Leeds Building Society

Annual Report & Accounts

2010

Leeds

Leeds
Building Society

Financial Highlights

For the year ended 31 December 2010

£84.5 million
operating profits before impairment losses and provisions

£42.2 million
pre-tax profits

£7 billion
member savings balances

£984 million
new mortgage lending

£531 million
capital and reserves

Leeds

Contents

Directors

Robin A. Smith, TD, LLB, DL
(*Chairman*)

S. Rodger G. Booth, MA, DL
(*Vice Chairman*)

Ian W. Ward, FCIB
(*Chief Executive*)

John N. Anderson, QA, CBE

Peter A. Hill, ACIB
(*Operations Director*)

Carol M. Kavanagh, BA, MA

David Pickersgill, FCA
(*Deputy Chief Executive and Finance Director*)

Les M. Platts, BA, FCA

Abhai Rajguru, BSC (Hons), ACMA

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

Ian Robertson, CA, CCMI

Robert W. Stott

Secretary

Andrew J. Greenwood, LLB

Chairman's Statement

For the year ended 31 December 2010

Leeds Building Society has delivered another strong financial performance in 2010 and I am, therefore, proud to present to members this year's Annual Report and Accounts.

Throughout the economic downturn, the Society has remained a successful member-owned business and we are once again reporting increased profitability and higher reserves. Despite the real potential for continuing economic difficulties, higher unemployment, rising arrears, lower house prices and falls in commercial property values, our prudent approach to lending and strict cost control enables us to compete effectively in our core markets of mortgages and savings. Indeed we are planning to increase our business volumes in 2011 and further details on this are given in the Chief Executive's Review.

The Society's assets at the year-end were £9.5bn, including £1.9bn of liquidity. Our reserves, which help protect our members from business and market shocks, have grown to a record level of £505m due to our continued good level of profitability. Our capital and reserves are well in excess of what is required by our regulator, the Financial Services Authority (FSA).

OUR MARKETS

The savings market has remained very competitive throughout 2010, in part because many financial services organisations have sought to reduce their reliance on funding from the wholesale markets.

Against this background, we continued to attract savings balances at a level higher than our natural market share. Overall, our savings grew by £245m to £7bn. Indeed, since 2007, our strong performance has enabled us to fund all our residential lending from retail savings; the two core activities for which building societies were originally established.

As you may be aware from media comments, net lending across the entire UK market has fallen substantially from the levels seen prior to the credit crisis. However, your Society has continued with its strategy of prudent lending and yet has outperformed its natural market share for new loans. Residential mortgage lending increased by 7% to £984m and with mortgage redemptions of £962m, a similar level to 2009, there was a small increase of £22m in residential mortgages. We continue to develop a high quality, profitable mortgage portfolio and to assist people in achieving their aspirations of owning their own homes. We have made some progress in managing the run-off of our commercial loan book, which reduced in size by 6% to £576m.

WHOLESALE FUNDING

Market conditions for wholesale funding remained challenging during the year, particularly with respect to longer term funds. An issue in 2011 is the high level of Special Liquidity Scheme (SLS) maturities across the market, along with maturities of other Government guaranteed funds in both 2011 and 2012. The SLS was introduced by the Bank of England to improve liquidity in the market during the credit crisis and ends in 2012.

The wholesale funding markets have opened more widely to those financial institutions with strong credit ratings and Leeds Building Society is amongst this group. However, conditions remain unsettled, as evidenced by the problems in Greece and Ireland in 2010.

The Society was successful in raising £250m of 10 year funding in November 2010 through a covered bond issue. This was the first UK Sterling bond of this type backed by residential mortgages and the first Sterling issue of any type in the UK since June 2007. This initiative enables the Society to repay the majority of its SLS funding to the Bank of England earlier than had originally been planned.

The Society also raised a further £250m of wholesale funding during 2010, for periods of between three and five years. We have, as a consequence, now secured our long term funding requirement for 2011, which, combined with our strength in attracting retail savings, will enable us to increase our level of good quality residential mortgage lending in 2011 and beyond.

Our wholesale funding ratio has reduced from 22.6% to 20% and liquidity remained at 22%. Over 40% of our wholesale funding held at the end of 2010 was long term (more than one year in duration) giving further stability to our balance sheet.

Due to recent events in certain Eurozone countries, referred to previously, the Society has reduced its treasury exposure in Ireland, Spain and Portugal from £86m to £47m and with maturities this will reduce further in 2011.

MANAGING OUR LOAN PORTFOLIO

At the start of 2010, we expected residential arrears and provisions to increase, as the downturn in the UK economy impacted household budgets. However, our residential arrears (2.5% or more of outstanding mortgage balances) improved during the year to 2.16% compared to 2.24% at the end of 2009. The charge for residential losses was £15.4m compared to £12.2m in 2009.

Our commercial portfolio accounts for less than 8% of our total loan book. Commercial arrears (2.5% or more of outstanding mortgage balances) fell to 8.1% from 10.1% and the charge for commercial losses in the year was £28.2m, compared to £40.3m in 2009. Included in the 2010 losses was the write-off of an impaired loan where the Society provided subordinated debt. Balance sheet provisions at the end of the year were £34m.

The Society's total charge for losses for the year was £44.2m compared to £52.5m in 2009. Total balance sheet provisions against mortgages, liabilities and charges at the year-end rose to £70m from £66m at the end of 2009.

PROFITABILITY AND EFFICIENCY

The Society increased its net interest margin from 1.12% to 1.15% during the year, a good performance in the current competitive market. This has been achieved through closely managing the balance of contribution between our savers and borrowers, and offering a wide range of competitive mortgage and investment products.

We continue to focus on ensuring that members' money is employed efficiently within the business, which leads to a strong culture of cost

"As a result of consistent earnings and maintaining good cost control, we have been able to deliver record operating profits of £84.5m..."

control. This enabled us to have the best cost income ratio of any major building society in 2009 and we expect this to be maintained when the comparative data for 2010 is available. Our cost income ratio improved even further in 2010 from 36% to 34%. As a result of consistent earnings and maintaining good cost control, we have been able to deliver record operating profits of £84.5m (2009: £80.1m).

The Society had previously made a provision for an investment in Kaupthing, Singer and Friedlander. I am pleased to be able to report that we have disposed of the investment to a third party and this resulted in a £3m profit in the income statement.

Pre-tax profit rose to £42.2m, a 33% increase compared to 2009, reflecting both record operating profits and a lower provision charge.

The post-tax profit of £30.9m (2009: £22.6m) has been added to our reserves which now total a record £505m. The high level of reserves, which are classed as Tier 1 capital, enabled the Society to repay £39m of our £40m of subordinated debt. Our capital and reserves totalled £531m (2009: £543.1m) at the end of 2010, of which only 5% was in the form of remunerated capital, the lowest percentage of the larger building societies. The Society's Tier 1 capital ratio rose to 13.9% at the end of 2010, from 12.7% a year earlier, and remains significantly ahead of regulatory requirements.

OUR STAKEHOLDERS

We continue to balance the needs of our members and staff, whilst developing the strong relationships we have with the regulator, the Bank of England, the media, industry trade bodies and credit rating agencies. The Society has the highest credit rating in the sector for bank financial strength awarded by Moody's, who commented on the Society's strong management of costs, good asset quality and solid funding structure. Fitch re-affirmed our key ratings in November 2010, stating that they 'reflect [the Society's] resilient revenue generation, excellent cost management and strong capital position'.

BOARD COMPOSITION AND REMUNERATION

We strengthened our Board in 2010 with the appointment of Les Platts in October as a non-executive director. Mr Platts, a Chartered Accountant, spent 33 years with Deloitte, and brings a wealth of financial experience that will be invaluable in the highly regulated environment in which we operate. A summary of the key details of Les Platts, together with those of our Chief Executive, Ian Ward, and Vice Chairman, Rodger Booth, are included on page 7. These directors are all subject to election or re-election at the Annual General Meeting (AGM) that will be held on 29 March, 2011 at our new venue, the City Museum in the centre of Leeds, and I ask for your support for them.

In May 2010, the Society announced that Ian Ward would retire on 31 December, 2010 as Chief Executive and be succeeded by David Pickersgill, our current Deputy Chief Executive and Finance Director. Unfortunately, due to a prolonged period of ill health, David was not able to take up this appointment, but we are hopeful that his health will continue to improve and we wish him a speedy recovery. I am pleased to report that Ian Ward has agreed to remain as Chief Executive until his successor is in post. It is the Board's intention to make an appointment to succeed him in 2011 and, to facilitate this, an executive search firm has been engaged. The changes in leadership of the Society will present additional challenges during 2011.

The Board has appointed as Acting Finance Director, Gary Mitchell, a Chartered Accountant, who has worked for the Society for over 20 years, latterly as General Manager Finance & Risk, and has a wealth of experience in the building society sector.

Continued close scrutiny of executive performance, and measurement against testing criteria specified by the Board, have resulted in performance related awards being made this year to the senior executives and most staff. Details are contained in the Directors' Remuneration Report on pages 15 and 16.

