to a record 714,000 (696,000 2012) as we helped thousands of people to buy their homes and protect their savings.

We attracted over £2.8bn of retail savings deposits from both existing and new members and net savings grew by £884m. This was the largest single year increase in the Society's history and well above our market share. Offering value to our savers is very important, particularly given the continued low interest rate environment. On average we paid 2.33% across our savings range compared to the market average of 1.73%ⁱⁱⁱ. Furthermore, a significant number of our members will benefit

“Leeds Building Society enjoyed another successful year in 2013 delivering record performance across a broad range of measures.”

from an increase in their interest rate as we take steps to ensure that all our savings accounts pay at least 0.5%, equivalent to today's Bank Base Rate. Extensive customer research continues to inform our programme of product innovation resulting in several key developments which help our members get on with life. As a result, we removed unnecessary complexity from our savings range and introduced the UK's only 10-Year Monthly Income Bond paying 4%, with a capital guarantee. Our success in attracting retail savings has helped fund our lending growth, support more borrowers and bring innovation to the mortgage market. We introduced the only product that provides an option to pay no interest for the first 3 or 6 months, which helps purchasers make changes and improvements to their new homes. This Welcome Mortgage was

recognised at the Mortgage Finance Gazette Awards, when we received the 'Innovation Award for Lenders', and in the MoneyNet Personal Finance Awards, where we were named 'Most Innovative Personal Finance Provider'.

We provided a record number of mortgages in 2013 and new residential loans increased by 31% to £2.16bn, representing more than double our market share.

We helped over 6,000 first time buyers purchase their homes, which accounted for over 30% of our total lending by value. This was in a number of lending segments including Shared Ownership, higher Loan to Value loans and the Help to Buy Equity Scheme. Including these mortgages, the average Loan to Value ratio on all new lending in 2013 remained below 60%, in line with 2012.

CONTINUING FINANCIAL SECURITY

Our pre-tax profit increased by 18% to £64.2m (£54.6m 2012 restated), a new record. This resulted in an increase in capital and reserves to £661m (£618m 2012 restated). Our Core Tier 1 Capital Ratio remains strong, at 14.4% (14.4% 2012), and our Leverage Ratio was 5.4%. This strong capital position ensures our members' savings remain secure as we continue to grow. Total assets are now £11.2bn (£10.3bn 2012), including liquid assets of £1.8bn, representing 17.6% of total funds. We remain well placed to continue to fund lending growth. Our sound financial performance also meant that the credit ratings agencies, Moody's and Fitch, both continued to assign long term 'A' ratings to the Society.

Whilst the economy is showing encouraging signs of improvement,



Variety – The Children's Charity thank Chief Executive Peter Hill (left) for the Society's ongoing support.

Chief Executive's Review *continued*

For the year ended 31 December 2013

there are still some borrowers experiencing financial difficulty. In these circumstances, we offer a range of forbearance options. Residential arrears (1.5% or more of outstanding mortgage balances) reduced from 2.89% in 2012 to 2.28% this year. The total charge for impairment losses was £47.9m (£41.9m 2012) and total residential and commercial balance sheet provisions are £74m (£80m 2012), leaving the Society well covered for potential losses.

The increase in provisions reflects the actions taken by the Society to reduce its commercial loan portfolio, coupled with further falls in the value of commercial property. As a result, commercial balances reduced by £79m (18%) to £360m, which represents only 4% of total mortgages balances (5% 2012).

DELIVERING OUTSTANDING PERSONAL SERVICE

We pride ourselves on the friendly and thoughtful service we deliver to our members and all colleagues strive to identify where we can improve. Overall member satisfaction is high and we regularly carry out independent member surveys to ensure we are meeting customer needs. We strive to get to know our members well and make things easy and straightforward.

During 2013, we have engaged widely with existing members and potential future customers to understand their needs and requirements, not only today but also into the future. This has helped shape our development programme for 2014. Our logo and corporate colours will change in 2014 to give the Society a more contemporary image, which will help promote our proposition to a wider audience. We are also improving access to services and information

to further enhance our customer experience.

We have highly motivated colleagues who are instrumental in delivering outstanding service to our members. Our people strategy focuses on recruiting and retaining the best talent and maintaining a high performance culture.

The Society now employs more than 1,000 people and colleague engagement is high. The average length of service is over seven years with over half of our colleagues being with the Society for more than five years. We also run an Apprenticeship Scheme providing young people with excellent training and career development.

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

INVESTING IN THE BUSINESS

We have embarked on a major investment programme as we develop a solid platform for future growth and make significant improvements to the customer experience. I am delighted that we have been able to create over 100 new jobs in 2013 and plan 100 more colleagues in 2014. This will increase our capability and enable us to deliver even better service.

As a result, our cost to asset ratio increased to 52p (49p 2012) per £100 of assets. Our strong growth in profitability resulted in a reduction in our cost to income ratio, which is now 31% compared to 33% a year earlier. Our focus on efficiency ensures these ratios remain amongst the best in the building society sector.

COMMUNITY SUPPORT

We take a responsible approach to everything we do and conduct our business so that we balance the interests of all our key stakeholders, including the communities in which we operate. Corporate Responsibility is about how we ensure we have a positive impact on our members, our colleagues and our communities.

The Society has 67 branches throughout the UK, and in Gibraltar and Ireland, as well as a Head Office in Leeds and a processing centre in the north east of England. All our colleagues are encouraged to take time off to volunteer in their local community. Our charity and community giving schemes are designed to provide sustainable contributions to local community causes as well as national charities.

Our partner charities are Age UK, Marie Curie Cancer Care and Variety, the Children's Charity. Together with our own Charitable Foundation, which also receives a donation directly from the Society, they all benefited from the 'Your interest...in theirs' scheme where members donate the pence amount of any interest they earn on their savings and our Caring Saver account, which pays 1% of the average balances held over the year. The Society makes a donation for each vote cast at our AGM and members can choose from a number of charities.

Our colleagues carried out fundraising throughout the year for St Gemma's Hospice, Tiny Lives and Martin House Children's Hospice raising an amazing £27,500. We also promote a colleague 'Matched Funding' Scheme to support their chosen charities.

¹ The Group has adopted IFRIC 21, which changes the trigger date for when the Society's liability to the Financial Services Compensation Scheme should be recognised.

² 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.

³ CACI Data, October 2013 – CACI is an independent company that provides Financial Services benchmarking data and covers 86% of the high street cash savings market.

“ We pride ourselves on the friendly and thoughtful service we deliver to our members and all colleagues strive to identify where we can improve.”

Through all these initiatives, both local and national charities have received over £250,000 during the year. Our own Charitable Foundation has now supported over 1,700 charities with donations of £1.26m since its formation in 1999.

OUTLOOK

During 2013, the Society has made further progress in delivering its vision to be Britain's most successful building society. In particular, 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 economic outlook is at last beginning to look more positive than in recent years with falling unemployment

and rising GDP. As the economy improves it is anticipated that the mortgage market will become more competitive as lenders seek to increase their market share, which could lead to lower interest margins. The likelihood of interest rates rising has also increased and this could have an impact on mortgage affordability and the level of mortgage arrears. Rising rates would be positive for savers but may increase funding costs, which in turn may create downward pressure on margins.

Against this backdrop, the Society plans to further increase its net residential lending predominantly funded through growing members' savings balances. 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.

Finally, I would like to thank you for your continued support. We remain focused on delivering the best for our owners, which is you, our members. What we do has helped thousands of members buy their own homes and grow their savings, and I look forward to delivering security, value and service to even more members in 2014.



Peter Hill
Chief Executive
25 February 2014



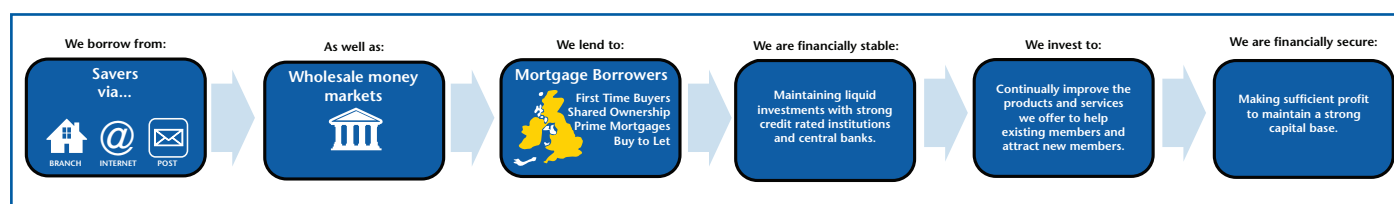
Peter Hill (far right) presents Simon Scarlett (third from left) and Kayleigh Boyce (fourth from left) jointly with the Advisor of the Year award.

Strategic Report

For the year ended 31 December 2013

The strategic report replaces the previous business review and is intended to provide a fair, balanced and understandable review of the Society's business model and strategy, the environment in which it operates and its performance in 2013.

THE SOCIETY'S BUSINESS MODEL



As a member owned mutual building society our business model is built on providing a secure home for savers' funds and helping more people buy homes.

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, our branch network and our direct telephone service. As part of its longer term strategy the Society supports the aspirations of borrowers who are not well served by the wider market through a segmental lending strategy albeit still within the normal owner occupied market.

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 or through the internet. The balance of funding required for lending and maintaining an appropriate level of liquidity is obtained from the wholesale money markets. It is interest on mortgage loans and treasury investments, offset by interest payable on savings and wholesale funding, which generates net interest income for the Society. As part of its longer term strategy 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.

In addition to providing mortgages and savings the Society also offers a complementary range of mortgage related insurance products and other investment services.

From a financial perspective it is important that the Society generates sufficient profit to maintain a strong capital position, which in turn enables continuing investment to improve our customer proposition. This involves 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 OPERATING ENVIRONMENT

The Society's performance in 2013 has demonstrated the robustness of its business model. However, the ability to deliver its strategic objectives can be impacted by changes in the Society's operating environment and resultant risks and uncertainties.

Economy

Despite weak economic growth and persistently high unemployment figures in the Eurozone, the UK economy appears to be recovering steadily with increasing GDP growth driven by increased consumer demand as a result of reduced economic uncertainty and the continued easing of credit conditions. The unemployment rate has also fallen to 7.1%. Inflation levels have fallen to 1.9% (CPI, December 2013), in line with the Bank of England's target. This should help to bolster real and disposable income levels, further fuelling the UK's economic recovery.

Improvements in the cost and availability of mortgage credit are underpinning a meaningful recovery in the housing market but risks to the economic recovery remain. There has been little rise in real household incomes with higher consumption levels almost directly correlated with a fall in the household savings ratio. Debt levels in the UK remain high and at 140% they remain higher than comparable ratios in the Eurozone and the United States of America. Any increase in the Bank of England's base rate would adversely impact upon mortgage affordability, particularly if borrowers' incomes were not to strengthen alongside rising interest rates.

While stressing that the housing market is not an immediate risk to the UK's economic and financial stability the Bank of England has announced that it will refocus its Funding for Lending Scheme (FLS) away from mortgage lending from the beginning of 2014.

As the economic outlook improves it is likely that the mortgage market will become more competitive as lenders seek to increase their market share. This could make it more difficult for the Society to achieve its lending targets both in respect of volume and margin.

“Pre-tax profit is the main source of capital for a building society and is essential in ensuring the long-term security of the Society for its members.”

Although the UK economy is recovering, if this position was to reverse it could lead to increased levels of unemployment, an erosion of real household incomes and reductions in house prices. As a consequence the Society could experience higher arrears and losses and find it more difficult to achieve its growth aspirations. A deterioration in the economy could also affect the performance of the Society's legacy commercial loan portfolio as lower rental levels and, as a consequence, lower values, could lead to higher negative equity, defaults and losses.

Government policy

The Government continues to progress its agenda of reform for UK banks by introducing legislation in its Financial Services Banking Reform Bill (BRB). The BRB, which was passed into law in 2013, introduces a number of changes which are aimed at creating a safer banking sector. While the central focus of these reforms has necessarily been on the big systemic institutions, the Government has signalled its commitment to ensuring that all building societies are well placed to play a central role in the future of UK financial services.

The Government continues to promote initiatives to support the UK housing market through the Help to Buy scheme, which helps home buyers with smaller deposits.

Although the support has been helpful in stimulating both mortgage demand and supply, there is some concern that this could lead to unsustainable rises in house prices, particularly in the South East and London. If the Bank of England was to take action under its powers to intervene this could lead to a reduction in the potential size of the mortgage market, which in turn could impact the Society's lending targets.

Regulation

The regulatory environment for banks and building societies has continued to develop during 2013. The Financial Services Authority split into the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) in April 2013. The focus of the PRA is financial stability and the FCA is focused on consumer protection.

The Mortgage Market Review (MMR) becomes effective in April 2014. MMR is designed to reform the mortgage market, ensuring a sustainable market for all participants. The changes for customers will include a more comprehensive affordability assessment, including stress testing for increases in interest rates, to ensure mortgages remain affordable. All new mortgages provided by the Society will be sold on an advised basis, which will be fully regulated.

In preparation for MMR, the Society has invested further resources into its systems, processes and in training colleagues and is confident that it will be ready for the implementation date. From a wider market perspective, MMR could lead to changes in the approach adopted by other lenders, which in turn could impact the competitive environment. It is unclear at this stage whether this will have a positive or negative impact on the Society's ability to generate new mortgage business.

The FCA has also announced plans to carry out a 'market study' into the cash savings market. The study will look

at a range of issues including introductory interest rates used to attract new customers, and how often consumers switch savings accounts. The market study is expected to take 6 to 12 months to complete and is likely to result in recommendations being made during 2014.

Principal risks and uncertainties

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 18 to 23.

THE SOCIETY'S STRATEGY

The Society has developed a strategy to deliver its vision to be Britain's most successful building society.

The strategy is built upon the following four pillars:

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

We have made progress against each of the four pillars in 2013 with record pre-tax profit, improved capital strength, record levels of mortgage business, increased membership, high levels of member satisfaction and an improvement in the cost to income ratio. More detail on the Society's progress is included in the Key Performance Indicator section.

Through our strategy we will build on our strengths, namely:

- Strong capital and profitability
- High levels of customer satisfaction
- Strong cost efficiency
- Highly engaged colleagues

In the short to medium term, the Society will deliver a number of key initiatives to build capability and transform the business for the future in support of its overall vision:

1. Development of our lending proposition and distribution capability to pursue opportunities in the mortgage market.
2. Continue to develop the Society's approach of putting customers at the forefront of all decision making.
3. Migration of the IT mainframe system to Hewlett Packard and development of seamless multi-channel systems and processes.
4. Further enhancements of our approach to risk management to move toward being able to operate under the Internal Ratings Based approach for assessing capital requirements.
5. Embedding the Society's people strategy to enable us to continue to attract and retain the best people to work together to optimal effect to achieve our corporate goals.

Strategic Report *continued*

For the year ended 31 December 2013

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	
Pre-tax profit	Increased by 18% to £64.2m and represents 0.6% of mean assets (2012: 0.54%)
Net interest margin	Improved to 1.52% from 1.32%
Capital	Increased to £686m (2012: £642m) Core tier 1 ratio of 14.4% (2012: 14.4%) Leverage ratio of 5.4%
Credit rating	Maintained a long term A credit rating from Moodys and Fitch
Customer Focused	
New residential lending	Increased by 31% to £2.16bn
Net residential lending	Increased to £1bn from £0.7bn
Net savings balances	Increased by 11% to £8.6bn
Change in membership	Membership increased by 19,000 to 714,000
Service driven	
Customer satisfaction	93% of those responding to our survey expressed satisfaction (2012: 95%)
Net Promoter Score® (1)	Score of +45, which benchmarks well against our peers (2012: +54)
Number of days from mortgage application to offer	Less than 16 days which is better than our internal target
% of customer administration processing completed on the same day	84% which is line with our target (2012: 88%)
Efficient	
Cost to Income ratio	Expenses as a proportion of income improved to 31% from 33% in 2012
Cost to mean assets	Expenses as a proportion of mean assets higher at 0.52% compared to 0.49% in 2012
Colleague turnover	19%, which benchmarks well against our peers (2012: 17%)

(1) The Net Promoter Score® shows the percentage of customers strongly prepared to recommend our products and services to others less those who are not prepared to do so and excluding neutral customers.

FINANCIAL PERFORMANCE

Pre-tax profit

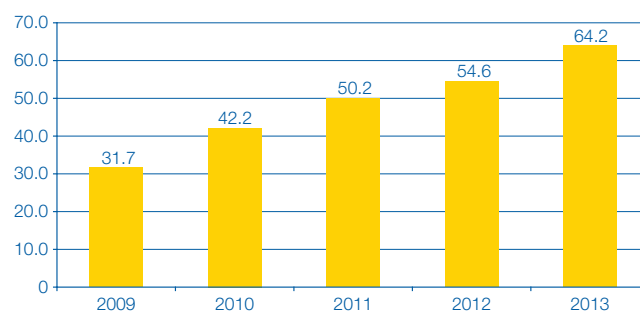
The Group's profit is its only source of new capital and is essential in ensuring the long term security of the Society for its members and meeting the regulator's capital requirements. The level of pre-tax profit generated by the Society is sufficient to support its on-going capital requirements.

The Group's pre-tax profit for 2013 has increased by 18% to £64.2m from £54.6m (restated) in 2012. Pre-tax profit as a percentage of mean assets also improved to 0.60% from 0.54%.

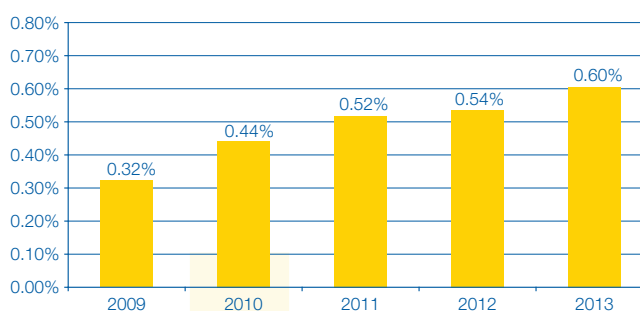
	2013 £m	2012 £m	Change %
Net interest income	163.2	133.2	23%
Other income/fair value	14.1	17.7	(20%)
Total income	177.3	150.9	17%
Management expenses	(55.5)	(49.7)	(12%)
Impairment losses and provisions	(57.6)	(46.6)	(24%)
Profit before tax	64.2	54.6	18%

The improvement in pre-tax profit in 2013 was driven by growth in the net interest income, resulting from increased net lending combined with lower funding costs. This increased income enabled us to continue our investment programme and absorb the impact of increased provisions.

Profit before tax £M



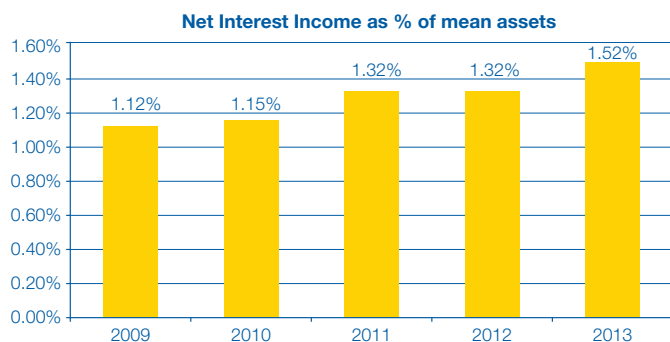
Pre-tax Profit as % of mean assets



“Maintaining the appropriate level and quality of liquidity ensures that the Society can meet its obligations as they fall due.”

Net interest Income

Net interest income increased by £30m to £163.2m from £133.2m and the margin improved to 1.52% from 1.32%. Net interest is the Society's main source of income and we continue to balance the need to offer attractive rates for savers and borrowers whilst generating sufficient profit to maintain a financially secure future for the Society.



The key features of the increase in net interest income in 2013 are:

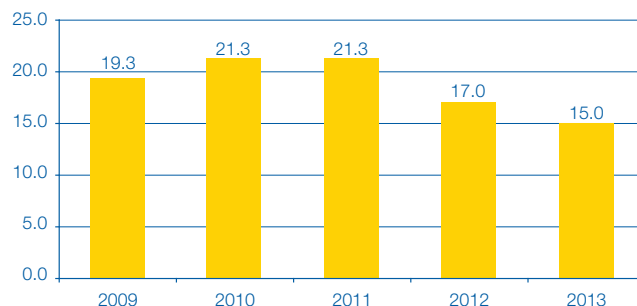
- Savings rates reduced further in 2013 and this was reflected in the Society's lower cost of raising new funds and retaining existing savings balances. Despite the overall lower cost, the Society remained competitive, paying an average of 2.33% on its savings range compared to a market average of 1.73%. As a result retail savings balances increased by £0.9bn and the Society attracted 43,000 new savings members.
- Earnings from mortgages have increased due to the growth in residential mortgage balances as the Society's gross lending increased to a record £2.16bn compared to £1.65bn in 2012. Total mortgage balances increased by £0.9bn in 2013 to £9.2bn.
- The margin on new lending narrowed in 2013 as increased competition and lower funding costs brought down mortgage rates. The impact of the lower margin was offset by the increased volume of new lending.

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 2013 other income reduced to £15.0m from £17.0m due mainly to a fall in the amount of income on sales of investment products. At the end of 2012, to enable compliance with the findings of the Retail Distribution Review, the Society moved to an introducer only proposition for the sale of investment products with Legal & General. As part of the new relationship, Legal & General took over the Society's financial services employees and associated costs. This meant the 2012 financial statements included income and costs on a gross basis, whereas in 2013 income is included on a net basis. In addition, the Society has not offered a structured savings product in 2013 as market conditions have meant it has not been possible to design a product that provides value for money compared to traditional savings products.

Other Income £M



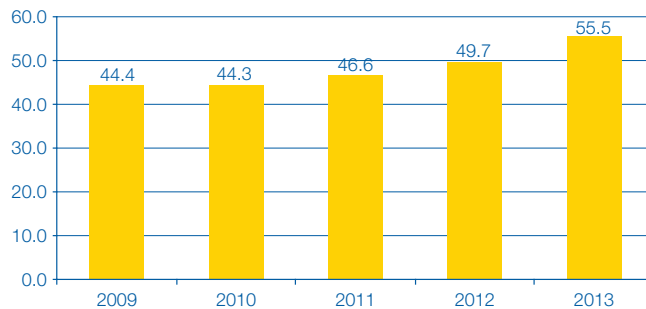
Administrative expenses

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. To do this whilst continuing to improve our customer proposition and manage the requirements of a growing business requires investment. As a result management expenses increased in 2013 by 12% to £55.5m from £49.7m. Nonetheless, the cost to income ratio reduced to 31% (2012: 33%) although the cost to mean assets ratio increased marginally to 0.52% (2012: 0.49%) and remains among the lowest in the building society sector. The main features of the increase in management expenses are:

- The strong growth in both gross and net lending in 2013, as well as the full year impact of increased lending in 2012, has required an increase in the Society's service capacity.
- The Society has continued to invest in its infrastructure to deliver its 10 year vision. In particular the Society has invested in strengthening its leadership team across several business areas, including risk and compliance, finance and IT.
- The cost of the project to transfer the core IT administration system from Yorkshire Key Services to Hewlett Packard.

The trend in the Society's overall costs is shown in the following graph.

Management Expenses £M



Fair Value Gains Less Losses from Derivative Financial Instruments

Fair value movements are changes in the value of certain assets and liabilities, mainly derivatives, to reflect their current market value. The movements are primarily due to timing differences which will trend to zero as the asset or liability reaches maturity. Fair value changes in 2013 resulted in a loss of £0.9m compared to a gain of £0.7m in 2012.

Strategic Report *continued*

For the year ended 31 December 2013

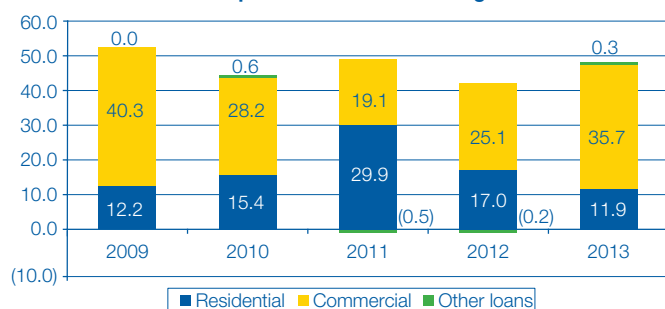
Impairment losses and other provisions

The improvement in economic conditions has resulted in a lower level of residential losses and provision in the year but the Society continues to provide for losses on commercial loans as we continue to reduce the exposure to these legacy loans.

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

	2013 £m	2012 Restated £m
Residential loan losses and provisions	11.9	17.0
Commercial loan losses and provisions	35.7	25.1
Other loan losses and provisions	0.3	(0.2)
Loan impairment and provisions	47.9	41.9
FSCS levy	5.7	3.0
Investment property impairment	1.3	1.1
Freehold property impairment	0.8	–
Other provisions	1.9	0.6
Total impairment and provisions	57.6	46.6

Impairment Provision Charge £M

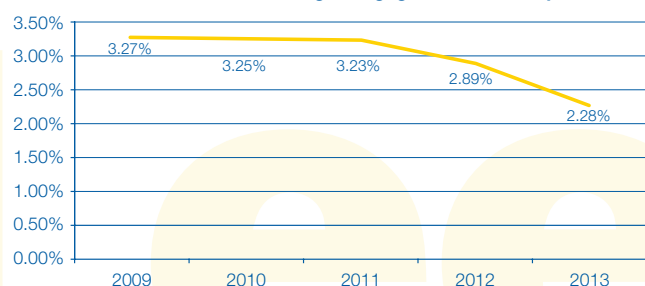


Residential loan losses and impairment

Total losses and impairment charges for residential loans decreased by £5.1m to £11.9m. This reflects the improvement in the arrears ratio, measured as those either in possession or arrears of more than 1.5%, which reduced to 2.28% compared to 2.89% at the end of 2012.

