Interim Financial Report

30 June 2018

Leeds Building Society


2018: our performance so far
New residential mortgage lending of
£1.8bn
(H1 2017: £2.1bn)
We helped 20,172 people have the home they want.
We paid an average of
1.29%
to our savers compared to the rest of market average of 0.68%
An annual benefit to all our savers of over £75m
Record savings balances up 6% to
£13.9bn
We've helped 42,410 more people save for their future
Total assets up to
£19.5bn
(Dec 2017: £18.5bn)
Profit before tax of
£60.1m
(H1 2017: £63.2m)
Common Equity Tier 1 Capital is
14.7%
(Dec 2017: 14.5%)
Reserves available to protect us from future problems.
Customer satisfaction
91%
(2017: 91%)
We have an ongoing commitment to be customer focused in everything we do.
Leeds Building Society
Colleague engagement score up 1% to
81%
(2017: 80%)
We're committed to being a great place to work.

Chief Executive Officer's Review

I am pleased to report Leeds Building Society has delivered strong performance, financial strength and membership growth in the first half of 2018.

Total assets increased to £19.5 billion, up 13% since June 2017 (£17.3 billion, December 2017: £18.5 billion), reflecting lending growth and higher liquidity. Membership now stands at more than 809,000 (June 2017: 778,000, December 2017: 796,000), the highest in our history.

Highlights

- Helped over 20,000 more people have the home they want, including 5,800 first time buyers, with new residential mortgage lending of £1.8 billion (£2.1 billion to June 2017);
- Attracted over 42,000 new savers, increasing retail savings balances to £13.9 billion (June 2017: £12.5 billion, December 2017: £13.1 billion);
- Paid above the market average on our savings rates, equating to an annual benefit to our savers of more than £75 million[1];
- Achieved profit before tax for the six months to June 2018 of £60.1 million (£63.2 million to June 2017) after a one-off charge of £6.9 million resulting from our decision to dispose of our Irish mortgages;
- Secured Internal Ratings Based (IRB) permission from the regulator in recognition of the quality of our risk management systems;
- Raised £200 million of capital as part of our plan to meet the Minimum Requirement for Own Funds and Eligible Liabilities (MREL); and
- These actions have further strengthened capital and reserves to £1.2 billion (June 2017: £945 million, December 2017: £984 million) and increased our total capital ratio to 36.3% and Common Equity Tier 1 (CET1) ratio to 29.5% under IRB.

Our strategy to deliver sustainable growth and service improvements is focused on the long term benefits to all our members, whether borrowers or savers. We believe our success in attracting thousands more members is testament to this approach.

Supporting the aspirations of borrowers and savers

We were founded to help people save and have the home they want and we focus on understanding the needs of our members, particularly in under-served segments.

Refining and enhancing our lending criteria and processes complements our product offering to attract more borrowers, which has helped drive growth in line with our strategy. Net lending in the first half of 2018 was £0.5 billion (H1 2017: £1.0 billion).

We know the market remains challenging for savers and continue to work hard to offer long term good value as we balance the needs of savers and borrowers. We paid an average of 1.29% to our savers compared to the market average of 0.68%, which equates to an annual benefit to our savers of more than £75.7 million[1].

---

[1] CACI's CSDB, Stock, May 2017 – April 2018, latest data available. CACI is an independent company that provides financial services benchmarking data and covers 86% of the high street cash savings market

Our award for "Best Building Society Savings Provider" from independent comparison site Moneyfacts for the third year running demonstrates our ongoing commitment to support savers.

Continuing financial security

We're proud of our financial strength and independence as a building society and, in addition to delivering sustainable growth, we need to maintain appropriate levels of capital and reserves.

Receiving IRB permission is welcome recognition of the quality of our robust approach to managing and understanding risk. Our borrowers and mortgage brokers have already seen benefits as working towards obtaining permission helped us to cut the time taken to process mortgage applications, so borrowers can be in their homes sooner.

IRB is an assurance to external organisations, including rating agencies, and we retain strong investment grade long term credit ratings from Moody's and Fitch of A3 and A- respectively. Our CET1 ratio under IRB is 29.5% (14.7% on a Standardised basis, June 2017: 14.6%, December 2017: 14.5%) and our total capital ratio is 36.3% (18.1% Standardised, June 2017: 15.2%, December 2017: 15.0%).

Our residential arrears have fallen further to 0.63% (June 2017: 0.84%, December 2017: 0.70%) and selling our Irish mortgage portfolio allows us to focus on our core domestic market.

Delivering outstanding personal service

Members tell us the way we run the Society matters to them and their feedback informs business decisions, whether that's developing innovative products or improving how and when we communicate with customers.

We were pleased to win the title of "Best Shared Ownership Lender" in the What Mortgage awards, for the third consecutive year, in recognition of our service in this market.

Our award-winning robotic process automation (RPA) programme continues to improve efficiency, expand capacity and free up colleagues to carry out more customer-facing work. In the first half of 2018, RPA handled more than 610,000 pieces of work, saving 20,500 hours.

Our member satisfaction rating remains high at 91%[2] and our intermediary satisfaction rating is 88%[3].

Investing in the Society

Earlier this year we announced we'd secured a new head office building to keep us in the centre of Leeds as we've outgrown our current location, where we've been based for more than 80 years. Growth in our workforce, particularly in recent years, means we have 900 colleagues spread across three sites in Leeds so bringing them together on one bigger site will save money, improve efficiency and offer opportunities to reduce our environmental impact.

While branches remain important to us, we know more and more of our members use multiple channels to contact and do business with us, including online, and we've made significant investment earlier this year to successfully upgrade our IT platform to support further service improvements across all channels.

Efficiency and value are longstanding key priorities for the business. Our key ratios have improved and we expect our cost to income and cost to mean asset ratios to stay among the best in the building society sector, at 43.4% and 0.52% respectively (H1 2017: 43.5% and 0.56%, full year 2017: 43.2% and 0.56%).

[2] Overall customer satisfaction is 91% in a survey of 3,415 customers from January to June 2018
[3] Overall intermediary satisfaction is 88% in a survey of 565 intermediaries from January to June 2018

Chief Executive Officer's Review

Economic outlook

Competition in our core markets has been intensifying and we expect this to continue into next year, placing downward pressure on our net interest margin. The implications of the UK's departure from the EU are still unclear, both for businesses and consumers, while political instability at home and abroad is not helping to calm ongoing economic uncertainty.

Our strategic approach to investing in sustainable growth means we are well placed to withstand economic shocks and carry on looking after our members' interests so they can share in the benefits of our security and success.

Peter Hill

Chief Executive Officer

2018 First Half Key Performance Indicators

The 2018 first half key performance indicators are shown below, split by each of the Society's four strategic pillars. Comparative figures are shown for the full year unless otherwise stated.

Customer focused

To support the aspirations of a targeted range of borrowers and savers focused on where our expertise adds significant value.

New residential lending	Net residential lending	Savings balances	Society membership
£1.8 billion	**£0.5 billion**	**£13.9 billion**	**809,000 members**
H1 2017: £2.1 billion	H1 2017: £1.0 billion	Dec 2017: £13.1 billion	Dec 2017: 796,000 members

Secure

To generate strong levels of profit, through optimising our lending to continue to build a sound capital base.

Profit before tax	Net interest margin	Liquidity Coverage Ratio (LCR)	Common Equity Tier 1 (CET1) ratio	Leverage ratio	Credit ratings (Long term)
£60.1 million	**1.15%**	**249%**	**14.7%**	**5.0%**	**Fitch A- Moody's A3**
H1 2017: £63.2 million	2017: 1.24%	Dec 2017: 198%	Dec 2017: 14.5%	Dec 2017: 5.0%	Dec 2017: Fitch A- Moody's A3

Service driven

To deliver outstanding personal service across all channels supported by access to colleagues when desired.

Number of days from mortgage application to offer	% of customer administration processing completed within service standards	Customer satisfaction	Colleague engagement score
15 days	**91%**	**91%**	**81%**
2017: 16 days	2017: 90%	2017: 91%	2017: 80%

Efficient

Business to adapt our operating model as markets and needs change, whilst being intolerant of waste.

Cost to income ratio	Cost to mean asset ratio	Colleague turnover
43.4%	**0.52%**	**19%**
2017: 43.2%	2017: 0.56%	2017: 18%

Alternative performance measures and other terms used in this report are explained and reconciled to the equivalent statutory measure in the glossary of terms on pages 146 to 148 of the 2017 Annual Report and Accounts which can be found at www.leedsbuildingsociety.co.uk/press/financial-results/.

Financial Review
for the six months ended 30 June 2018

In the first six months of 2018, profit before tax was £60.1 million (six months to June 2017: £63.2 million). The reduction in profit compared to the previous year was due to a one-off charge of £6.9 million as a result of the reclassification of the Irish mortgage portfolio following the Board's decision to proceed with a sale of the book.

Net interest income

	Six months to June 2018 £m	Six months to June 2017 £m	Year to December 2017 £m
Net interest income	109.6	102.8	213.2
Mean total assets	18,990	16,607	17,207
	%	%	%
Net interest margin (NIM)	1.15	1.24	1.24

Net interest income in the first half of 2018 was 7% higher than the same period in 2017, driven by 14% growth in total assets. Net interest margin reduced 9 basis points due to the dilutive effects of new mortgages (including existing customers switching to new products) written at lower margins replacing those written at higher margins in previous years. The Society also held higher liquidity balances in the first half of the year which reduced overall NIM.