SUMMARY

The Society has once again achieved a very strong set of results. My thanks go to our professional and dedicated staff who have worked tirelessly to achieve this excellent performance and deliver superior service to our members. The senior management team continues to lead the Society with confidence in challenging market conditions and I am also extremely grateful to them and to my non-executive Board colleagues.

In 2011, the Society will continue its prudent approach to lending, manage costs effectively and will develop attractive products for our members. The wealth of experience at the Society will be invaluable in delivering these objectives in the future. Our strong capital base and the continued funding of mortgages by retail savings will enable us to grow our business in 2011 and beyond.

Ian Ward will retire in 2011 after nearly 16 years as Chief Executive and, on behalf of my Board colleagues, I extend my warmest thanks to him for his enormous contribution. He has been highly successful in leading our Society, which, during his tenure, has almost quadrupled in size and has achieved profitability in every single year. We are now the UK's fifth largest building society. Ian's achievements were recently recognised when he won the Yorkshire Post Excellence in Business Individual Award. His outstanding leadership was commented on at the awards ceremony, as well as his calm stewardship through some very tough times in the financial markets. For me, it has been a privilege to work with an individual of such exceptional talent and integrity and I record my personal tribute to him.

Your Society is in extremely good health and I am confident that our sustainable business model places us in a very good position to grow and prosper. I would like to thank all our members for their continued invaluable support. Your Board and all the Society's staff continue to work on your behalf to ensure the Society has a successful, independent future.

R. A. Smith

Robin Smith
Chairman
21 February 2011

Chief Executive's Review

For the year ended 31 December 2010

2010 Business Highlights:

- **Operating profit increased by 5% to a record £84.5m (£80.1m 2009).**
- **Pre-tax profit rose by 33% to £42.2m (£31.7m 2009).**
- **Savings balances grew by £245m to a record level of £7bn.**
- **New lending increased by 7% to £984m (£922m 2009).**
- **52,000 new members attracted, taking total membership to a record 684,000.**
- **Efficiency improved even further in 2010 with cost income ratio reducing from 36% in 2009 to 34%, which was the most favourable of any major building society.**
- **Quality of lending remains good with the average loan to value (LTV) on 2010 advances being just 53%.**
- **Wholesale funding ratio reduced to 20% (23% 2009).**

Leeds Building Society has performed very strongly in 2010, with record operating profits, higher savings balances, over 52,000 new members and almost £1bn of new mortgage lending. Our already high level of reserves has risen even further. This has been achieved in the context of continuing challenges for the financial services sector in attracting both retail and wholesale funding, combined with a UK mortgage market that has seen little growth in recent years.

SAVINGS

Retail savings remain at the heart of our business. We achieved an above plan performance by offering a competitive product range supported by our qualified, trained and friendly staff, who ensure our members access the advice they need to achieve the best out of their savings. The lowest interest rates on record have continued to make conditions difficult for those who rely on their savings for income. We aim to deliver a wide choice of accounts to help our members in the current climate and maximise their tax efficiency.

The Society attracted over £2bn of new savings, resulting in a net increase in balances of £245m, taking our overall total to £7bn. This was a very good result in 2010 as this rise was more than twice our natural market share. We continued to build on our success of the previous year by providing good quality products to members. These included our popular ISA accounts which saw an increase in balances of 13% on top of the 30% achieved in 2009. Our fixed term bonds also performed strongly as we continued to offer an element of penalty free access, a feature that is not commonly available on this type of product.

During 2010, we were able to attract 52,000 new members, taking our total to more than 684,000. Our Member Loyalty Bond was again very popular and I am pleased that we are offering another exclusive account for our loyal customers.

We gained recognition for the quality of our products at the prestigious 2010 Moneyfacts awards when we achieved the accolade of both 'best notice' and 'best no notice' account provider. This further demonstrates our commitment to providing excellent value and choice for our customers.

MORTGAGE LENDING

From our strong financial position, we have been able to increase gross residential lending in 2010 to £984m compared to £922m in 2009. This has been achieved in the context of the overall UK mortgage market which experienced a reduction of £7.5bn in new lending compared to 2009. The Society's gross lending was almost £250m above our natural market share but our prudent approach on new mortgages delivered an average loan to value (LTV) of 53% on loans taken out during the year.

Over recent years, we have achieved a balanced lending portfolio through a mix of business which, in 2010, included 8% on shared ownership loans and 12% on buy-to-let mortgages. Shared ownership enables people to purchase a property, usually in conjunction with a housing association, and is particularly suited to first time buyers. We are also keen to support new and existing members looking for a mortgage, either to buy or to refinance a property. We have specialist advisers in branches and also a dedicated mortgage unit where staff are available to speak to applicants from 8am to 8pm, seven days a week. The telephone number to call is 08450 505 062.

New challenges will face us in 2011, particularly potential regulatory changes which may be implemented as a result of the Mortgage Market Review. We shall continue to monitor market developments closely and are confident that we shall deal effectively with any new requirements.

Whilst our new residential loans in 2010 totalled £984m, the Society received repayments from residential mortgage customers of £962m, which, therefore, resulted in a small overall increase in balances of £22m. The amount outstanding on commercial loans reduced in 2010 by £37m to a total of £576m. We did not make any new commercial loans during the year.

OTHER INCOME

Other income is an important part of the Society's earnings and in 2010 this increased by 10% to £21.3m. During the year, our Leeds Financial Services subsidiary, which sells investment products provided by Aviva and Credit Suisse, celebrated its tenth anniversary and saw income rise to £9m from £8.4m in 2009, the fifth consecutive year of increase. This was achieved through improvements to the product range and by delivering high levels of customer service and financial advice.

Our general insurance activities, which provide cover for our members' homes and protection for their mortgage payments if they become ill or unemployed, achieved income of £5.5m (£5.6m in 2009) with home insurance sales increasing by 15%. These insurances are provided by Aviva, with which we have recently negotiated a new contract, delivering improved benefits for our members and the Society.

We reviewed our credit card arrangements during the year and are now offering a Leeds Building Society VISA branded card, in conjunction with MBNA, Europe's largest credit card provider. Full details of the card's benefits, which include a 0.50% cashback on purchases, can be obtained by visiting any of our 65 UK branches or our website at www.leedsbuildingsociety.co.uk.

CUSTOMER SERVICE AND FAIRNESS

As a member-owned business, treating customers fairly and delivering excellent customer service underpin our objectives and mission statement.

Independent monthly surveys are conducted to assess the level of customer satisfaction and I am very pleased to report that we have seen a further increase in satisfaction levels, which averaged 95% in 2010. We also use these surveys for comparison purposes and these show that we consistently outperform our competitors across a wide range of service measures.

We are committed to operating through various distribution channels to ensure that our members are able to contact us by their preferred method. All of our customer contact points are continually reviewed to ensure they deliver first class service in a cost efficient way. For instance, service standards at our Call Centre (open 12 hours a day, seven days per week) have improved with an average speed of answer of only 14 seconds.

Customer feedback is important in helping us identify areas where our service can be improved so please feel free to contact the Society if there are any issues you would like to raise. When customer comments or complaints are received, we have robust processes in place to ensure that they are fully considered, with responses provided quickly and fairly.

We continue to invest in our branch network with refurbishments at six branches in 2010 and further locations identified for improvements in 2011.

Our commitment to customer service was further demonstrated when the Society was voted best regional branch network by Your Money, a leading consumer magazine. This award is only given following a rigorous judging process, which included many mystery shopping exercises undertaken at our branches by Your Money. The award is testament to the hard work carried out by our professional, friendly branch staff.

CORPORATE AND SOCIAL RESPONSIBILITY

Our charitable and community projects continue to be very important to us and we are particularly proud that Leeds Building Society Charitable Foundation has now made donations of over £1m since it was established in 1999. During these 11 years, it has supported many worthy causes, resulting in over 1,200 individual donations.

In addition to the above, we support Marie Curie, Age UK, Save the Children, Help for Heroes, World Wildlife Fund, the British Heart Foundation and St. George's Crypt. The total amount donated to these charities in 2010 was over £70,000. This sum is generated from our Caring Saver account (which pays 1% of the average balance held over the year), as well as the donations from votes at the Society's AGM and the 'Your Interest ...In Theirs' scheme, which is the pence value of the interest paid to investors during the year. If you wish to do this with your savings account, you can register for the scheme by simply contacting your local branch or telephoning our Call Centre on 0113 225 7777 and they will provide you with the necessary information.

Our staff also undertake activities in their own time to raise money for charity. In 2010, our employees have been involved in bungee jumps, a dragon boat race and numerous auctions and raffles. Altogether, they have raised over £25,000 for charitable causes.

The Society has also focused on environmental issues and, in June, we installed the first rooftop beehive in Yorkshire at our Leeds Head Office. In addition, we were very proud to receive the Mortgage Finance Gazette 2011 Best Ecological / Green Award, with the judges highlighting initiatives designed to reduce paper usage, minimise power consumption and increase the level of recycling. The Society was also the first building society, and one of only 13 financial services organisations nationally, to be awarded the Carbon Trust Standard in July 2010, for the reduction in carbon emissions at our Head Office.