The Society's arrears ratio on the UK portfolio was lower at 1.94% (2012: 2.52%). The arrears ratio on the legacy overseas portfolio, reflecting the different economic conditions in Spain and Ireland, increased to 11.09% (2012: 10.13%).

Residential loans where the arrears are more than 1.5% of the outstanding mortgage balance or in possession



The Society has balance sheet loan loss provisions against residential mortgages of £38.1m (2012: £44.4m). The specific provision of £25.8m as a percentage of arrears and possession loan balances is 12.9% (2012: 12.9%).

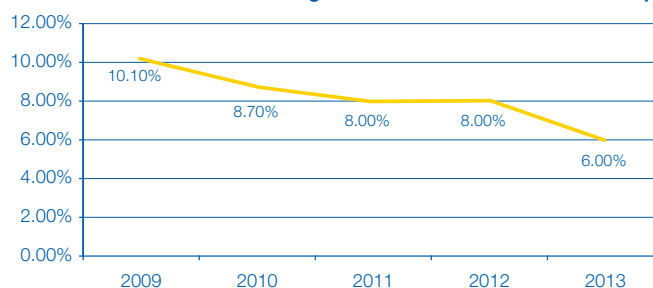
Commercial loan losses and impairment

The commercial loan charge has increased by £10.6m to £35.7m. This reflects the action taken by the Society to reduce its exposure to commercial loans in the year, coupled with further falls in the value of commercial property. Commercial loan balances reduced by £79m or 18% during 2013 (2012: £66m and 13%). The level of reported arrears on the commercial loan portfolio, which also includes those loans not in arrears but where an LPA receiver has been appointed, has fallen further to 6.0% (2012: 8.0%).

The Society has balance sheet loan loss provisions against commercial mortgages of £36.4m (2012: £36.0m). The specific provision of £26.6m as a percentage of impaired loans is 19% (2012: 16.5%). Based on our current estimates of value, the negative equity in the portfolio has reduced to £73m (£37m net of provisions) from £124m (£88m net of provisions) in 2012.

The level of arrears in the commercial loan portfolio is shown below:

Commercial loans where the arrears are more than 1.5% of the outstanding loan balance or in LPA receivership



The average arrears ratio during 2013 was 10.4% (2012: 10.1%).

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. Following new guidance from the International Accounting Standards Board the point at which the levy is recognised has changed and as a result the 2012 figures have been restated. In 2013 the FSCS levy, for both capital and interest elements, increased to £5.7m (2012 restated: £3.0m).

Investment property impairment

The Society's investment property, a discount retail park in Hornsea, was revalued at the end of 2013 and, as a result of an increase in the level of vacant units and no improvement in the market for this type of property, the value has reduced by £1.3m to £4.4m.

“The Society’s residential lending is well diversified and arrears have further reduced.”

Freehold property impairment

In accordance with the Society’s accounting policy, the freehold and long leasehold property portfolio was revalued at the end of 2013. Lower demand levels and a reduction in rental income resulted in the value of two properties deteriorating by £0.8m and this has been reflected through the Income Statement.

Other provisions

The Society has no systemic mis-selling issues and so has not needed to make any significant provisions to cover customer redress. However, the Society has provided a further £1.4m (2012: £0.6m) to cover the volume of speculative cases, primarily relating to PPI claims, and the associated costs involved in dealing with them.

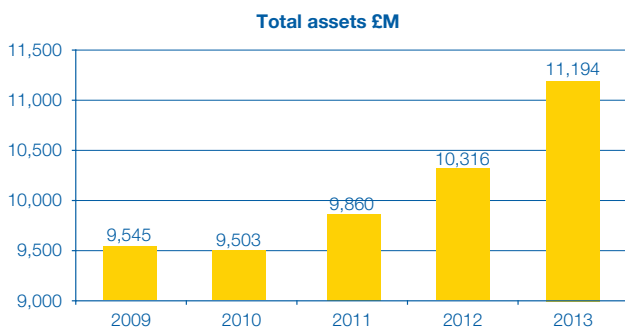
The Society has also increased the provision for potential future losses arising from the Lifetime Mortgage Portfolio by £0.5m to £3.6m.

Taxation

The income tax expense of £15.2m (2012: £13.4m) represents 24% (24.5%) of the pre-tax profit and is in line with the prevailing rate of corporation tax.

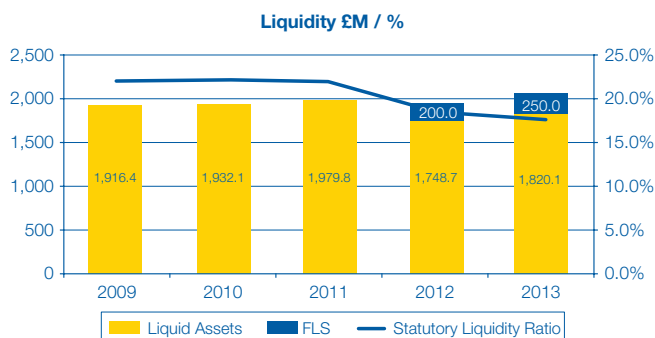
Balance sheet

Total balance sheet assets increased by £0.9bn, representing a rise of 9% and now stand at a record £11.2bn.



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.

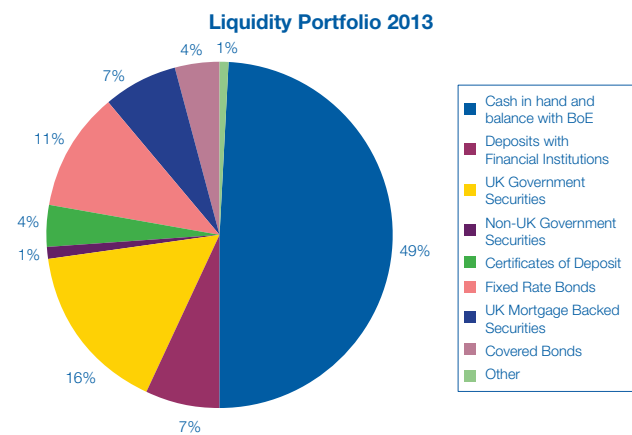


The Society continued to maintain a strong liquidity position ending 2013 with liquid assets of £1.8bn (2012: £1.75bn) representing 17.6% of share and deposit liabilities (SDLs)

compared to 18.5% at the end of 2012. This included £1.6bn of buffer assets (2012: £1.1bn) which are considered to be the highest quality investment instruments, readily realisable as cash when required. 99% of the liquid asset portfolio is rated ‘A’ (2012: 96%).

The Society also has access to the Funding for Lending Scheme and at the end of 2013 had drawn down £250m (2012: £200m). This scheme provides access to off balance sheet funding. The liquidity ratio, including on balance sheet and FLS, was 19.6% (2012: 20.2%).

A breakdown of the liquid assets is shown below:



There is no direct sovereign exposure to the so-called ‘peripheral’ Eurozone countries (Portugal, Ireland, Italy, Greece and Spain) in the liquid asset portfolio, nor is there any exposure to market counterparties in those countries.

Under CRD IV and Basel III two new measures of liquidity are being introduced by the PRA. These are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Based on the current interpretation of the rules the Society’s LCR and NSFR are 275% and 115% respectively, which are in excess of the minimum requirements.

Loans and advances to customers

The total loans and advances to customers increased by £0.9bn to £9.2bn, consisting of residential mortgages of £8.6bn, commercial lending of £0.4bn and £0.2bn of other loans. The key features of the growth in 2013 are:

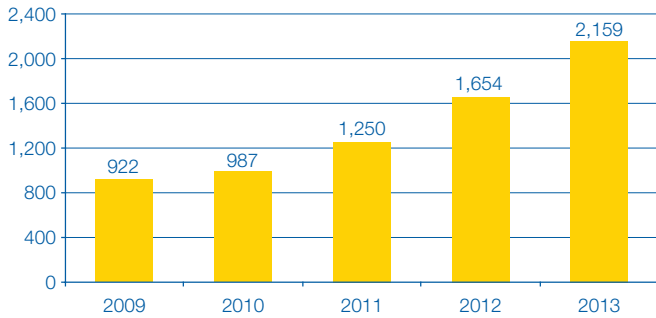
- Gross new residential lending of £2.16bn, an increase of £0.5bn from 2012.
- Net residential lending of £1.0bn, an increase of £0.25bn from 2012.
- The Society’s market share of new mortgage lending was 1.22% (2012: 1.16%) which is significantly higher than its natural market share of 0.69% (2012: 0.62%) (based on mortgage data from the Council of Mortgage Lenders).
- The commercial loan portfolio reduced by £79m to £360m from £439m in 2012. Commercial loans now represent just 4% of total mortgage balances (2012: 5%).

Strategic Report *continued*

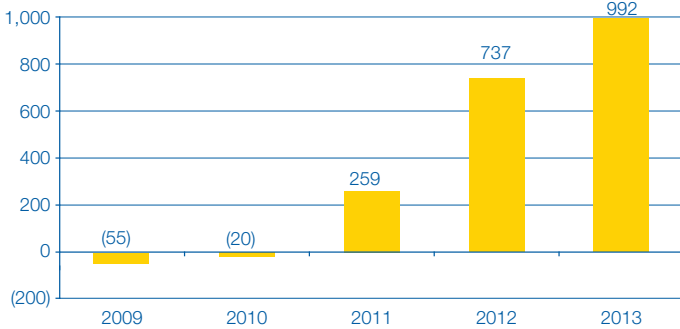
For the year ended 31 December 2013

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

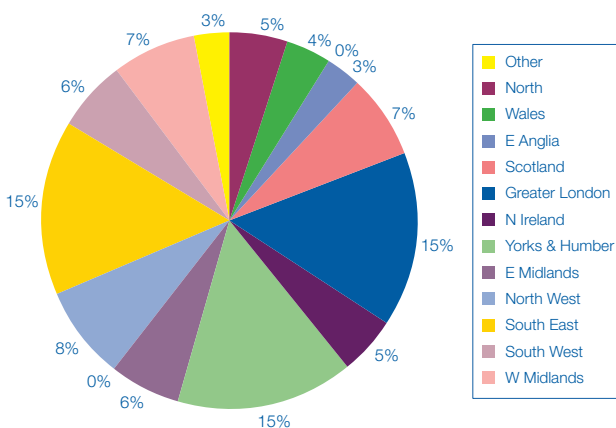


Net residential lending £M



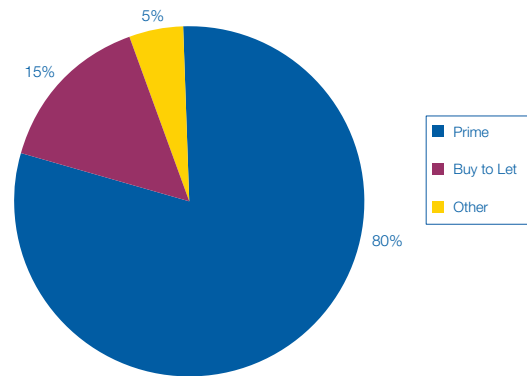
The Society's residential portfolio by region, product type and loan to value (LTV) percentage are shown in the following charts.

2013 Balances by region



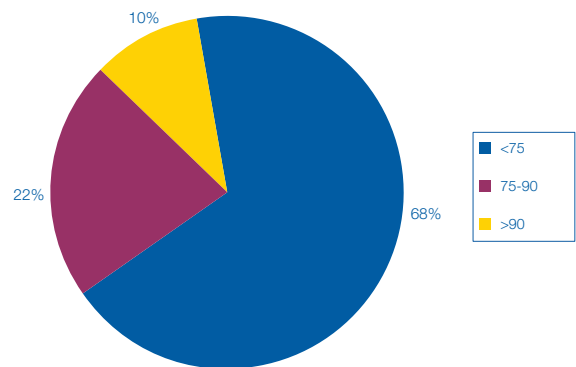
The portfolio is geographically diverse with the largest exposures in Yorkshire, London & the South East. This reflects the higher property prices in the South East and London areas and the higher lending volumes in the Society's heartland of Yorkshire.

2013 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.

2013 Mortgage balances by indexed LTV



The Society has a conservative lending policy which is reflected in a higher proportion of low loan to values. The overall indexed loan to value of the mortgage portfolio is 50% (2012: 51%).

Fixed assets

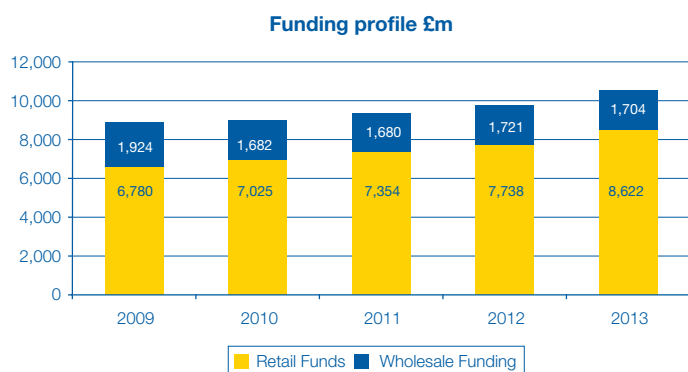
Fixed assets, which represent land and buildings and office and computer equipment, were £28.4m compared to £28.5m at the end of 2012. The Society spent £2.9m in 2013 investing in the branch network, Head Office and other infrastructure projects.

The property portfolio was revalued at the end of 2013 and as a result the value of the portfolio reduced by £1.7m.

“The importance of a strong capital position is reflected in the Society’s four strategic pillars.”

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:

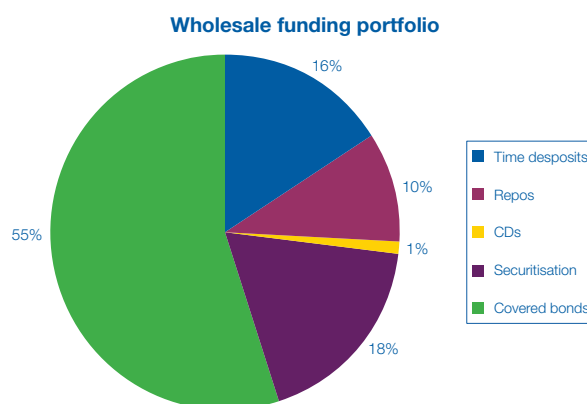


Despite the low interest rate environment, the Society has continued to offer good value and innovative savings products to our members. This has resulted in the Society attracting record net retail receipts of £728m (2012: £212m), which is significantly more than our natural market share of 3.3%.

The Society’s wholesale funding ratio reduced to 16.9% from 18.8% at the end of 2012 as the Society funded a larger proportion of its business with retail savings. Nonetheless, the Society has remained active in the wholesale markets and in July 2013 issued Albion No2, its first public securitisation transaction, backed by residential mortgage loans. The transaction was marketed to external investors and raised £300m of long term wholesale funding. The Albion No1 securitisation undertaken in 2012, which was used as collateral for the FLS scheme, was cancelled in December 2013. As at the end of 2013, drawings under the FLS scheme totalled £250m (2012: £200m) and are now collateralised by a whole loan portfolio.

The proportion of wholesale funding which is categorised as long term (with more than 1 year remaining to maturity) improved to 81% (2012: 62%).

At 31 December 2013 the composition of the wholesale funding portfolio is:



Continuing to maintain the confidence of the Credit Rating Agencies has been key in supporting the Society’s wholesale funding activity. The short term and long term ratings for the Society at the end of 2013 remain unchanged from 2012 and are:

	Long Term	Short Term	Outlook
Moodys	A3	P-2	Stable
Fitch	A-	F2	Stable

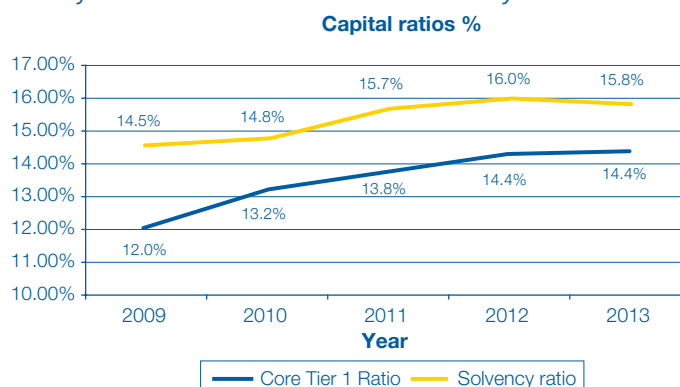
Capital

The importance of a strong capital position is reflected in the Society’s four strategic pillars. The Society’s overall total balance sheet reserves and capital increased by £42.8m in 2013 reflecting the strong profit performance. Both the core tier 1 ratio and overall solvency ratio remained strong and in excess of the minimum requirements under CRD IV.

Core tier 1 capital is the very strongest form of capital and, in the most part, represents the Society’s accumulated post-tax profit (general reserves) built up over time. The ratio expresses core tier 1 capital as a proportion of its risk weighted assets (RWA).

The solvency ratio is the level of total capital, which is the sum of core tier 1 capital and other forms of capital (Permanent Interest Bearing shares, subordinated debt, revaluation reserve and collective loan loss provisions), as a percentage of RWA.

The graph below shows the relationship between the Society’s core tier 1 ratio and its total solvency ratio.



Strategic Report *continued*

For the year ended 31 December 2013

The Society's balance sheet reserves, other components of capital, and regulatory capital position are shown in the following table.

	2013 £M	2012 £M
Reserves	634.7	591.9
PIBS	25.0	25.0
Subordinated debt	0.9	0.9
Total balance sheet reserves and capital	660.6	617.8
Collective provision	22.1	24.3
Cash flow/available for sale reserves	4.1	0.4
Subordinated debt adjustment	(0.6)	(0.4)
Total regulatory capital	686.2	642.1

The Capital Requirements Regulations (CRR) and the Capital Requirements Directive (CRD), known together as the CRD IV package, came into effect on 1 January 2014. CRD IV is intended to increase the quality and quantity of capital financial institutions are required to hold. The requirements 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 strength of the Society's capital position, which is primarily retained profits, and the conservative nature of the Society's lending means that the Society already meets the capital requirements and minimum leverage ratio, both based on the transitional rules on 1 January 2014 and the full rules which will apply from 1 January 2022. The table below sets out the estimated capital position and ratios for CRD IV, based on the current interpretation of the regulations:

	Current rules £M	Transitional £M	Full impact £M
Common Equity Tier 1 (CET 1)			
General reserve	612.1	612.1	612.1
Other reserve	14.3	14.3	14.3
Revaluation reserve	–	12.4	12.4
Available for sale reserve	–	(4.1)	(4.1)
CET 1 deductions	–	(1.1)	(1.1)
Total CET 1 capital	626.4	633.6	633.6
Additional Tier 1 – PIBS	25.0	20.0	–
Total Tier 1 capital	651.4	653.6	633.6
Tier 2			
Subordinated debt	0.3	0.2	–
Revaluation reserve	12.4	–	–

Collective provisions	22.1	22.1	22.1
Tier 2 capital	34.8	22.3	22.1
Total regulatory capital	686.2	675.9	655.7
Current RWAs	4,336.2	4,336.2	4,336.2
Additional CRD IV RWAs	–	–	–
Total CRD IV RWAs	4,336.2	4,336.2	4,336.2

Tier 1 Ratio	15.0%	15.1%	14.6%
CRD IV Minimum Tier 1 Ratio	n/a	7.0%	8.5%
Leverage Ratio	5.8	5.6	5.4
CRD IV Minimum Leverage Ratio	n/a	3.0	3.0

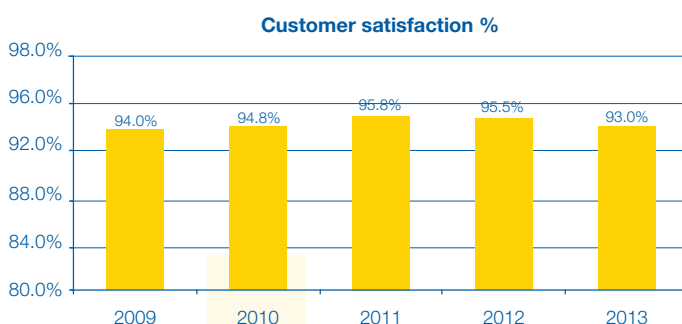
The leverage ratio is based on the current interpretation of the basis of calculation. The full impact ratio of 5.4% reflects the definition of Tier 1 capital applicable from 1 January 2022.

MEMBERS

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

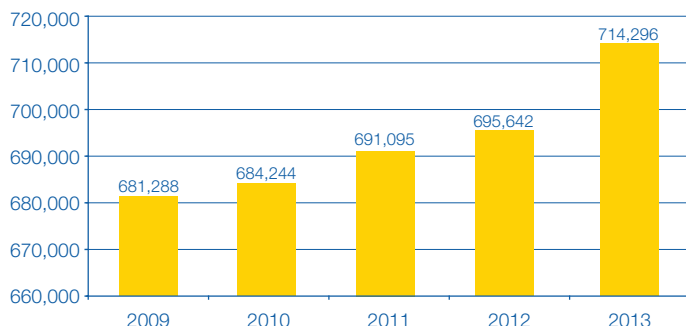
Member satisfaction is measured through an independent survey which is carried out quarterly. As well as providing an overall measure of satisfaction, the survey also provides a comparison of the Society's performance against other financial institutions. The Society also measures the total number of members, as a growing membership base is also a reflection of member satisfaction and the Society's success in delivering quality customer service and competitive products.

The Society has achieved combined scores of over 90% since the creation of the member survey and they remained at over 90% in 2013. The reduction in the member satisfaction reflects the impact of increased mortgage volumes on customer service standards. In addition, the total membership of the Society increased by 19,000 to 714,000.



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

Number of members



COLLEAGUES

Equality and Diversity

The Society is committed to providing an environment in which colleagues feel valued and respected so that everyone can contribute to building 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:

		2013		2012	
		Females	Males	Females	Males
Employees	Number	651	355	619	286
	Percentage	65%	35%	68%	32%
Managers	Number	12	24	10	19
	Percentage	33%	67%	34%	66%
Directors	Number	3	9	2	10
	Percentage	25%	75%	16%	84%

The ethnic diversity is shown below:

		2013	2012
		Ethnic minority employees	Ethnic minority employees
Employees	Number	66	54
	Percentage	6%	6%
Managers	Number	–	–
	Percentage	–	–
Directors	Number	1	1
	Percentage	8%	8%

Communication and Colleague Development

The Society has maintained and developed systems during the year for effective communication with our colleagues. The provision of information continues through the Intranet, e-mail, circulars, colleague magazine, meetings, presentations and team briefings 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 also a regular employee survey. In the 2013 survey, the overall colleague engagement result was 70% (2012: 75%). The survey results reflect the degree of organisational change and stretch as the Society grows. Colleague engagement remains amongst the best within the financial services industry.

The strong financial performance in 2013 demonstrates the commitment of all colleagues to growing the Society and delivering outstanding service to our members.

The Society’s people strategy, which underpins the Society’s growth, focuses on recruiting and retaining the best talent. During 2013 the total number of full time equivalent employees has increased by 98 to 906. The increase in colleagues reflects the service requirements of the balance sheet growth, as well as investment in support functions. During 2013, we externally benchmarked the remuneration for all our roles, to ensure we pay fairly compared to the market.

The Society runs an apprentice scheme and its commitment to training and career development for all colleagues is reflected in maintaining its Investors in People award.

Colleague turnover for the year increased to 19% compared to 17% in 2012.

IN SUMMARY

The Society’s performance in 2013 has demonstrated the robustness of its business model and further progress has been made in delivering its vision of being Britain’s most successful building society.

The continuing financial strength of the Society ensures that, notwithstanding the potential impact of external factors, it can continue to invest and grow without compromising its financial security.

APPROVAL

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

Robin S. P. Litten
Finance Director
25 February 2014

Risk Management Report

For the year ended 31 December 2013

PURPOSE

The purpose of this, which forms part of the Strategic 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.

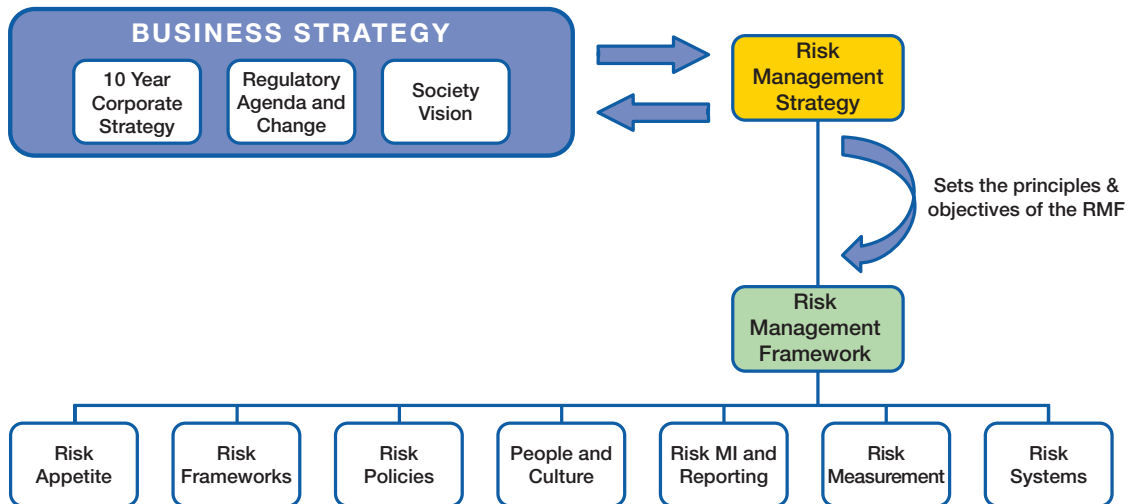
Risk Management Framework

The Society has developed a Risk Management Strategy (“RMS”), which sets out the vision and principles for risk management within the organisation in the context of the Society’s Corporate Plan.