Competition in the UK mortgage market remains high driving further tightening of margins on new lending, although the Society's continued focus on lending to specific segments partly mitigates this impact.

Management expenses

	Six months to June 2018 £m	Six months to June 2017 £m	Year to December 2017 £m
Colleague costs	29.6	28.6	56.7
Other administrative expenses	17.5	16.4	35.8
Depreciation and amortisation	1.8	1.5	3.0
Total management expenses	48.9	46.5	95.5
	%	%	%
Cost to income ratio	43.4	43.5	43.2
Cost to mean asset ratio	0.52	0.56	0.56

The Society has maintained close control on costs in the first half of 2018, resulting in the cost to income ratio remaining broadly in line with 2017 and a reduction of 4 basis points in the cost to mean asset ratio.

Headcount has remained broadly flat since the start of 2018. Other administrative expenses include project costs which continue to be incurred on both one-off investment projects and the increasing number of regulatory changes which the Society must respond to, including General Data Protection Regulation and the second Payment Services Directive.

Impairment gains / (losses) and provisions

	Six months to June 2018 £m	Six months to June 2017 £m	Year to December 2017 £m
Residential loan impairment charge *	(0.7)	(0.4)	(1.4)
Commercial loan impairment credit *	3.2	4.4	6.9
Impairment losses on intangible assets	-	-	(5.6)
Impairment losses on land and buildings	-	-	(0.9)
Provisions credit / (charge)	0.6	(1.1)	(3.6)
Total impairment gains / (losses) and provisions	**3.1**	**2.9**	**(4.6)**

** The Society adopted IFRS 9 – Financial Instruments with effect from 1 January 2018 and the impact of adoption is set out in note 2. The residential and commercial loan impairment figures in the above table are calculated under IAS 39 for 2017 and IFRS 9 for 2018.*

The volume of residential mortgages in arrears[1] fell to 0.63% in the first half of 2018 (December 2017: 0.70%). The residential impairment charge of £0.7 million in the first half of 2018 is primarily due to the impact of changes to the forecast economic assumptions, particularly lower house price inflation, used to calculate expected credit losses under IFRS 9. This has offset the benefits of the improving arrears position and actual crystalised losses being lower than provided for.

Realised losses on the legacy commercial portfolio were lower than anticipated resulting in a credit to impairment.

The release of provisions in the first half of 2018 reflects a reduction in customer redress provisions and in the expected levy due to the Financial Services Compensation Scheme (FSCS) in summer 2018. This reduction reflects repayments of the FSCS's loan from HM Treasury following asset sales by Bradford and Bingley and associated repayments to the FSCS. No further levy is expected beyond 2018 in relation to the bank failures of 2008/09.

Loans and advances to customers

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Residential loans	** 15,291	14,183	14,932
Commercial loans	60	77	72
Other loans	244	250	250
Impairment provision *	** (43)	(47)	(44)
Loans and advances to customers	**15,552**	**14,463**	**15,210**
	%	%	%
Proportion of mortgages in arrears[1]	0.63	0.84	0.70
Balance-weighted average indexed LTV of mortgage book	56	56	56
Balance-weighted average LTV of new lending	63	64	64

** Impairment provisions stated at June 2017 and December 2017 are calculated under IAS 39, and the provision at June 2018 is calculated under IFRS 9. As explained in note 2, under IFRS 9 the impairment provision at 1 January 2018 was £70 million and the total value of loans and advances to customers was £15,184 million.*
*** Excluding assets held for sale (see note 3) in 2018.*

Following a period of higher growth and increasing competition, gross new lending of £1.8 billion was £0.3 billion lower than the record level achieved in the previous year (six months to June 2017: £2.1 billion).

[1] Mortgages which are either in possession or with arrears of more than 1.5% of the balance

Increasing redemptions following the step up in growth in earlier years meant that net lending reduced to £0.5 billion (six months to June 2017: £1.0 billion).

The Society maintains a conservative lending policy and controls on new lending have been maintained throughout the period which is reflected in the average LTV of new lending. The overall quality of the book remains high with a low level of arrears and a weighted average indexed LTV of the book at 30 June 2018 of 56% (December 2017: 56%).

Commercial loans reduced to £60 million (December 2017: £72 million) and represent just 0.4% of total loans and advances to customers.

Funding

	30 June 2018 £m	30 June 2017 £m	31 December 2017 £m
Shares (member deposits)	13,854	12,452	13,072
Wholesale funding	4,064	3,504	4,061
Off-balance sheet funding	-	200	-
Total funding	**17,918**	**16,156**	**17,133**

	%	%	%
Wholesale funding ratio	21.3	21.8	22.2

The Society's savings balances increased by 6% to £13.9 billion in the first six months of 2018 (December 2017: £13.1 billion). The Society's strong retail franchise has been the key driver for the increase in member deposits, and the Society has maintained its position of paying above average market rates to reward saving members.

A further £375 million was drawn down from the Bank of England's Term Funding Scheme (TFS) prior to its closure in February 2018. Total drawings from the Scheme are £1.2 billion (December 2017: £850 million) which will be repaid by February 2022. A £300 million covered bond matured in February.

Liquidity

During the first half of the year, the Society has maintained higher levels of liquidity than in previous periods due to the timing of the TFS drawdowns and savings inflows. At 30 June 2018 the unencumbered liquidity ratio was 17.4% (December 2017: 14.8%) and the Liquidity Coverage Ratio was 249% (December 2017: 198%), ensuring liquidity continued to be held well in excess of regulatory minima. The quality of liquid assets has been maintained with 99.95% being 'A' rated or above. The Society's liquidity position is subject to regular stress testing, in line with regulatory requirements, which demonstrates that appropriate levels of liquidity are maintained.

Capital

During June 2018 the Prudential Regulation Authority (PRA) granted the Society an Internal Ratings Based (IRB) permission which is effective from 1 July 2018. This provides external validation of the Society's risk management systems and will allow the Society to calculate capital requirements using internally determined risk parameters reflecting the specific risks of its mortgage book. As a result the Society's capital ratios have increased. The table overleaf shows the capital position at 30 June 2018 on both a Standardised and IRB basis.

Capital resources	30 June 2018 IRB £m	30 June 2018 Standardised £m	30 June 2017 Standardised £m	31 December 2017 Standardised £m
Total equity attributable to members	984	984	920	959
Adjustments	(20)	(3)	(6)	(7)
Common Equity Tier 1 (CET1) capital	964	981	914	952
Additional Tier 1 capital	10	10	13	12
Total Tier 1 capital	974	991	927	964
Tier 2 capital	215	215	25	24
Total regulatory capital resources	1,189	1,206	952	988
Risk-weighted assets	3,274	6,680	6,275	6,577
	%	%	%	%
CET1 ratio	29.5	14.7	14.6	14.5
CRR leverage ratio	4.9	5.0	5.1	5.0
UK leverage ratio	5.4	5.5	5.6	5.5
Total capital ratio	36.3	18.1	15.2	15.0

In April 2018 the Society issued £200 million of Tier 2 capital as part of its plans to meet the expected future Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for the Society.

The Society's capital ratios remain significantly in excess of regulatory minima. The CET1 ratio increased during the six months to June due to the level of profits generated relative to balance sheet growth.

The Society has utilised available transitional arrangements in relation to the impact of adopting IFRS 9 on regulatory capital and the figures above reflect those arrangements. Had the transitional arrangements not been adopted, the CET1 ratio on a Standardised basis at 30 June 2018 would have been 14.5% and the CRR leverage ratio would have been 4.9%.

Principal risks & uncertainties

The principal risks arising from the Society's operations are credit, funding and liquidity, market, capital, operational, conduct, strategic and business risk. These are common to most financial services firms in the UK. Full details of the risks faced by the Society, which the directors consider have not changed, are set out on pages 14 to 19 of the 2017 Annual Report and Accounts.

In order that the interests of members are adequately protected at all times, the Society has embedded a robust governance structure and risk management framework. These are designed to identify, manage, monitor and control the major risks to the delivery of the Society's strategic objectives. Further details can be found on pages 54 to 58 of the 2017 Annual Report and Accounts.

Condensed Consolidated Income Statement

	Note	**Six months to 30 June 2018 (Unaudited) £m**	Six months to 30 June 2017 (Unaudited) £m	Year to 31 December 2017 (Audited) £m
Interest receivable and similar income				
Calculated using the effective interest rate method		**230.1**	220.9	452.0
Interest receivable and similar income on instruments measured at fair value through profit or loss		**(7.1)**	(21.2)	(38.8)
Assets classified as held for sale	3	**1.0**	-	-
Total interest receivable and similar income		**224.0**	199.7	413.2
Interest payable and similar charges		**(114.4)**	(96.9)	(200.0)
Net interest receivable		**109.6**	102.8	213.2
Fees and commissions receivable		**4.0**	4.2	8.7
Fees and commissions payable		**(0.4)**	(0.3)	(0.5)
Fair value gains less losses from financial instruments		**(0.3)**	(0.5)	(1.3)
Other operating income		**(0.1)**	0.6	0.9
Total income		**112.8**	106.8	221.0
Administrative expenses		**(47.1)**	(45.0)	(92.5)
Depreciation and amortisation		**(1.8)**	(1.5)	(3.0)
Impairment gains on loans and advances to customers	4	**2.5**	4.0	5.5
Impairment losses on intangible assets		**-**	-	(5.6)
Impairment losses on property, plant and equipment		**-**	-	(0.9)
Provisions credit / (charge)	5	**0.6**	(1.1)	(3.6)
Loss on reclassification of financial assets	3	**(6.9)**	-	-
Operating profit and profit before tax		**60.1**	63.2	120.9
Tax expense	6	**(15.1)**	(16.1)	(32.9)
Profit for the period		**45.0**	47.1	88.0

All amounts relate to continuing operations.