We have continued to develop our sporting affinities, including being the main sponsor of the successful Leeds Rhinos rugby league team. We also support a number of other football and rugby clubs including Leeds United, Doncaster Rovers, Bradford City and Huddersfield Giants. These initiatives, which include youth development projects, increase the brand awareness of the Society.

Our staff are vital to the success of the Society and we continue to be an 'Investor in People' with the regular surveys under this initiative confirming the strong satisfaction ratings amongst our employees. We encourage all staff to make us aware of any comments or opinions they have, so that they can be considered as part of our future plans.

OUTLOOK

The economic climate remains uncertain, with the possibility of falls in residential and commercial property values, potential declines in household income and more financial services regulation. Unemployment is likely to rise further and this could impact on levels of arrears and repossessions, particularly when interest rates increase from their current low levels.

However, our continued ability to improve our capital and reserves through good levels of profitability leaves us in a strong position to grow our business in the coming years. As a result, we intend to increase new residential mortage lending by at least 25% in 2011 but will ensure this is underpinned by sound underwriting.

Being able to achieve our lending aspirations will depend on generating adequate funding, either retail or wholesale, which may prove challenging given the continued market uncertainty.

SUMMARY

We shall continue to monitor developments in the market and remain confident that the Society has the skills, experience and financial strength to deal with any challenges that arise.

Our ongoing success has been achieved through the dedication and professionalism of the Society's staff who have worked very hard to deliver these good results. I would like to thank all of my colleagues for their substantial contributions during the year.

The Chairman has outlined the situation regarding my successor in his Statement and that I have agreed to remain as Chief Executive until the successful candidate is in post. This will be during 2011, after which time I shall retire. During my 15 years here, the Society has been very successful, thanks to a high quality team of directors, management and staff, and I am grateful to them all. I would also like to thank our members for their continued loyalty. I know I shall miss the day-to-day excitement of my role but I shall be following very closely the future success of our Society. We have a superb business and I am very confident that we will continue to be a highly successful independent building society.

Ian Ward
Chief Executive
21 February 2011

The Board of Directors

Robin Smith

Ian Ward

John Anderson

Rodger Booth

Peter Hill

Carol Kavanagh

David Pickersgill

Les Platts

Abhai Rajguru

Kim Rebecchi

Ian Robertson

Bob Stott

"Your Board and all the Society's staff continue to work on your behalf to ensure the Society has a successful, independent future."

Robin Smith (68)

I joined the Board in 1998 and became Chairman in March 2007. Shortly thereafter the financial crisis began and it has been a privilege to chair a Board of committed and experienced directors as we responded successfully to the challenges presented. I practised as a solicitor, ultimately becoming senior partner of my firm (now DLA Piper). I am a non-executive director of Bartlett Group (Holdings) Ltd. and of the Yorkshire County Cricket Club. I maintain my links with the Territorial Army and with a number of local and national charities.

Ian Ward (61)

I joined the Society in 1995 as Chief Executive following a successful career in banking and building societies. I am a member of the Council of the Building Societies Association. Despite the very challenging economic environment, it is very satisfying that the Society has continued to provide competitive products and high quality service to members. I am married to Gill and have two sons and our family home is in Yorkshire. Outside of work, I have a keen interest in sport and enjoy watching the Leeds Rhinos rugby league team who the Society has successfully sponsored since 2007.

John Anderson (65)

I joined the Board in 2006 as a result of the merger between Leeds Building Society and the Mercantile Building Society, of which I was Chairman. I am a great believer in mutuality and I am delighted to have joined a Board which is totally committed to mutual status. I hold several public/private partnership directorships and I am Chairman of City Hospitals Sunderland Foundation Trust. In my spare time I am a keen follower of cricket, being an honorary life member of Durham County Cricket Club.

Rodger Booth (67)

I was asked to join the Board at the end of 2000. After training in the computer industry as a systems analyst, my main career has been in the printing industry, latterly as Chief Executive and Chairman of Bemrose Corporation. For the Society, I currently specialise in the areas of remuneration and pensions. I am an enthusiastic watcher and participant of sport, particularly cricket and golf. I believe strongly in the real and sustained benefits which mutuality can provide for members.

Peter Hill (49)

I joined the Society in 2001, and the Board as Operations Director in August 2006. I am responsible for the smooth running of the Society's Head Office customer service units, IT and Property. As a chartered banker, I have over 30 years' experience in the Financial Services industry. My interests outside work revolve around my family, having two sons. I am also a keen golfer. I believe that the Society is best able to meet the needs of its membership by delivering outstanding customer service and remaining independent.

Carol Kavanagh (48)

I joined the Board in 2005 and I am currently a member of the Society's Remuneration Committee. I believe that my 25 years' business experience provides value to customers and staff alike. I hold another position as Executive Group HR Director for Travis Perkins plc. I am a firm supporter of the benefits of mutuality and believe that this is the key to the continuing success of the Society and a major differentiator in the wider financial services sector. Outside work I devote most of my spare time to my family.

David Pickersgill (57)

I joined the Society in 1986 and was appointed to the Board in 1995. I am the Deputy Chief Executive and Finance Director and I am very proud to work for a successful independent building society. A Chartered Accountant by profession, my working life has been in accountancy and building societies. Outside work, I am a Trustee of Smartrisk Foundation UK and a member of the Court of the University of Leeds. I am also a keen supporter of sport and particularly enjoy watching football, rugby and cricket.

Les Platts (57)

I joined the Board in 2010 and I am a member of the Credit and Remuneration 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 a pensions administration business. I am married with two children and outside of work I support the NSPCC. I am also a keen follower of cricket, football and rugby.

Abhai Rajguru (45)

I joined the Board in 2008 having spent my career in the financial services sector. I hold a number of directorships including a private equity firm and a hospital trust. 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 (44)

I joined the Board in December 2009, having worked for the Society since 1988. I am Chairman and Director of our successful subsidiary company, Leeds Financial Services Ltd. Being Leeds born and bred, it is an honour to be on the Board of the only mutually owned financial services organisation with its Head Office in Leeds. Outside work, I enjoy cooking for family and friends, walking in the beautiful Yorkshire countryside and reading.

Ian Robertson (63)

I joined the Board in 2008 and am a member of the Audit, Group Risk and Credit Committees. I was delighted to join such a highly regarded local institution and to work with the Society in further enhancing 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 currently Chairman of the Audit Advisory 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 (67)

I was appointed to the Board in 2008, following my retirement as a director of Wm Morrison Supermarkets plc. I currently serve on the Society's Audit, Assets & Liabilities and Remuneration Committees. I hold three other directorships and I am also a Trustee of the YCCC Charitable Youth Trust. Mutuality for me means that our endeavours can be focused entirely on our members, and I intend to play my part in keeping it this way. Outside work I enjoy spending time with my family and I follow most team sports.

Directors' Report

For the year ended 31 December 2010

Statement of the Society and its subsidiaries ('the Group') for the year ended 31 December 2010.

Business Objectives and Future Developments

The Group's main objective is to provide existing and new members with residential mortgages and retail savings products. In support of the main objective, the Group seeks to deliver quality customer service, cost efficiency and competitive products, returning value to members whilst preserving financial strength.

The Group's business and future plans are reviewed in more detail by the Chairman and Chief Executive on pages 2 to 5.

Performance for the Year

The performance and development of the Society is measured by reference to a range of performance indicators. For 2010, the key performance indicators were as follows:

Post-tax profit as a percentage of mean total assets

The post tax profit ratio was 0.32% (0.23% in 2009). The pre-tax profit of the Group increased by 33% to £42.2m compared with £31.7m in 2009.

Change in total assets

Total assets were £9.5bn at the end of the year, which was the same as at the end of 2009. Mortgage balances also remained at a similar level to the 2009 position. Mortgage advances were £1.0bn, compared to £0.9bn in 2009. Liquid assets were £1.9bn, representing a ratio of 22% of shares and borrowings. The Directors consider that the level of liquidity is generally appropriate to the activities of the Group.

Growth in share balances to members

During the year, member share balances increased by £245m, to £7.0bn (2009: £225m to £6.8bn), an increase of 4% from the end of 2009.

Management expenses ratios

Management expenses were £44.3m, a slight reduction from 2009's level of £44.4m. The management expense ratio (management expenses as a percentage of mean total assets) increased to 0.47% from 0.45% in 2009. Management expenses as a percentage of total income improved to 34%, from 36%, in 2009. Net costs (management expenses less non interest income) as a percentage of mean assets reduced to 0.26%, from 0.30%.

Capital strength

At 31 December 2010, gross capital, represented by general and other reserves, revaluation reserves, subordinated liabilities and subscribed capital, amounted to £540m. This was 6.2% (2009: 6.3%) of shares and borrowings, which the Directors consider is appropriate to the activities of the Group. Free capital, represented by gross capital together with the collective loss provision, less tangible fixed assets and investment properties, amounted to £526m, 6.0% (2009: 6.1%) of shares and borrowings. The reduction in the gross and free capital ratios reflects the buy back of £39.1m of the £40m subordinated debt during 2010. Overall, the capital ratios reflect the continued financial strength of the Group.