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 and Conduct Oversight Risk (including Compliance) teams.

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

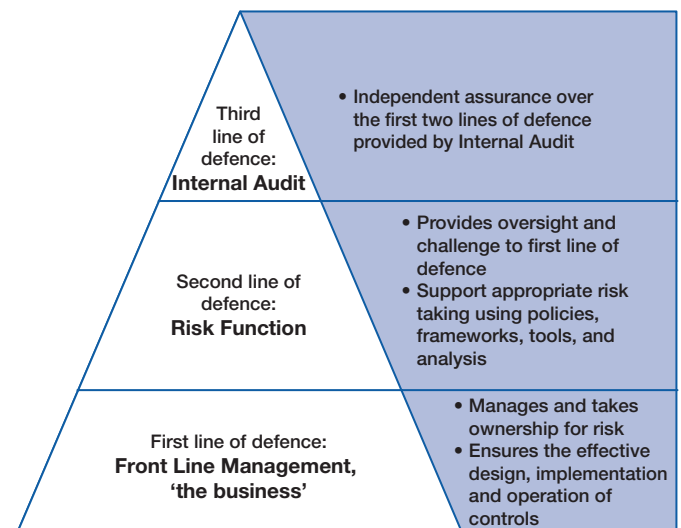
- Risk is owned by line management and integrated within business processes;
- Appropriate oversight arrangements exist to ensure independent risk expertise and assurances are available; and
- Risk management is a partnership between the Risk Function and frontline business functions.



The RMS is supported by a detailed Risk Management Framework (“RMF”), which provides a structured approach to risk management and takes an integrated and holistic view of risks across the Society. The approach set out in this report has been embedded within the Society in order to achieve a consistent approach to the aggregation and management of all risks and has been integrated into business management and decision making, at both strategic and operational levels. The RMF is underpinned by a number of core supporting components. The inter-relationship between the Business Strategy, RMS, RMF and its supporting components is shown above.

Both the RMS and RMF are owned by the Society’s Chief Risk Officer (“CRO”) and are subject to an annual appraisal by the Group Risk Committee (GRC), on behalf of the Board. The CRO leads the independent and integrated Risk Function, reporting directly to the Society’s Chief Executive. In addition, the CRO is also accountable to the Chairman of the GRC.

To apply these principles, the Society operates a “three lines of defence” model:



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

RISK GOVERNANCE ARRANGEMENTS

A high level summary of the Society’s governance controls and committee structure is set out 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	<ul style="list-style-type: none"> Board Procedures Manual Board level committee Terms of Reference (ToR) for: <ul style="list-style-type: none"> Group Risk Committee Board Audit Committee Assets and Liabilities Committee Board Credit Committee Conduct Risk Committee Remuneration Committee Nomination Committee
Tier 2 Executive Management Governance Infrastructure	<ul style="list-style-type: none"> List of Board delegated authorities Executive Management level committee ToR for; <ul style="list-style-type: none"> Executive Committees (ExCo/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	<ul style="list-style-type: none"> Risk Management Frameworks Risk Policies Risk Appetite Committee Reporting/MI Individual Capital Adequacy Assessment Process, Individual Liquidity Assessment Process and Recovery and Resolution Plan.

Further details of the activities of the GRC, BCC, ALCO, CRC, BAC and NOMCO are set out in the Corporate Governance Report on pages 28 to 33. A dedicated REMCO report is outlined on pages 34 to 40.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Society, which are managed by the RMF, are outlined below.

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 as follows:

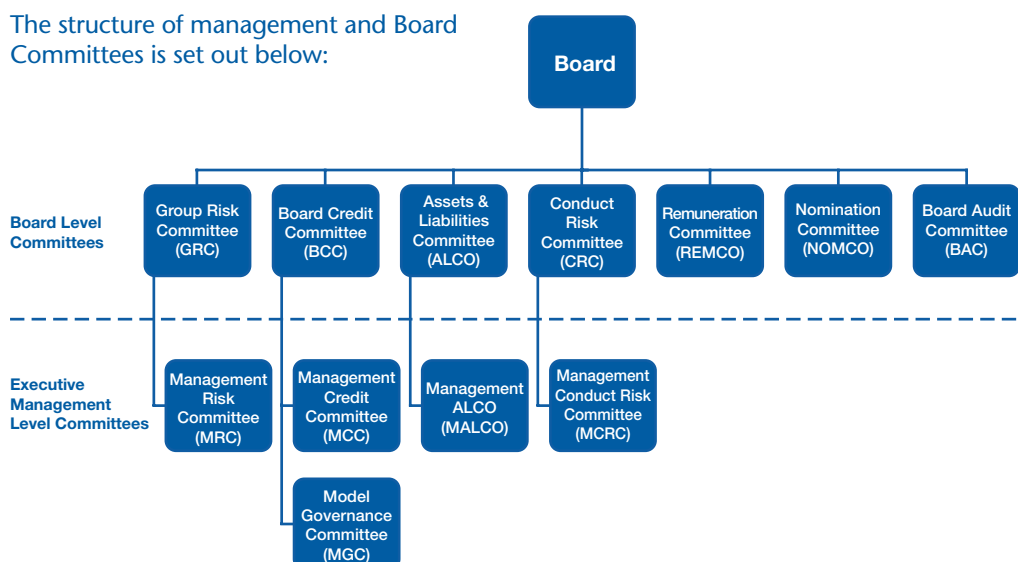
Market Background and Uncertainties

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, a further 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 current UK economic forecast is for further growth, reduced unemployment and increasing property prices in 2014, 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, a reduction in the demand for goods and services within the UK economy has resulted in lower levels of rental demand, and as a consequence, lower commercial property prices. The Society ceased underwriting of new commercial loans in 2008 and since this time has successfully reduced its exposure to this asset class. The Society is seeking to reduce commercial loan exposures further in 2014.

Committee Structure

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



Risk Management Report *continued*

For the year ended 31 December 2013

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 (3% of total loan balances). Whilst both economies have started to demonstrate elements of stability, economic outlooks within these jurisdictions remain fragile.

Residential Risk Mitigation

This risk is managed by a specialist retail Credit Risk function, reporting to the CRO, 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 that 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 the borrower to clear arrears. The Society is able to offer customers an appropriate range of options including extension of the mortgage term, a temporary change to interest only, deferral of interest, reduced monthly repayments, transfer to an alternative product or 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 Society's provisioning policy. This ensures that the Society properly recognises losses in accordance with its accounting policies.

Commercial Risk Mitigation

The Society closed its commercial lending operations to new business in 2008 and, since then, has pursued a strategy of reducing its exposure to minimise the risk of future losses. In 2013, the portfolio has been further reduced by £79m to £360m, exclusive of provisions. The Society retains a team of appropriately skilled colleagues, to continue implementation of the Society's exit strategy. In addition, the Risk function provides second line oversight of the performance and management of the portfolio.

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

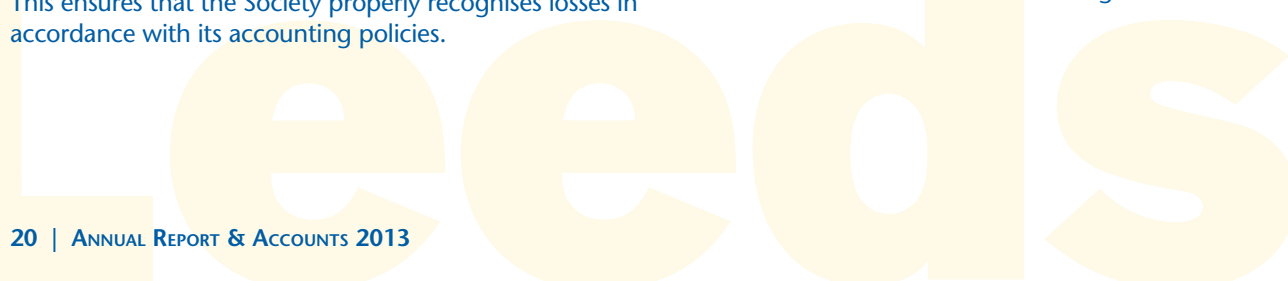
Similar to residential credit exposures, analysis of the commercial portfolio and forbearance measures informs the Society's provisioning policy. Over recent years the Society has made significant provisions against its commercial portfolio in accordance with its accounting policies.

Wholesale Credit Risk Mitigation

Since the onset of the financial crisis, the Society has maintained a very low appetite for wholesale credit risk. Following the instability within the Eurozone, the Society significantly tightened its wholesale counterparty credit criteria. This resulted in limits and exposures being mainly UK centric, with limits also extended to several highly rated counterparties based outside the UK. The Society's UK exposure is diversified, through holdings of UK Government securities, in financial institutions and asset backed securities, along with deposits at the Bank of England. The Society has no wholesale credit exposure to sovereign or financial institutions in Portugal, Ireland, Spain, Greece, Italy or Cyprus.

In 2013, the Society established a Treasury Credit Risk Committee, which is dedicated to monitoring the Society's wholesale credit exposures. This Committee convenes monthly and is subject to oversight from ALCO. Operationally, a dedicated Treasury Credit Risk resource monitors the Society's exposures on a daily basis and reports market developments, as appropriate.

All credit limits are subject to review on at least an annual basis. This ensures that counterparty exposures remain compliant with the Board approved wholesale credit 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.



“Since the onset of the financial crisis, the Society has maintained a very low risk appetite.”

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.

Whilst the core source of the Society's funding emanates from retail depositors (83%), the Society has remained active in the international wholesale markets. During 2013, the Society issued its debut public securitisation, Albion No.2 plc, which raised £300m of long term wholesale funding.

Market Background and Uncertainties

During 2013, the wholesale funding markets continued to improve but remained susceptible to events such as the continuing difficulties within the Eurozone and expectations of the US Federal Reserve commencing withdrawal from its quantitative easing programme. In the UK, factors including the Bank of England's Funding for Lending Scheme ("FLS"), contributed towards a reduction in the cost of secured and unsecured wholesale funding. The current indicators suggest that wholesale funding markets remain open and will be available to the Society during 2014.

The introduction of Basel III requires the Society to be compliant with new liquidity standards. These new measures include a Liquidity Coverage Ratio and a Net Stable Funding Ratio, 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 2015 and 2018. The Society considers that it is currently well positioned to meet such requirements.

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 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 at 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 2013 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 2013, the Society's liquid buffer eligible assets totalled £1.6bn and accounted for 86% of total liquidity.

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.

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 2013, market interest rates in the UK began to increase due to higher than forecast economic growth and expectations of future Bank Base rate rises. In response, the Bank of England issued forward guidance linking monetary policy and review of Bank Base rate, to the rate of UK unemployment. The subsequent improvement in the UK employment market during the second half of 2013, has led to further uncertainty regarding the timing of a Bank Base rate rise.

With regard to currencies, the valuation of Sterling during 2013 depreciated against the Euro, whilst appreciating against the US Dollar.

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. Predominantly, this is due to the provision of fixed rate mortgage and fixed rate savings products. In the event of an upward movement in interest rates, the Society could be susceptible to reduced net interest income, as its liabilities become more expensive, whilst net interest income may not increase by the same amount.

In addition, basis 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 Base Rate.

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 on an annual basis 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.

Through the transaction of interest rate derivatives, the Society converts cashflows to a variable rate basis so that cashflows 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.

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 Euro denominated residential mortgage portfolios.

Risk Management Report *continued*

For the year ended 31 December 2013

Similar 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 this risk through its legacy lending operations in Ireland and Spain. The impact from a departure of the Irish currency from the Euro has, based on current known facts, been largely mitigated through matching Euro liabilities. 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 in its business activities and, accordingly, has an agreed tolerance that accepts a range of loss events which may arise, in the delivery of its of business objectives.

Market Background and Uncertainties

The Society continues to focus on the development of its core UK business activities (residential lending, savings products and associated retail financial services) and it is unlikely that it will be exposed to any new operational risks categories. However, the potential impact and likelihood of existing risks may be subject to change.

Internally, key operational challenges are the migration and transition of our Core System service to a new provider (Hewlett Packard) and the implementation of the Mortgage Market Review (see Conduct Risk market background below). The Society has assigned resources dedicated to the delivery of these activities, with the Board receiving updates on progression at each meeting.

The Society maintains a reliance on third-parties for key services. In practice, these relationships help improve efficiencies and give access to capabilities not core to the Society; but a third party failure may produce an unplanned impact on Society costs, or a temporary reduction in service provision.

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 the Society, its members, colleagues and external stakeholders. Accordingly, IT security arrangements are reviewed to ensure they remain appropriate.

Operational Risk Mitigation

Management has considered, against the Board's stated appetite, the operational risks that could be exposed in the delivery of the Society's Strategy. If, after considering mitigating actions, the residual position is outside of appetite, management will avoid the risk either by not entering into a particular market, or by withdrawing from an activity.

The approach to the management of accepted operational risk is embedded into the RMS and the RMF, with business areas responsible for the 'first line' of defence control of operational risks. Within the Risk function, a specialist team monitors and reports through to management meetings, the GRC or the Board, on the adequacy of the operational risk control environment.

Where the Society chooses to operate, it establishes controls that will mitigate the risk to an acceptable position and monitors performance against agreed risk indicators. Primary monitoring is undertaken by first line functions that are supported by an independent second line, which both monitors performance and undertakes a range of assurance activities.

CONDUCT RISK

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

Market Background and Uncertainties

In 2013, the UK regulatory landscape was redefined with the introduction of the Prudential Regulatory Authority ("PRA"), responsible for prudential supervision and a Financial Conduct Authority ("FCA"), responsible for consumer protection and market regulation. In the second half of 2013, both regulators began to embrace their redefined responsibilities and their respective focus and approach emerged.

The most significant regulatory development with regard to Conduct risk is the implementation of the Mortgage Market Review ("MMR"), in April 2014. The MMR is designed to further reform the mortgage market, ensuring it is sustainable and works better for customers. In order to enhance consumer protection, most interactive mortgage sales will have to be provided on an advised basis and all loans will have to have an enhanced affordability assessment completed. In preparation for the MMR, the Society has invested further resources into its systems, processes and colleagues. Whilst Management is confident that its preparations will not have a significant effect on either Credit Policy or the customer experience, post implementation, processes and customer outcomes will be subject to additional scrutiny.

“Overall, the Group has a low tolerance for conduct risk events and restricts its activities to areas where appropriate expertise is in place.”

Conduct Risk Mitigation

Overall, the Society has no tolerance for significant conduct risk events and a low tolerance for other 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 first line oversight of conduct risk, monitoring customer outcomes against agreed standards. Monthly management information is provided to a dedicated Conduct Oversight function, which undertakes independent assurance over the first line activity. Detailed conduct risk management information 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 the Society's 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. Pension risk is the risk that the value of the scheme's assets, supplemented by additional member contributions, 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, inflation and future salary increases. 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 advisors 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 multiple stressed environments, over a five year time horizon.

Following Board approval, the ICAAP is reviewed 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 2013, the Society remained strongly capitalised and expects its capital position to remain strong in 2014.

The implementation of Basel III, in 2014, introduces stricter definitions of the components of capital. Instruments which do not meet the stricter definitions, including the Society's outstanding £25m Permanent Interest Bearing Shares (3.7% of total capital), will be gradually derecognised for capital purposes, over a ten year period, starting in 2014. In addition, Basel III introduces 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.

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 no foreseeable requirement to issue additional capital instruments.



Abhai Rajguru
Chairman of the
Group Risk Committee
25 February 2014

Board of Directors



ROBIN ASHTON (56)

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 a number of 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. I am married with three children and my interests include reading and motorsports.



PETER HILL (52)

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, a member of the Council of Mortgage Lenders Executive and Chairman's Committees, Deputy 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 (47)

I joined the Board as a non-executive Director in January 2013 and bring a strong consumer and marketing perspective to the role. I am also a member of the Group Risk Committee. 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 25 years and am Chief Executive Officer of a UK leading media agency, Omnicom Media Group UK. Outside of work I enjoy swimming and have two children. I also support Breakthrough Breast Cancer and Childline.



SUSAN COOKLIN (53)

I am delighted to have joined the Board in February. I am currently Group Chief Information Officer at Network Rail Infrastructure Ltd. Prior to this I was a senior executive at Barclays Bank Plc. within operations and technology, having spent over 20 years in financial services. I am proud to be joining 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 (55)

I joined the Board in March 2012. I am a member of the Assets and Liabilities, Remuneration, Credit Committees and a Pension Scheme Trustee. I started my financial services career with Halifax Building Society 24 years ago. Prior to joining the Leeds 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.



PHIL JENKS (63)

I joined the Board in March 2012 and am a member of the Society's Credit, Risk and Conduct Committees. I have almost 40 years' experience in financial services and have extensive knowledge particularly of mortgages and savings challenges to benefit members. I am a non-executive Director at Charter Court 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 customers. I am married with three children and outside of work I enjoy walking, going to the theatre and watching sport.

“In my first year as Chairman I am pleased to report another strong performance and a good set of financial results.”



ROBIN LITTEN (50)

I joined the Society in 2012 as Finance Director having spent my career in retail and financial services and for the last 12 years in the mutual building society sector. My previous roles include Deputy Finance Director at Barclaycard, Finance Director at Barclays Private Banking, Group Finance Director and Chief Executive at Scarborough Building Society and Chief Commercial Officer at Skipton Building Society. As a member of the Executive Committee I lead the Society's Finance, Treasury & Strategy teams and I am Chairman of the Assets & Liabilities Committee. Outside work, I enjoy spending time with my family, playing squash and cycling.



LES PLATTS (60)

I joined the Board in 2010 and I am Chair of the Remuneration Committee and a member of the Audit and Conduct Risk 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 a director 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 (48)

I joined the Board in 2008 having spent my career in the financial services sector. I hold a number of directorships and am also a member of the HM Treasury Audit Committee. I serve on the Society's Audit, Assets & Liabilities and Group Risk 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.



KIM REBECCHI (47)

I joined the Board in 2009 as Sales & Marketing Director, having worked for the Society since 1988. As a member of the Executive Committee I lead the Society's Distribution, Product Development and Marketing teams and I am Chairman of Headrow Property Services and the Conduct Risk Committee. Outside work, I am an active Rotarian and also enjoy family time, walking and sailing.



IAN ROBERTSON (66)

I joined the Board in 2008 and am a member of the Audit, Group Risk and Credit Committees. I am proud to work with such a highly regarded local 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 and I am Chairman of the Advisory Audit Board of the Scottish Parliament Corporate Body and a Director of the Homes and Communities Agency for England. Outside work I am a keen reader and love music.



BOB STOTT (70)

I joined the Board in 2008, following my retirement as a director of Wm Morrison Supermarkets plc and was appointed Vice Chairman in 2011. I am a member of the Society's Remuneration and Nomination Committees and I Chair the Trustee Board of the Staff Pension Scheme. I hold five other directorships and I am also a Trustee and Chair of the YCCC Charitable Youth Trust. Mutuality for me means that our endeavours can be focused entirely on our members. I enjoy spending time with my family and I follow most team sports.



KAREN WINT (48)

I have been Operations Director since late 2012. My current 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 changing how we do things to meet new customer expectations in a rapidly changing world. I am a member of the Executive Committee and Conduct Risk and Credit Committees. I sit on Leeds City Council's Housing & Regeneration Board and am a Chartered Banker. I enjoy walking and spending time in the Yorkshire Dales.

Directors' Report

The Directors have pleasure in presenting their Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 31 December 2013.

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

PRINCIPAL RISKS, UNCERTAINTIES AND GOING CONCERN

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 18 to 23.

As set out on page 41, 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 coming period, the Directors consider that the Group is able to generate adequate profits to enhance the capital of the Society, and to improve its solvency in the future.

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.

PROFIT AND CAPITAL POSITION

The pre-tax profit of the Group increased by 18% to £64.2m compared with £54.6m in 2012 (restated from £52.4m). At 31 December 2013, gross capital, represented by general and other reserves, revaluation reserves, subordinated liabilities and subscribed capital, amounted to £665m and this was 6.4% (2012: 6.5%) of shares and borrowings. Free capital, represented by gross capital together with the collective loss provision, less tangible fixed assets and investment properties, amounted to £654m, 6.3% (2012: 6.4%) of shares and borrowings. One of the Group's other key measures of capital strength is the core tier 1 ratio which remained at 14.4% in 2013. Overall, the capital ratios reflect the continued financial strength of the Group.

MORTGAGE ARREARS

At 31 December 2013, there were 372 (2012: 471) mortgage accounts 12 months or more in arrears. The total mortgage arrears in these cases was £6.6m (2012: £8.2m) and the total of principal loans outstanding was £66.4m (2012: £79.2m).

PILLAR 3

The disclosures required under Pillar 3 are published on the Society's website within four months of the end of the financial year.

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 28 to 33.

In accordance with the Rules, Robin Litten, Kim Rebecchi and Les Platts offer themselves for re-election by the members at the Annual General Meeting. Susan Cooklin is also seeking election to the board having been appointed in February 2014.

None of the Directors holds any beneficial interest in shares in, or debentures of, any subsidiary undertakings of the Society.

“The pre-tax profit of the Group increased by 18% to £64.2m compared with £54.6m in 2012.”

CORPORATE GOVERNANCE

Statements on Corporate Governance and Directors' Responsibilities are set out on pages 28 to 33 and 41 respectively.

AUDITOR

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

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 £26,379 to be made to charities. Other charitable donations in the year amounted to £19,879. No political donations were made during the year (2012: £nil). Other charitable contributions from colleagues and members totalled £116,597, taking total donations to charity to over £250,000.

ENVIRONMENTAL POLICY

The Society recognises that it has a responsibility to protect the environment for its members and the community and appreciates that its activities may sometimes have an impact on the environment. Therefore, the Society has an agreed policy, which seeks to identify and sympathetically consider environmental issues in all activities and areas of business. In the course of premises upgrades, and refurbishments, improvements are designed to incorporate energy efficient technologies. The Society has an active recycling waste management policy, which has resulted in a significant increase in the amount of waste paper, cardboard and plastic that is recycled. Under consolidated waste management arrangements we have dry mixed recycling at all Society locations which has helped move us towards our aspiration of eliminating waste destined for landfill. The Society now also uses entirely renewable 'Green' energy and actively works in partnership with its suppliers to manage and minimise carbon emissions.

COLLEAGUES

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

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 12 days at 31 December 2013 (2012: 10 days).

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
Chief Risk Officer and Secretary
25 February 2014

Corporate Governance Report

For the year ended 31 December 2013

INTRODUCTION

Over the last year the financial services sector has seen the continuation of numerous regulatory changes, not least, the replacement of the Financial Services Authority (FSA) by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) which became effective from 1 April 2013. The changes to the UK Corporate Governance Code ('the Code') which were agreed in 2012 have also now come into effect, as has legislation on directors' remuneration and narrative reporting. The Society applies the provisions of the Code in full, where they are appropriate to a Building Society rather than a listed company and taking into account the Society's size, with the exception of annual election of Directors. The Board regards good corporate governance as an essential requirement and the Nomination Committee tracks and discusses all changes to corporate governance. This report explains the Society's approach to corporate governance, and sets out details of the principal Board Committees, together with attendance records for those Committees.

THE BOARD

The primary role of the Board is the formulation of the Society's strategy, the review of business performance and the management of risks, as well as overseeing the maintenance of sound systems of internal control. The Board follows an annual planning cycle, which considers the development of longer term strategy in the context of the wider business environment, along with detailed planning which is set out in the Society's annual Corporate Plan. At 31 December 2013, the Board comprised four executive and eight non-executive Directors. Following Robin Smith's six year tenure as Chairman, which ended at the 2013 AGM, Robin Ashton was appointed as Chairman.

The offices of Chairman and Chief Executive are distinct and held by different individuals. The division of responsibilities between the Chairman and the Chief Executive is set out in the Board Manual. 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.

In accordance with relevant provisions in the Code, the Board considers that all non-executive Directors are free of any relationship which could materially interfere with the exercise of their independent judgement.

Biographical details of all directors are set out in the Board of Directors section of this report. All Directors have access to the advice of the Secretary and, if necessary, are able to take

independent professional advice at the Society's expense. 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 role of the non-executive directors is to provide an independent view and to challenge, where necessary, the work and recommendations of senior management. The role of Senior Independent Director under the Code, insofar as it applies to the Society, is undertaken by the Vice Chairman. The Chairman consults with the Vice Chairman, the Society Secretary and the Chief Executive on matters relating to the Code.

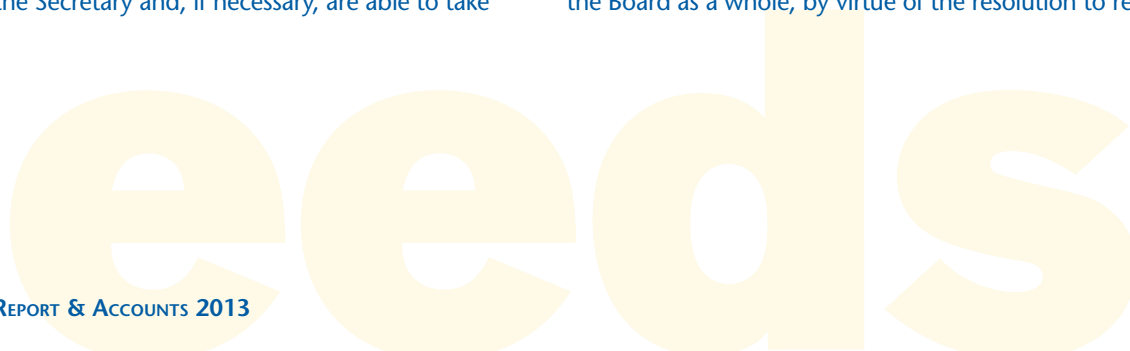
The Board operates through meetings of the full Board, as often as necessary for the proper conduct of business, normally 10 times a year, and through its main committees which are detailed on pages 30 to 33.