Condensed Consolidated Statement of Comprehensive Income

	Six months to 30 June 2018 (Unaudited) £m	Six months to 30 June 2017 (Unaudited) £m	Year to 31 December 2017 (Audited) £m
Profit for the period	**45.0**	47.1	88.0
Items that may subsequently be reclassified to profit and loss:			
Fair value gains / (losses) on available for sale investment securities (*)	**N/A**	(1.7)	(3.4)
(Gains) / losses on available for sale investment securities reclassified to profit or loss on disposal (*)	**N/A**	(0.4)	(0.5)
Fair value gains / (losses) on investment securities measured at fair value through other comprehensive income (*)	**(3.0)**	N/A	N/A
(Gains) / losses on investment securities measured at fair value through other comprehensive income reclassified to profit or loss on disposal (*)	**0.1**	N/A	N/A
Tax relating to items that may subsequently be reclassified	**0.6**	0.5	1.0
Items which may not subsequently be reclassified to profit and loss:			
Actuarial gain / (loss) on retirement benefit surplus / (obligation)	**4.3**	0.5	2.0
Tax relating to items which may not be reclassified	**(1.4)**	(0.2)	(2.4)
Total comprehensive income for the period	**45.6**	45.8	84.7

(*) N/A in the above table reflects the change in classification and measurement categories arising on transition from IAS 39 to IFRS 9 on 1 January 2018. The IAS 39 classification of 'available for sale' applied in 2017 no longer applies under IFRS 9; similarly the classification of 'at fair value through other comprehensive income' applied in 2018 did not exist under IAS 39.

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2018 (Unaudited) £m	30 June 2017 (Unaudited) £m	31 December 2017 (Audited) £m
Assets				
Liquid assets				
Cash in hand and balances with the Bank of England		**1,822.1**	1,287.5	1,757.6
Loans and advances to credit institutions		**163.7**	111.0	194.0
Investment securities (*)		**1,304.0**		
Available for sale (*)		**N/A**	829.5	763.0
Loans and receivables (*)		**N/A**	22.0	15.7
Derivative financial instruments		**259.1**	271.1	258.5
Loans and advances to customers	7			
Loans fully secured on residential property		**15,263.9**	14,158.3	14,908.4
Other loans		**288.5**	305.0	302.1
Fair value adjustment for hedged risk on loans and advances to customers		**28.8**	31.8	12.5
Assets classified as held for sale: loans and advances to customers	3	**133.2**	-	-
Intangible assets		**6.0**	5.6	5.2
Property, plant and equipment		**54.0**	31.4	54.4
Retirement benefit surplus	8	**6.2**	-	1.0
Deferred income tax asset		**6.4**	2.1	1.9
Other assets, prepayments and accrued income		**159.6**	229.6	209.7
Total assets		**19,495.5**	17,284.9	18,484.0
Liabilities				
Shares		**13,854.4**	12,451.9	13,071.5
Fair value adjustment for hedged risk on shares		**34.7**	5.8	(5.8)
Derivative financial instruments		**127.3**	184.5	161.9
Amounts owed to credit institutions		**1,285.2**	653.1	951.0
Amounts owed to other customers		**260.9**	342.8	254.9
Debt securities in issue		**2,517.7**	2,507.8	2,855.7
Current income tax liabilities		**15.1**	15.9	15.6
Deferred income tax liabilities		**2.9**	1.7	3.2
Other liabilities and accruals		**184.8**	169.1	185.6
Provision for liabilities and charges	5	**5.5**	6.0	6.4
Retirement benefit obligation	8	**-**	1.2	-
Subscribed capital		**222.9**	25.0	25.0
Total liabilities		**18,511.4**	16,364.8	17,525.0
Total equity attributable to members		**984.1**	920.1	959.0
Total liabilities and equity		**19,495.5**	17,284.9	18,484.0

(*) N/A in the above table reflects the change in classification and measurement categories arising on transition from IAS 39 to IFRS 9 on 1 January 2018. The IAS 39 classifications of 'available for sale' and 'loans and receivables' applied to investment securities in 2017 no longer exist under IFRS 9.

Condensed Consolidated Statement of Changes in Members' Interest

Six months to 30 June 2018	**General reserve £m**	**Fair value reserve £m**	**Revaluation reserve £m**	**Other reserve £m**	**Total equity attributable to members £m**
At 1 January 2018 (Audited)	**931.3**	**2.3**	**11.1**	**14.3**	**959.0**
Impact of adoption of IFRS9 at 1 January 2018	**(26.4)**	**0.2**	**-**	**-**	**(26.2)**
Tax relating to adoption of IFRS9 at 1 January 2018	**5.7**	**-**	**-**	**-**	**5.7**
At 1 January 2018 (Restated)	**910.6**	**2.5**	**11.1**	**14.3**	**938.5**
Comprehensive income for the period	**47.9**	**(2.3)**	**-**	**-**	**45.6**
Revaluation gains transferred on disposal of assets	**0.8**	**-**	**(0.8)**	**-**	**-**
Reclassification of reserves	**-**	**-**	**-**	**-**	**-**
At 30 June 2018 (Unaudited)	**959.3**	**0.2**	**10.3**	**14.3**	**984.1**

Six months to 30 June 2017	General reserve £m	Available for sale reserve £m	Revaluation reserve £m	Other reserve £m	Total equity attributable to members £m
At 1 January 2017 (Audited)	844.1	4.8	11.1	14.3	874.3
Comprehensive income for the period	47.4	(1.6)	-	-	45.8
Reclassification of reserves	(0.4)	0.4	-	-	-
At 30 June 2017 (Unaudited)	891.1	3.6	11.1	14.3	920.1

Year to 31 December 2017	General reserve £m	Available for sale reserve £m	Revaluation reserve £m	Other reserve £m	Total equity attributable to members £m
At 1 January 2017 (Audited)	844.1	4.8	11.1	14.3	874.3
Comprehensive income for the year	87.6	(2.9)	-	-	84.7
Reclassification of reserves	(0.4)	0.4	-	-	-
At 31 December 2017 (Audited)	931.3	2.3	11.1	14.3	959.0

Condensed Consolidated Statement of Cash Flows

	Six months to 30 June 2018 (Unaudited) £m	Six months to 30 June 2017 (Unaudited) £m	Year to 31 December 2017 (Audited) £m
Profit before tax	**60.1**	63.2	120.9
Adjusted for changes in:			
Impairment provision	**(0.3)**	(7.7)	(10.7)
Provision for liabilities and charges	**(0.9)**	0.7	1.1
Depreciation and amortisation	**1.8**	1.5	3.0
Impairment losses on property, plant and equipment	**-**	-	0.9
Impairment losses on intangibles	**-**	-	5.6
Loss on reclassification of financial assets	**6.9**	-	-
Non-cash and other items	**15.7**	27.9	48.9
Cash generated from operations	**83.3**	85.6	169.7
Changes in operating assets and liabilities:			
Loans and advances to customers	**(481.8)**	(1,009.7)	(1,792.2)
Derivative financial instruments	**(35.2)**	(37.9)	(48.0)
Other operating assets	**50.1**	19.6	39.5
Shares	**782.9**	1,224.5	1,869.4
Amounts owed to credit institutions and other customers	**340.2**	66.3	276.3
Other operating liabilities	**(27.8)**	8.4	24.4
Taxation paid	**(15.6)**	(14.0)	(30.8)
Net cash flows from operating activities	**696.1**	342.8	508.3
Cash flows from investing activities			
Returns from investments and servicing of finance	**(1.9)**	0.5	2.0
Purchase of investment securities	**(814.9)**	(258.6)	(627.7)
Proceeds from sale and redemption of investment securities	**289.4**	182.7	622.3
Purchase of property, plant and equipment	**(2.7)**	(2.5)	(27.6)
Proceeds from sale of property, plant and equipment	**1.7**	-	-
Purchase of intangible assets	**(1.3)**	(2.9)	(8.4)
Net cash flows from investing activities	**(529.7)**	(80.8)	(39.4)
Cash flows from financing activities			
Net proceeds from issue of debt securities	**56.5**	99.0	574.5
Net proceeds from issue of subscribed capital	**197.9**	-	-
Repayments of debt securities in issue	**(386.6)**	(88.7)	(218.0)
Net cash flows from financing activities	**(132.2)**	10.3	356.5
Net increase in cash and cash equivalents	**34.2**	272.3	825.4
Cash and cash equivalents at beginning of period	**1,951.6**	1,126.2	1,126.2
Cash and cash equivalents at end of period	**1,985.8**	1,398.5	1,951.6

Notes to the Accounts

1. General information

Reporting period

The Interim Financial Report is for the six months to 30 June 2018 and is unaudited.