Other performance measures

Net interest income reduced by £0.7m to £109.1m from £109.8m in 2009, with a net interest margin of 1.15% (1.12% in 2009).

Non interest income increased to £19.7m, compared to £14.7m in 2009, mainly as a result of the impact, in 2009, of fair value losses from derivative financial instruments.

The impairment provision for mortgage losses for loans and advances to customers was £65.4m (2009: £59.1m).

At 31 December 2010, there were 471 (2009: 443) mortgage accounts 12 months or more in arrears. The total mortgage arrears in these cases were £8.0m (2009: £4.4m) and the total of principal loans outstanding was £93.7m (2009: £61.5m). The increase in the outstanding loan amount and arrears is mainly in respect of commercial loans.

Principal Risks and Uncertainties

A summary of the principal risks and uncertainties facing the Society, and its subsidiary undertakings, and the procedures put in place to manage them is set out below with more detail provided in Note 36 to the Accounts on pages 53 to 72.

The Board retains full responsibility for the operational activities of the Society. In order to ensure that the interests of its members are adequately protected at all times, the Board has established and embedded a robust governance structure and risk management framework that are designed to identify, manage, monitor and control the major risks exposed in the delivery of the Society's strategic objectives. Details of the Society's governance structure are included in the Corporate Governance Report on pages 12 to 14.

The principal risks that arise from the Society's operations are credit, treasury, operational, strategic and external risks. These key categories of risk are common to most financial services organisations in the UK.

Risk Management Framework

The oversight and direction of the Board is central to the Society's risk management framework. It ensures, through a series of Board sub-committees and management forums, that appropriate policies, procedures and processes are implemented across the business to control and monitor risk exposure.

The framework identifies operational roles and responsibilities (both individual and collective) in the risk management process and ensures that exposed risks are aligned to the Risk Appetite Statements of the Board, with any unacceptable risk exposures being managed and mitigated. Each of the Board sub-committees includes at least two non-executive Directors, with other committee members drawn from the executive and appropriate members of senior management.

The key risk orientated committees, operating under the delegated authority of the Board, include the Group Risk Committee (GRC), Assets and Liabilities Committee (ALCO), Board Credit Committee (BCC) and Audit Committee (AC).

Further details relating to the GRC, ALCO, AC and BCC are set out in the Corporate Governance Report on pages 12 to 14.

Additional oversight and direction is delivered through a weekly Operational Review Committee (ORC) and a monthly Strategic Review Committee (SRC), which enable the senior management team to manage the day-to-day risks within the business.

At an operational level, specialist management forums have been established to review the day-to-day performance of the business. These include a Management Assets and Liabilities Committee, a Business Continuity Group, an Information Security Forum, a Treating Customer Fairly Steering Group and a Pricing Committee. In addition, an Integrated Assurance Group, comprising representatives of the Society's key control functions, co-ordinates the development and testing of operational controls.

Credit Risk

The Board accepts that, in the delivery of its strategic plans, the Society will be exposed to the risk of loss arising out of the failure of borrowers to repay their credit

"... the Group seeks to deliver quality customer service, cost efficiency and competitive products."

commitments. As a building society, Leeds Building Society is inherently exposed to credit risk within its core operations.

Material exposures are limited to the provision of loans secured on property within the UK and, although the Society has some elements of credit risk attached to commercial, overseas and unsecured lending, over 85% of the Society's credit risk is in the form of UK residential mortgages.

Residential mortgage exposures are managed in accordance with the Board approved Lending Policy. This policy is implemented with the support of credit scoring systems and underwriting processes, which assess the applicants ability and willingness to pay, alongside the suitability of the proposed security property. These front end processes underpin the assessment of potential borrowers, prior to completion. Post completion, day-to-day, management of borrowers' accounts is the responsibility of the Customer Service and Customer Care teams.

The BCC reviews high level trends and indicators by monitoring product and sector limits, together with detailed analyses of arrears, loan-to-value ratios, expected losses and scorecard performance. In 2010, the Society made appropriate changes to its Residential Lending Policy and product range to reflect the economic environment. In addition, a new mortgage application scorecard was implemented by the Society, from the beginning of October, which will enhance the lending decision process.

For two credit risk exposures (unsecured and commercial loans) the Society withdrew from new lending in 2008 due to a reduced risk appetite for such lending. Operationally, Management has retained appropriately skilled staff to ensure the orderly run-off of the closed books. Sub-committee oversight continues to challenge Management on its performance. In the short term, it is unlikely that the Society will re-enter these markets.

In addition to the retail credit risk exposures noted above, there is also an inherent risk that Treasury counterparties default on their obligations to the Society and create counterparty credit risk losses. The risks associated with, primarily, unsecured Treasury counterparty lending appear, overall, to be low, given that the Society only lends to financial organisations which have a minimum credit rating of A3 (95% of the portfolio), although some lending is also undertaken to unrated building societies. The risks arising from counterparty failure are overseen by the ALCO and are considered to have reduced in 2010, when compared to 2009. In particular, the Society has reduced its exposure to counterparties in Spain, Ireland and Portugal from £86m, at the end of 2009, to £47m, at the end of 2010. This is expected to reduce further in 2011. The Society has no exposure to Greece.

Treasury Risk

Interest rate risk is the potential adverse change in the Society's income or the value of the Society's net worth, arising from movements in interest rates. Interest rate risk arises from the differing interest rate characteristics of the Society's mortgages, savings and other financial instruments.

Operating under a Board approved Financial Risk Management Policy, interest rate risk is managed by Group Treasury, through the use of appropriate hedging instruments, or by taking advantage of natural hedges within the Society's balance sheet. In 2010, the operating environment has continued to be influenced by prevailing low interest rates and lower business volumes than in recent years. In the second half of 2009, Management targeted a reduction of the risk taken in this area and the actions started last year have been successfully completed.

Liquidity risk is whether the Society will be unable to meet current and future financial commitments as they become due. The Society's policy has always been to maintain sufficient liquidity to cover cash-flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Society and enable it to meet its financial and regulatory obligations. In line with the plan established last year the overall quality of liquid assets has been increased, which has reduced this risk further. At the end of 2010, the proportion of long term wholesale funding represented over 40% of the Society's total funding received from wholesale counterparties and provides a stable and secure base for the Society's operations.

In 2010, the Society did not experience any significant events relating to its other treasury risk exposures (settlement, currency and complex product risk). Notwithstanding this position, it maintains a highly controlled environment which is subject to the oversight of the ALCO.

Operational Risk

To minimise operational risk, the Society maintains a system of internal controls, which reflects the size and scale of the business. Central to the risk management framework is an ongoing risk assessment, which identifies and assesses all risks that may arise from operational activity. Whilst credit and treasury risk exposures are principally borne out of the Board's Appetite for Risk, operational risk arises as a consequence of fulfilling the stated appetite.

The Society has, therefore, embedded its operational risk management framework and established a common structure in all business activities for managing risk and identifying control issues. Whilst the Audit Committee acts as the relevant oversight body, the day to day management of operational risk is the responsibility of line management and the ORC and SRC.

The Society has developed broad groupings of operational risk that incorporate various different types of risk including legal and regulatory process and system type risks, and people and financial crime type risks.

Under the Basel II framework the Society currently operates the Basic Indicator Approach to its calculation and allocation of capital for Operational Risk. In 2011, the Society is planning to develop its methodology so that it is a position to migrate to the more sophisticated and sensitive Standardised Approach (TSA). This is in line with the Society's commitment to the continuous improvement of its risk management practices.

Other Risks

In addition to the key areas of risk already noted above, the Board has identified a number of risks which stand alone from the core groupings. These include reputation and business risks. Whilst the Board is fully aware of the potential impact of such risks, particularly in times of economic uncertainty, they are peripheral to the Society's physical operations and, accordingly, senior management and the Board retain the ownership and responsibility for these exposures.

Uncertainties

With reference to 2011, the principal uncertainties facing the Group are associated with difficulties within the European Union (EU), the UK economy as a whole and the outlook for financial markets.

In 2010, two EU countries, Greece and Ireland, received emergency funding from the EU and International Monetary Fund. Other countries in the EU, principally Portugal and Spain, are now also considered to be at risk of requiring some form of support. The Society has progressively reduced its exposure to all of these countries and now has only a small number of legacy positions, which will mature between 2011 to 2014. The emergency funding deals to date have not required any bondholders to suffer a loss on their holdings and on that basis the Society's loans are expected to be fully repaid when they mature. The difficulties in the EU have also resulted in some debates over the long term future of the Euro currency. The Society has less than 4% of its commercial assets denominated in Euros and the currency risk is protected through derivative instruments.