The Board and its committees are supplied with full and timely information. Ordinarily, papers are sent out one week prior to Board and Board Committee Meetings.

At least annually, the non-executive Directors meet without the executive Directors being present. A framework of delegated authorities is in place, which extends to the Society's officers, management and various management committees. The Board has also set out those matters that it reserves solely for decision by the Board and this is published on the Society website, together with the terms of reference for each committee. The Delegated Mandates Manual is reviewed on a regular basis and was reviewed and revised during the year.

The appointment of new Directors is considered by the Nomination Committee, which makes recommendations to the full Board. 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 receive confirmation from the appropriate regulator as an Approved Person. All Directors are required to submit themselves for election by the Society's members in accordance with the rules and also for re-election every three years. Non-executive Directors are not usually expected to serve for more than three full three-year terms, following first election to the Board.

The Code includes a provision that all Directors should stand for re-election each year. This was originally recommended by Sir David Walker as a measure for FTSE 100 companies. However, as stated above, the Society's Rules require that Directors should stand for election at the Annual General Meeting following their appointment and every three years thereafter. Members also have the opportunity to vote on the Board as a whole, by virtue of the resolution to receive



the Directors' Report, the Annual Report & Accounts, and Annual Business Statement, as well as the resolution to receive the Summary Directors' Remuneration Report. In all the circumstances, the Board considers there is a need for experienced management familiar with the business and that the current arrangements are appropriate. The Nomination Committee reviewed this matter during 2013 and decided, therefore, not to propose that all Directors are subject to re-election on an annual basis. However, the Committee, which considers matters of Corporate Governance, continues to keep this under review.

INTERNAL CONTROL

The Board is responsible for defining the Society's risk appetite, and for determining the framework and 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.

Through its meetings, the Audit Committee has reviewed the effectiveness of the Society's systems of internal control for the year ended 31 December 2013, on behalf of the Board, and has taken account of any material developments that may have taken place since the year end. These 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. A report setting out the work of the Audit Committee is provided to the Board on an annual basis.

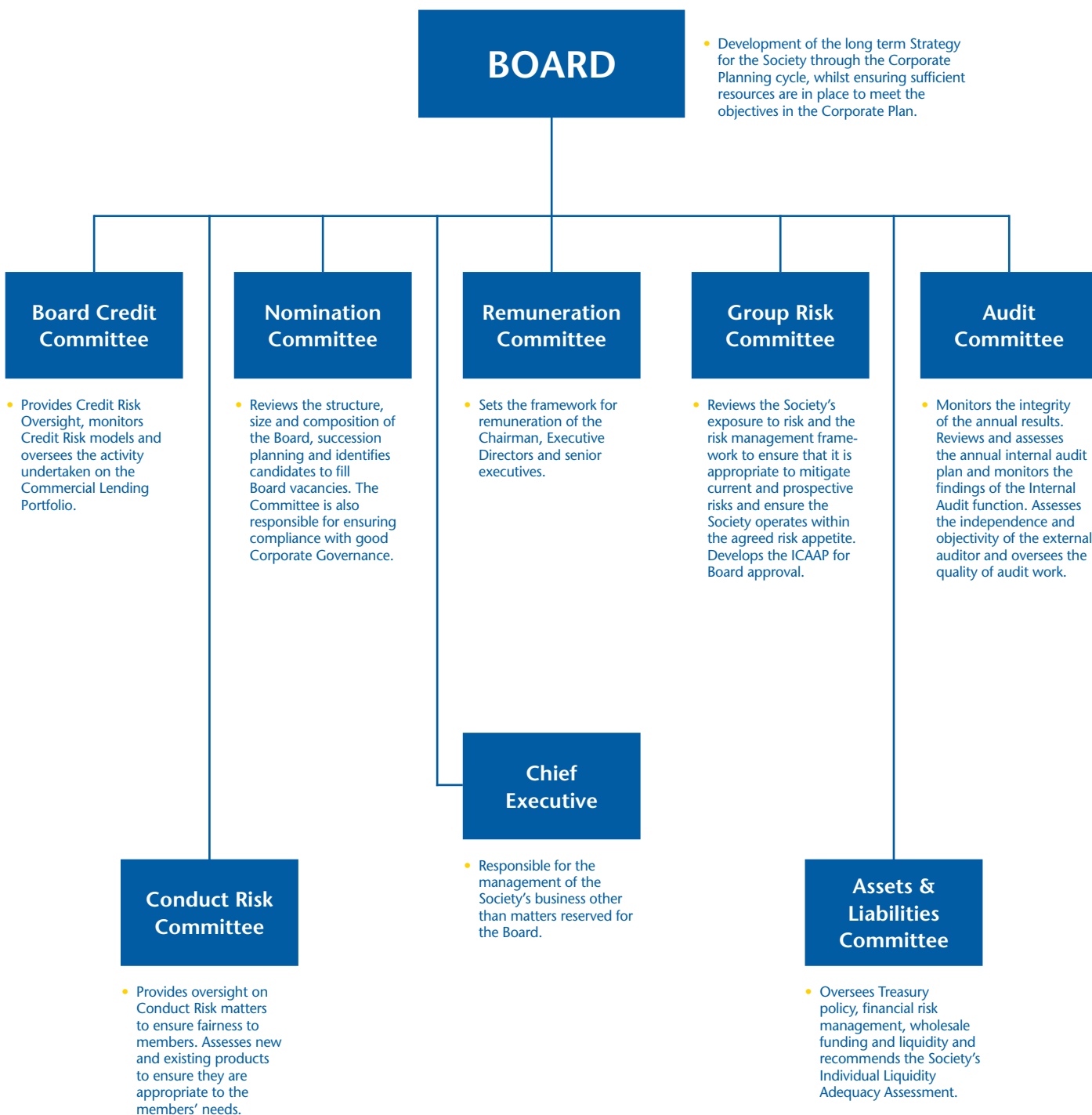
BOARD AND BOARD COMMITTEE MEMBERSHIP ATTENDANCE RECORD

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

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Credit Committee	Assets and Liabilities Committee	Conduct Risk Committee	Group Risk Committee
Robin Ashton (Chairman)	11(11)			6(6)	2(2)	2(2)		2(2)
Bob Stott (Vice Chairman)	11(11)		4(4)	6(6)				
Peter Hill (Chief Executive)	11(11)			6(6)	6(6)	6(6)		6(6)
Robin Smith (Director until 26th March 2013)	2(2)			1(1)				
Robin Litten (Finance Director)	11(11)				5(6)	6(6)		5(6)
David Fisher	10(11)		4(4)		2(2)	5(6)		
Phil Jenks	11(11)				6(6)		6(6)	6(6)
Kim Rebecchi (Sales and Marketing Director)	11(11)				6(6)	5(6)	6(6)	6(6)
Karen Wint (Operations Director)	11(11)				6(6)		6(6)	6(6)
Les Platts	10(11)	7(7)	4(4)				6(6)	
Ian Robertson	11(11)	7(7)			6(6)			6(6)
Abhai Rajguru	11(11)	7(7)				6(6)		6(6)
Philippa Brown	10(11)							4(5)

Corporate Governance Report *continued*

For the year ended 31 December 2013



AUDIT COMMITTEE

The Audit Committee, which met seven times in 2013, is a sub-committee of the Board and makes recommendations to it. Its Terms of Reference reflect the guidance on Audit Committees, published as part of the UK Corporate Governance Code.

The responsibilities of the committee follow the provisions of the Financial Reporting Council Guidance on Audit Committees, including:

- monitoring the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance, reviewing significant financial judgements contained in them;
- ensuring the Society's internal financial and business control and risk management systems have operated as defined in control documentation and comply with policies, procedures, laws, regulations and other relevant requirements;
- monitoring and reviewing the effectiveness of the Society's Internal Audit function;
- making recommendations to the Board in relation to the appointment and remuneration of the external auditor and monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into consideration relevant United Kingdom professional and regulatory requirements;
- development and implementation of the policy on the engagement of the external auditor to supply non-audit related services;
- maintaining a good awareness of the impact of developments in financial reporting and corporate governance pertinent to its duties and responsibilities; and
- providing advice to the Board on whether the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Society's performance, business model and strategy.

During the year, the Chairman of the Committee was Ian Robertson. The other members of the committee were Les Platts and Abhai Rajguru. The Committee invites the presence of internal and external auditors and members of management when considered helpful for the conduct of its Terms of Reference. The Audit Committee met twice with the external auditor without executive management being present. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

In 2013 the Audit Committee considered matters in the following areas:

- progress against a Combined Assurance Mapping exercise was reviewed and the importance of the linkages between the map and the work of the Internal Audit department was confirmed;

- the audit planning methodology and the annual audit plan including the scrutiny and discussion of reports from both Internal Audit and the external auditor, to ensure the Society dealt appropriately and effectively with the various reports;
- performance against the Internal Audit Balanced Scorecard, the adequacy of the Internal Audit department's resources (including confirmation of additional temporary resource for the second half of the year) and the skill set of the individuals employed was also reviewed;
- the impact of new guidance issued by the Chartered Institute of Internal Audit, "Effective Internal Audit in Financial Services". As a consequence, the Audit Committee has approved a revised Audit Charter and Terms of Reference, a new audit planning methodology and has noted expected changes in the role and management of Internal Audit and revised reporting lines for a new Chief Internal Audit Officer;
- tracking the forthcoming Guidance Consultation on FCA Code of Practice for External Auditors and Supervisors and the FRC Consultation Paper on the Revision to ISA 700;
- consideration of the Society's External Auditor, Deloitte LLP, and their effectiveness, independence, and objectivity, through the annual effectiveness review, a review of their Annual Plan, Engagement Letter, Final Report and Management Letters, together with private sessions held with the Audit Partner;
- the Committee considered, and where appropriate, made recommendations to satisfy itself that the internal audit function was appropriately resourced;
- the external auditor (Deloitte) was appointed as the new auditor to the Society, in 2005, following a rigorous tendering exercise. During the year, the Committee has received regular updates on revisions to the UK Corporate Governance Code which has led to discussions in relation to partner rotation and when the Society should re-tender these services; and
- the policy on Non Audit Services was reviewed and a number of changes made to improve oversight and ensure objectivity in independence. In addition, fees for both audit and non-audit work have been considered throughout the year.

In respect of the Annual Report and Accounts, the Audit Committee considered whether the accounting policies adopted by the Group are suitable and whether significant estimates and judgements made by Management are appropriate. In evaluating the Group's 2013 year end Annual Report & Accounts the Committee specifically considered:

- The levels of impairment provision against residential and commercial assets;
- The approach to revenue recognition, including the calculation of the effective interest rate used to allocate interest income on loans and receivables;

Corporate Governance Report *continued*

For the year ended 31 December 2013

- The valuation of the deficit in the Group's defined benefit pension scheme;
- The Group's ability to continue as a going concern;
- The approach to hedge accounting; and
- The completeness of regulatory provisions and impact of the early adoption of IFRIC 21 and calculation of the FSCS levy provision.

In each of these areas the Committee was provided with reports from Management which discussed the position shown in the Accounts and the assumptions and methodology adopted for any calculations. These were reviewed in detail and discussed with Management, together with the results of testing by the external auditor. The Committee was able to reach satisfactory conclusions on all these areas.

The Audit Committee also reviewed the content of this year's Annual Report and Accounts and advised the Board that, in its view, 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.

GROUP RISK COMMITTEE

The Group Risk Committee, a sub-committee of the Board, met six times in 2013 to review the Group's exposure to risk, and the appropriateness of the risk framework in place. On an annual basis, the Committee oversees the calculation and allocation of the Group's capital requirements and recommends to the Board the Society's Internal Capital Adequacy Assessment Process (ICAAP). Throughout the year, the Committee monitors the impact of changes in the profile of risk on the ICAAP requirements and the Board's stated Risk Appetite. Additionally, standing reports are received on the Society's Corporate Risk Register and updates on Management actions.

The Chairman of the Committee was Abhai Rajguru. Other Board members of the Committee during all or part of the year, were: Peter Hill, Kim Rebecchi, Robin Ashton, Ian Robertson, Phil Jenks, Robin Litten, Karen Wint and Philippa Brown.

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 and the Notes to the Accounts.

From 1 January 2014 there have been some key changes to the Committee to comply with the new Capital Requirements Directive IV. These include changes to the Terms of Reference of the Committee to restrict the membership to non-executive directors only and a new duty to examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

ASSETS AND LIABILITIES COMMITTEE

The Assets and Liabilities Committee, which met six times during 2013, is a sub-committee of the Board and oversees treasury policy, in line with the Board approved Financial Risk

Management Policy. In particular, the Committee oversees financial risk management, wholesale funding and liquidity investment strategies, hedging, interest rate risk management and counterparty credit criteria. It also considers and recommends to the Board, the Society's Individual Liquidity Adequacy Assessment. The current Chairman of the Committee is Robin Litten. The other Board members of the Committee during all or part of the year were: Peter Hill, Kim Rebecchi, Robin Ashton, Abhai Rajguru and David Fisher.

NOMINATION COMMITTEE

The Nomination Committee is a sub-committee of the Board and makes recommendations to it. Since March 2013, the Chairman has been Robin Ashton. The other members of the Committee during all or part of the year were, Robin Smith, Peter Hill and Bob Stott.

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 in an efficient manner; to ensure the Society meets the principles of the UK Corporate Governance Code and other appropriate requirements; and to give consideration to succession planning for the Board, Executive Directors and Senior Management.

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 Nomination Committee met on six occasions.

The Committee, in accordance with the Capital Requirements Directive IV, has from 1 January comprised solely of non-executive directors.

CREDIT COMMITTEE

The Credit Committee is a sub-committee of the Board, and in 2013 met on six occasions. Its Terms of Reference include Credit Risk Management oversight, including approval of various policies and monitoring, and adherence to policy and risk appetite. It also considers and approves recommendations from the Model Governance Committee (a Management Committee) relating to implementation and operation of risk models and considers, at least annually, the parameters of affordability models used as the basis for residential lending. In addition, the Committee oversees the activity undertaken in respect of the Commercial Lending portfolio and receives updates from management on Commercial Lending mandate decisions. The Chairman of the Committee, from May 2013 was Phil Jenks. Other Board members of the Committee during all or part of the year were Robin Ashton, 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 34 to 40. The committee met four times in 2013.

CONDUCT RISK COMMITTEE

The Conduct Risk Committee focuses solely on conduct risk to provide oversight across the business and to ensure fairness principles are promoted across all levels of the Society's operations. The Committee met on six occasions during the year and reviewed and approved products offered to members, to ensure they meet the required regulatory standards, the Society's risk appetite and are appropriate to customer needs. The Committee has the power 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. It carries out this task by overseeing the Product Governance cycle and reviewing appropriate management information. The Chairman of the Committee is Kim Rebecchi and other members during all or part of the year were Phil Jenks, Les Platts and Karen Wint.

AUDITOR

The Society has a policy on the use of the external auditor for non-audit work, which is implemented by the 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 2013 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 8 to these Accounts.

DIRECTORS' DEVELOPMENT AND PERFORMANCE EVALUATION

The Society's Chairman, on behalf of the Nomination Committee, conducts a formal documented evaluation of the non-executive Directors, on an annual basis.

Following the completion by all non-executive Directors of a questionnaire, and with the benefit of feedback from other Directors and the Chief Risk Officer the Chairman reviews the performance of each non-executive Director individually. In addition, each Committee reviews its own performance, and the outcome is fed back, which then forms part of the process for evaluating the effectiveness of each of those Committees. The Chairman's performance is reviewed, in his absence, by the Board as a whole. Feedback is given to him by the Vice-Chairman. Ongoing training and development requirements for non-executive Directors are identified through relevant committee work plans and the performance evaluation process. All newly appointed non-executive Directors undertake a comprehensive, tailored induction programme. Executive

Directors are evaluated within the performance evaluation framework for employees generally and by the Remuneration Committee, with regard to their remuneration. In addition, during 2013 a Board effectiveness review was carried out facilitated by an external firm, Praesta Partners LLP and the recommendations were implemented during the year.

TERMS OF REFERENCE

Copies of the Terms of Reference for the Audit, Group Risk, Conduct Risk, Assets and Liabilities, Nomination, Remuneration, and Credit Committees are available on the Society's website, or on written request from the Society's Secretary. Where appropriate, they have been updated in light of FRC guidance.



Andrew J. Greenwood
Chief Risk Officer and Secretary
25 February 2014

Directors' Remuneration Report

For the year ended 31 December 2013

INTRODUCTION

This report covers the activities of the Remuneration Committee for the 12 month period to 31 December 2013. It sets out the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Society. Although the UK Corporate Governance Code does not apply to mutual organisations, the Society is voluntarily adopting a positive stance to providing transparent reporting. This report considers all 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 third EU Capital Requirements Directive.

This report is split into three main areas: the statement by the Chairman of the Remuneration Committee, the policy report and the annual report on remuneration. A summary will be sent to all members eligible to vote at the Annual General Meeting, who will have the opportunity to approve the Directors' Remuneration Policy through an ordinary resolution (non-binding). The 2012 Directors' Remuneration Report received a 90.5% positive vote (excluding abstentions) from voting members. The voting results can be viewed on the Society's website in the member zone.

STATEMENT BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE

In the Chief Executive's statement, the Society's continued strong performance in 2013 is noted. Total assets reached a record £11.2bn, profits grew to £64.2m, mortgage balances grew by 11% to £9.2bn and net savings balances also grew by 11% to £8.6bn. The focus for 2013 has been to continue developing the business and implementing the risk management strategy. We have maintained very strong customer and colleague satisfaction levels, whilst further strengthening our balance sheet and capital.

The payments to Executive Directors and the Society's senior managers were considered by the Remuneration Committee in the context of the Society's strong performance. In summary, the Chief Executive's basic pay increased by 2.5%. Other Executive Directors' pay and that of the Chairman increased on average by 2.8% compared with 3.0% on average for all other colleagues. The 2013 Executive Directors' bonus scheme has generated awards of between 60% and 62% of salary, reflecting between 80% and 83% of the total opportunity.

The Committee is very focused on ensuring the Remuneration Policy is set to attract and retain the highest calibre of senior management to ensure the Society's continued success. The Remuneration Policy, therefore, focuses on rewarding our most senior executives in line with the achievement of the goals in the annual business plan and our ten year vision, whilst continuing to provide value for money for our members.

Composition and Scope of the Remuneration Committee

The Remuneration Committee, under delegated authority from the Board, is responsible for setting the Society's Remuneration Policy and ensuring it is implemented and adhered to.

The Committee comprises solely Non-Executive Directors who have no personal financial interest in the recommendations. None of the Committee has any personal interest (other than as ordinary members), or conflicts of interest arising from cross directorships.

During the year, the Chairman of the Committee was Les Platts. The other members of the Committee were Bob Stott and David Fisher. Executive Directors, other members of senior management and the Chairman may be invited to attend meetings, as appropriate, but are not members of the Committee. Becky Hewitt, General Manager – People, acts as Secretary to the Committee.

The Committee's terms of reference were last reviewed in December 2013 and are available on the Society's website. It reports to the Board on the remuneration and terms of engagement of Executive Directors, Senior Management and Remuneration Code Staff (key managers in areas such as Compliance, Risk, Human Resources and Internal Audit), together with the fees for the Society's Chairman. 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 Remuneration Committee seeks the advice of independent, external consultants, as required. During the year, PricewaterhouseCoopers LLP was engaged, to assist the Society with the adoption of the Department for Business, Innovation and Skills' reporting requirements. This followed a selection process which involved the evaluation of potential providers against agreed criteria. Leading independent professional services firms were invited to submit details of their services in respect of the requirements. A shortlist of potential providers was selected and invited to deliver a presentation to management, following which the appointment was made. The scope of services was determined and a fixed fee agreed.

During the year, the Committee met four times and activities included:

- Reviewing the compliance of the Remuneration Policy Statement against the requirements of the FCA Remuneration Code.
- Agreeing pay and benefits for Executive Directors, senior managers and the Chairman, as well as overseeing remuneration matters across the whole organisation.
- Reviewing the outcome of performance in 2012 and the resulting level of incentive awards paid in 2013.
- Reviewing management's proposals on the structure of colleague incentive schemes for 2014.
- Consideration of the disclosure requirements for the Remuneration Report.

The next section sets out the Directors' Remuneration Policy, followed by the annual report on remuneration for 2013.



Les Platts
Chairman of the Remuneration Committee
25 February 2014

DIRECTORS' REMUNERATION POLICY

The Society's Remuneration Policy is designed to provide competitive remuneration packages that attract, reward and retain our leadership team, to enable the delivery of business objectives, to support the Society's strategy, whilst providing value for members.

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.

Components of Remuneration

The table below 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 remainder of the report provides all the supporting detail.

Element of Pay	Link to Strategy	Operation	Performance Measures	Minimum and Maximum Payable
Basic Pay	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. Basic salaries are based on assessments of individual performance and by comparison with roles carrying similar responsibilities, in organisations of a comparable size, complexity and diversity to the Society.	Increases based on personal performance.	The basic 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.	The 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 Chief Risk Officer and Chairman of the Group Risk Committee. Bonuses are non-pensionable.	The 75% maximum is split between: Corporate – 30% Personal – 30% Peer Group comparison – 15%. Corporate measures in 2013 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.

- Basic pay and total remuneration is set at a competitive level to attract and retain people of the required calibre.
- Our pay policies meet regulatory requirements and good Corporate Governance practice.

Vote

The Society intends to ensure that an advisory vote on the Remuneration Policy takes place annually, unless the approved policy remains unchanged, in which case it intends to propose a similar resolution at least every three years.

Directors' Remuneration Report *continued*

For the year ended 31 December 2013

Element of Pay	Link to Strategy	Operation	Performance Measures	Minimum and Maximum Payable
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: <ul style="list-style-type: none"> • 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.	100% of the deferred bonus awards are subject to performance adjustment.
Pension	Provides market competitive remuneration.	Based on membership of either the Society's defined benefit section or defined contribution section of the pension scheme. There is an option to receive a monthly salary supplement in lieu of pension contributions.	Not applicable.	A range of relevant employer contributions e.g. for age range greater than 53, up to 23% of basic pay. Salary supplement is in lieu of employer contributions.
Benefits	To align directors' total remuneration broadly with the market.	The principal benefits Executive Directors receive are: <ul style="list-style-type: none"> • life assurance • private medical insurance • long term health insurance. 	Not applicable.	Life assurance (up to 4 x basic salary). Annual private medical cover. Long term health insurance.

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. 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: <ol style="list-style-type: none"> 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. There is a material change in responsibility to the Non-Executive Director's role.
Annual Bonus Scheme	Not eligible.			
Pension	Not eligible.			

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. 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 FCA 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 Pay 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 basic salary.
Pension	The Executive Director will be able to participate in the defined contribution section of the pension scheme or to receive a salary supplement payment 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 FCA 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.

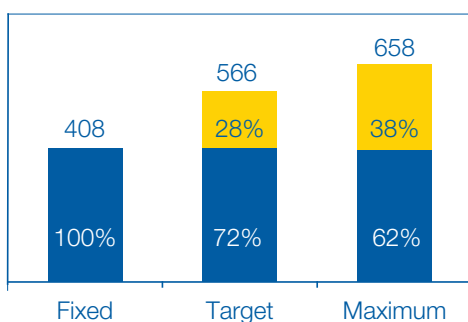
None of the Executive Directors currently hold any paid external directorships.

The Non-Executive Directors do not have service contracts with the Society.

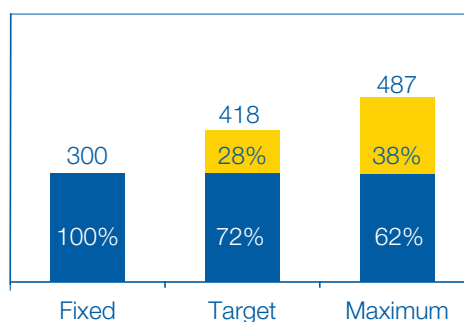
Awards under Different Scenarios

The charts below show the awards under the proposed arrangements for each Executive Director under different scenarios.

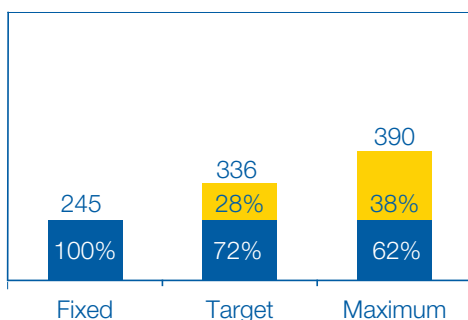
Chief Executive £'000s



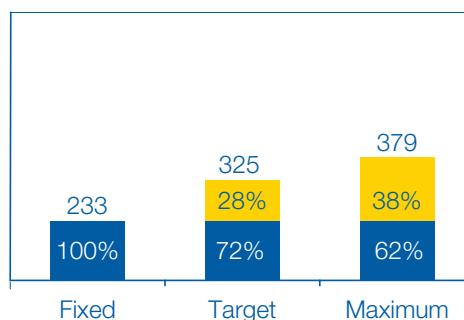
Finance Director £'000s



Sales and Marketing Director £'000s



Operations Director £'000s



■ Fixed ■ Annual Variable

Directors' Remuneration Report *continued*

For the year ended 31 December 2013

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

	Consists of basic salary and pension (£'000) Basic salary is as at 31 December 2013 Pension measured as 'pension' figure in the table on page 39			
	Executive Director	Basic Salary	Pension	Total Fixed
Fixed	Chief Executive	333	75	408
	Finance Director	249	51	300
	Sales and Marketing Director	195	50	245
	Operations Director	195	38	233
Target	Based on what a director would receive if the target level of performance was achieved. Annual variable element pays out at up to 63% 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 up to 100% of maximum available.			