Basis of preparation

This condensed consolidated set of financial statements has been prepared in accordance with the International Accounting Standard ("IAS") 34 – Interim Financial Reporting, as adopted by the European Union. It does not include all the information required by International Financial Reporting Standards ("IFRS") in full annual financial statements and should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2017 which was prepared in accordance with IFRS as adopted by the EU.

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

The following IFRS pronouncements, relevant to the Group, were adopted with effect from 1 January 2018:

IFRS 9 – Financial Instruments
IFRS 15 – Revenue from Contracts with Customers

The adoption of IFRS 9 has had a material impact on the financial statements of the Group, and this is disclosed further in note 2.

The adoption of IFRS 15 impacts revenue reported in the Income Statement as fees and commissions receivable and other operating income, but has not resulted in any material changes to the accounting policies or financial statements of the Group.

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

IFRS 16 – Leases
IFRS 17 – Insurance Contracts
IFRIC 23 – Uncertainty over Income Tax Treatments

The most significant impact on the Group of IFRS 16 is the requirement for lessees to recognise assets and liabilities in the Statement of Financial Position in respect of all leases other than those less than 12 months in duration or where the underlying asset is of low value, including those previously classified as operating leases. Under IFRS 16 the Group will therefore recognise leased branch and office property in the Statement of Financial Position. Quantification of the initial impact of adoption is underway.

The impacts of IFRS 17, which is effective from 1 January 2021 and IFRIC 23, effective 1 January 2019, have not yet been assessed, but are not expected to be material.

Accounting policies and judgements

The Group's revised accounting policies relating to financial instruments, impairment and interest income and expense, following adoption of IFRS 9, and the related critical judgements and accounting estimates, are shown in note 2.

The Group's accounting policy for the recognition of held for sale assets is disclosed in note 3.

The Group's remaining accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited annual financial statements, which can be found in note 1 to the 2017 Annual Report and Accounts.

Segmental reporting

As reported in note 1(n) of the 2017 Annual Report and Accounts, the Group has determined that it has one reportable segment under IFRS 8 and therefore no separate segmental reporting is provided.

Notes to the Accounts (continued)

1. General information (continued)

Going concern

The directors have reviewed the Group's financial position and future plans and forecasts, considering current economic and market conditions and the potential risks to the business as set out in the 2017 Annual Report and Accounts. In this context the directors consider that the Group has a resilient business model, maintains an appropriate level of liquidity to meet both the normal demands of the business and the requirements which might arise in modelled stressed circumstances and that plans for future capital generation are sufficient to maintain capital in excess of regulatory requirements. Accordingly, the going concern basis has been adopted in the preparation of the Interim Financial Report.

2. Impact of adoption of IFRS 9 – Financial Instruments

a. Introduction

IFRS 9 – Financial Instruments was adopted by the Group from 1 January 2018. The standard replaces IAS 39 – Financial Instruments: Recognition and Measurement and has three sections:

- Classification and measurement – the standard introduces new categories for the classification and measurement of financial assets. The classification of assets requires an assessment of the Group's business model for managing the assets and of the contractual cash flow characteristics of the assets. This has resulted in some changes to the classification of assets for the Group (see note 2f) but has not had a material impact on carrying values in the Statement of Financial Position at 1 January 2018.

- Impairment – under IAS 39, impairment loss provisions were calculated on an incurred loss model, whereby provisions were recognised once an impairment 'trigger' event had been identified. IFRS 9 changes this model to an expected credit loss (ECL) model which incorporates forward looking information such that when a financial asset is first recognised, an impairment loss allowance is made for the expected losses from defaults over the following 12 months (12 month ECL). If, at a later time, the Group determines that there has been a significant increase in the credit risk of the asset, this impairment loss is increased to cover the expected losses over the whole life of the asset (lifetime ECL). This change in the calculation of impairment losses results in earlier recognition of credit losses in the financial statements but does not change the amount of the eventual loss suffered. This change has resulted in an increase in the Group's provisions for impairment losses, as detailed in note 2h.

- Hedge accounting – IFRS 9 alters the rules for the application of hedge accounting, although the rules in relation to portfolio fair value hedges are still under development. Consequently the standard allows entities to continue to apply IAS 39 for all hedge accounting and the Group has chosen to do this.

The adoption of IFRS 9 resulted in a reduction in equity attributable to members at 1 January 2018 of £20.5 million, as detailed in note 2g. As permitted by the standard, the Group does not intend to restate comparative figures in its 2018 Annual Report and Accounts.

b. Accounting policy – financial instruments

The new accounting policy adopted by the Group from 1 January 2018 in relation to financial instruments is detailed below:

(i) Classification and measurement

In accordance with IFRS 9, the Group has classified its financial assets with reference to both the Group's business model for managing the assets and the contractual cash flow characteristics of the assets. The Group's financial assets have been classified into the following categories:

- **At amortised cost**
  These are assets for which the business model is to hold the asset and collect the contractual cash flows, and those cash flows are solely payments of principal and interest. This means that cash flows typically occur on pre-determined dates and that interest primarily reflects the time value of money, compensation for credit risk and a profit margin.

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

b. Accounting policy – financial instruments (continued)

(i) Classification and measurement (continued)

The Group has classified the following assets as 'at amortised cost': cash in hand and balances with the Bank of England, loans and advances to credit institutions and loans and advances to customers, with the exception of a collateral loan which represents a pool of equity release mortgages purchased from a third party for which some but not all risks were transferred to the Group.

Assets held at amortised cost are initially recorded at fair value (usually transaction price) plus any directly attributable costs. They are subsequently measured using the effective interest rate method, as detailed in note 2d, less allowances for impairment.

- **At fair value through other comprehensive income (FVOCI)**

  These are categories of assets for which the business model is to hold the asset and collect the contractual cash flows or to sell the assets. The contractual cash flows must be solely payments of principal and interest. The Group holds investment securities in order to meet current and future liquidity requirements, and these are considered to meet the definition of the hold or sell business model. They are therefore classified as 'at FVOCI', apart from those assets for which the cash flows are not solely payments of principal and interest, as noted below.

  These assets are initially recognised at fair value plus any attributable costs. Subsequent changes in fair value are recognised in equity, except for impairment losses which are recognised in the Income Statement. Premia and discounts arising on the purchase of assets held at FVOCI are spread over the life of the asset using the effective interest rate method (see note 2d).

- **At fair value through profit or loss (FVTPL)**

  Assets for which the business model is neither to hold nor to hold or sell, or those for which contractual cash flows are not solely payments of principal and interest, are classified as 'at FVTPL'. The Group has classified the collateral loan which represents a pool of equity release mortgages as 'at FVTPL' since the contract with the customer contains a guarantee that any shortfall arising on the sale of the property securing the mortgage will not be pursued.

  Certain investment securities are also classified as 'at FVTPL', either because interest can be foregone or because their credit risk is higher than the average credit risk of the underlying collateral. In addition, IFRS 9 has mandated that derivative financial instruments are classified as 'at FVTPL'.

  These assets are initially recognised at fair value and any subsequent changes in fair value are recognised immediately in the Income Statement.

All financial liabilities are classified as 'at amortised cost', with the exception of derivative financial instruments which under IFRS 9 are mandatorily classified as 'at fair value through profit or loss' and certain shares on which the return is linked to the performance of specific stock market indices, which are also classified as 'at fair value through profit or loss'.

Financial liabilities are initially recorded at their fair value, and those to be measured at amortised cost are subsequently measured using the effective interest rate method. 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.

Purchases and sales of financial assets are recognised at settlement date.

(ii) Sale and repurchase agreements

There are no changes to the accounting policy applied in the Group's latest audited annual financial statements.

(iii) Derecognition of financial assets and liabilities

There are no changes to the accounting policy applied in the Group's latest audited annual financial statements.

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

b. Accounting policy – financial instruments (continued)

(iv) Derivative financial instruments and hedge accounting

The Group intends to continue to apply the IAS 39 hedge accounting standards, as permitted by IFRS 9. Therefore there are no changes to the accounting policy applied in the Group's latest audited financial statements.

c. Accounting policy – impairment of financial assets

The new accounting policy adopted by the Group from 1 January 2018 in relation to impairment of financial assets is detailed below:

Impairment losses are calculated for all financial assets held at amortised cost or at fair value through other comprehensive income. Loss provisions are also held against undrawn loan commitments, where a loan offer has been issued to a customer and remains unexpired but the loan has not yet completed and so has not yet been recognised in the Statement of Financial Position.

Impairment losses are calculated on an expected credit loss (ECL) basis. Financial assets are classified individually into one of three stages, as follows:

- Stage 1 – assets are allocated to this stage on initial recognition and remain in this stage if there is no significant increase in credit risk since initial recognition. Impairment losses are recognised to cover 12 month ECL, being the proportion of lifetime ECL arising from default events expected within 12 months of the reporting date.
- Stage 2 – assets where it is determined that there has been a significant increase in credit risk since initial recognition, but where there is no objective evidence of impairment. Impairment losses are recognised to cover lifetime ECL.
- Stage 3 – assets where there is objective evidence of impairment, i.e. they are considered to be in default. Impairment losses are recognised against lifetime ECL. For assets allocated to Stage 3, interest income is recognised on the balance net of impairment allowance.