Residential house prices and arrears levels in 2010 have been better than expected and, although Management considers that the Society's residential portfolio is well placed, the outlook for the coming year would be affected by rising unemployment and any increase in interest rates, both of which would put pressure on borrowers' ability to repay. The Board expects unemployment to rise only modestly, in 2011, as the impact of the Government's spending review is likely to be offset partially by growth in employment in the private sector. It also expects interest rates to remain relatively low, which is beneficial from an affordability perspective, and house prices to remain broadly flat. In light of these conditions, and the more positive outlook for the economy in general, the Society has an appetite for increasing new lending above the levels achieved in the past three years, albeit without any relaxation in the current underwriting criteria.

The commercial property market has remained subdued in 2010. However, commercial property values stabilised in 2010, which together with an improvement in the UK economy provide a more positive outlook for this sector, than in the last few years. The Society ceased lending in this market, in 2008, and is now working closely with its existing borrowers to help them continue to meet their obligations to the Society. Where this is not possible, the Society will take the necessary action to mitigate its exposure. The Society has balance sheet provisions of £34m for impaired loans in the commercial portfolio and the amount of provisions in 2011 will be determined by the extent that the improved conditions assist the borrowers' ability to fulfil their future commitments.

Although there has been some easing in the wholesale markets during 2010, the availability of wholesale funding in the forthcoming year is likely to be affected by the maturity of Government backed schemes. These conditions have led to an increased demand for retail savings, which in turn has led to a rise in the cost of new funds and this is likely to continue, into 2011. The Society, which raised £486m of long term funding in 2010, has met its current requirements and, as a consequence, no new long term funds are required in 2011. In addition, as the Society has retained its strong credit ratings, it is able to continue to access short term funds from the wholesale markets, at a competitive rate. This position, together with the planned lending targets, means that the level of retail funding required, in 2011, is similar to the amount raised in 2010. Accordingly, the Society will be able to compete in the retail market, on a selective basis.

Following the difficulties faced by the financial markets since 2007, the regulatory architecture is being enhanced, with changes covering the mortgage market, the management of funding and liquidity risk and capital levels, all of which are likely to have a significant impact on the financial services sector. In addition, the Society's current regulator, the Financial Services Authority, is being split into two. A new Prudential Regulation Authority, within the Bank of England, will be responsible for the prudential regulation of financial institutions, including building societies. A new Customer Protection and Markets Authority is also to be established.

All these changes are likely, to some extent, to impact the way the Society and other banks and building societies operate. These developments are taking up a considerable amount of Management's time, in ensuring that the Society remains compliant, effective and well capitalised.

Basel II – Pillar 3

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

Going Concern

The current economic conditions present increased risks and uncertainties for all businesses. In response to such conditions, the Directors have carefully considered these risks and uncertainties and the extent to which they might affect the preparation of the Financial Statements on a going concern basis.

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. It also maintains a borrowing facility to supplement liquidity if required;
- 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 the low interest environment and 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 Annual Report and Accounts.

"... the Society recognises the importance of effective communication with its members."

Directors

The following persons served as Directors of the Society during the year:

Mr R. A. Smith
(Chairman)

Mr S. R. G. Booth
(Vice Chairman)

Mr I. W. Ward
(Chief Executive)

Mr J. N. Anderson

Mr P. A. Hill
(Operations Director)

Mrs C. M. Kavanagh

Mr I. Marshall
(resigned 12 February 2010)

Mr D. Pickersgill
(Deputy Chief Executive)

Mr L. M. Platts
(appointed 26 October 2010)

Mr A. Rajguru

Ms K. L. Rebecchi
(Sales & Marketing Director)

Mr I. Robertson

Mr R. W. Stott

Details of the Directors of the Society at 31 December 2010 and who continue in office are shown on pages 6 and 7.

In accordance with the Rules, Mr L. M. Platts offers himself for election, and Mr S. R. G. Booth and Mr I. W. Ward offer themselves for re-election by the members at the Annual General Meeting.

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

Corporate Governance

Statements on Corporate Governance and Directors' Responsibilities are set out on pages 12 to 14 and page 17.

Auditor

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

Charitable and Political Donations

The Group made a donation of £113,000 to the Leeds Building Society Charitable Foundation. Our Caring Saver Account enabled further donations of £43,000 to be made to charities. Other charitable donations in the year amounted to £57,000. No contributions were made for political purposes. Further details are included in the Chief Executive's Review.

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. The Society has, therefore, an agreed policy, and a 'Go Green' team, which seek 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 and, specifically, the amount of waste paper recycled has been significantly increased. Where available, the Society uses good quality combined heat and power which is considered to be more environmentally friendly than traditional methods of production. The Society works in partnership with its suppliers to manage and minimise carbon emissions.

Changes to the Society's printing strategy have seen a reduction of 20% in the amount of paper utilised in 2010, compared to 2009. Our environmental approach has been recognised by the award of the Carbon Trust Standard – the first building society to achieve this.

Communication with members

As a member-owned business, the Society recognises the importance of effective communication with its members. Each month, the Society uses an independent market research company to consult with members, and the outcome is reported quarterly to the Board.

Through its subsidiary, Leeds Financial Services Limited, the Society hosts a number of seminars for new and existing members to discuss their financial needs and this also provides an opportunity to discuss more general issues. In addition, senior management undertakes a regular programme of branch visits to meet both staff and customers. A formal framework also exists for written communications with members.

The Society encourages all eligible members to participate in the AGM, either by attending in person or voting by proxy. In order to encourage voting at the 2011 AGM, members will, once again, be able to vote online using the internet, and a charitable donation is being made for each vote cast. In this regard, a choice of charitable recipients is being offered. In 2010, 15.1% of members who voted used the internet.

All voting members receive a copy of the 'Highlights' magazine which provides information and updates on the Society's activities, together with the Summary Financial Statement.

Staff

The Society has maintained and developed systems during the year for effective communication with employees. The provision of information continues through the Intranet, e-mail, circulars, staff magazine, meetings, presentations and team briefings to ensure staff are aware of the Society's performance and objectives and the business environment in which it operates. There is a Staff Association, through which members of staff make their views known on matters that affect their employment and, in addition, there is also a regular staff satisfaction survey.

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, staff who develop a disability continue their employment with appropriate training or redeployment where necessary and reasonable adjustments are accommodated.

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 10 days at 31 December 2010 (2009: 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.

By order of the Board

Andrew J. Greenwood

Andrew J. Greenwood
Secretary
21 February 2011

Corporate Governance Report

For the year ended 31 December 2010

Introduction

Leeds Building Society voluntarily has regard to best practice, as recommended by the UK Corporate Governance Code, (the Code) formerly the Combined Code on Corporate Governance, issued by the Financial Reporting Council (FRC), which applies to listed companies. The Code sets out principles for ensuring the effectiveness of non-executive directors. The most recent version came into effect in July 2010. It applies to accounting periods beginning on or after 29 June 2010. However, the Society has taken a proactive approach, and will have regard to the Code for the accounting period which began on 1 January 2010. The FRC also publishes, under the Code, guidance in relation to audit committees. This report explains the Society's approach to Corporate Governance, and sets out details of the principal Board Sub-Committees, together with attendance records for those Committees.

Recent Developments in Corporate Governance

In addition to the introduction of the UK Corporate Governance Code, the principal development has been the Financial Services Authority's policy statement on effective corporate governance, which sets out changes to the framework relating to the Approved Persons regime, including the roles covered and the arrangements for obtaining approval. The new arrangements come into force in May 2011, and represent the FSA's response to the Walker review.

The FRC has also consulted on changes to the Higgs guidance on improving board effectiveness, and the Society will consider the final version when it is published, in 2011. Any changes to the FRC guidance on employing the statutory auditor for non-audit services will also need to be taken into account.

The Board

At 31 December, 2010, the Board comprised four executive and eight non-executive Directors. The offices of Chairman and Chief Executive are distinct and held by different individuals. 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. Whilst Mr L. M. Platts left Deloitte, the Society's current external auditor, in May 2008, within three years of his appointment to the Society's Board, he was not, at any point involved with the Society's audit, and the Directors consider that these circumstances do not affect his independence of character and judgement (see also below in respect of Mr S. R. G. Booth). 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. A brief biography of each Director is set out on page 7. The Board considers that the Directors' skills and expertise complement each other to provide the appropriate balance, in terms of protecting members' interests and addressing the requirements of the business. The role of Senior Independent Director under the Code, insofar as it applies to the Society, is undertaken by the Vice-Chairman.

The Board operates through meetings of the full Board, as often as necessary for the proper conduct of business, normally at monthly intervals, and its main committees which are detailed on pages 13 to 14. At least annually, the non-executive Directors meet without the executive Directors being present. The Board's focus is on the formulation of strategy and the monitoring and control of business performance. A framework of delegated authorities is in place, which extends to the Society's Officers, management and various management committees. This was reviewed and updated during the year.