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 Pay 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 general basic salary increase for the broader colleague population when determining the annual salary increases for the Executive Directors. For 2013, the average basic salary increase for the Executive Directors was 2.7%. Pay increases for the broader colleague group ranged from 0% -5%, with an average of 3.0%. Each year, the Remuneration Committee reviews how the arrangements for the Executive Directors compare to those reporting to the Executive.

Statement of Implementation of Policy in 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.

ANNUAL REPORT ON REMUNERATION

Total Remuneration Summary

The total remuneration received by Executive Directors for 2013 is detailed on the next page, compared with 2012. The total remuneration for Executive Directors equates to 2.75% of pre-tax profits. This information has been audited and shows remuneration for the years ended 31 December 2012 and 31 December 2013, 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	Peter Hill		Robin Litten		Kim Rebecchi		Karen Wint		Total Remuneration	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Salary	328	310	244	232	192	187	192	16 ⁽¹⁾	956	745 ⁽¹⁾
Annual Bonus ⁽²⁾	207	200	154	151	117	117	120	4 ⁽¹⁾	598	472
Pension	75 ⁽³⁾	71 ⁽³⁾	51 ⁽³⁾	46	50 ^{(3) (4)}	16	38	–	214	133
Other	–	–	–	50 ⁽⁵⁾	–	–	–	–	–	50
Total Remuneration⁽⁶⁾	610	581	449	479	359	320	350	20⁽¹⁾	1,768	1,400

Notes:

(1) Karen Wint appointed 1 December 2012.

(2) The annual bonus figure reflects payments made under all elements of the scheme.

(3) These directors elected to receive part of the Society's pension contribution as cash.

(4) This director ceased to be an active member on 31 October 2013 with an accrued pension of £95,328.

(5) This director received a payment to compensate lost earnings on leaving Skipton Building Society.

(6) No director received taxable benefits of £1,000 or above.

Non-Executive Directors

Non-Executive Directors	2013 Fees (£'000)	2012 Fees (£'000)
Robin Smith – (Chairman) resigned 26 March 2013	30	126
Robin Ashton – (Chairman) from 26 March 2013	109	43
Bob Stott – (Vice Chairman)	55	53
John Anderson – resigned 27 March 2012	–	9
Philippa Brown – appointed 15 January 2013	39	–
David Fisher – appointed 27 March 2012	40	30
Phil Jenks – appointed 27 March 2012	43	30
Carol Kavanagh – resigned 27 March 2012	–	9
Les Platts	44	43
Abhai Rajguru	44	43
Ian Robertson	47	45
TOTALS	451	431

The Chairman's annual fee was increased by 2.5% to £131,200. The Vice-Chairman's annual fee was increased by 2.5%, to £55,350, and the basic Non-Executive Director's annual fee was increased by 2.5% to £41,000.

Performance Outcomes against Targets for Incentive Awards

The 2013 scheme has generated awards of between 60% and 62% of salary for Executive Directors, reflecting between 80% and 83% 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) – both profit performance and mortgage lending growth were considered to be very strong performances versus our annual business plan. The Remuneration Committee viewed the strategic actions taken to develop the business from a customer proposition and product prospective and the improvement in the overall level of skills within the business to have met the ambitious objectives set for the business. There were also further enhancements to risk capability and management.
- Peer Group Assessment (max. 15% opportunity) – these are quantitative measures, which were selected as being those most closely aligned to our long term vision and objectively compared to published data from our peer

group, against which the Society has performed at the upper end of expectations.

Risk Adjustment

- The Chief Risk Officer (CRO) provides, following input from senior risk colleagues, a commentary on the Corporate Objectives, which is Red/Amber/Green (RAG) rated in light of the risk appetite statements, and any exceptional factors. Where the rating is not given as green, the CRO provides additional commentary to assist the Remuneration Committee.
- Following the initial assessment, for each period when deferred variable payment becomes due for payment, the relevant corporate objectives for that period will be 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 will be 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 *continued*

For the year ended 31 December 2013

Annual Incentive

For 2013, 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 2013 30% maximum				Personal 30% maximum	Peer 15% maximum	Award in 2013 (% of salary)
	Profit (2 x weight)	Growth	Risk	Developing the Business			
P A Hill	+	+	>	>	>	+	62.0%
R S P Litten	+	+	>	>	>	+	62.0%
K L Rebecchi	+	+	>	>	>	+	60.0%
K R Wint	+	+	>	>	>	+	61.5%

Pensions and Other Benefits

Peter Hill, Robin Litten and Karen Wint are members of the defined contribution section of the pension scheme, with employer contributions up to 23%. Peter Hill and Robin Litten have opted for a cash allowance in respect of any contributions which exceed £50,000 in the year.

Kim Rebecchi, in common with other employees who are members of the defined benefits section of the pension scheme, is entitled to a pension based on final pensionable salary and length of service. Benefits for Executive Directors who are members of the defined benefit section accrue at a rate of 1/45th of pensionable salary for each year of service, with a maximum pension of two thirds of final pensionable salary. Kim Rebecchi became a deferred member of the defined benefits pension scheme from 1 November 2013. From this date, Kim Rebecchi has opted to receive a cash allowance in lieu of employer pension contributions.

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 2013.

Directors' Loans, Transactions and Related Business Activity

The aggregate amount outstanding at 31 December 2013 in respect of loans from the Society or a subsidiary undertaking to directors of the Society or persons connected with directors was £254,200, being three mortgages to directors and persons connected to directors (2012: £321,100, 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.

Long-term Incentive Awards made in the Financial Year

No long-term awards were made in the financial year.

Payments to Past Directors

No such payments were made in the financial year.

Loss of Office Payments

No such payments were made in the financial year.

Percentage Change in Salary for CEO

The basic salary of the Chief Executive increased by 2.5% during 2013. This compares to an average increase of 2.8% in fixed pay awarded to Executive Directors and the roles reporting to the Executive Committee. The Remuneration Committee considers this group to be the most appropriate comparator, as they are the senior leadership team.

Relative Importance of Spend on Pay

The following table sets out the percentage change in profit, and overall spend on remuneration in the year ended 31 December 2013, compared to the year ended 31 December 2012.

	2013 £m	2012 £m	Percentage change
Profit after tax	49.0	41.2	18.9%
Colleague remuneration costs	25.6	23.4	9.4%
Headcount (number)	1,054	949	11.1%

Directors' Responsibilities

For the year ended 31 December 2013

DIRECTORS' RESPONSIBILITIES FOR PREPARING THE ANNUAL ACCOUNTS

The following statement, which should be read in conjunction with the statement of the Auditor's responsibilities on page 45, 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 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.

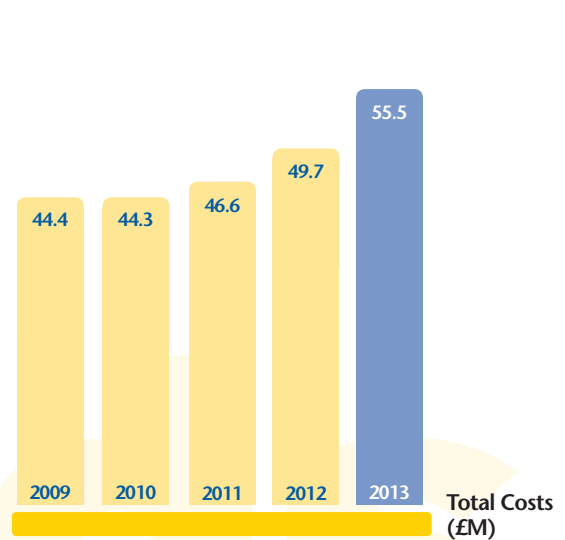
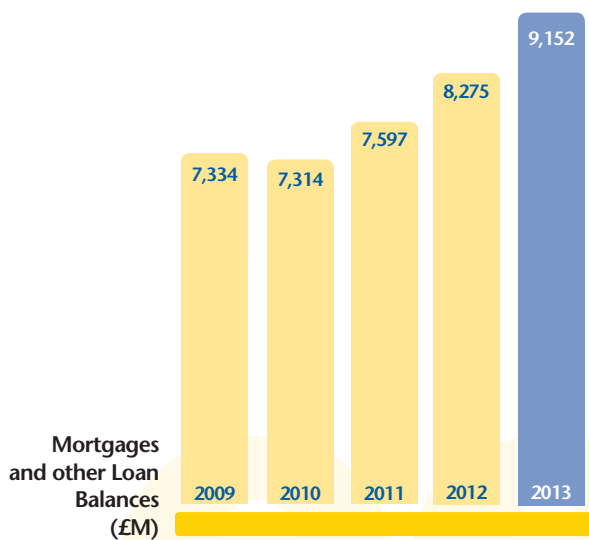
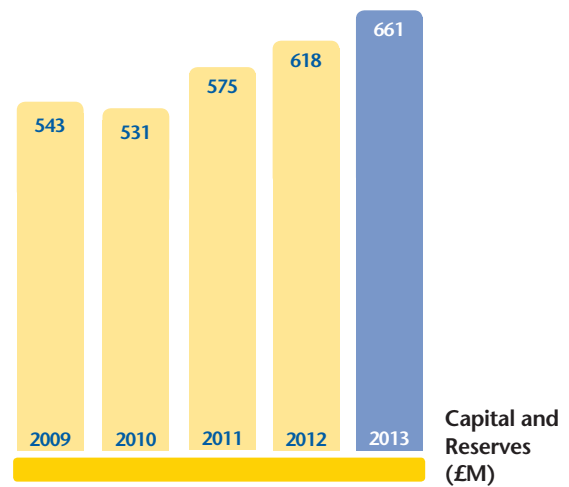
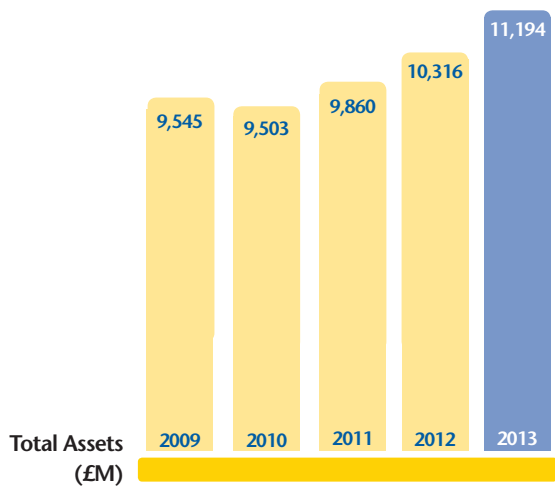
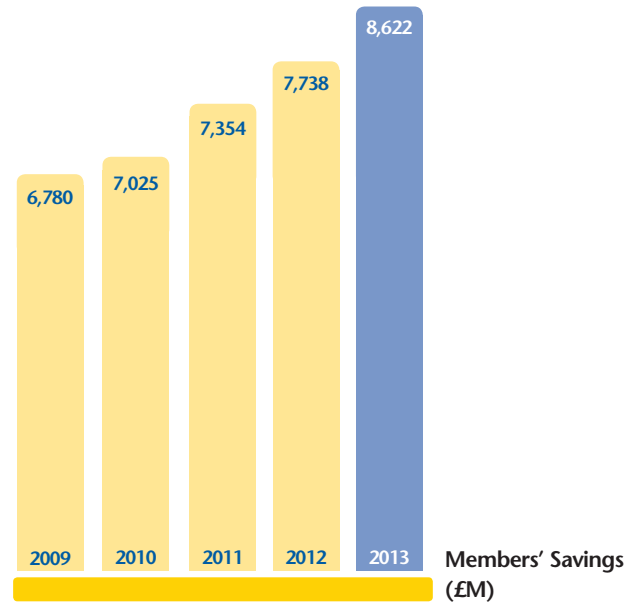
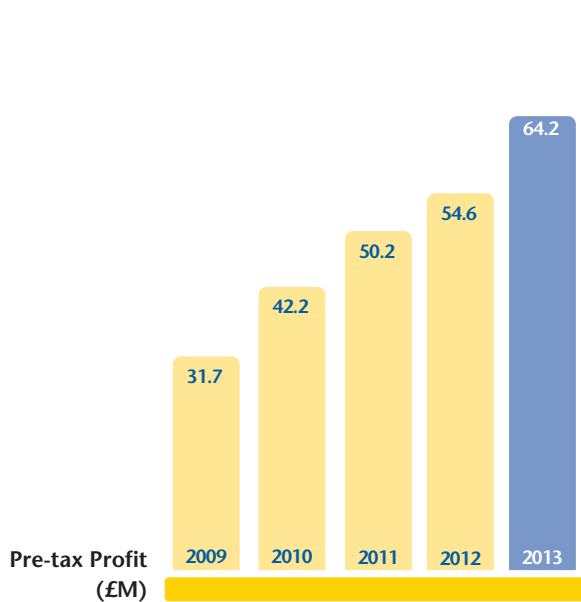


Robin Ashton
Chairman
25 February 2014

Five Year Review

For the year ended 31 December 2013

“... our sustainable business model places us in a very good position to grow and prosper.”



Independent Auditor's Report

For the year ended 31 December 2013

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 2013 and of the Group's and the Society's income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise Group and Society Income Statements, Group and Society Statements of Comprehensive Income, Group and Society Statements of Financial Position, Group and Society Statements of Changes in Members' Interest, Group and Society Statements of Cash Flows, and the related notes 1 to 35. 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' statement contained on page 26 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 calculation of impairment provisions against residential and commercial customer loans is a judgemental process, requiring the estimation of probabilities of default, loss given default, and the impact of macro economic factors such as house price volatility, interest rate expectations, and unemployment rates.	We challenged the appropriateness of Management's assumptions in relation to residential and commercial impairment provisions by benchmarking these to external data and backtesting against historical experience, assessing the completeness and validity of impairment triggers identified, and evaluating the adequacy of property valuations used. We also tested the design and operating effectiveness of internal controls over the provisioning process, and performed independent procedures upon source data extracted from the Society's core lending system.
Completeness of regulatory provisions The measurement of the Financial Services Compensation Scheme ("FSCS") provision is dependent upon data extracted from the Society's core systems, and assumptions in relation to the Society's proportional share of industry protected deposits. Uncertainty exists as to whether additional levies will be raised to cover future capital shortfalls on the loans to HM Treasury and therefore the extent of any contingent liabilities.	We performed validation procedures to the Society's core systems to check the completeness and accuracy of data used to calculate the provision. In addition, we audited Management's calculation of the provision by reference to available external information, and considered the appropriateness of disclosure in the financial statements.

Independent Auditor's Report *continued*

For the year ended 31 December 2013

<p>Hedge accounting and derivative valuations</p> <p>The Society employs macro hedge accounting to manage interest rate risk, the application of which is complex.</p> <p>Furthermore, the valuation of certain derivative instruments requires significant judgement in the choice of inputs including quoted market prices, or other observable inputs such as interest rates and counterparty credit ratings.</p>	<p>We audited the population of hedge relationships on a sample basis by assessing and re-performing Management's hedge effectiveness testing.</p> <p>We also independently 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 and benchmarking to external data.</p>
<p>Revenue recognition</p> <p>The calculation of the 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.</p>	<p>We challenged Management's assumptions in relation to the calculation of the EIR by reference to historical data on behavioural lives, and by benchmarking against future economic forecasts.</p> <p>We also considered the treatment of directly attributable fees and charges arising on mortgages, and independently verified the data used to perform the calculation.</p>

The Audit Committee's consideration of these risks is set out on page 31.

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 £4.8 million, which is below 8% of reported profit on ordinary activities before income tax, and below 0.05% of total reserves and liabilities.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £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

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.

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

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

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

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

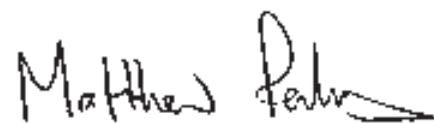
RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
Birmingham, United Kingdom
26 February 2014

Income Statements

For the year ended 31 December 2013

	Notes	Group 2013 £M	Group 2012 Restated £M	Society 2013 £M	Society 2012 Restated £M
Interest receivable and similar income	3	384.0	360.7	375.4	360.7
Interest payable and similar charges	4	(220.8)	(227.5)	(212.4)	(227.5)
Net interest receivable		163.2	133.2	163.0	133.2
Fees and commissions receivable	5	14.6	16.1	14.5	11.7
Fees and commissions payable	5	(0.5)	(0.2)	(0.1)	(0.1)
Fair value gains less losses from derivative financial instruments	6	(0.9)	0.7	(2.9)	(4.5)
Income from shares in subsidiary undertakings	16	–	–	7.6	–
Other operating income	7	0.9	1.1	0.4	0.1
Total income		177.3	150.9	182.5	140.4
Administrative expenses	8	(54.2)	(48.9)	(53.5)	(45.8)
Depreciation	17	(1.3)	(0.8)	(1.3)	(0.8)
Operating profit before impairment losses and provisions		121.8	101.2	127.7	93.8
Impairment losses on loans and advances to customers	10	(47.9)	(41.9)	(47.9)	(41.9)
Provisions for liabilities and charges:					
Other	25, 26	(1.9)	(0.6)	(2.4)	(0.6)
FSCS levy	26	(5.7)	(3.0)	(5.7)	(3.0)
Impairment loss on land and buildings	17	(0.8)	–	(0.8)	–
Investment property fair value movement	18	(1.3)	(1.1)	–	–
Operating profit and profit on ordinary activities before tax		64.2	54.6	70.9	48.3
Tax expense	11	(15.2)	(13.4)	(14.4)	(11.4)
Profit for the financial year		49.0	41.2	56.5	36.9

The prior year comparatives have been restated. See note 1 for details.

All amounts relate to continuing operations.

The notes on pages 51 to 97 are an integral part of these consolidated financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2013

	Notes	Group 2013 £M	Group 2012 Restated £M	Society 2013 £M	Society 2012 Restated £M
Profit for the financial year		49.0	41.2	56.5	36.9
Items which may subsequently be reclassified to profit and loss					
Available for sale investment securities					
Fair value changes taken to reserves		(9.5)	4.6	(9.5)	4.6
Amortisation/disposals post 1 July 2008		1.2	3.3	1.2	3.3
Cash flow hedges		3.5	(3.5)	3.5	(3.5)
Property revaluation		(0.9)	–	(0.9)	–
Tax relating to items which may subsequently be reclassified	33	1.6	(1.1)	1.3	(1.1)
Items which may not subsequently be reclassified to profit and loss					
Actuarial loss on retirement benefit obligations		(2.3)	(1.6)	(2.3)	(1.6)
Tax relating to items which may not be reclassified	33	0.2	0.3	0.2	0.3
Total other comprehensive income net of tax	33	(6.2)	2.0	(6.5)	2.0
Total comprehensive income for the year		42.8	43.2	50.0	38.9

The prior year comparatives have been restated. See note 1 for details.

As permitted by the amendment to IAS 39 issued by the International Accounting Standards Board in October 2008, the Society reclassified, on 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 available-for-sale reserve at 1 July 2008 is released to profit and loss as part of the effective interest rate based on the maturity profile of the underlying instruments. Further details are provided in note 15.

Statements of Financial Position

As at 31 December 2013

	Notes	Group 2013 £M	Group 2012 Restated £M	Group 2011 Restated £M	Society 2013 £M	Society 2012 Restated £M	Society 2011 Restated £M
Assets							
Cash in hand and balances with the Bank of England	12	884.6	663.1	186.9	884.6	663.1	186.9
Loans and advances to credit institutions		127.6	117.0	79.7	44.8	58.4	59.6
Derivative financial instruments	13	99.5	118.9	139.5	78.8	72.4	109.7
Loans and advances to customers	14						
Loans fully secured on residential property		8,607.2	7,645.3	6,906.1	8,607.2	7,645.2	6,905.9
Other loans		544.7	630.0	690.6	544.7	629.9	690.6
Investment securities	15						
Available for sale		711.9	847.4	1,475.1	711.9	847.4	1,475.1
Loans and receivables		96.0	121.2	238.1	96.0	121.2	238.1
Investments in subsidiary undertakings	16	–	–	–	111.4	107.6	28.5
Property, plant and equipment	17	28.4	28.5	27.5	28.3	28.4	27.5
Investment properties	18	4.4	5.7	6.8	–	–	–
Deferred income tax assets	19	2.0	3.0	2.3	1.4	2.3	1.5
Other assets, prepayments and accrued income	20	87.9	135.8	107.1	121.8	157.5	105.1
Total Assets		11,194.2	10,315.9	9,859.7	11,230.9	10,333.4	9,828.5
Liabilities							
Shares	21	8,622.0	7,738.3	7,354.2	8,622.0	7,738.3	7,354.2
Derivative financial instruments	13	100.2	148.5	146.7	97.8	146.1	144.0
Amounts owed to credit institutions	22	177.6	433.1	355.6	177.6	433.1	355.6
Amounts owed to other customers	23	394.0	351.3	508.3	507.5	471.5	534.9
Debt securities in issue	24	1,131.9	937.0	815.7	1,119.4	894.4	787.3
Current income tax liabilities		8.5	7.6	7.1	7.7	7.1	5.4
Deferred income tax liabilities	19	3.0	4.0	2.1	0.7	2.3	2.0
Other liabilities and accruals	25	88.5	72.0	91.3	31.6	26.0	71.7
Provision for liabilities and charges	26	4.6	3.9	3.2	4.6	3.5	2.7
Retirement benefit obligations	31	3.3	2.4	0.9	3.3	2.4	0.9
Subordinated liabilities	27	0.9	0.9	0.9	0.9	0.9	0.9
Subscribed capital	28	25.0	25.0	25.0	25.0	25.0	25.0
		10,559.5	9,724.0	9,311.0	10,598.1	9,750.6	9,284.6
Reserves							
Cash flow hedge reserve		–	(2.6)	–	–	(2.6)	–
Available for sale reserve		(4.1)	2.2	(3.7)	(4.1)	2.2	(3.7)
Revaluation reserve		12.4	13.2	13.2	12.4	13.2	13.2
Other reserve		14.3	14.3	14.3	14.1	14.1	14.1
General reserve		612.1	564.8	524.9	610.4	555.9	520.3
		634.7	591.9	548.7	632.8	582.8	543.9
Total Reserves and Liabilities		11,194.2	10,315.9	9,859.7	11,230.9	10,333.4	9,828.5
Memorandum items							
Commitments: Irrevocable undrawn loan facilities	30	–	–	–	–	–	–

The prior year comparatives have been restated. See note 1 for details.

These financial statements were approved by the Board of Directors on 25 February 2014.

Signed on behalf of the Board of Directors.



Robin Ashton
Chairman



Peter Hill
Chief Executive



Robin Litten
Finance Director

Statements of Changes in Members' Interest

For the year ended 31 December 2013

Group 2013	General Reserve	Cash Flow Hedge Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance 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
Balance at 31 December 2013	612.1	–	(4.1)	12.4	14.3	634.7

Group 2012 (Restated)	General Reserve	Cash Flow Hedge Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2012	524.9	–	(3.7)	13.2	14.3	548.7
Comprehensive income for the year	39.9	(2.6)	5.9	–	–	43.2
Balance at 31 December 2012	564.8	(2.6)	2.2	13.2	14.3	591.9

Society 2013	General Reserve	Cash Flow Hedge Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance 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
Balance at 31 December 2013	610.4	–	(4.1)	12.4	14.1	632.8

Society 2012 (Restated)	General Reserve	Cash Flow Hedge Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M	£M
Balance at 1 January 2012	520.3	–	(3.7)	13.2	14.1	543.9
Comprehensive income for the year	35.6	(2.6)	5.9	–	–	38.9
Balance at 31 December 2012	555.9	(2.6)	2.2	13.2	14.1	582.8

Statements of Cash Flows

For the year ended 31 December 2013

	Notes	Group 2013 £M	Group 2012 Restated £M	Society 2013 £M	Society 2012 Restated £M
Profit before tax		64.2	54.6	70.9	48.3
Adjustments for changes in:					
Impairment provision		(6.2)	(7.1)	(6.2)	(7.1)
Impairment of freehold property		0.8	–	0.8	–
Provisions for liabilities and charges		0.7	0.7	1.1	1.0
Depreciation and amortisation		1.3	0.8	1.3	0.8
Change in value of investment property		1.3	1.1	–	–
Interest on subscribed capital		3.3	3.3	3.3	3.3
Cash generated from operations		65.4	53.4	71.2	46.3
Changes in operating assets and liabilities:					
Loans and advances to customers		(870.4)	(671.5)	(870.6)	(671.5)
Derivative financial instruments		(26.3)	19.8	(52.1)	36.8
Loans and advances to credit institutions		4.6	1.0	1.8	3.7
Investment in subsidiaries		–	–	(3.8)	(79.1)
Other operating assets		47.9	(28.6)	35.7	(52.6)
Shares		883.7	384.1	883.7	384.1
Credit institutions and other customers		(212.8)	(79.5)	(219.5)	14.1
Debt securities		188.6	127.2	218.7	113.0
Other operating liabilities		15.6	(19.0)	4.7	(45.5)
Taxation paid		(14.1)	(11.9)	(14.6)	(10.2)
Net cash inflow from operating activities		82.2	(225.0)	55.2	(260.9)
Returns on investments and servicing of finance		4.7	(11.3)	4.7	(11.3)
Purchase of securities		(967.4)	(1,897.2)	(967.4)	(1,897.2)
Proceeds from sale and redemption of securities		1,120.1	2,649.8	1,120.1	2,649.8
Purchase of property and equipment		(2.9)	(1.8)	(2.9)	(1.7)
Proceeds from the sale of property and equipment		–	–	–	–
Net cash flows from investing activities		154.5	739.5	154.5	739.6
Net increase in cash and cash equivalents		236.7	514.5	209.7	478.7
Cash and cash equivalents at beginning of year		775.5	261.0	719.7	241.0
Cash and cash equivalents at the end of year	29	1,012.2	775.5	929.4	719.7

Notes to the Accounts

For the year ended 31 December 2013

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 Group, were adopted with effect from 1 January 2013:

IAS 1 – Presentation of Items of Other Comprehensive Income: This change requires the grouping of items presented in the statements of other comprehensive income on the basis of whether they will potentially be reclassifiable in the income statement in subsequent periods.