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

(i) Impairment of loans and advances to customers

The primary driver in determining whether an individual loan has had a significant increase in credit risk is a quantitative assessment of the increase in lifetime probability of default (PD). At each reporting date, lifetime PD is recalculated and compared to the lifetime PD calculated on initial recognition. The loan is allocated to Stage 2 if the lifetime PD has increased over a pre-determined threshold which is set using a test based approach and expressed as a percentage increase, segmented by product type and risk banding at the date of initial recognition.

In addition to the above, a number of qualitative criteria have been set such that loans which are considered to have a significantly increased credit risk but would not be captured above are moved to Stage 2. A backstop is also in place such that all loans which are 30 days past due are moved to Stage 2.

Individual loans are considered to be in default and are allocated to Stage 3 if the loan is more than 90 days past due, is subject to certain forbearance activities, is in possession or if the customer has been identified as bankrupt and is in arrears by more than a nominal amount. A cure period is in place such that the loan would move back to Stage 2 if the loan remains not in default for 12 months or for loans subject to forbearance, if 12 consecutive full payments are made after the forbearance activity has completed.

Notes to the Accounts (continued)

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

c. Accounting policy – impairment of financial assets (continued)

(i) Impairment of loans and advances to customers (continued)

ECL is calculated by multiplying loss given default (LGD), probability of default (PD) and exposure at default (EAD). Each element of the calculation is modelled at individual account level on a monthly basis over the remaining life of the loan, with the first 12 months totalled to obtain the 12 month ECL and the lifetime ECL obtained by totalling the above over the full life of the loan. Modelling assumptions are based on historical data analysis of the impact of economic variables on loan behaviour.

The overall ECL recorded in the financial statements is calculated as the probability weighted ECL over a range of possible forecasted macroeconomic scenarios.

(ii) Impairment of liquid assets

The Group reviews the external credit ratings of its liquid assets (cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities) at each reporting date. Those assets which are of investment grade (external credit rating of Aaa to Baa3 or equivalent) are considered to have low credit risk and therefore are assumed to have not had a significant increase in credit risk since initial recognition, as allowed by IFRS 9. Liquid assets which are not of investment grade are not expected to be material, but would be assessed on an individual basis.

ECL is calculated by multiplying loss given default (LGD), probability of default (PD) and exposure at default (EAD). LGD is calculated based on publically available data on historic recovery rates by product and PDs are similarly based on public information and analysis performed by third parties to derive PDs for similar products.

d. Accounting policy – interest income and expense

The new accounting policy adopted by the Group from 1 January 2018 in relation to interest income and expense is detailed below:

Interest income and expense on all financial instruments is recognised in interest receivable or payable in the Income Statement. Interest income and expense is calculated using the effective interest rate method for financial assets and liabilities held at amortised cost and at FVOCI.

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 over 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. Expected lives are reassessed at each Statement of Financial Position date and any changes are reflected in the effective interest rate models, resulting in an immediate gain or loss in the Income Statement. For investment securities, the effective interest rate method spreads any premia or discounts arising on the purchase of the asset over the period to the maturity date of the asset.

Interest income and expense on financial assets and liabilities held at FVTPL is recognised in line with the accrual of receipts or payments which are contractually due on the instrument.

e. Critical judgements and accounting estimates

Wherever possible, the application of the requirements of IFRS 9, in particular in respect of the calculation of impairment loss provisions for loans and advances to customers, has been performed using statistical modelling rather than management judgements or estimates. For the UK residential mortgage portfolio, loss given default (LGD) and probability of default (PD) are modelled based on analysis of how macroeconomic variables have impacted the performance of loans with similar credit risk characteristics historically.

The areas of IFRS 9 which are considered to have required significant management judgements or estimates are detailed below.

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

e. Critical judgements and accounting estimates (continued)

(i) Critical judgements

Classification of financial assets – management judgement was applied to the assessment of whether contractual cash flows are solely payments of principal and interest. Management determined that term extensions and forbearance activity are not contractual so do not impact on the assessment. Management also judged that the potential for certain payments to be foregone, such as due to the existence of the no negative equity guarantee for equity release mortgages, was not consistent with payments being solely principal and interest.

Significant increase in credit risk – the determination of how significant an increase in lifetime PD should be to trigger a move to Stage 2 for impairment requires significant judgement. Management have adopted a test based approach to derive objective thresholds such that credit deterioration is recognised at the appropriate point.

(ii) Accounting estimates

The accounting estimates with the most significant impact on the calculation of impairment loss provisions under IFRS 9 are macroeconomic variables, in particular UK house price inflation and unemployment, and the probability weightings of the macroeconomic scenarios used.

The Group has used three macroeconomic scenarios, which are considered to represent a range of possible outcomes over a normal economic cycle, in determining impairment loss provisions:

- a central scenario aligned to the Group's Corporate Plan;
- a downside scenario as modelled in the Group's risk management process; and
- an upside scenario representing the impact of modest improvements to assumptions used in the central scenario.

The Group also considers more extreme adverse scenarios in its stress testing to determine capital requirements. These are considered to have a very low probability of occurring, so are not used in determining expected credit losses in accordance with IFRS 9.

The central scenario represents management's current view of the most likely economic outturn. The relative weighting of the macroeconomic scenarios has been estimated by comparing recent movements in economic variables to historic data and trends to ascertain similarities with the periods preceding previous downturns or periods of growth and derive probabilities for such scenarios occurring.

The table below shows the key assumptions used in each scenario:

	Central	Downside	Upside
UK house price inflation (2018-2020 cumulative)	7.9%	(15.1%)	10.8%
UK unemployment (2018-2020 peak)	5.0%	7.8%	4.6%
Probability weighting	54%	32%	14%

The sensitivity of calculated provisions to scenario weightings is illustrated as follows:

- if the central scenario was weighted 100%, impairment provisions would reduce by £5.1 million; and
- if the downside scenario was weighted 100%, impairment provisions would increase by £14.2 million.

For the non-UK residential portfolio, statistical modelling of key variables in the calculation of impairment loss provisions is not possible due to the low volumes of historic loss experience. LGD and PD have been estimated with reference to segments of the UK portfolio with similar characteristics.

Changes to macroeconomic assumptions, as expectations change over time, are expected to lead to volatility in impairment loss provisions, and may lead to pro-cyclicality in the recognition of impairment losses.

Notes to the Accounts (continued)

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

f. Changes to classification and measurement of financial instruments

The changes to measurement category and carrying amounts of financial assets and liabilities on initial adoption of IFRS 9 at 1 January 2018 are as follows:

		Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 at 31 December 2017	Carrying amount under IFRS 9 at 1 January 2018
		£m	£m	£m	£m
Financial assets					
Cash and balances with the Bank of England		Amortised cost	Amortised cost	1,757.6	1,757.6
Loans and advances to credit institutions		Amortised cost	Amortised cost	194.0	194.0
Derivative financial instruments		FVTPL	FVTPL	258.5	258.5
Loans and advances to customers:					
Loans fully secured on residential property		Amortised cost	Amortised cost	14,908.4	14,882.0
Other loans (*)		Amortised cost	Amortised cost	54.4	54.4
Other loans (**)		FVTPL	FVTPL	247.7	247.7
Fair value adjustment for hedged risk on loans and advances to customers		FVTPL	FVTPL	12.5	12.5
Investment securities	(i)	Available for sale	FVOCI	761.3	761.3
Investment securities	(ii)	Available for sale	FVTPL	1.7	1.7
Investment securities	(iii)	Amortised cost	FVOCI	15.7	15.9
Total financial assets				**18,211.8**	**18,185.6**
Financial liabilities					
Shares		Amortised cost	Amortised cost	13,041.8	13,041.8
Shares		FVTPL	FVTPL	29.7	29.7
Fair value adjustment for hedged risk on shares		FVTPL	FVTPL	(5.8)	(5.8)
Derivative financial instruments		FVTPL	FVTPL	161.9	161.9
Amounts owed to credit institutions		Amortised cost	Amortised cost	951.0	951.0
Amounts owed to other customers		Amortised cost	Amortised cost	254.9	254.9
Debt securities in issue		Amortised cost	Amortised cost	2,855.7	2,855.7
Subscribed capital		Amortised cost	Amortised cost	25.0	25.0
Total financial liabilities				**17,314.2**	**17,314.2**

(*) loans fully secured on land and an other loan (with carrying value of £nil)
(**) collateral loan which represents a pool of equity release mortgages

All classifications of 'at FVTPL' are mandatory under IFRS 9; those loans and advances to customers and shares which were previously measured at FVTPL under IAS 39 were designated as such on initial recognition.

The changes to classification required through application of the requirements of IFRS 9 are as follows:

(i) The IAS 39 classification of 'available for sale' no longer exists under IFRS 9. The business model for investment securities is to hold or sell, so those assets where contractual cash flows are solely payments of principal and interest are classified as 'at FVOCI' under IFRS 9. This does not result in a change in measurement basis.

Notes to the Accounts (continued)

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

f. Changes to classification and measurement of financial instruments (continued)

(ii) The Group holds certain investment securities for which the coupon payments can be deferred in certain circumstances. These assets therefore do not meet the requirements of the solely payments of principal and interest test and are classified as ‘at FVTPL’.