The appointment of new Directors is considered by the Nominations 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 FSA and must receive approval from the FSA, as an Approved Person. All Directors are required to submit themselves for election by the Society's members at the first opportunity after their appointment and 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. Ordinarily, Mr S. R. G. Booth, the Society's Vice Chairman, who has completed ten years as a non-executive Director, would have stood down at the 2010 Annual General Meeting. However, in light of the unprecedented economic environment, the Nominations Committee, endorsed by the Board, considered that Mr Booth's independence would not be compromised by serving for a further year, and his extensive experience of both the business environment generally, and the Society's business and operating environment made it appropriate to extend his term of office. Accordingly, Mr Booth stood for re-election at the 2010 Annual General Meeting and was duly re-elected. In the context of the Board's agreed succession plan, and in order to facilitate a smooth transition, the Board remains of the view that it would be appropriate to retain Mr Booth for a further year, and that this will not compromise his independence, particularly in view of the nature of his strong, independent-minded contributions. As part of the succession plan, it has been agreed that Mr Booth will retire at the 2012 Annual General Meeting.

In May 2010, it was announced that Mr I. W. Ward would retire as Chief Executive on 31 December 2010, and be succeeded by Mr D. Pickersgill, the current Deputy Chief Executive and Finance Director. However, Mr Pickersgill has been absent from work, through illness, since 13 September 2010, and under the circumstances, Mr Ward has agreed to remain as Chief Executive until the situation is resolved. As it will be three years since he last stood for re-election, in accordance with the Society's Rules, Mr Ward is standing for re-election at the 2011 Annual General Meeting.

The 2010 version of 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. Potentially, the new Code provision could also be disruptive, in terms of the ongoing management of the Society if none of the Directors were re-elected. In all the circumstances, the Board considers the current arrangements are appropriate, and would not propose that all Directors are subject to re-election on an annual basis.

The Board and its committees are supplied with full and timely information. Ordinarily,

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	Nominations Committee	Credit	ALCO	Risk
R. A. Smith (Chairman)	10(10)	–	_	4(4)	3(4)	–	–
S. R. G. Booth (Vice Chairman)	9(10)	–	3(3)	4(4)	–	–	–
I. W. Ward (Chief Executive)	10(10)	–	–	4(4)	4(4)	12(12)	4(4)
J. N. Anderson	10(10)	–	3(3)	–	–	–	–
P. A. Hill (Operations Director)	10(10)	–	–	–	4(4)	12(12)	4(4)
C. M. Kavanagh	9(10)	–	3(3)	–	–	–	–
I. Marshall (resigned 12 February 2010)	1(1)	1(1)	–	–	–	1(1)	1(1)
D. Pickersgill (Deputy Chief Executive)*	7(10)	–	–	1(2)	3(4)	8(12)	3(4)
L. M. Platts (appointed 26 October 2010)	1(2)	–	–	–	–	–	–
A. Rajguru	10(10)	5(5)	–	–	–	11(12)	4(4)
K. L. Rebecchi (Sales and Marketing Director)	10(10)	–	–	–	–	11(12)	3(3)
I. Robertson	10(10)	6(6)	–	–	4(4)	–	3(3)
R. W. Stott	10(10)	5(6)	3(3)	–	–	3(3)	–

*Mr D. Pickersgill has been absent from work, through illness, from 13 September 2010, and Mr G. M. Mitchell General Manager Finance & Risk was appointed Acting Finance Director with effect from 26 October 2010. Mr Pickersgill's absence has not adversely affected the ongoing management of the Society's affairs.

papers are sent out one week prior to Board and Board Sub-Committee Meetings.

Audit Committee

The Audit Committee, which meets at least five times a year, 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.
Its principal role is to:

- monitor 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;
- ensure 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;
- monitor and review the effectiveness of the Society's Internal Audit function;
- make recommendations to the Board in relation to the appointment and remuneration of the external auditor and to monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant United Kingdom professional and regulatory requirements;
- develop and implement the policy on the engagement of the external auditor to supply non-audit related services; and
- review how the Society complies with best practice in regard to corporate governance and to report annually thereon to the Board.

The Chairman of the Committee was Mr I. Marshall until he resigned on 12 February 2010, and was succeeded by Mr I. Robertson. The other members were Mr A. Rajguru, and Mr R.W Stott. 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 usually meets with the external auditor without executive management being present, at the beginning of each meeting. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience.

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 to 31 December 2010, 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.

Corporate Governance Report
continued

For the year ended 31 December 2010

Group Risk Committee

The Group Risk Committee, a sub-committee of the Board, met four times in 2010, to review all Group risk management activities and appraise all Group capital requirements. The Committee oversees the allocation of capital requirements to risk types, formulates and recommends to the Board the Internal Capital Adequacy Assessment Process, and assesses the overall appropriateness and effectiveness of risk systems and management information. As part of this process, the Committee receives standing reports on the refreshed Corporate Risk Register, external risk indicators and emerging risks. It also refines the Society's risk appetite approach for consideration by the Board. During the year, the Chairman of the Committee was Mr A. J. Greenwood, General Manager & Secretary. The Board members of the Committee were Mr I.W. Ward, Mr D. Pickersgill, Mr P. A. Hill, Ms. K. L. Rebecchi, Mr I. Marshall, Mr I. Robertson, and Mr A. Rajguru. The membership of the Committee will be reviewed in 2011, in light of the FSA's policy statement on effective corporate governance.

Details of the types of risk faced by the Society, together with details of how these risks are managed, are set out in the Directors' Report, and the Notes to the Accounts.

Assets and Liabilities Committee

The Assets and Liabilities Committee, which meets monthly, 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 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. During the year, the Chairman of the Committee was Mr D. Pickersgill, (Mr I. W. Ward from 13 September 2010, during Mr Pickersgill's absence). The other Board members of the Committee were Mr I. W. Ward, Mr P.A. Hill, Ms. K. L. Rebecchi, Mr I. Marshall, Mr A. Rajguru, and Mr R. W. Stott.

Nominations Committee

The Nominations Committee is a sub-committee of the Board and makes recommendations to it. During the year, its members were Mr R. A. Smith (Chairman), Mr I. W. Ward, Mr D. Pickersgill, and Mr S. R. G. Booth.

Its main responsibility is to make recommendations on appointments to the Board, so that it comprises sufficient Directors who are fit and proper and can meet the collective and individual responsibilities of the Board members, both efficiently and effectively. It considers succession planning, taking account of the challenges and opportunities facing the Society and what skills and expertise are, therefore, needed on the Board in the future. In considering appointments, the Committee will take account of the requirements under the Building Societies Act, the Society's Rules and the UK Corporate Governance Code. 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 Nominations Committee met on four occasions. Following a review of Board composition, it was decided to appoint an additional non-executive Director, and Mr L. M. Platts joined the Board, following approval by the Financial Services Authority, on 26 October 2010. He will be offering himself for election at the 2011 Annual General Meeting.

Any future appointments will also be subject to approval by the FSA and election by the Society's members, at the AGM in the next financial year after appointment.

Credit Committee

The Credit Committee is a sub-committee of the Board, and in 2010 met quarterly and additionally as required. Its Terms of Reference relate to the formulation of policy pertaining to asset quality and credit risk within the Society, (including residential, commercial, lifetime, and unsecured credit risks) for approval by the Board. During the year, the Chairman of the Credit Committee was Mr G. M. Mitchell, Acting Finance Director. The Board members of the Committee were Mr I. W. Ward, Mr D. Pickersgill, Mr P. A. Hill, Mr I. Robertson, and Mr R. A. Smith.

Remuneration Committee

Detailed information on the work and composition of the Remuneration Committee is set out in the Directors' Remuneration Report at pages 15 and 16.

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 2010 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 9 to these Accounts.

Directors' Development and Performance Evaluation

The Society's Chairman, on behalf of the Nominations 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 the executive Directors, the Chairman reviews the performance of each non-executive Director individually, the effectiveness of each Board sub-Committee, and the Board as a whole. In addition, each Board Committee reviews its own performance, and the outcome is fed back to the Chairman, 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 the performance evaluation process, and documented in training plans. 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.

Terms of Reference

Copies of the Terms of Reference for the Audit, Group Risk, Assets and Liabilities, Nominations, Remuneration and Credit Committees are available on the Society's website, or on written request from the Society's Secretary.

Andrew J. Greenwood

Andrew J. Greenwood
Secretary
21 February 2011

Directors' Remuneration Report

For the year ended 31 December 2010

Introduction

This report, together with the details in note 10 to the Accounts, provides information about the Society's policies on remunerating Directors and senior executives and discloses the remuneration of the Directors. The report considers all the areas set out in the UK Corporate Governance Code relating to remuneration, insofar as they are considered relevant to building societies. The report also reflects, insofar as relevant to the Society, enhanced disclosure requirements arising under the third EU Capital Requirements Directive. A summary of this report will be sent to all members eligible to vote at the 2011 Annual General Meeting, who will have the opportunity to participate in an advisory vote on the report.

The Remuneration Committee, under delegated authority from the Board, is responsible for the Society's Remuneration Policy and ensures it follows best practice, and meets regulatory disclosure requirements. The principles underlying the Remuneration Policy are that:

- it is in line with the business strategy, objectives, values, and the long term interests of the Society;
- the Policy, procedures, and practices are consistent with, and promote, sound and effective risk management, and do not encourage risk taking which exceeds the level of the Society's risk appetite; and
- the Society should provide competitive and fair remuneration packages to attract and retain employees of sufficient calibre.