IAS 19 (Revised) – Employee Benefits: Updates the recognition, presentation and disclosures of retirement benefit plans. The most significant impact for the Group is the replacement of the expected return on plan assets and interest cost with a single measurement of net interest income (or expense) based on the net retirement benefit asset (or obligation).

IFRS 7 – Offsetting Disclosures: Minimal impact on disclosures to evaluate the impact of netting arrangements on assets and liabilities.

IFRS 13 – Fair Value Measurement: Replaces guidance on fair value measurement in existing IFRS accounting literature with a single standard. The impact has been to enhance the Society's disclosures.

IFRIC 21: The interpretation clarifies the accounting for Government imposed levies in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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 10 –	Consolidated Financial Statements
IFRS 11 –	Joint Arrangements
IFRS 12 –	Disclosure of Interests in Other Entities
IAS 27 (Revised) –	Separate Financial Statements
IAS 28 (Revised) –	Investments in Associates and Joint Ventures
IAS 32 –	Offsetting Financial Assets and Financial Liabilities

The adoption of IFRS 9, as currently in issue, would not be anticipated to have a material impact on the accounting of the Group although the International Accounting Standards Board ('IASB') has announced its intention to expand this Standard in such a way that would require changes to the valuation and income recognition methods relating to the Group's Loans to Customers, Borrowings and derivative assets and liabilities. In November 2013 the IASB announced that the implementation date was being removed from this Standard and that a new date would be announced when the whole project was closer to completion. The European Union has declined to consider the endorsement of IFRS 9 until a complete version is issued by the IASB. The Group has yet to conduct a full assessment of its potential impact, pending further information on the implementation date from the IASB and on endorsement from the European Union.

The Directors do not expect the other standards to have a material impact on the financial statements of the Society and Group.

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 17. 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.

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,

Notes to the Accounts *continued*

For the year ended 31 December 2013

1. Accounting Policies *continued*

mortgage arrangement and valuation fees and procurement fees are amortised over the expected life of the mortgage. Mortgage discounts are also amortised over the expected life of mortgage assets. As permitted by the amendment to IAS 39 issued by the International Accounting Standards Board in October 2008, the Society reclassified, on 1 July 2008, its mortgage backed securities and floating rate note assets from the available-for-sale category to the loans and receivables category. Since this date these have also been recorded at amortised cost using the effective interest rate method.

(b) At fair value through profit and loss

The Group uses derivative financial instruments to hedge its exposure to interest rate risk from operational, financing and investment activities. In accordance with its treasury policy the Group does not hold derivative instruments for trading purposes. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. The need for credit valuation adjustments is considered in the determination of the fair value of derivatives. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. 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.

(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.

As permitted by the amendment to IAS 39 issued by the International Accounting Standards Board in October 2008, the Society reclassified, on 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 available-for-sale reserve at 1 July 2008 is released to profit and loss as part of the effective interest rate based on the maturity profile of the underlying instruments.

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 including wholesale funds and subordinated liabilities held by the Group 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 balance sheet when substantially all of the risks and rewards of ownership remain within the Group, and the counterparty liability is included separately on the balance sheet as appropriate.

The difference between sale and repurchase price is accrued over the life of the agreement using the effective interest 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 and residential mortgage backed securities 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 risk and rewards which eliminate on consolidation. Financial liabilities are only derecognised when the obligation is discharged, cancelled or has expired.

(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.

Notes to the Accounts *continued*

For the year ended 31 December 2013

1. Accounting Policies *continued*

(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.

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
Equipment	3 to 5 years

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

Notes to the Accounts *continued*

For the year ended 31 December 2013

1. Accounting Policies *continued*

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

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 on the profits for the period comprises current tax and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves.

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date and any adjustment to tax payable in respect of previous years.

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

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the year-end and exchange differences are dealt with in the Income Statement.

Restatement

The Group has adopted IFRIC 21, an interpretation on accounting for Government imposed levies. This interpretation clarifies the trigger date at which the Society's liability to the FSCS scheme should be recognised. The accounts have been restated to show the impact on comparative numbers. The extracts from the Income Statements and Statements of Financial Position are set out below:

	Group 2012 Restated	Group 2012 Originally disclosed	Society 2012 Restated	Society 2012 Originally disclosed
	£M	£M	£M	£M
Income Statements:				
Provisions for liabilities and charges: FSCS levy	3.0	5.2	3.0	5.2
Tax expense	13.4	13.0	11.4	11.0
Statements of Financial Position:				
Provision for liabilities and charges	3.9	9.1	3.5	8.7
Deferred income tax liabilities	4.0	2.8	2.3	1.1
General Reserve	564.8	560.8	555.9	551.9

Notes to the Accounts *continued*

For the year ended 31 December 2013

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, and to determine whether an impairment loss should be recorded in the Income Statement. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before such decrease in an individual loan can be indentified. 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 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 £1.9m. If commercial property prices reduced by 5%, the total commercial impairment provision required would increase by £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 100 basis point downward parallel shift in interest rates would reduce the fair value of instruments held by £0.4m.

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 £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 £0.5m increase in the Group's interest income.

Financial Services Compensation Scheme (FSCS)

The Society has a provision for a levy of £2.9m (2012 Restated: £2.9m) covering the period from March 2013 to March 2014. The amount has been determined by reference to the expected 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.

Notes to the Accounts *continued*

For the year ended 31 December 2013

3. Interest Receivable and Similar Income

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
On loans fully secured on residential property	385.0	357.0	385.1	357.0
On other loans	26.6	30.3	26.6	30.3
On debt securities				
Interest and other income	14.1	13.4	16.3	17.3
On other liquid assets				
Interest and other income	4.8	4.3	4.8	4.3
Net expense on financial instruments	(46.5)	(44.3)	(57.4)	(48.2)
Total interest income	384.0	360.7	375.4	360.7
Interest received on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	18.3	17.7	9.5	17.7
From instruments not held at fair value through profit and loss	365.7	343.0	365.9	343.0
Total interest income	384.0	360.7	375.4	360.7

Included within interest receivable and similar income is interest accrued on impaired financial assets of £5.9m (2012: £7.8m).

4. Interest Payable and Similar Charges

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
On shares held by individuals	191.8	198.6	191.8	198.6
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	47.2	42.5	38.8	42.5
Net income on financial instruments	(21.6)	(17.0)	(21.6)	(17.0)
Total interest expense	220.8	227.5	212.4	227.5
Interest expense on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	(21.6)	(17.0)	(21.5)	(17.0)
From instruments not held at fair value through profit and loss	242.4	244.5	233.9	244.5
Total interest expense	220.8	227.5	212.4	227.5

Notes to the Accounts *continued*

For the year ended 31 December 2013

5. Fees and Commissions Receivable and Payable

Included within the fees and commissions receivable and payable are the following amounts from instruments held and not held at fair value through profit and loss.

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Fees and commission receivable – at fair value	0.4	1.0	0.4	–
Fees and commission receivable	14.2	15.1	14.1	11.7
Fees and commission payable	(0.5)	(0.2)	(0.1)	(0.1)
	14.1	15.9	14.4	11.6

6. Fair Value Gains Less Losses from Derivative Financial Instruments

The fair value accounting volatility loss of £0.9m (2012: £0.7m gain) represents the net fair value loss 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 gain or loss is primarily due to timing differences in income recognition between the derivative instruments and the hedged assets and liabilities. This gain or loss will trend to zero over time and this is taken into account by the Board when considering the Group's underlying performance.

The profit for the year is after crediting/(charging) the following gains and losses:

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Change in fair value of financial assets designated at fair value through profit and loss	(10.9)	4.2	(10.9)	4.2
Change in fair value of financial liabilities designated at fair value through profit and loss	10.5	(5.6)	7.7	(5.3)
Change in value of derivatives in designated fair value hedge accounting relationships	12.8	(9.2)	43.3	(29.8)
Adjustment to hedged items in designated fair value hedge accounting relationships	(11.4)	11.2	(41.3)	25.4
Derivatives in designated cash flow hedge accounting relationships	1.3	(3.7)	1.3	(3.7)
Adjustments to hedged items in cash flow hedge accounting relationships	(3.4)	3.5	(3.4)	3.5
Cross currency swap	0.2	0.3	0.4	1.2
	(0.9)	0.7	(2.9)	(4.5)

The net position on the cross currency swap is composed of a fair value loss on a cross currency swap of £1.0m (2012: £13.2m loss) and an exchange gain of £1.2m (2012: £13.5m 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.

7. Other Operating Income

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Rent receivable	0.9	1.4	0.4	0.4
Pension fund (expense)/income	–	(0.2)	–	(0.2)
Net loss on exchange rate movements	–	(0.1)	–	(0.1)
	0.9	1.1	0.4	0.1

Notes to the Accounts *continued*

For the year ended 31 December 2013

8. Administrative Expenses

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Staff costs				
Wages and salaries	25.6	23.4	25.3	21.7
Social Security costs	2.3	2.3	2.3	2.1
Other pension costs	3.9	3.7	3.9	3.5
Remuneration of auditor (see below)	0.5	0.4	0.5	0.4
Other administrative expenses	21.9	19.1	21.5	18.1
	54.2	48.9	53.5	45.8

There are 37 directors, senior managers and 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 (2012: 31 individuals £3.5m and £0.9m).

The analysis of auditor's remuneration is as follows:

	Group & Society 2013 £000	Group & Society 2012 £000
Fees payable to the Society's auditor for the audit of the Society's annual accounts	111	111
Fees payable to the Society's auditor for the audit of the Society's subsidiaries pursuant to legislation	32	22
Total audit fees	143	133
Other services:		
Tax services	18	44
Further assurance services	128	84
Corporate finance services	85	–
Other services	103	127
Total non-audit fees	334	255
Fees payable to the Society's auditor and its associates in respect of associated pension schemes	6	6

The above figures, relating to Auditor's remuneration, exclude Value Added Tax. Fees payable to Deloitte LLP and their associates for non-audit services to the Society are not required to be separately disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

9. Staff Numbers

	Group 2013 No	Group 2012 No	Society 2013 No	Society 2012 No
The average number of persons employed during the year was as follows:				
Head office	635	546	635	546
Branch offices	361	400	361	370
	996	946	996	916

Note: The Directors' remuneration is shown in the Remuneration Report on pages 34 to 40.

Notes to the Accounts *continued*

For the year ended 31 December 2013

10. Impairment Losses on Loans and Advances to Customers

Group and 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 *continued*

For the year ended 31 December 2013

11. Tax Expense

	Group 2013	Group 2012 Restated	Society 2013	Society 2012 Restated
	£M	£M	£M	£M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits for the year	15.9	11.5	15.8	10.9
Adjustments in respect of previous years	(0.1)	(0.2)	(0.2)	(0.1)
Total current tax	15.8	11.3	15.6	10.8
Deferred tax				
Origination and reversal of timing differences	(0.6)	2.0	(1.1)	0.5
Adjustments in respect of previous years	–	0.1	(0.1)	0.1
Total deferred tax	(0.6)	2.1	(1.2)	0.6
Tax on profit on ordinary activities	15.2	13.4	14.4	11.4
Factors affecting current tax charge for the year:				
Profit (Restated) on ordinary activities before tax	64.2	54.6	70.9	48.3
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 23.25% (2012: 24.5%)	15.0	13.2	16.4	11.7
Effects of:				
Expenses not deductible for tax purposes	0.5	0.2	0.3	–
Adjustment in respect of prior years	(0.1)	(0.1)	(0.3)	–
Affects of rate change	(0.2)	0.1	(0.1)	–
Group relief surrendered	–	–	–	–
Income not taxable	–	–	(1.9)	(0.3)
	15.2	13.4	14.4	11.4

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date.

The Finance Act 2012, which was enacted in the financial year ended 31 December 2012, included provisions to reduce the rate of corporation tax to 24% with effect from 1 April 2012 and 23% with effect from 1 April 2013. 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 average standard rate of corporation tax applicable to the Group for the year ended 31 December 2013 was 23.25%, the rate for the year ending 31 December 2014 is expected to be 21.5%, 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.

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

	Group 2013	Group 2012	Society 2013	Society 2012
	£M	£M	£M	£M
Cash in hand	2.3	2.5	2.3	2.5
Balances with the Bank of England	882.3	660.6	882.3	660.6
Included in cash and cash equivalents (see note 29)	884.6	663.1	884.6	663.1

Balances with the Bank of England do not include mandatory reserve deposits of £15.8m (2012: £8.5m) 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 *continued*

For the year ended 31 December 2013

13. 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.

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	Sensitivity to falls in interest rates	Receive fixed interest rate 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	Sensitivity to falls in interest rates	Receive fixed interest rate 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 currencies	Sensitivity to changes in foreign exchange rates	Cross currency interest rate swaps and foreign exchange contracts (fair value hedge)

Hedge accounting

In certain circumstances the Group has taken advantage of the hedging rules set out in IAS 39 to designate derivatives as accounting hedges to reduce accounting volatility where hedge effectiveness is achieved. The Group's market risk policy and application of economic hedging is, however, materially unchanged. A fair value hedge is a hedge of the exposure in changes in fair value of a recognised asset, liability or unrecognised firm commitment, that is attributable to a particular risk that could have an impact on the Income Statement. As required by IAS 39, documentation is produced for each main class of fair value hedge.

A cash flow hedge is a hedge of the exposure to variability in cash flows that could affect profit and that is attributable to a particular risk associated with a recognised asset or liability. Documentation is produced in accordance with IAS 39. Derivative products which are combinations of more basic derivatives are used only in circumstances where the underlying position being hedged contains the same risk features. For example, the mortgages linked to US interest rates originated by the Group may be hedged with a single contract incorporating both the interest rate and foreign exchange risk involved. In such cases the derivative used will be designed to match exactly the risks of the underlying asset. Exposure to market risk on such contracts is therefore fully hedged. Other derivatives held for hedging are used for financial assets that are economically hedged but where it is not practical to apply hedge accounting.

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.

In 2013, the Group changed to using the Overnight Index Swap (OIS) rather than Libor to fair value both collateralised and non-collateralised positions.

Notes to the Accounts *continued*

For the year ended 31 December 2013

13. Derivative Financial Instruments *continued*

The Group utilises the following derivative instruments for hedging purposes:

	Group 2013			Group 2012		
	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
Derivatives designated as fair value hedges:						
Interest rate swaps	6,204.6	52.5	(53.3)	4,515.9	70.7	(85.1)
Derivatives designated as cash flow hedges:						
Interest rate swaps	141.0	–	(2.4)	143.5	–	(3.7)
Other derivatives held at fair value:						
Quanto swaps	50.8	–	(0.1)	55.0	–	(0.3)
Equity swaps	366.8	41.4	(38.9)	418.9	40.4	(51.3)
Cross currency swaps	352.0	4.4	(3.4)	354.8	6.5	(5.4)
Floating swaps	836.2	1.2	(2.1)	836.2	1.3	(2.7)
Total other derivatives held at fair value	1,605.8	47.0	(44.5)	1,664.9	48.2	(59.7)
Total derivative assets/(liabilities) held for hedging	7,951.4	99.5	(100.2)	6,324.3	118.9	(148.5)

	Society 2013			Society 2012		
	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
Derivatives designated as fair value hedges:						
Interest rate swaps	5,498.7	31.8	(54.1)	3,740.2	24.2	(87.0)
Derivatives designated as cash flow hedges:						
Interest rate swaps	141.0	–	(2.4)	143.5	–	(3.7)
Other derivatives held at fair value:						
Quanto swaps	50.8	–	(0.1)	55.0	–	(0.3)
Equity swaps	366.8	41.4	(38.9)	418.9	40.4	(51.3)
Cross currency swaps	268.8	4.4	(0.2)	273.6	6.5	(1.1)
Floating swaps	836.2	1.2	(2.1)	836.2	1.3	(2.7)
Total other derivatives held at fair value	1,522.6	47.0	(41.3)	1,583.7	48.2	(55.4)
Total derivative assets/(liabilities) held for hedging	7,162.3	78.8	(97.8)	5,467.4	72.4	(146.1)

Control of derivatives

Control of derivative activity undertaken by the Group is held by the Assets and Liabilities Committee ('ALCO'), a sub-committee of the Board of Directors. The minutes of the ALCO meetings are presented to the Board, which retains overall responsibility for monitoring Balance Sheet exposures. All limits over the use of derivatives are the responsibility of ALCO.

The Board has authorised the use of derivatives under Section 9A of the Building Societies Act 1986. Limits on the use of derivatives are provided for in the Board approved Policy on Financial Risk Management.

Notes to the Accounts *continued*

For the year ended 31 December 2013

14. Loans and Advances to Customers

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
(a) Loans and receivables				
Loans fully secured on residential property	8,577.4	7,557.7	8,577.4	7,557.5
Other loans				
Loans fully secured on land	359.9	438.5	359.9	438.5
Other loans	2.5	0.7	2.5	0.7
Fair value adjustment for hedge risk	15.8	74.4	15.8	74.4
	8,955.6	8,071.3	8,955.6	8,071.1
(b) At fair value through profit and loss				
Loans fully secured on residential property	52.0	57.6	52.0	57.6
Other loans	180.4	176.6	180.4	176.6
Fair value adjustment for hedge risk	38.4	50.5	38.4	50.5
	270.8	284.7	270.8	284.7
Less:				
Impairment losses (see note 10)	(74.5)	(80.7)	(74.5)	(80.7)
	9,151.9	8,275.3	9,151.9	8,275.1

The Society has a number of mortgage portfolios purchased from a third party. 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 loss on loans and advances which are designated as fair value through profit and loss was £12.2m (2012: £0.4m loss) for both the Group and Society.

Loans and advances to customers, for both the Group and Society, include £1.9bn (2012: £2.0bn) which have been transferred from the Society to its associated secured funding vehicles. This includes £1.6bn (2012: £1.6bn) to Leeds Building Society Covered Bonds LLP, which secures £0.8bn (2012: £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 £0.3bn is to Albion No. 2 plc, which secures £0.3bn (2012: £nil) 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. In December 2013 the Albion No. 1 plc securitisation was cancelled and the RMBS issued by the company were repaid. 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 funding vehicles all continue to be consolidated by the Group.

Notes to the Accounts *continued*

For the year ended 31 December 2013

15. Investment Securities

	Group & Society	
	2013 £M	2012 £M
Debt securities		
Listed	742.5	834.7
Unlisted	65.4	133.9
Total investment securities	807.9	968.6

Investment securities reduced by £8.0m in 2013 (2012: Increased 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 2013 (2012: nil).

The movement in investment securities is summarised as follows:

Group and Society

	Available for sale £M	Loans and receivables £M	Total £M
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 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 2013 was £96.0m (2012: £121.2m) and this compares with the market value of £94.7m (2012: £115.6m).

The fair value gain that would have been recorded directly in reserves if the assets had not been reclassified was £4.3m (2012: £14.3m gain). The Society intends to hold these instruments to maturity and expects to receive cash flows equivalent to the nominal value of the assets, which amounts to £101.0m (2012: £128.4m). The net loss, after deferred tax, of £4.1m (2012: £2.2m) 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% (2012: 0.8%). At 31 December 2013, £168.0m (2012: £465.4m) of investment securities were pledged as collateral under sale and repurchase agreements.

Notes to the Accounts *continued*

For the year ended 31 December 2013

16. Investments in Subsidiary Undertakings

	Society 2013 £M	Society 2012 £M
(a) Shares held in subsidiary undertakings		
Cost		
At 1 January 2013	19.6	19.6
At 31 December 2013	19.6	19.6
(b) Loans to subsidiary undertakings		
Cost		
At 1 January 2013	88.0	28.5
Additions	3.8	59.5
At 31 December 2013	91.8	88.0
Total investments in subsidiary undertakings	111.4	107.6

(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	Provision of Financial Services	Ordinary £1 shares	100%
Leeds Mortgage Funding Ltd	Provision of Mortgage Finance	Ordinary £1 shares	100%
Leeds Overseas (Isle of Man) Ltd	Provision of Mortgage Finance	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 1 PLC	Non-trading (previously provision of mortgage backed securities)	*	*
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 IFRS 10 – 'Consolidation – Special Purpose Entities'

The Society received £7.6m in dividends from Leeds Financial Services Ltd during 2013 (2012: nil).

Notes to the Accounts *continued*

For the year ended 31 December 2013

17. Property, Plant and Equipment

	Freehold premises £M	Long leasehold premises £M	Short leasehold premises £M	Office & computer equipment £M	Motor vehicles £M	Total £M
(a) Group						
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 Income Statement	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
At 31 December 2012	22.8	0.3	0.1	5.3	–	28.5
(b) Society						
Cost or valuation						
At 1 January 2013	23.1	0.3	1.4	26.3	–	51.1
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	29.2	–	53.1
Depreciation						
At 1 January 2013	0.3	–	1.3	21.1	–	22.7
Charged in year	–	–	–	1.3	–	1.3
Decrease in value taken to Income Statement	0.8	–	–	–	–	0.8
At 31 December 2013	1.1	–	1.3	22.4	–	24.8
Net book value						
At 31 December 2013	21.1	0.3	0.1	6.8	–	28.3
At 31 December 2012	22.8	0.3	0.1	5.2	–	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.

Notes to the Accounts *continued*

For the year ended 31 December 2013

17. Property, Plant and Equipment *continued*

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
(c) The amount of freehold and long leasehold premises (included above at valuation) determined according to the historical cost accounting convention is as follows:				
Freehold premises	9.7	9.7	9.7	9.7
Long leasehold premises	0.1	0.1	0.1	0.1
Net book value	9.8	9.8	9.8	9.8
(d) Land and buildings occupied by the Group and Society for its own activities				
Net book value	17.3	17.3	17.3	17.3

No equipment, fixtures and vehicles were held under finance leases (2012: £nil).

18. Investment Properties

	Group 2013 £M	Group 2012 £M
At 1 January 2013	5.7	6.8
Net fair value movement	(1.3)	(1.1)
At 31 December 2013	4.4	5.7

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 has been 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 has therefore been 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.

19. Deferred Income Tax

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Deferred tax				
At 1 January 2013	0.2	1.0	1.2	0.3
Amount recognised directly in equity	(0.6)	–	(0.5)	–
Income and expenditure movement during the year	(0.6)	(2.0)	–	(0.3)
At 31 December 2013	(1.0)	(1.0)	0.7	0.0

Notes to the Accounts *continued*

For the year ended 31 December 2013

19. Deferred Income Tax *continued*

	Group 2013 £M	Group 2012 Restated £M	Society 2013 £M	Society 2012 Restated £M
Deferred income tax liabilities				
Gain on revaluation	0.5	0.6	0.5	0.6
Excess of capital allowances over depreciation	0.1	0.2	–	0.1
Other temporary differences	2.4	3.2	0.2	1.6
	3.0	4.0	0.7	2.3

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Deferred income tax assets				
Pensions and other post retirement benefits	0.7	0.5	0.7	0.5
Cash flow hedges	–	0.8	–	0.8
Other provisions	1.3	1.7	0.7	1.0
	2.0	3.0	1.4	2.3

20. Other Assets, Prepayments and Accrued Income

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Other assets, prepayments and accrued income	87.9	135.8	121.8	157.5

Other assets include £79.2m (2012: £126.9m) owed by credit institutions on cash collateralisation of swaps.

21. Shares

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Held by individuals	8,579.1	7,680.5	8,579.1	7,680.5
Other shares	7.3	7.3	7.3	7.3
Fair value adjustment for hedge risk	35.6	50.5	35.6	50.5
	8,622.0	7,738.3	8,622.0	7,738.3

Shares have either variable or fixed interest rates.

Notes to the Accounts *continued*

For the year ended 31 December 2013

22. Amounts Owed to Credit Institutions

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Amounts owed to credit institutions	177.6	433.1	177.6	433.1

All amounts owed to credit institutions have fixed interest rates.

23. Amounts Owed to Other Customers

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Amounts owed to subsidiary undertakings	–	–	113.5	120.2
Other deposits	394.0	351.3	394.0	351.3
	394.0	351.3	507.5	471.5

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

24. Debt Securities in Issue

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Certificates of deposit	8.0	55.4	8.0	55.4
Floating rate notes	–	5.0	–	5.0
Covered bonds	849.0	876.6	836.5	834.0
Residential mortgage backed securities	274.9	–	274.9	–
	1,131.9	937.0	1,119.4	894.4

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.