(iii) Under the amendment to IAS 39 issued in October 2008, the Group had reclassified certain investment securities from available for sale to loans and receivables (amortised cost) due to the markets for those assets becoming inactive. Under IFRS 9 this reclassification option is no longer available, and after consideration of the business model and the nature of the contractual cash flows, the assets have been classified as ‘at FVOCI’.

g. Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9

The tables below reconcile the carrying amounts of financial assets and liabilities under IAS 39 to those under IFRS 9 on initial adoption of IFRS 9 at 1 January 2018:

		Carrying amount under IAS 39 at 31 December 2017 £m	Reclassification £m	Remeasurement £m	Carrying amount under IFRS 9 at 1 January 2018 £m	Impact on equity attributable to members at 1 January 2018 £m
Financial assets						
Amortised cost						
Cash and balances with the Bank of England		1,757.6			1,757.6	
Loans and advances to credit institutions		194.0			194.0	
Loans and advances to customers - loans fully secured on residential property	(i)	14,908.4		(26.4)	14,882.0	(20.7)
Loans and advances to customers - other loans		54.4			54.4	
Investment securities	(ii)	15.7	(15.7)		-	-
Total amortised cost		**16,930.1**	**(15.7)**	**(26.4)**	**16,888.0**	**(20.7)**
Available for sale						
Investment securities	(iii)	763.0	(763.0)		-	-
Total available for sale		**763.0**	**(763.0)**	**-**	**-**	**-**
FVOCI						
Investment securities	(iv)	-	777.0	0.2	777.2	0.2
Total FVOCI		**-**	**777.0**	**0.2**	**777.2**	**0.2**
FVTPL						
Derivative financial instruments		258.5			258.5	
Loans and advances to customers - other loans		247.7			247.7	
Fair value adjustment for hedged risk on loans and advances to customers		12.5			12.5	
Investment securities	(v)	-	1.7		1.7	-
Total FVTPL		**518.7**	**1.7**	**-**	**520.4**	**-**
Total financial assets		**18,211.8**	**-**	**(26.2)**	**18,185.6**	**(20.5)**

Notes to the Accounts (continued)

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

g. Reconciliation of Statement of Financial Position balances from IAS 39 to IFRS 9 (continued)

	Carrying amount under IAS 39 at 31 December 2017 £m	Reclassification £m	Remeasurement £m	Carrying amount under IFRS 9 at 1 January 2018 £m	Impact on equity attributable to members at 1 January 2018 £m
Financial liabilities					
Amortised cost					
Shares	13,041.8			13,041.8	
Amounts owed to credit institutions	951.0			951.0	
Amounts owed to other customers	254.9			254.9	
Debt securities in issue	2,855.7			2,855.7	
Subscribed capital	25.0			25.0	
Total amortised cost	**17,128.4**	**-**	**-**	**17,128.4**	**-**
FVTPL					
Shares	29.7			29.7	
Fair value adjustment for hedged risk on shares	(5.8)			(5.8)	
Derivative financial instruments	161.9			161.9	
Total FVTPL	**185.8**	**-**	**-**	**185.8**	**-**
Total financial liabilities	**17,314.2**	**-**	**-**	**17,314.2**	**-**

The changes to carrying values arise due to the following adjustments:

(i) Impairment losses remeasured to be calculated on an ECL basis under IFRS 9.

(ii) Investment securities previously held at amortised cost reclassified to FVOCI (see note 2f(iii)).

(iii) £761.3m of investment securities reclassified to FVOCI (see note 2f(i)); £1.7m of investment securities reclassified to FVTPL (see note 2f(ii)).

(iv) Investment securities reclassified from amortised cost (see note 2f(iii)) or available for sale (see note 2f(i)); investment securities reclassified from amortised cost also remeasured to be carried at fair value.

(v) Investment securities reclassified from available for sale (see note 2f(ii)).

Notes to the Accounts (continued)

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

h. Reconciliation of impairment loss provisions from IAS 39 to IFRS 9

The table below explains the movements in impairment loss provisions from those calculated on an incurred loss model under IAS 39 at 31 December 2017 to those calculated on an expected credit loss model under IFRS 9 on initial adoption of IFRS 9 at 1 January 2018. No movement in impairment arises due to changes in measurement category.

			Loans and advances to customers			
		Liquid assets (*)	Loans fully secured on residential property	Loans fully secured on land	Other loans	Total
		£m	£m	£m	£m	£m
Closing impairment under IAS 39 at 31 December 2017		-	23.8	17.2	2.5	43.5
Less IAS 39 collective impairment not attributed to individual assets	(i)	-	(8.0)	(3.6)	-	(11.6)
12 month ECL on assets not individually impaired under IAS 39	(ii)	-	1.8	-	-	1.8
Lifetime ECL on assets not individually impaired under IAS 39	(iii)	-	25.2	3.6	-	28.8
Additional impairment on assets individually impaired under IAS 39	(iv)	-	7.4	-	-	7.4
Impairment loss provision against loan commitments	(v)	-	0.0	-	-	0.0
Opening impairment under IFRS 9 at 1 January 2018		**-**	**50.2**	**17.2**	**2.5**	**69.9**

(*) total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities.

The movements in impairment provisions following application of the requirements of IFRS 9 are as follows:

(i) Under IAS 39, a collective impairment provision was held where losses were assessed as being present in a portfolio of loans but could not be attributed to individual accounts. The forward looking nature of IFRS 9 ECL calculations means that impairment is calculated for all accounts and no collective provision is made.

(ii) For loans allocated to Stage 1 under IFRS 9, a provision is made for 12 month ECL. Under IAS 39 these accounts would not have been individually impaired but would have been in the portfolio for which a collective provision had been made.

(iii) For loans allocated to Stage 2 or 3 under IFRS 9, a provision is made for lifetime ECL. This shows the provisions for those accounts which were not individually impaired under IAS 39 but would have been in the portfolio for which a collective provision had been made.

(iv) This relates to loans which were previously individually impaired under IAS 39. The different methodology for calculating impairment losses under IFRS 9 (ECL) compared to IAS 39 (incurred loss), such as the use of multiple economic scenarios, results in increased provisions being recorded against these accounts.

(v) Under IFRS 9, an impairment provision is required to be held against undrawn loan commitments. Previously, under IAS 37, provisions were only required where the commitment was irrevocable and a loss event had occurred.

i. Analysis of financial assets by stage

At 1 January 2018, all cash and balances with the Bank of England, loans and advances to credit institutions and those investment securities classified as 'at FVOCI' were allocated to Stage 1 within the ECL calculations. The resulting ECL was immaterial for these assets, so no impairment loss provisions were made at 1 January 2018.

2. Impact of adoption of IFRS 9 – Financial Instruments (continued)

i. Analysis of financial assets by stage (continued)

The table below analyses loans and advances to customers (excluding those measured at FVTPL) and associated ECL by stage on initial adoption of IFRS 9:

		Stage 2			
	Stage 1	<30 dpd (*)	30+ dpd (*)	Stage 3	Total
	£m	£m	£m	£m	£m
Gross exposure					
Loans fully secured on residential property	13,350.5	1,270.5	81.9	229.1	14,932.0
Loans fully secured on land	-	32.2	-	39.4	71.6
Other loans	-	-	-	2.5	2.5
Total on Statement of Financial Position	**13,350.5**	**1,302.7**	**81.9**	**271.0**	**15,006.1**
Loan commitments	796.8	-	-	-	796.8
Total gross exposure	**14,147.3**	**1,302.7**	**81.9**	**271.0**	**15,802.9**
ECL					
Loans fully secured on residential property	1.8	14.6	1.2	32.6	50.2
Loans fully secured on land	-	3.6	-	13.6	17.2
Other loans	-	-	-	2.5	2.5
Total on Statement of Financial Position	**1.8**	**18.2**	**1.2**	**48.7**	**69.9**
Loan commitments	0.0	-	-	-	0.0
Total ECL	**1.8**	**18.2**	**1.2**	**48.7**	**69.9**
ECL coverage	**%**	**%**	**%**	**%**	**%**
Loans fully secured on residential property	0.01	1.15	1.42	14.24	0.34
Loans fully secured on land	-	11.30	-	34.49	24.06
Other loans	-	-	-	100.00	100.00
Total on Statement of Financial Position	**0.01**	**1.39**	**1.42**	**17.98**	**0.47**
Loan commitments	0.00	-	-	-	0.00
Total ECL coverage	**0.01**	**1.39**	**1.42**	**17.98**	**0.44**

(*) days past due

3. Assets classified as held for sale

The Group's policy is to classify assets as held for sale when all of the following conditions are met:

- the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets;
- the sale is highly probable, with the Board committed to a plan to sell the assets;
- an active programme to locate a purchaser and complete the sale plan has been initiated;
- the assets are being marketed for sale at a price which is reasonable in relation to their current fair value;
- the sale is expected to qualify for recognition as completed within one year from the date of classification as held for sale; and

Notes to the Accounts (continued)

3. Assets classified as held for sale (continued)

- the actions required to complete the sale plan indicate that it is unlikely that significant changes to the plan will be made or the plan will be withdrawn.

Assets classified as held for sale are measured at the lower of carrying amount at the date of classification as held for sale and fair value less costs to sell, with the exception of financial instruments which are measured in line with the requirements of IFRS 9 – Financial Instruments.