The Remuneration Policy also identifies management and staff who are considered 'material risk takers', as defined by the Financial Services Authority's Remuneration Code. Apart from the Directors and General Managers, this includes senior managers in Mortgage Lending, Risk, Internal Audit, Compliance, IT, Sales, and Commercial Lending.

The Committee considers remuneration for the Society's staff generally and, specifically, the remuneration of the Society's Chairman, executive Directors and senior executives. Changes to the level of fees for non-executive Directors (excluding the Society's Chairman), reflecting the time commitment and responsibilities of the role, are received from the executive Directors.

Payments have been awarded this year in accordance with the senior executives' performance related pay arrangements, which are an integral part of their remuneration packages. They reflect the executives' performance being measured against testing criteria, specified by the Board, in the context of challenging market conditions.

Composition and Scope of the Remuneration Committee

The Remuneration Committee comprises solely non-executive Directors who do not have any day-to-day involvement in the operations of the Society and no personal financial interest in the recommendations. The Chairman of the Committee is Mr S.R.G. Booth, and the other members are Mr J.N. Anderson, Mrs C.M. Kavanagh, and Mr R.W. Stott. No executive Directors or other Society employees are members of the Remuneration Committee. Executive Directors and other members of senior management are invited to attend by the Committee, as appropriate. The Society's Deputy Secretary, Mr G. Jennings, acts as Secretary to the Committee.

The Committee reports to the Board on the remuneration and terms of engagement of executive Directors and other members of senior management, together with wider aspects of remuneration policy for all members of staff and 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.

In 2010, the issues considered by the Committee included the design of, and setting of objectives for, the 2010 executive performance-related pay scheme, an overview of the rewards and benefits for all members of the Society's staff, and the pay awards for the executive Directors, and the Society's Chairman. The Committee also reviewed the Society's Remuneration Policy in the context of the FSA Remuneration Code, and enhanced EU disclosure requirements. It also considered changes to the commutation factors and dependants' benefit entitlement, and changes to the tax relief rules, in relation to the Leeds Building Society Staff Pension Scheme. In addition, the Committee's Terms of Reference were reviewed. In all matters discussed, consideration is always given to best practice within the financial services industry.

Remuneration Policy for Executive Directors

Remuneration packages are set at a level to attract, motivate and retain executive Directors and senior management of a high standard and to reward them fairly and competitively for their responsibilities, performance and experience. This ensures that the skill levels appropriate to operate an organisation as complex as the Society are maintained. In making its assessment on remuneration and incentive schemes, the Committee has regard to the salaries and incentives payable to executives in similar roles in comparable organisations.

The executive Directors' remuneration comprises an annual salary, annual performance related pay, long-term incentive plan, pension scheme membership and health care insurance. The performance-related elements of remuneration are designed to recognise corporate and personal success on both an annual and longer term basis, whilst at the same time ensuring that any objectives agreed are aligned with both the principles of sound risk management and the risk appetite of the Society. In order to ensure this, the draft Corporate Objectives, and performance-related pay arrangements are subject to review by the Group Risk Committee (executive management does not participate in this review). A significant proportion of the executive Directors' remuneration is, therefore, linked to the Society's and the individual's performance.

Under the annual performance related pay scheme for executive Directors, an amount of up to 40% of basic salary may be awarded at the discretion of the Board of Directors (there is no minimum award). This is based on achievement against corporate and personal objectives of a financial and non-financial nature. These are agreed in advance by the Committee and are all closely linked to the achievement of the Society's strategic objectives. Recommendations to the Board, of the amount payable under the scheme, are made by the Committee following a detailed review of performance against the agreed objectives.

The executive Directors also participate in long-term (three year) incentive plans (LTIPs), the latest of which matured on 31 December, 2010. A maximum of 20% of basic salary may be accrued under each LTIP and a payment made only if a participant reaches the pre-determined performance level over the three year period.

Directors' Remuneration Report
continued

For the year ended 31 December 2010

In order to ensure that these arrangements are adjusted, as appropriate, a downwards modifier applies to payments. Its terms are that if profits fall below pre-set levels, payments are either reduced or, once a threshold level is reached, there is no entitlement to variable remuneration in that year under the performance related pay schemes.

Only annual salary payments are pensionable.

Because the Society has mutual status, it does not issue shares on the stock exchange. Accordingly, there is no share based remuneration available for either the executive Directors or employees.

Salaries and Benefits

The levels of salaries and benefits for the executive Directors and other senior executives are recommended to the Board based on assessments of individual performance and by comparisons with roles carrying similar responsibilities, in comparable financial organisations, with a similar level of complexity and diversity to the Society. 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 (outside the executive Directors' annual salary review), either generally, or for any executive Director.

Service Contracts

The Society's executive Director service contracts can be terminated on twelve months' notice by either the Society or the Director. The non-executive Directors do not have service contracts with the Society.

Pensions

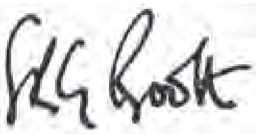
The Deputy Chief Executive and Finance Director, and Sales and Marketing Director, in common with other employees who are members of the Society's defined benefits pension scheme, are entitled to pensions based on final salary and length of service with the Society, with a maximum pension of two-thirds of final salary. Pension entitlements for the executive Directors in the defined benefit scheme are accrued at a rate of 1/45th of the final year's basic salary for each year of service. The Chief Executive also accrued benefits under the defined benefits scheme until 31 January 2010. The Operations Director is a member of the defined contribution scheme.

Policy for non-executive Directors

The level of fees for non-executive Directors (excluding the Society's Chairman) is reviewed annually, by the executive Directors, and appropriate recommendations made to the Board. The level of fees for the Chairman is reviewed annually by the Remuneration Committee, prior to a recommendation to the Board. The reviews are based on the responsibilities and time commitments required for Board and Board sub-committee meetings, and also reflect fees paid in comparable mutual financial services organisations. The Chairman and the non-executive Directors are only entitled to fees and do not participate in any performance related pay scheme or receive any pension arrangements or other benefits.

Directors' Remuneration – year ended 31 December 2010

Full details of Directors' remuneration for 2010 and prior year comparatives, all of which form part of the Report, are provided in note 10 to the Accounts, on pages 34 to 35. Also disclosed, in note 9, is the aggregate fixed and variable remuneration of 'material risk takers', as defined in the FSA's Remuneration Code. No employee of the Society receives remuneration which exceeds that of the individuals disclosed in note 10.



S. Rodger G. Booth
Chairman of the Remuneration Committee
21 February 2011

Directors' Responsibilities

For the year ended 31 December 2010

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 19, 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.

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.

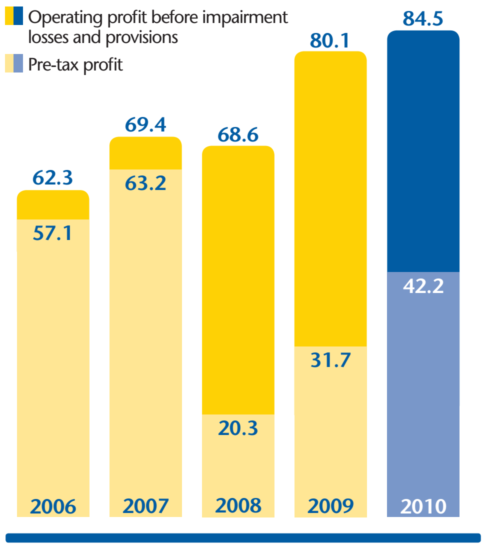
The Directors are responsible for the maintenance of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other juristictions.