25. Other Liabilities and Accruals

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Income tax	8.0	9.0	8.0	9.0
Accruals	12.8	11.3	12.5	10.8
Other creditors	67.7	51.7	11.1	6.2
	88.5	72.0	31.6	26.0

Included within other creditors is a liability for financial guarantee contracts of £3.6m (2012: £3.1m).

Other creditors includes £45.7m (2012: £37.3m) owed to credit institutions on cash collateralisation of swaps.

Notes to the Accounts *continued*

For the year ended 31 December 2013

26. Provisions for Liabilities and Charges

	FSCS levy Restated £M	Customer redress and other related provisions £M	Commission clawback £M	Total £M
Group				
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
Society				
At 1 January 2013	2.9	0.6	–	3.5
Inter-company transfer	–	–	0.4	0.4
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 2013/14 scheme year, which runs from March 2013 to March 2014, and is calculated with reference to the protected deposits held at 31 December 2012. The amount payable includes the Society's share of interest payable. Refer to note 30 for the Society's contingent liability in relation to the FSCS as at the balance sheet date.

Following the adoption of IFRIC 21 the FSCS levy accounting treatment has changed. Further details of the restatement are included in note 1.

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.

27. Subordinated Liabilities

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
Subordinated debt notes 2015	0.9	0.9	0.9	0.9

The subordinated debt has a fixed interest rate of 4.34% (2012: 4.34%) and a maturity date of 9 March 2015. The debt is subordinated to the claims of members and all other creditors.

28. Subscribed Capital

	Group 2013 £M	Group 2012 £M	Society 2013 £M	Society 2012 £M
13³/₈% permanent interest bearing shares	25.0	25.0	25.0	25.0

The subscribed capital, which is denominated in sterling, was issued for an indeterminate period and is only repayable in the event of the winding up of the Society.

Notes to the Accounts *continued*

For the year ended 31 December 2013

29. 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		Society	
	2013 £M	2012 £M	2013 £M	2012 £M
Cash in hand and balances with the Bank of England (note 12)	884.6	663.1	884.6	663.1
Loans and advances to credit institutions	127.6	112.4	44.8	56.6
	1,012.2	775.5	929.4	719.7

30. 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 2013, the FSCS has also invoiced institutions for the first 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. The FSCS has estimated levies due to 31 March 2014 and an accrual of £2.9m (2012 restated: £2.9m) is held for the Society's calculated liability to that date, with £2.6m of the 2013 charge having already been paid. The ultimate FSCS contribution as a result of the failures is uncertain. 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 2013 (2012: nil) contracted but not provided for.

Notes to the Accounts *continued*

For the year ended 31 December 2013

30. 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	
	2013 £M	2012 £M
Land and buildings		
Commitment expiring:		
Within one year	0.1	0.2
Between two and five years inclusive	0.8	0.4
After five years	0.5	0.9
	1.4	1.5
Other operating leases		
Commitment expiring:		
Within one year	2.2	0.8
More than five years	2.6	–
Commitments:		
Irrevocable undrawn loan facilities	–	–

31. Retirement Benefit Obligations

The Society operates both defined benefit and defined contribution schemes. In addition, the Society has, for two individuals in the UK, an employer funded retirement benefits scheme. The schemes have been accounted for under IAS 19 covering employee benefits. IAS 19 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.

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				
	2013	2012	2011	2010	2009
Rate of increase in salaries	5.15%	4.65%	4.80%	5.70%	5.80%
Rate of increase for pensions in payment*	3.20%	2.80%	3.00%	3.60%	3.69%
Rate of increase for deferred pensions*	3.40%	2.90%	3.05%	3.70%	3.80%
Discount rate	4.45%	4.50%	4.85%	5.55%	5.85%
Inflation assumption RPI	3.40%	2.90%	3.05%	3.70%	3.80%
Inflation assumption CPI	2.40%	2.20%	2.05%	3.20%	n/a

* in excess of any Guaranteed Minimum Pension (GMP) element.

The expected return on assets has been derived as the weighted average of the expected returns from each main asset class (i.e. equities and bonds).

The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by yields available), and the views of 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 were allowed for in line with medium cohort effect and a 0.5% underpin for members; however the directors have changed this allowance to a more

Notes to the Accounts *continued*

For the year ended 31 December 2013

31. Retirement Benefit Obligations *continued*

effective CMI 2011 projection with 1% long term trend. The table below shows the life expectancy assumptions used in the accounting assessments. Pensioner life expectancies are for a member currently aged 63 retiring now. Non-pensioner life expectancies are for a member retiring at age 63 currently aged 43.

	2013		2012		2011	
	Pensioner	Non-pensioner	Pensioner	Non-pensioner	Pensioner	Non-pensioner
Male	24	25	24	25	23	24
Female	26	28	26	28	25	27

The expected return on the assets has been derived as the weighted average of the expected returns from the main asset classes (i.e equities and bonds). The expected return for the asset class reflects a combination of historical performance analysis, the forward looking view of the financial markets (as suggested by yields available), and the views of the investment organisations.

Category of assets	Group & Society				
	2013	2012	2011	2010	2009
Equities	57.7%	53.0%	51.7%	53.7%	63.2%
Property	25.5%	4.8%	5.4%	5.5%	5.8%
Government bonds	19.5%	19.9%	21.3%	20.2%	20.1%
Corporate bonds	19.8%	21.8%	21.0%	19.9%	10.1%
Cash/other	0.8%	0.5%	0.6%	0.7%	0.8%

Reconciliation of funded statement	Group & Society				
	2013 £M	2012 £M	2011 £M	2010 £M	2009 £M
Present value of pension scheme's liabilities	(97.5)	(87.7)	(78.6)	(74.6)	(71.9)
Assets at fair value	94.2	85.3	77.7	73.9	68.9
Deficit	(3.3)	(2.4)	(0.9)	(0.7)	(3.0)

The amounts recognised in the Income Statements are as follows:

	Group & Society	
	2013 £M	2012 £M
Current service cost	1.9	2.1
Prior service cost	–	0.5
Interest cost	0.4	3.8
Expected return on plan assets	0.3	(3.6)
Total cost – defined benefit scheme	2.6	2.8

Note: Service cost is the Society's cost net of employee contributions and inclusive of interest to the reporting date.

Experience recognised in the Statements of Comprehensive Income (SOCl)

	Group & Society				
	2013 £M	2012 £M	2011 £M	2010 £M	2009 £M
Experience gain/(loss) on pension scheme liabilities	(7.9)	(5.3)	0.3	(2.3)	(7.2)
Percentage of scheme liabilities (%)	8.1%	6.0%	0.4%	3.1%	10.0%
Experience (loss)/gain on assets	5.6	3.7	(1.7)	3.2	6.1
Percentage of scheme assets (%)	5.9%	4.3%	2.2%	4.3%	8.9%
Total (losses)/gains recognised in SOCl during the year	(2.3)	(1.6)	(1.4)	0.9	(1.1)

Notes to the Accounts *continued*

For the year ended 31 December 2013

31. Retirement Benefit Obligations *continued*

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

	Group & Society	
	2013 £M	2012 £M
At 1 January 2013	87.7	78.6
Current service cost	1.9	2.1
Interest cost	3.9	3.8
Prior service cost	–	0.5
Actuarial loss	7.9	5.3
Benefits paid	(3.9)	(2.6)
At 31 December 2013	97.5	87.7

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

	Group & Society	
	2013 £M	2012 £M
At 1 January 2013	85.3	77.7
Expected return	3.5	3.6
Actuarial gain	5.6	3.7
Contribution by employer	4.0	2.9
Employee contributions	(0.3)	–
Benefits paid	(3.9)	(2.6)
At 31 December 2013	94.2	85.3

The cumulative amount of actuarial gains and losses recognised in the other comprehensive income statement since the date of transition to IFRSs is £2.4m (2012: £4.7m).

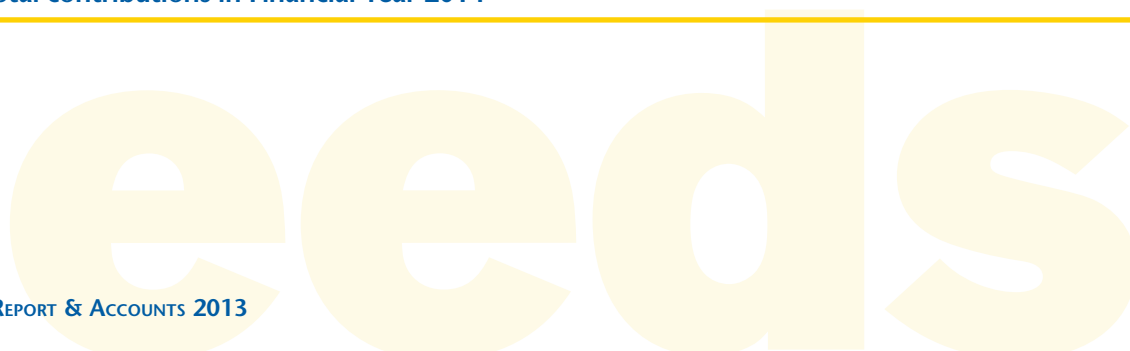
Sensitivity to change in key assumptions

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%	+5.3	+0.3
Increase real salary growth by 0.25%	+1.2	+0.1
Increase inflation assumption by 0.25%	+4.4	+0.3
Change long-term trend of increases in mortality improvement from 1% per annum to 1.25% per annum	+1.3	+0.1

Estimated contributions for 2014 financial year

	2014 £M
Estimated contributions in Financial Year 2014	2.5
Estimated employee contributions in Financial Year 2014	–
Estimated Total contributions in Financial Year 2014	2.5



Notes to the Accounts *continued*

For the year ended 31 December 2013

32. 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 16.

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	
	2013 £M	2012 £M	2013 £M	2012 £M
Loans payable to the Society				
Loans outstanding at 1 January 2013	88.0	8.9	0.2	0.3
Net movement during the year	3.7	79.1	–	(0.1)
Loans outstanding at 31 December 2013	91.7	88.0	0.2	0.2
Deposits payable by the Society				
Deposits outstanding at 1 January 2013	120.2	26.6	1.4	1.6
Net movement during the year	6.7	93.6	(0.3)	(0.2)
Deposits outstanding at 31 December 2013	126.9	120.2	1.1	1.4
Net interest income				
Interest receivable	–	–	–	–
Interest expense	–	–	–	–
			2013 £M	2012 £M
Directors' emoluments				
Total remuneration			2.2	1.8

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 (2012: one).

Three Directors are members of the defined contribution section of the Leeds Building Society Pension Scheme (2012: three).

Notes to the Accounts *continued*

For the year ended 31 December 2013

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

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)	0.2	(2.1)
Other comprehensive income	(10.6)	2.1	(8.5)

2012

Group & Society

	Before tax Amount £M	Tax benefit/ (expense) £M	Net of tax Amount £M
Available for sale investment securities	7.9	(2.0)	5.9
Actuarial losses on retirement benefit obligations	(1.6)	0.4	(1.2)
Other comprehensive income	6.3	(1.6)	(4.7)

34. Risk Management and Control

Significant Risks

As a result of its normal business activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, market risk, and liquidity risk.

The following table details the work of the main committees that have been established within the Group to manage these and other risks.

Committee	Status	Main responsibilities	Membership
Audit Committee	Group Board sub-committee	Approval of the Group's internal control policies. Monitor the integrity of the financial statements of the Group. Monitor and review the effectiveness of the Internal Audit function.	Non-executive Group Board Directors only. Executive Group Board Directors and other senior managers attend as required.
Assets and Liabilities Committee (ALCO)	Group Board sub-committee	Monitoring market and liquidity risk and recommending policy in these areas to the Board.	Non-executive Group Board Directors, Executive Group Board Directors and other senior managers.
Credit Committee	Group Board sub-committee	Formulation of policy pertaining to asset quality and credit risk for approval by the Board.	Non-executive Group Board Directors, Executive Group Board Directors and other senior managers.
Risk Committee	Group Board sub-committee	Establishing the risk appetite of the Group and assessing the impact of decisions upon capital. Approval of the Group's overall risk management framework. Approval of policy for management of operational risk.	Non-executive Group Board Directors, Executive Group Directors and other senior managers attend as required.
Conduct Risk Committee	Group Board sub-committee	Provide oversight of conduct risk across the business and ensure fairness principles are promoted across all the Society's operations.	Non-executive Group Board Directors, Executive Group Directors and other senior managers.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

Credit risk

Credit risk is the risk of financial loss when a customer or counterparty is not able to meet their obligations as they fall due.

The Group is exposed to this risk in respect of:

- a) retail lending (individual customers);
- b) commercial lending (businesses); and
- c) wholesale lending (other financial institutions)

a) Retail lending

General UK economic factors such as unemployment, problems in the housing market, and levels of household income impact credit risk within retail lending.

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.

b) Commercial lending

Credit risk associated with lending to businesses is affected by similar factors that affect retail mortgages, and on average, loans are generally larger than to individual customers. The Society ceased new commercial lending in 2008.

c) Wholesale lending

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 financial health of counterparties 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.

Experienced credit and risk functions operate within the Group, and are driven both by the recognised need to manage the potential and actual risks, 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 developed and put in place.

Comprehensive management information on movement and performance within the various personal and wholesale portfolios ensure that credit risk is effectively controlled, and any adverse trends are identified before they impact on performance. Group performance is also measured against the industry, where appropriate, to identify where debt default levels are out of line with that of the industry average. This management information is distributed widely across the Group and monitored within tight boundaries 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 table below shows the split of the Group's loans and advances. The Society's exposure to Euro denominated loans and advances is shown in note 35.

	Group 2013		Group 2012	
	£M	%	£M	%
Retail lending:				
Secured on residential property	8,629.3	94.1	7,615.0	92.5
Other loans	182.8	2.0	177.3	2.2
Commercial lending	359.9	3.9	438.5	5.3
Gross balances	9,172.0	100.0	8,230.8	100.0
Impairment provisions	(74.5)		(80.7)	
Fair value adjustment	54.4		125.2	
	9,151.9		8,275.3	

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

a) Retail lending

The majority of the Group's retail lending relates to loans secured on residential property; however, the Group also has some lifetime mortgages. 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.

The table below provides further information on the Group's loans and advances to customers by payment due status as at 31 December 2013. The balances exclude the fair value adjustment for hedge risk and impairment losses. The table includes £56.9m (2012: £30.3m) of loans and advances secured on residential property in Ireland that are past due and £2.2m (2012: £1.2m) in possession.

	Group & Society Residential		Group & Society Other ⁽¹⁾	
	2013 £M	2013 %	2013 £M	2013 %
Not impaired:				
– neither past due nor impaired	8,102.9	93.9	182.9	100.0
– Past due up to 3 months but not impaired	332.4	3.9	–	–
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	31.4	0.3	–	–
	8,629.4	100.0	182.9	100.0

Note:

¹⁾ Other loans include lifetime mortgages £180.4m (2012: £176m) and other loans £2.5m (2012: £0.7m).

	Group & Society Residential		Group & Society Other	
	2012 £M	2012 %	2012 £M	2012 %
Not impaired:				
– neither past due nor impaired	7,183.3	94.4	176.6	99.6
– Past due up to 3 months but not impaired	213.7	2.8	–	–
Impaired:				
– Past due 3 to 6 months	78.2	1.0	–	–
– Past due 6 to 12 months	59.2	0.8	–	–
– Past due over 12 months	47.4	0.6	0.7	0.4
– Possessions	33.5	0.4	–	–
	7,615.3	100.0	177.3	100.0

Loans in the analysis above which are less than three months past due have collective impairment provisions set aside to cover credit losses on loans which are in early stages of arrears.

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.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

Fair value of collateral held for residential loans:

	Group & Society Residential	
	2013 £M	2012 £M
Not individually impaired	8,374.2	7,335.2
Impaired	150.7	173.9
Possessions	19.2	28.2
	8,544.1	7,537.3

The collateral held consists of residential houses. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Upon initial recognition of loans and advances, the fair value of collateral is based on the sale price for the property.

In subsequent periods, the fair value is updated to reflect market price based on the quarterly Halifax house price index.

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

	Group & Society	
	2013 %	2012 %
Secured on residential property		
<70%	54.9	51.4
70% – 80%	24.4	19.1
80% – 90%	10.6	15.5
>90%	10.1	14.0
	100.0	100.0

The overall indexed loan-to-value of the residential portfolio is 50% (2012: 51%).

The overall indexed loan-to-value on the lifetime mortgage portfolio is 35% (2012: 36%). The collateral held amounts to £518m (2012: £497m).

Forbearance arrangements

2013	Payment Arrangements £M	Concessions £M	Capitalisations £M	Transfer to interest Only £M	Term Extensions £M	Other	Total Forbearance
– Neither past due or 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
Total	160.7	37.5	41.5	45.1	70.3	8.7	363.8

2012	Payment Arrangements £M	Concessions £M	Capitalisations £M	Transfer to interest only £M	Term extensions £M	Other £M	Total Forbearance £M
– Neither past due or impaired	70.6	18.8	46.7	66.2	60.6	9.3	272.2
– Past due up to 3 months	61.0	10.6	18.3	1.2	0.7	0.1	91.9
– Past due more than 3 months	58.8	9.3	6.1	0.5	–	–	74.7
– Possessions	2.7	0.6	0.1	0.1	–	–	3.5
Total	193.1	39.3	71.2	68.0	61.3	9.4	442.3

The tables above provide further information on the residential loans existing at the 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 *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

b) Commercial lending

The table below provides further information on the Group's commercial loans and advances by payment due status as at 31 December 2013. The balances exclude the fair value adjustment for hedge risk and impairment losses.

	Group & Society Commercial		Group & Society Commercial	
	2013 £M	2013 %	2012 £M	2012 %
Not impaired:				
– neither past due nor impaired	256.9	71.4	322.1	73.5
Impaired:				
– Not past due but impaired	79.6	22.1	60.0	13.6
– Past due up to 3 months	2.0	0.6	20.8	4.7
– Past due 3 to 6 months	–	–	–	–
– Past due 6 to 12 months	–	–	–	–
– Past due over 12 months	–	–	3.3	0.8
– Possessions	21.4	5.9	32.3	7.4
	359.9	100.0	438.5	100.0

No loans (2012: £nil) that would be past due or impaired have had their terms renegotiated during 2013.

Loans in the analysis above which are not impaired have collective impairment allowances set aside to cover credit losses.

Fair value of collateral held:

	Group & Society	
	2013 £M	2012 £M
Not individually impaired	240.6	346.6
Impaired	52.3	3.3
Possessions	17.2	29.2
	310.1	379.1

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 2013 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.

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

	Group & Society Commercial		Group & Society Commercial	
	2013 £M	2013 %	2012 £M	2012 %
Leisure and hotel	4.9	1.4	11.0	2.5
Retail	128.7	35.8	138.2	31.5
Offices	140.7	39.1	164.6	37.6
Commercial investment and industrial units	65.9	18.3	90.3	20.6
Miscellaneous	19.7	5.4	34.4	7.8
	359.9	100.0	438.5	100.0

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

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

	Group & Society	
	2013 %	2012 %
Secured on land		
<70%	9.0	5.3
70% – 80%	22.5	13.2
80% – 90%	11.8	17.5
>90%	56.7	64.0
	100.0	100.0

The overall indexed loan-to-value of the commercial portfolio is 98.6% (2012: 100.4%).

c) Wholesale lending

At 31 December 2013 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.

98.7% (2012: 95.9%) 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 rated A3 or above.

The table below provides ratings details for the Group's treasury investment portfolio as at 31 December 2013:

	Group & Society Commercial		Group & Society Commercial	
	2013 £M	2013 %	2012 £M	2012 %
Aaa	344.8	18.9	1,426.6	81.7
Aa1	1,237.4	68.1	21.6	1.2
Aa2	23.5	1.3	28.0	1.6
Aa3	31.6	1.7	21.8	1.2
A1	0.8	0.0	43.5	2.5
A2	110.4	6.1	110.7	6.3
A3	47.1	2.6	21.1	1.2
Baa1	3.8	0.2	29.0	1.7
Baa2	5.0	0.3	5.0	0.3
Baa3	–	–	–	–
Ba1	–	–	7.5	0.4
Ba2	1.7	0.1	1.7	0.1
Caa2	0.1	0.0	–	–
Unrated:				
UK Building Societies	11.8	0.6	21.6	1.2
Other	2.1	0.1	10.6	0.6
	1,820.1	100.0	1,748.7	100.0

The Society investment portfolio mirrors the Group except in its holdings of Aa3 rated investments where the value held is £16.8m (2012: £nil) and in its holdings of A2 rated investments where the value held is £61.7m (2012: £nil).

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

Geographical exposure:

	Group & Society 2013		Group & Society 2012	
	£M	%	£M	%
UK	1,599.5	87.9	1,559.3	89.1
Europe split into individual countries as follows:				
Germany	41.9	2.3	43.4	2.5
Ireland	0.2	0.0	0.2	0.0
Netherlands	26.6	1.5	31.7	1.8
Europe Other	67.9	3.7	72.0	4.1
North America	47.5	2.6	20.2	1.2
Australasia	6.5	0.4	6.7	0.4
Far East	30.0	1.6	15.2	0.9
Total	1,820.1	100.0	1,748.7	100.0

The Society's geographical exposure is equal to the Group's except it holds £1,515.4m (2012: £1,500.9m) in the UK. £0.2m (2012: £0.2m) of the exposures to Ireland relates to Mandatory Deposits held with the Central Bank of Ireland. The Group no longer holds any liquid assets in European countries affected significantly by the Eurozone crises.

The nature of the instrument determines the level of collateral held. Loans and debt securities are generally unsecured with the exception of asset back 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.

The Society's holdings in derivatives are set out over the page. Notional principal amount indicates the volume of business outstanding at the balance sheet date and does not represent amounts at risk. The replacement cost represents the cost of replacing contracts calculated at market rates current at the balance sheet date and reflects the Group's exposure should the counterparty default. No account is taken of offsetting positions with the same counterparty. All derivatives have been transacted with OECD financial institutions.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

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

	Group 2013			Group 2012		
	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	7,476.7	41.4	95.1	5,969.5	40.2	112.4
Cross currency swaps	474.7	8.3	4.4	354.8	2.5	6.5
	7,951.4	49.7	99.5	6,324.3	42.7	118.9
Under one year	1,818.0	–	17.0	1,109.7	0.9	11.9
Between one and five years	4,626.1	27.1	66.9	3,651.9	18.4	59.2
Over five years	1,507.3	22.6	15.6	1,562.7	23.4	47.8
	7,951.4	49.7	99.5	6,324.3	42.7	118.9

	Society 2013			Society 2012		
	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	6,687.6	33.0	74.4	5,198.5	31.4	65.9
Cross currency swaps	474.7	8.3	4.4	269.2	2.0	6.5
	7,162.3	41.3	78.8	5,467.7	33.4	72.4
Under one year	1,776.4	–	17.0	1,109.7	0.9	11.9
Between one and five years	4,334.4	25.5	58.1	3,295.3	16.6	59.1
Over five years	1,051.5	15.8	3.7	1,062.7	15.9	1.4
	7,162.3	41.3	78.8	5,467.7	33.4	72.4

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 nature of the Group's exposure to market risks or the manner in which it manages and measures the risk.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

a) 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 repricing profile of the Group's assets and liabilities as at 31 December 2013. 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 2013	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	No specific repricing 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
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	1,056.9	(219.1)	(156.8)	(82.2)	(37.3)	(25.0)	(538.4)	–

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

31 December 2012	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	No specific repricing date £M	Non interest bearing £M	Total £M
Assets								
Liquid assets	1,130.8	47.6	107.0	343.0	19.2	–	101.1	1,748.7
Loans fully secured on residential property and other loans	5,007.6	139.4	448.8	2,491.7	187.8	–	–	8,275.3
Property, plant and equipment	–	–	–	–	–	–	28.5	28.5
Investment properties	–	–	–	–	–	–	5.6	5.6
Other assets	–	–	–	–	–	–	257.8	257.8
Total assets	6,138.4	187.0	555.8	2,834.7	207.0	–	393.0	10,315.9
Liabilities								
Shares	4,706.7	516.1	598.8	1,780.8	29.0	–	106.9	7,738.3
Amounts owed to credit institutions, other customers and debt securities in issue	1,047.2	116.5	50.7	5.5	500.0	–	1.5	1,721.4
Other liabilities	–	–	–	–	–	–	238.4	238.4
Subordinated debt	–	–	–	0.9	–	–	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Reserves	–	–	–	–	–	–	591.9	591.9
Total liabilities	5,753.9	632.6	649.5	1,787.2	529.0	25.0	938.7	10,315.9
Effect of derivative items	370.4	(142.9)	437.5	(951.4)	286.4	–	–	–
Interest rate sensitivity gap	754.9	(588.5)	343.8	96.1	(35.6)	(25.0)	(545.7)	–

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 repricing profile is not materially different to the Group position.

The following table details the Group's and Society's sensitivity to a 100 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 & Society +100bps 2013 £M	Group & Society +100bps 2012 £M	Group & Society –100bps 2013 £M	Group & Society –100bps 2012 £M
Impact on equity reserves	6.5	8.8	(17.3)	(24.4)
Impact on profit and loss	12.3	5.7	(12.9)	(6.2)

Interest rate risk is managed on a Group basis. As such, the society will differ to the overall Group position as the sensitivity would generate offsetting movements in the subsidiaries.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

The above interest rate risk represents the market value movement, calculated using a discounted cashflow basis, on all of the Group's financial assets and liabilities, resulting from an immediate 100 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 100 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.

b) Foreign 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 issues Euro mortgages as well as receiving 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 liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2013 £M	2012 £M	2013 £M	2012 £M
Euro	536.9	523.4	536.9	523.4

At the year end the Group had 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.

c) Operational risk

Operational risk is defined by the Group as 'the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or external events'. Within the Group, operational risk is sub-categorised by type such as regulatory, theft or fraud, systems failure and people risk.