The sale is recognised at the point when the Group is contractually committed to the sale and the risks and rewards of the assets have passed to the purchaser.

On 28 June 2018 the Board gave approval to proceed with the sale of a portfolio of loans and advances to customers secured on residential property in the Republic of Ireland. At this point, the assets were considered to meet the conditions to be classified as held for sale.

Under the IFRS 9 measurement classification assessment, the business model for these assets is no longer considered to be to hold the assets and collect the contractual cash flows. At the date of the Statement of Financial Position, the assets are therefore measured at fair value through profit or loss.

At the reclassification date, the fair value of the assets was assessed as £133.2 million. The difference from the previous carrying value, measured at amortised cost, is recognised in the Income Statement as a 'loss on reclassification of financial assets'.

A contract for the sale of the assets was signed on 18 July 2018. Further detail is provided in note 13.

4. Impairment losses on loans and advances to customers

	Six months to 30 June 2018 (Unaudited) £m	Six months to 30 June 2017 (Unaudited) £m	Year to 31 December 2017 (Audited) £m
Loans fully secured on residential property	**0.7**	0.4	1.4
Loans fully secured on land	**(3.2)**	(4.4)	(6.9)
Total impairment charge for the period (*)	**(2.5)**	(4.0)	(5.5)
Loans fully secured on residential property (**)	**27.5**	24.3	23.8
Loans fully secured on land	**13.2**	19.7	17.2
Other loans	**2.5**	2.5	2.5
Impairment provision at the end of the period (*)	**43.2**	46.5	43.5

(*) The Group adopted IFRS 9 - Financial Instruments with effect from 1 January 2018 and the impact of adoption is set out in note 2. The figures in the above note are calculated under IAS 39 for 2017 and IFRS 9 for 2018.
(**) Excluding assets held for sale (see note 3) in 2018.

The Group continues to use forbearance arrangements to assist its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. This includes the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, including or excluding arrears balances. The Group's approach to forbearance is described on page 130 of the 2017 Annual Report and Accounts and is materially unchanged.

Notes to the Accounts (continued)

5. Provisions

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

	Six months to 30 June 2018 (Unaudited) £m	Six months to 30 June 2017 (Unaudited) £m	Year to 31 December 2017 (Audited) £m
Provisions charge			
FSCS levy	**(0.3)**	0.2	0.2
Customer redress and related provisions	**(0.3)**	0.9	3.2
Other provisions	**-**	-	0.2
Total provisions (credit) / charge	**(0.6)**	1.1	3.6
Liabilities			
FSCS levy	**0.7**	2.7	1.0
Customer redress and related provisions	**4.3**	3.1	4.9
Commission clawback	**0.3**	0.2	0.3
Other provisions	**0.2**	-	0.2
Provisions at the end of the period	**5.5**	6.0	6.4

The Group has a contingent liability in respect of contributions to the Financial Services Compensation Scheme (FSCS) provided by the Financial Services and Markets Act 2000. During H1 2018 the FSCS repaid the remaining £4.68 billion it owed to HM Treasury relating to the Bradford and Bingley (B&B) failure in 2008.

In accordance with IFRIC 21 – Levies, as at 30 June 2018 the Group is carrying a provision of £0.7m for the 2017/18 scheme year. This represents the final FSCS interest payment and is due to be paid during August 2018.

6. Taxation

The standard rate of corporation tax applicable to the Group for the six months ended 30 June 2018 was 19.0% (six months ended 30 June 2017: 19.5%, full year ended 31 December 2017: 19.25%). Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The Finance (No. 2) Act 2015 introduced an additional surcharge of 8% on banking profits above a £25m threshold (including those of building societies) from 1 January 2016.

The deferred tax balances have been calculated at a rate of 25% (inclusive of the 8% banking levy), as it is expected that these balances will mostly reverse after 1 April 2020.

Notes to the Accounts (continued)

7. Loans and advances to customers

	30 June 2018 (Unaudited) £m	30 June 2017 (Unaudited) £m	31 December 2017 (Audited) £m
Loans fully secured on residential property (**)	**15,291.4**	14,182.7	14,932.2
Other loans			
Loans fully secured on land	**59.9**	77.3	71.6
Other loans	**244.3**	249.8	250.2
	15,595.6	14,509.8	15,254.0
Less:			
Impairment provision (*) (**)	**(43.2)**	(46.5)	(43.5)
Total loans and advances to customers	**15,552.4**	14,463.3	15,210.5

(*) The Group adopted IFRS 9 - Financial Instruments with effect from 1 January 2018 and the impact of adoption is set out in note 2. Impairment provisions are calculated under IAS 39 for 2017 and IFRS 9 for 2018.
(**) Excluding assets held for sale (see note 3) in 2018.

8. Retirement benefit surplus / (obligation)

	30 June 2018 (Unaudited) £m	30 June 2017 (Unaudited) £m	31 December 2017 (Audited) £m
Present value of pension scheme's liabilities	**(105.8)**	(112.1)	(114.2)
Scheme assets at fair value	**112.0**	110.9	115.2
Pension scheme surplus / (obligation)	**6.2**	(1.2)	1.0

The Group operates both defined benefit and defined contribution schemes. The defined benefit scheme provides benefits based on final salary for certain employees. It closed on 31 December 2014 for future accruals. The surplus on the scheme has increased due to changes in the prevailing interest rate environment.

9. Related party transactions

The Group had no related party transactions outside the normal course of business in the six months ended 30 June 2018 (June 2017: £nil, December 2017: £nil).

10. Financial commitments

The Group has commitments of £nil (June 2017: £18.1m, December 2017: £0.8m) payable under executory contracts which related to the ongoing investment programme in 2017. This amount is inclusive of value added tax.

Notes to the Accounts (continued)

11. Credit risk on loans and advances to customers

a. Residential mortgages

A full analysis of credit risk on residential mortgages is included in note 33 of the 2017 Annual Report and Accounts. The indexed weighted average loan to value analysis of the Group's residential loan portfolio is as follows:

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)	31 December 2017 (Audited)
	%	%	%
<70%	**75.7**	74.4	76.8
70% - 80%	**13.3**	15.0	12.9
80% - 90%	**7.9**	7.7	7.5
>90%	**3.1**	2.9	2.8
Total percentage	**100.0**	100.0	100.0

The overall weighted average indexed loan to value of the residential portfolio is 56% (June 2017: 56%, December 2017: 56%).

The table below provides information on the Group's residential loans and advances by payment due status as at 30 June 2018. The balances exclude the fair value adjustment for hedged risk and impairment losses. The table includes £10.3m (June 2017: £10.1m, December 2017: £11.2m) of loans and advances secured on residential property in Spain that are past due and £0.7m (June 2017: £0.3m, December 2017: £0.6m) in possession. At 31 December 2017 the table also included £37.5m (June 2017: £42.2m) of loans and advances secured on residential property in the Republic of Ireland that were past due and £1.2m (June 2017: £0.7m) in possession.

	30 June 2018 (Unaudited)		30 June 2017 (Unaudited)		31 December 2017 (Audited)	
	£m	**%**	£m	%	£m	%
Not impaired:						
Neither past due nor impaired	**14,951.8**	**97.9**	13,759.5	97.0	14,613.0	97.8
Past due up to 3 months but not impaired	**267.4**	**1.7**	306.9	2.2	221.6	1.4
Impaired:						
Not past due but impaired	**-**	**-**	-	-	-	-
Past due 3 to 6 months	**36.3**	**0.2**	46.6	0.3	38.6	0.3
Past due 6 to 12 months	**19.6**	**0.1**	29.9	0.2	22.5	0.2
Past due over 12 months	**10.3**	**0.1**	32.6	0.2	28.1	0.2
Possessions	**6.0**	**-**	7.2	0.1	8.2	0.1
Total	**15,291.4**	**100.0**	14,182.7	100.0	14,932.0	100.0

11. Credit risk on loans and advances to customers (continued)

b. Commercial mortgages

A full analysis of credit risk on commercial mortgages is included in note 33 to the 2017 Annual Report and Accounts. The indexed loan to value analysis of the Group's commercial loan portfolio is as follows:

	30 June 2018 (Unaudited) %	30 June 2017 (Unaudited) %	31 December 2017 (Audited) %
<70%	**27.5**	30.7	29.5
70% - 80%	**22.0**	12.6	13.3
80% - 90%	**3.5**	7.8	5.4
>90%	**47.0**	48.9	51.8
Total percentage	**100.0**	100.0	100.0

The overall indexed loan to value of the commercial portfolio is 81% (June 2017: 85%, December 2017: 85%).

The table below provides information on the Group's commercial loans and advances by payment due status at 30 June 2018. The balances exclude the fair value adjustment for hedged risk and impairment losses.

	30 June 2018 (Unaudited)		30 June 2017 (Unaudited)		31 December 2017 (Audited)	
	£m	**%**	£m	%	£m	%
Not impaired:						
Neither past due nor impaired	**31.8**	**53.1**	34.7	44.9	32.8	45.7
Impaired:						
Not past due but impaired	**27.2**	**45.4**	37.5	48.6	34.8	48.6
Past due up to 3 months	**-**	**-**	1.0	1.3	-	-
Past due 3 to 6 months	**-**	**-**	-	-	-	-
Past due 6 to 12 months	**-**	**-**	0.1	0.1	-	-
Past due over 12 months	**-**	**-**	-	-	-	-
Possessions	**0.9**	**1.5**	4.0	5.1	4.0	5.7
Total	**59.9**	**100.0**	77.3	100.0	71.6	100.0

Notes to the Accounts (continued)

12. Fair value

a. Carrying value and fair value of financial instruments not carried at fair value

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

	Fair value hierarchy level	30 June 2018 (Unaudited) Carrying value £m	Fair value £m
Financial assets:			
Cash in hand and balances with the Bank of England	Level 1	**1,822.1**	**1,822.1**
Loans and advances to credit institutions	Level 2	**163.7**	**163.7**
Loans and advances to customers:			
Loans fully secured on residential property	Level 3	**15,263.9**	**15,754.2**
Other loans	Level 2	**46.7**	**44.4**
Financial liabilities:			
Shares	Level 2	**13,834.9**	**13,848.5**
Amounts owed to credit institutions	Level 2	**1,285.2**	**1,285.2**
Amounts owed to other customers	Level 2	**260.9**	**260.9**
Debt securities in issue	Level 1	**2,359.4**	**2,023.7**
Debt securities in issue	Level 2	**158.3**	**158.7**
Subscribed capital	Level 1	**222.9**	**222.9**

		30 June 2017 (Unaudited)		31 December 2017 (Audited)	
	Fair value hierarchy level	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:					
Cash in hand and balances with the Bank of England	Level 1	1,287.5	1,287.5	1,757.6	1,757.6
Loans and advances to credit institutions	Level 2	111.0	111.0	194.0	194.0
Loans and advances to customers:					
Loans fully secured on residential property	Level 3	14,158.3	14,590.6	14,908.4	15,416.0
Other loans	Level 2	57.7	62.1	54.4	51.6
Investment securities:					
Loans and receivables	Level 2	22.0	23.3	15.7	15.9
Financial liabilities:					
Shares	Level 2	12,364.2	12,382.0	13,041.8	13,060.5
Amounts owed to credit institutions	Level 2	653.1	653.1	951.0	951.0
Amounts owed to other customers	Level 2	342.8	342.8	254.9	254.9
Debt securities in issue	Level 1	2,285.2	2,299.4	2,672.9	2,770.7
Debt securities in issue	Level 2	222.6	225.3	182.8	183.5
Subscribed capital	Level 1	25.0	25.0	25.0	25.0

Figures for the comparative periods in the above table reflect the classification of instruments under IAS 39 and have not been restated to reflect changes of classification on adoption of IFRS 9

Notes to the Accounts (continued)

12. Fair value (continued)

b. Fair value measurement basis for financial instruments carried at fair value

The methodology and assumptions for determining the fair value of financial assets and liabilities are included in note 35 of the 2017 Annual Report and Accounts and remain materially unchanged since December 2017.

The tables below classify all assets and liabilities held at fair value according to the method used to establish their fair value.

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

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

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

The following table analyses the fair value measurement basis used for assets and liabilities held at the Statement of Financial Position date at fair value.

As at 30 June 2018 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivative financial instruments	-	233.3	25.8	259.1
Loans and advances to customers	-	-	241.8	241.8
Fair value adjustment for hedged risk on loans and advances to customers	-	-	28.8	28.8
Assets classified as held for sale: loans and advances to customers	-	133.2	-	133.2
Investment securities				
At fair value through other comprehensive income	610.7	690.1	-	1,300.8
At fair value through profit or loss	-	3.2	-	3.2
	610.7	1,059.8	296.4	1,966.9
Liabilities				
Shares	-	19.5	-	19.5
Fair value adjustment for hedged risk on shares	-	-	34.7	34.7
Derivative financial instruments	-	45.0	82.3	127.3
	-	64.5	117.0	181.5

12. Fair value (continued)

b. Fair value measurement basis for financial instruments carried at fair value (continued)

As at 30 June 2017 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivative financial instruments	-	231.3	39.8	271.1
Loans and advances to customers	-	-	247.3	247.3
Fair value adjustment for hedged risk on loans and advances to customers	-	-	31.8	31.8
Assets classified as held for sale: loans and advances to customers	-	-	-	-
Investment securities - available for sale	216.6	612.9	-	829.5
	216.6	844.2	318.9	1,379.7
Liabilities				
Shares	-	87.7	-	87.7
Fair value adjustment for hedged risk on shares	-	-	5.8	5.8
Derivative financial instruments	-	90.7	93.8	184.5
	-	178.4	99.6	278.0

As at 31 December 2017 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivative financial instruments	-	227.2	31.3	258.5
Loans and advances to customers	-	-	247.7	247.7
Fair value adjustment for hedged risk on loans and advances to customers	-	-	12.5	12.5
Assets classified as held for sale: loans and advances to customers	-	-	-	-
Investment securities - available for sale	215.7	547.3	-	763.0
	215.7	774.5	291.5	1,281.7
Liabilities				
Shares	-	29.7	-	29.7
Fair value adjustment for hedged risk on shares	-	-	(5.8)	(5.8)
Derivative financial instruments	-	70.3	91.6	161.9
	-	100.0	85.8	185.8

Figures for the comparative periods in the above table reflect the classification of instruments under IAS 39 and have not been restated to reflect changes of classification on adoption of IFRS 9

The Group designates a portfolio of fixed rate mortgages into hedge relationships to mitigate interest rate risk. The calculation of the fair value of these mortgages uses observable market interest rate data and assumptions about projected mortgage repayments.

These mortgage repayment assumptions are unobservable inputs that are calculated using historic data and reviewed periodically so that projections are broadly in line with actual data. As such, this is considered a Level 3 valuation technique (see page 32).

Notes to the Accounts (continued)

12. Fair value (continued)

b. Fair value measurement basis for financial instruments carried at fair value (continued)

A 5% proportionate increase in mortgage repayments would lead to a £200,000 increase in the fair value of the mortgages in the hedge relationship. A 5% proportionate decrease in mortgage repayments would lead to a £5,000 decrease in the fair value of the mortgages.

c. Reconciliation of level 3 fair value measurements of financial instruments

Six months to 30 June 2018 (Unaudited)	**Financial assets £m**	**Financial liabilities £m**
Balance at 1 January 2018	**291.5**	**(85.8)**
Total (losses) / gains in the Income Statement	**(11.1)**	**9.3**
Movement in fair value adjustment for hedged risk on loans and advances to customers	**16.3**	**-**
Movement in fair value adjustment for hedged risk on shares	**-**	**(40.5)**
Net repayment in the period	**(0.3)**	**-**
Balance at 30 June 2018	**296.4**	**(117.0)**

Six months to 30 June 2017 (Unaudited)	Financial assets £m	Financial liabilities £m
Balance at 1 January 2017	363.8	(128.7)
Total (losses) / gains in the Income Statement	(4.9)	3.1
Movement in fair value adjustment for hedged risk on loans and advances to customers	(38.2)	-
Movement in fair value adjustment for hedged risk on shares	-	25.3
Net repayment in the period	(1.8)	0.7
Balance at 30 June 2017	318.9	(99.6)

Year to 31 December 2017 (Audited)	Financial assets £m	Financial liabilities £m
Balance at 1 January 2017	363.8	(128.7)
Total (losses) / gains in the Income Statement	(15.4)	6.0
Movement in fair value adjustment for hedged risk on loans and advances to customers	(57.6)	-
Movement in fair value adjustment for hedged risk on shares	-	36.9
Net repayment in the year	0.7	-
Balance at 31 December 2017	291.5	(85.8)

There have been no transfers of assets or liabilities between the above levels of valuation during the period. Details of the recurring fair value measurements of assets and liabilities included in level 3 are included in the 2017 Annual Report and Accounts on page 140.

13. Events after the date of the Statement of Financial Position

On 18 July 2018 contracts were signed for the sale of a portfolio of loans and advances to customers secured on residential property in the Republic of Ireland. The purchaser also acquired cash flows arising from the portfolio since 28 February 2018 and as such £0.7 million of interest receivable recognised in the six months ended 30 June 2018 was reversed on the date of signature. Final completion and transfer of legal title is expected before the end of October 2018.

There have been no other material subsequent events between 30 June 2018 and the date of approval of this Interim Financial Report by the Board.

Notes to the Accounts (continued)

Cautionary statement

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

Responsibility statement

We confirm that to the best of our knowledge:

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

Signed on behalf of the Board of Directors:

Robin Ashton Chairman	Peter Hill Chief Executive Officer	Robin Litten Chief Financial Officer

2 August 2018

Independent Review Report to Leeds Building Society

We have been engaged by the Leeds Building Society (the "Society") to review the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in members' interests, the condensed consolidated statement of cash flows and related notes 1 to 13. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with the International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

2 August 2018

Other Information

The financial information set out in the Interim Financial Report, which was approved by the Board of Directors on 2 August 2018, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.

The financial information for the year ended 31 December 2017 has been extracted from the Annual Report and Accounts for that year. The Annual Report and Accounts have been filed with the Financial Conduct Authority.

The audit opinion for the 31 December 2017 annual statutory financial statements was unqualified and included no reference to any matter on which the auditor is required to report by exception.

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