An independent operational risk function has the overall responsibility for establishing the framework within which operational risk is managed and for its consistent application across the Group. The framework is based on industry best practice and anticipated regulatory requirements. Day-to-day management of operational risk rests with line managers. It is managed through a combination of internal controls, processes and procedures and various risk mitigation techniques, including insurance and business continuity planning.

The Group monitors its operational risk through a variety of techniques. These include the Group Risk Committee being presented with an assessment of the extent of each of the Group's key operational risks.

In particular, the Group manages its regulatory risk through a compliance function that proactively identifies and deals with emerging and current regulatory risks.

d) Conduct risk

Conduct risk is a sub-set of operational risk and is considered to be the risk that actual or potential customer detriment arises or may arise from the way the Society conducts its business. The Society ensures independent assessment of conduct risk through a dedicated conduct oversight function and a Conduct Risk Committee which is a Board Sub-Committee.

e) 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.

Liquidity risk

Liquidity risk is the risk that the Society and Group will be unable to meet current and future financial commitments as they fall due. The Group's liquidity policy is to maintain sufficient liquid resources to cover cashflow 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, maintaining 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 obligations including the withdrawal of customer deposits, the drawdown of customer facilities and growth in the balance sheet. 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.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

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.

At the year end the Group had committed facilities of £nil (2012: £nil).

An analysis of the liquidity portfolio by instrument type is set out in the table below:

	Group & Society		Group & Society	
	2013 £M	2013 %	2012 £M	2012 %
Cash in hand and balances with the Bank of England	884.6	48.6	663.1	37.9
Deposits with Financial Institutions	127.5	7.0	116.4	6.7
UK Government Securities	296.7	16.3	407.2	23.3
Non-UK Government Securities	17.6	1.0	17.5	1.0
Certificates of deposit	65.4	3.6	133.9	7.7
Floating rate notes	13.6	0.8	–	–
Fixed rate bonds	200.7	11.0	177.2	10.1
UK RMBS	134.2	7.4	146.3	8.4
Covered bonds	78.1	4.3	84.8	4.8
Other	1.7	0.1	2.3	0.1
	1,820.1	100.0	1,748.7	100.0

The Society's liquidity portfolio is equal to the Group's except it has £81.0m (2012: £58.4m) of Deposits with Financial institutions. The Group's liquidity is invested with highly rated counterparties and in investment grade securities. The Group's holdings of listed securities comprise investment grade floating rate notes issued by financial institutions and highly rated UK residential mortgage backed securities. Of the mortgage backed securities held 65.9% (2012: 73.0%) are in AAA rated tranches with the remainder in AA or A rated tranches.

There has been no change in the manner in which the Group manages and measures liquidity risk.

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 13¾% payable semi-annually for an indeterminate period.

31 December 2013	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	Total £M
Liabilities						
Shares	6,124.6	330.2	628.5	1,533.0	124.0	8,740.3
Amounts owed to credit institutions, other customers and debt securities in issue	300.2	123.0	54.0	1,106.0	274.4	1,857.6
Subordinated debt	–	–	–	0.9	–	0.9
Other liabilities	208.1	–	–	–	–	208.1
Subscribed capital	–	–	–	–	25.0	25.0
Reserves	–	–	–	–	634.7	634.7
Total liabilities	6,632.9	453.2	682.5	2,639.9	1,058.1	11,466.6

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

31 December 2012	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	Total £M
Liabilities						
Shares	5,212.7	388.5	514.9	1,525.4	268.1	7,909.6
Amounts owed to credit institutions, other customers and debt securities in issue	477.4	670.5	102.4	362.7	310.9	1,923.9
Subordinated debt	–	–	–	0.9	–	0.9
Other liabilities	242.4	–	–	–	–	242.4
Subscribed capital	–	–	–	–	25.0	25.0
Reserves	–	–	–	–	587.9	587.9
Total liabilities	5,932.5	1,059.0	617.3	1,889.0	1,191.9	10,689.7

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.

	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
31 December 2013					
Swap contracts	4.2	11.5	13.4	38.9	13.2
31 December 2012					
Swap contracts	8.0	11.7	20.6	79.9	23.0

Value of financial instruments

The following tables summarise the carrying amounts and fair values of 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.



Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

		Group 2013		Society 2013	
		Carrying value £M	Fair value £M	Carrying value £M	Fair value £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 assets		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
Total Reserves		634.7	634.7	632.8	632.8
		11,194.2	11,358.5	11,230.9	11,436.2

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

		Group Restated 2012		Society Restated 2012	
		Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets					
Cash in hand and balances with the Bank of England		663.1	663.1	663.1	663.1
Loans and advances to credit institutions	i)	117.0	117.0	58.4	58.4
Derivative financial instruments	ii)	118.9	118.9	72.4	72.4
Loans and advances to customers					
Loans fully secured on residential property	iii)	7,645.4	7,837.9	7,645.2	7,837.7
Other loans		629.9	638.7	629.9	638.7
Investment Securities	iv)				
Available for sale		847.4	847.4	847.4	847.4
Loans and receivables		121.2	115.6	121.2	115.6
Investment in subsidiary undertakings	v)	–	–	107.6	107.6
Property, plant and equipment		28.5	28.5	28.4	28.4
Investment properties		5.6	5.6	–	–
Deferred income tax assets		3.0	3.0	2.3	2.3
Other assets, prepayments and accrued income		135.9	135.9	157.5	157.5
		10,315.9	10,511.6	10,333.4	10,529.1

Financial liabilities

Shares	iii)	7,738.3	7,835.1	7,738.3	7,835.1
Derivative financial instruments	ii)	148.5	148.5	146.1	146.1
Amounts owed to credit institutions	vi)	433.1	433.1	433.1	433.1
Amounts owed to other customers	iii)	351.3	351.3	471.5	471.5
Debt securities in issue	iv)	937.0	1,053.6	894.4	1,011.0
Current income tax liabilities		7.6	7.6	7.1	7.1
Deferred income tax liabilities		4.0	4.0	2.3	2.3
Other liabilities and accruals		66.8	66.8	20.8	20.8
Provisions for liabilities and charges		9.1	9.1	8.7	4.7
Retirement benefit obligations		2.4	2.4	2.4	2.4
Subordinated liabilities	vii)	0.9	0.9	0.9	0.9
Subscribed capital	vii)	25.0	25.0	25.0	25.0
Total Reserves		591.9	591.9	582.8	582.8
		10,315.9	10,529.3	10,333.4	10,542.8

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:

- 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.
- All derivatives are 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.
- 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 cashflow principles set out in IAS 39. This value is considered to be a good approximation of fair value.
- 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.
- The fair value of investments in subsidiary undertakings is assumed to approximate their carrying amounts.
- 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.
- The fair value of subordinated liabilities and subscribed capital are obtained from market prices.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

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 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	–	4,361.0	883.8	3,254.3	108.1	8,607.2
Other loans	–	347.4	19.6	100.1	77.6	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, accrued income and current tax	87.9	–	–	–	–	87.9
Total assets	1,007.3	4,916.8	986.3	3,937.5	346.3	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
Provision 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 *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

31 December 2012 (Restated)	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	663.1	–	–	–	–	663.1
Loans and advances to credit institutions	–	112.4	4.6	–	–	117.0
Derivative financial instruments	–	1.5	10.4	59.2	47.8	118.9
Loans and advances to customers						
Loans fully secured on residential property	5.6	7.4	35.9	389.9	7,206.6	7,645.4
Other loans	81.2	6.5	41.8	203.1	297.3	629.9
Investment securities	–	274.2	155.7	369.8	168.9	968.6
Property, plant and equipment	28.5	–	–	–	–	28.5
Investment properties	5.6	–	–	–	–	5.6
Deferred income tax assets	3.0	–	–	–	–	3.0
Other assets, prepayments, accrued income and current tax	135.9	–	–	–	–	135.9
Total assets	922.9	402.0	248.4	1,022.0	7,720.6	10,315.9

Liabilities

Shares	4,170.0	405.2	998.2	1,942.7	222.2	7,738.3
Derivative financial instruments	–	1.7	2.5	72.0	72.3	148.5
Amounts owed to credit institutions	–	30.8	258.8	143.5	–	433.1
Amounts owed to other customers	84.1	149.6	96.7	12.7	8.2	351.3
Debt securities in issue	–	23.1	31.6	336.7	545.6	937.0
Current income tax liabilities	7.6	–	–	–	–	7.6
Deferred income tax liabilities	4.0	–	–	–	–	4.0
Provision for liabilities, accruals and deferred income	75.9	–	–	–	–	75.9
Retirement benefit obligations	2.4	–	–	–	–	2.4
Subordinated liabilities	0.9	–	–	–	–	0.9
Subscribed capital	–	–	–	–	25.0	25.0
Cash flow hedge reserve	–	–	–	(2.6)	–	(2.6)
Available for sale reserve	2.2	–	–	–	–	2.2
Revaluation reserve	13.2	–	–	–	–	13.2
General and other reserves	579.1	–	–	–	–	579.1
Total reserves and liabilities	4,939.4	610.4	1,387.8	2,505.0	873.3	10,315.9

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

Categories of financial assets and liabilities

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
Assets								
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
Liabilities								
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	–	–	–	–	1,124.3	7.6	–	1,131.9
Subordinated liabilities	–	–	–	–	–	0.9	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Non financial liabilities	–	–	–	–	–	–	116.2	116.2
General and other reserves	–	–	–	–	–	–	626.4	626.4
Total reserves and liabilities	–	–	–	–	2,087.7	8,363.9	742.6	11,194.2

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

	Financial assets at fair value through Income Statement	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	Financial liabilities at fair value through Income Statement	Financial liabilities at amortised cost	Non financial assets/liabilities	Total
31 December 2012 (Restated)	£M	£M	£M	£M	£M	£M	£M	£M
Assets								
Financial assets:								
Cash and balances with the Bank of England	-	-	-	663.1	-	-	-	663.1
Loans and advances to credit institutions	-	-	-	117.0	-	-	-	117.0
Derivative financial instruments	118.9	-	-	-	-	-	-	118.9
Loans and advances to customers								
Loans fully secured on residential property	1,680.1	-	-	5,965.3	-	-	-	7,645.4
Other loans	220.6	-	-	409.3	-	-	-	629.9
Investment securities	-	847.4	-	121.2	-	-	-	968.6
Non financial assets	-	-	-	-	-	-	173.0	173.0
Total assets	2,019.6	847.4	-	7,275.9	-	-	173.0	10,315.9

Liabilities

Financial liabilities:

Shares	-	-	-	-	952.1	6,786.2	-	7,738.3
Derivative financial instruments	-	-	-	-	148.5	-	-	148.5
Amounts owed to credit institutions	-	-	-	-	-	433.1	-	433.1
Amounts owed to other customers	-	-	-	-	-	351.3	-	351.3
Debt securities in issue	-	-	-	-	876.6	60.4	-	937.0
Subordinated liabilities	-	-	-	-	-	0.9	-	0.9
Subscribed capital	-	-	-	-	-	25.0	-	25.0
Non financial liabilities	-	-	-	-	-	-	89.9	89.9
General and other reserves	-	-	-	-	-	-	591.9	591.9
Total reserves and liabilities	-	-	-	-	1,977.2	7,656.9	681.8	10,315.9

The financial assets designated as at fair value through profit and loss consist of mortgages which have been classified as such to avoid an accounting mismatch. As discussed in the accounting policies these are economically hedged but where it is not practical to apply hedge accounting. The maximum exposure to credit risk of these loans and receivables at 31 December 2013 was £179.7 (2012: £196.9m), which is equal to the carrying value commitments. Maximum credit risk exposure at 31 December 2013 approximates to the carrying value for all assets and loan commitments apart from loans and advances to customers where the carrying value is an increase of £15.8m (2012: increase of £74.4m) in respect of hedged interest rate risk. The Group's mortgage assets are secured on residential property. Due to the nature of the Society's business there is a lack of significant concentrations of credit risk and, hence, no credit derivatives or similar products are held to mitigate this risk. There is no material movement in the fair value of these assets in relation to credit risk.

Notes to the Accounts *continued*

For the year ended 31 December 2013

34. Risk Management and Control *continued*

For all financial liabilities designated as at 'fair value through profit and loss' there is no material difference between financial liabilities at fair value and the amount payable upon maturity. In addition, there is no material movement in the fair value of these liabilities in relation to credit risk.

In accordance with the security arrangements on derivative liabilities, cash assets to the value of £79.2m (2012: £127m), have been pledged as security. The holder of the security does not have the right to sell or re-pledge the assets.

Fair Value Measurement

The following table analyses the fair value measurement basis used for assets and liabilities held at the Balance Sheet date at fair value.

2013	Level 1 £M	Level 2 £M	Level 3 £M	Total £M
Group and Society				
Financial assets				
Investment securities – available for sale	314.3	397.6	–	711.9
Derivative financial instruments	–	99.5	–	99.5
Financial liabilities				
Derivative financial instruments	–	61.7	38.5	100.2
2012	Level 1	Level 2	Level 3	Total
Group and Society	£M	£M	£M	£M
Financial assets				
Investment securities – available for sale	293.3	554.2	–	847.5
Derivative financial instruments	–	119.2	–	119.2
Financial liabilities				
Derivative financial instruments	–	97.9	50.5	148.4

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 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 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 2013	50.5
Total losses in the Income Statement	(12.0)
Balance at 31 December 2013	38.5

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, £12.0m (2012: £0.3m 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 *continued*

For the year ended 31 December 2013

Recurring fair value measurements

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2013	2012				
1. Liquidity portfolio investment securities	Assets – £397.6m	Assets – £554.2m	Level 2	Quoted bid prices in an active marked sourced from third party data providers.	N/A	N/A
2. Interest rate swaps	Assets – £53.7m and Liabilities – £57.9	Assets – £72.5m and Liabilities – £96.2m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk exposure to the various counterparties.	N/A	N/A
3. Cross currency interest rate swaps	Assets – £4.4m and Liabilities £3.4m	Assets – £6.3m 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), contract interest rates and currency spot rates, discounted at a rate that reflects the credit risk exposure to the various counterparties.	N/A	N/A
4. Equity swaps	Assets – £41.4m and Liabilities – £0.4m	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 – £38.5m	Liabilities – £50.5m	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.

There have been no changes to the valuation techniques in the current year or movements of assets within the hierarchy of valuation.

Notes to the Accounts *continued*

For the year ended 31 December 2013

35. Operating Segments

Products and services from which reportable segments derive their revenues

The information reported to the Group's Board for the purposes of resources allocation and assessment of 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 2013 £M	Commercial Lending 2013 £M	Euro Lending 2013 £M	Total 2013 £M	Core Activities 2012 £M	Commercial Lending 2012 £M	Euro Lending 2012 £M	Total 2012 £M
Interest receivable and similar income	370.2	9.2	4.6	384.0	341.7	11.5	7.5	360.7
Interest payable and similar charges	(211.2)	(6.9)	(2.7)	(220.8)	(215.7)	(7.3)	(4.5)	(227.5)
Net interest receivable	159.0	2.3	1.9	163.2	126.0	4.2	3.0	133.2
Fees and commissions receivable	14.2	0.4	–	14.6	15.8	0.3	–	16.1
Fees and commissions payable	(0.5)	–	–	(0.5)	(0.2)	–	–	(0.2)
Fair value gains less losses from derivative financial instruments	1.3	(2.2)	–	(0.9)	(1.2)	1.7	0.2	0.7
Other operating income	0.9	–	–	0.9	1.1	–	–	1.1
Total income	174.9	0.5	1.9	177.3	141.5	6.2	3.2	150.9
Administrative expenses including depreciation	(54.8)	(0.3)	(0.4)	(55.5)	(49.3)	(0.3)	(0.1)	(49.7)
Impairment losses on loans and advances to customers	(10.3)	(35.7)	(1.9)	(47.9)	(18.6)	(25.1)	1.8	(41.9)
Provisions for liabilities and charges	(7.6)	–	–	(7.6)	(3.6)	–	–	(3.6)
Impairment losses on land and buildings	(0.8)	–	–	(0.8)	(1.1)	–	–	(1.1)
Investment property fair value movement	(1.3)	–	–	(1.3)	–	–	–	–
Operating profit and profit on ordinary activities before income tax	100.1	(35.5)	(0.4)	64.2	68.9	(19.2)	4.9	54.6
Income tax expense	(23.7)	8.4	(0.1)	(15.2)	(17.1)	4.9	(1.2)	(13.4)
Profit for the financial year	76.4	(27.1)	(0.3)	49.0	51.8	(14.3)	3.7	41.2

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 2013 £M	Commercial Lending 2013 £M	Euro Lending 2013 £M	Total 2013 £M	Core Activities 2012 £M	Commercial Lending 2012 £M	Euro Lending 2012 £M	Total 2012 £M
Loans and advances to customers	8,313.7	359.9	266.2	8,939.8	7,292.9	438.5	265.5	7,996.9
At fair value through profit and loss	232.4	–	–	232.4	284.7	–	–	284.7
Total	8,546.1	359.9	266.2	9,172.2	7,577.6	438.5	265.5	8,281.6
Less: Impairment provisions	(22.5)	(36.4)	(15.6)	(74.5)	(29.5)	(36.3)	(14.9)	(80.7)
Fair value adjustment for hedge risk	54.2	–	–	54.2	74.4	–	–	74.4
Total loans and advances to customers	8,577.8	323.5	250.6	9,151.9	7,662.5	402.2	250.6	8,275.3

Annual Business Statement

For the year ended 31 December 2013

1. Statutory Percentages

	31 December 2013	Statutory Limit
Lending limit	8.5%	25%
Funding limit	16.9%	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 owed by borrowers and accrued interest not yet payable. This is the amount shown in the Balance Sheet plus provisions for impairment.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

2. Other percentages

	31 December 2013	31 December 2012
As a percentage of shares and borrowings:		
Gross capital	6.44%	6.54%
Free capital	6.34%	6.43%
Liquid assets	17.63%	18.49%
Profit for the financial year as a percentage of mean total assets	0.46%	0.41%
Management expenses as a percentage of mean total assets	0.52%	0.49%

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; and
- 'Management expenses' represent the aggregate of administration expenses, depreciation and amortisation.

Annual Business Statement *continued*

For the year ended 31 December 2013

3. Information Relating to the Directors and Other Officers

Name	Occupation	Date of Birth	Date first appointed
Chairman			
R. J. Ashton (Chairman from 26 March 2013)	Company Director	19.01.58	26.04.11
R. A. Smith (resigned 26 March 2013)	Company Director	15.02.43	18.05.98
Vice Chairman			
R. W. Stott	Company Director	22.03.43	08.12.08
Chief Executive			
*P. A. Hill	Chief Executive	28.07.61	01.08.06
Directors			
L. M. Platts	Company Director	10.02.54	26.10.10
A. Rajguru	Company Director	14.09.65	02.04.08
*K. L. Rebecchi	Sales and Marketing Director	31.03.66	07.12.09
I. Robertson	Company Director	10.08.47	08.12.08
P. A. Brown	Company Director	31.03.66	15.01.13
P. A. Jenks	Company Director	03.01.51	27.03.12
D. Fisher	Company Director	02.08.58	27.03.12
*R. S. P. Litten	Finance Director	11.05.63	10.01.12
*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

(*Society Subsidiary)

R. J. Ashton	Shawbrook Bank Limited
P. A. Hill	None
P. A. Brown	PHD International Ltd Omnicom Media Group UK Ltd M2M International Ltd OMD International Ltd
D. Fisher	Leeds Building Society Staff Pension Scheme Ltd
P. A. Jenks	Phil Jenks Consultancy Ltd Broadlands Finance Ltd Charter Court Financial Services Group Ltd Charter Court Financial Services Ltd Charter Mortgages Ltd Exact Mortgage Experts Ltd

Annual Business Statement *continued*

For the year ended 31 December 2013

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*
L. M. Platts	A J Bell Holdings Ltd Lancashire County Cricket Club
A. Rajguru	Alexander Rosse Ltd Arcadium Capital Partners LLP Northampton College Pravara Capital LLP
K. L. Rebecchi	Headrow Commercial Property Services Ltd* Leeds Financial Services Ltd*
I. Robertson	Homes and Communities Agency for England
R. W. Stott	First Milk Ltd Leeds Building Society Staff Pension Scheme Ltd Frank Roberts & Sons Limited RFL (Governing Body) Limited The Greyhound Board of Great Britain Limited The Rugby Football League Limited Yorkshire County Cricket Club Charitable Youth Trust
K. R. Wint	None

Executive Management

Name	Occupation	Directorships (*Society Subsidiary)
A. J. Greenwood	Chief Risk Officer & Secretary	None
T. Clark	General Manager	None
G. M. Mitchell	General Manager	Countrywide Rentals 1, 2, 3, 4, 5 Ltd (Dormant)* 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*
M. J. Richardson	General Manager	Leeds Building Society Charitable Foundation Mercantile Asset Management Ltd*
P. Riley	General Manager	Leeds Building Society Staff Pension Scheme Ltd Leeds Building Society Covered Bond LLP
T. Tinkler	General Manager	None

Glossary of Terms

For the year ended 31 December 2013

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 II

The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the International Convergence of Capital Measurement and Capital Standards.

Basel III

Basel III is the third capital adequacy framework issued by the Basel Committee on Banking Supervision, which defines the capital and liquidity rules for Banks and building societies. The framework has been embedded into UK law through the European Capital Requirements Directive IV (CRD IV).

Basis point

One hundredth of a 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.

Glossary of Terms *continued*

For the year ended 31 December 2013

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.

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 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 stressed 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.

Glossary of Terms *continued*

For the year ended 31 December 2013

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 promoter score®

The net promoter score is a measure of customer loyalty to the Society.

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 observational 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.

Glossary of Terms *continued*

For the year ended 31 December 2013

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.

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 amount 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 proportion 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 FSA. 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.

Where to find us

Aberdeen

68 Carden Place, Aberdeen AB10 1UL
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Banbury

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Barkingside

84 High Street, Barkingside IG6 2DJ
Tel: 020 8550 7678

Barnsley

2 Peel Square, Barnsley S70 1YA
Tel: 01226 770773

Belfast

19–21 Cornmarket, Belfast BT1 4DB
Tel: 028 9024 2277

Birmingham

33–35 Corporation Street,
Birmingham B2 4LS
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Bradford BD1 1HJ
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12a The Bulwark, Brecon, Powys LD3 7AD
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30 High Street, Colchester CO1 1DB
Tel: 01206 563788

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8 St James Street, Derby DE1 1RL
Tel: 01332 344644

Dewsbury

17 Foundry Street, Dewsbury WF13 1QH
Tel: 01924 469206

Doncaster

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Glasgow

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Tel: 0141 331 4525

Gloucester

43 Northgate Street, Gloucester GL1 2AN
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Hallifax HX1 1BE
Tel: 01422 362359

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12 Oxford Street, Harrogate HG1 1PU
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Market Street, Huddersfield HD1 2ET
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Tel: 01539 724460

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Tel: 0113 225 8500

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Tel: 0113 225 8510

Beeston

665 Dewsbury Road, Beeston,
Leeds LS11 5LF
Tel: 0113 225 8520

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181a High Street, Boston Spa,
Wetherby LS23 6AA
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Chapel Allerton

3 Stainbeck Corner, Chapel Allerton,
Leeds LS7 3PG
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Crossgates

57 Station Road, Crossgates,
Leeds LS15 8DT
Tel: 0113 225 8560

Garforth

38 Main Street, Garforth LS25 1AA
Tel: 0113 286 3757

Harehills Road

13 Harehills Road, Leeds LS8 5HR
Tel: 0113 225 8610

Headingley

18 Armdale Centre, Otley Road,
Headingley, Leeds LS6 2UE
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23 Windsor Court, Morley LS27 9BG
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69 Street Lane, Roundhay, Leeds LS8 1AP
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Wetherby

2 Horsefair Centre, Wetherby LS22 6FL
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59 High Street, Yeadon LS19 7SP
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London (Kingsway)

41 Kingsway, London WC2B 6TP
Tel: 020 7240 2808

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47 Cross Street, Manchester M2 4JF
Tel: 0161 832 0346

North East Area Branches

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18 Church Street, Blyth NE24 1BG
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144 Front Street, Chester-le-Street
County Durham DH3 3AY
Tel: 0191 389 1794

Durham

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34 Bridge Street, Morpeth NE61 1NL
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142 Northumberland Street,
Newcastle NE1 7DQ
Tel: 0191 232 2801

North Shields

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NE29 0AH
Tel: 0191 296 0222

Silverlink

Mercantile House, Kingfisher Way, Silverlink
Business Park, Wallsend NE28 9NY
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South Shields

42 Fowler Street, South Shields NE33 1PG
Tel: 0191 427 1122

South Tyneside District Hospital

South Shields NE34 0PL
Tel: 0191 497 5336

Wallsend

64/66 High Street West, Wallsend
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104 Park View, Whitley Bay NE26 3QL
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26 School Road, Sale, Cheshire M33 7XF
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14 Pinstone Street, Sheffield S1 2HN
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16 Union Street, Swansea SA1 3EH
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Overseas Branches

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Ground Floor, 7 Upper Fitzwilliam Street
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For customers in Gibraltar and Spain
First Floor, Heritage House,
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Tel: (00350) 20050602

Or call our UK-based call centre, with calls answered personally by a member of staff, from 8am-8pm, seven days a week on **08450 505 065**

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

Or go online – whenever and wherever it suits you!
www.leedsbuildingsociety.co.uk

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