Robin Smith
Chairman
21 February 2011

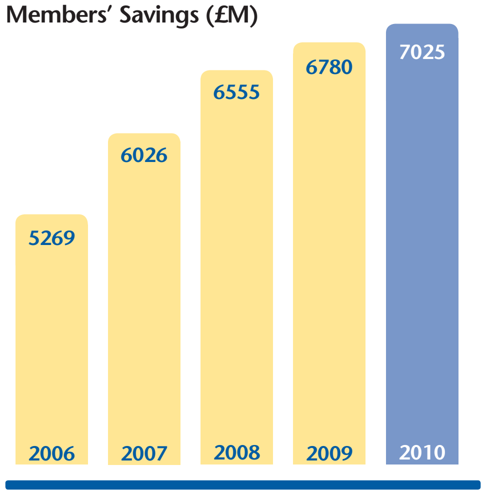
Five Year Highlights

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

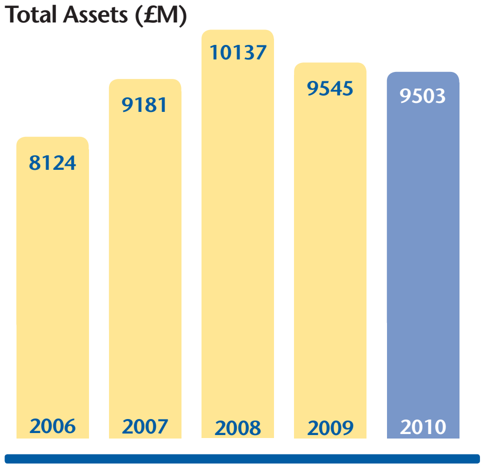
Profit (£M)



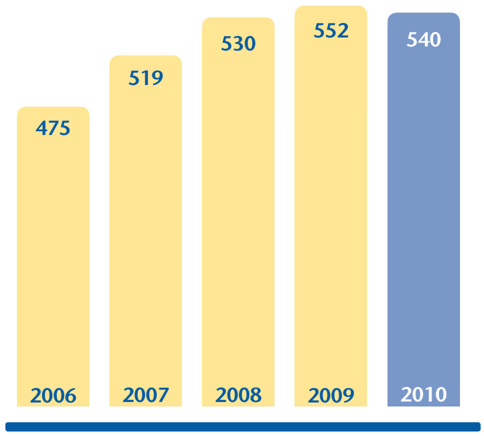
Members' Savings (£M)



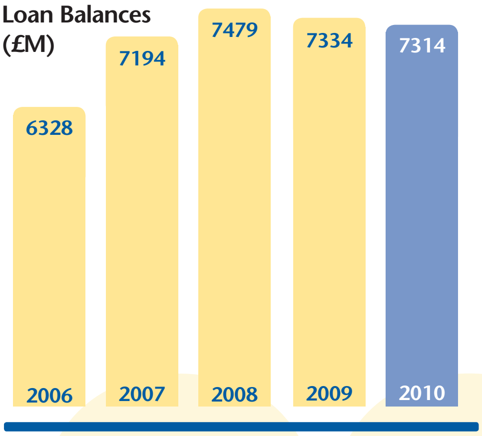
Total Assets (£M)



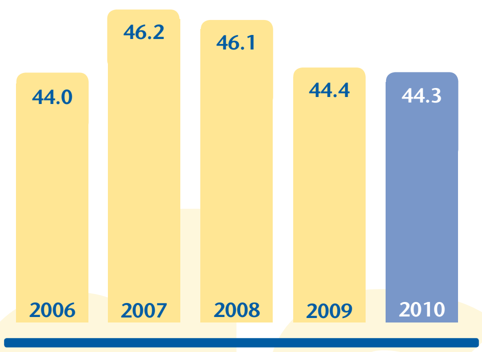
Gross Capital (£M)



Mortgages and other Loan Balances (£M)



Total Costs (£M)



Independent Auditor's Report

To the Members of Leeds Building Society

We have audited the Group and Society financial statements of Leeds Building Society for the year ended 31 December 2010 which comprise the Group and Society Income Statements, the Group and Society Statements of Comprehensive Income, the Group and Society Statements of Financial Position, the Group and Society Statements of Changes in Members' Interest, the Group and Society Statements of Cash Flows and the related notes 1 to 37.The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the 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.

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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Society's affairs as at 31 December 2010 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.

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

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us 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.

Matthew Perkins

Matthew Perkins
(Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
Leeds, United Kingdom
21 February 2011

Income Statements

For the year ended 31 December 2010

	Notes	Group 2010 £M	Restated* Group 2009 £M	Society 2010 £M	Restated* Society 2009 £M
Interest receivable and similar income	3	294.5	333.6	294.5	326.1
Interest payable and similar charges	4	(185.4)	(223.8)	(185.4)	(223.8)
Net interest receivable		**109.1**	**109.8**	**109.1**	**102.3**
Fees and commissions receivable	6	19.7	19.3	11.0	11.0
Fees and commissions payable	6	(0.1)	–	(0.1)	–
Fair value gains less losses from derivative financial instruments	7	(1.6)	(4.6)	(1.6)	(4.6)
Other operating income	8	1.7	–	0.8	–
Total income		**128.8**	**124.5**	**119.2**	**108.7**
Administrative expenses	9	(43.3)	(43.2)	(40.2)	(40.1)
Depreciation and amortisation	9	(1.0)	(1.2)	(1.0)	(1.2)
Operating profit before impairment losses and provisions		**84.5**	**80.1**	**78.0**	**67.4**
Impairment losses on loans and advances to customers	12	(44.2)	(52.5)	(44.2)	(50.9)
Gains on securities available for sale	17	3.2	2.5	3.2	2.5
Provisions for liabilities and charges:					
Other	28	(0.2)	0.3	(0.3)	0.1
FSCS levy	28	(0.8)	1.3	(0.8)	1.3
Impairment losses on land and buildings	19	(0.3)	–	(0.3)	–
Operating profit and profit on ordinary activities before income tax		**42.2**	**31.7**	**35.6**	**20.4**
Income tax expense	13	(11.3)	(9.1)	(9.4)	(5.8)
Profit for the financial year		**30.9**	**22.6**	**26.2**	**14.6**

* The prior year comparatives have been restated. See note 5 for further details.

All amounts relate to continuing operations.

The notes on pages 25 to 73 are an integral part of these consolidated financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2010

	Notes	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Profit for the financial year		30.9	22.6	26.2	14.6
Other comprehensive income					
Property revaluation		(5.3)	–	(5.3)	–
Available for sale investment securities					
Fair value changes taken to reserves		(1.1)	(3.0)	(1.1)	(3.0)
Amortisation/disposals post 1 July 2008		1.9	4.8	2.0	4.9
Cash flow hedges					
Loss taken to reserves		(1.9)	(7.7)	(1.9)	(7.7)
Actuarial gain/(loss) on retirement benefit obligations		0.9	(1.1)	0.9	(1.1)
Tax relating to components of other comprehensive income	35	1.7	2.0	1.7	2.0
Other comprehensive income net of tax		**(3.8)**	**(5.0)**	**(3.7)**	**(4.9)**
Total comprehensive income for the year		**27.1**	**17.6**	**22.5**	**9.7**

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 17.

Statements of Financial Position

As at 31 December 2010

	Notes	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Assets					
Cash in hand and balances with the Bank of England	14	115.9	314.9	115.9	314.9
Loans and advances to credit institutions		84.8	227.8	84.3	227.6
Derivative financial instruments	15	126.4	142.1	124.3	142.1
Loans and advances to customers	16				
Loans fully secured on residential property		6,607.3	6,600.8	6,606.9	6,600.4
Other loans		707.1	732.8	707.1	733.1
Investment securities	17				
Available for sale		1,296.6	807.1	1,296.6	807.1
Loans and receivables		434.8	566.6	434.8	566.6
Investments in subsidiary undertakings	18	–	–	19.6	19.6
Other investments	18	0.1	0.1	0.1	0.1
Property, plant and equipment	19	26.9	33.0	26.9	33.0
Investment properties	20	7.0	7.0	–	–
Deferred income tax assets	21	2.8	3.6	2.0	2.8
Other assets, prepayments and accrued income	22	93.4	109.3	91.5	108.4
Total Assets		**9,503.1**	**9,545.1**	**9,510.0**	**9,555.7**
Liabilities					
Shares	23	7,025.2	6,780.0	7,025.2	6,780.0
Derivative financial instruments	15	143.9	142.2	130.7	142.2
Amounts owed to credit institutions	24	482.6	538.8	482.6	538.8
Amounts owed to other customers	25	439.4	709.5	471.0	740.3
Debt securities in issue	26	760.1	675.3	772.6	675.3
Current income tax liabilities		4.2	4.6	2.0	1.3
Deferred income tax liabilities	21	2.0	3.8	2.0	3.8
Other liabilities and accruals	27	108.9	138.3	106.2	135.8
Provision for liabilities and charges	28	5.0	6.5	4.3	5.9
Retirement benefit obligations	33	0.7	3.0	0.7	3.0
Subordinated liabilities	29	0.9	40.0	0.9	40.0
Subscribed capital	30	25.0	25.0	25.0	25.0
		8,997.9	**9,067.0**	**9,023.2**	**9,091.4**
Reserves					
Cash flow hedge reserve		–	1.4	–	1.4
Available for sale reserve		(9.4)	(10.0)	(9.4)	(10.0)
Revaluation reserve		13.2	16.9	13.2	16.9
Other reserve		14.3	14.3	14.1	14.1
General reserve		487.1	455.5	468.9	441.9
Total Reserves and Liabilities		**9,503.1**	**9,545.1**	**9,510.0**	**9,555.7**
Memorandum items					
Commitments: Irrevocable undrawn loan facilities	32	1.2	1.9	1.2	1.9

These financial statements were approved by the Board of Directors on 21 February 2011.
Signed on behalf of the Board of Directors.

Robin Smith
Chairman

Ian W. Ward
Chief Executive

Ian Robertson
Non-Executive Director

Statements of Changes in Members' Interest

For the year ended 31 December 2010

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

	General Reserve £M	Available for Sale Reserve £M	Cash Flow Hedge Reserve £M	Revaluation Reserve £M	Other Reserve £M	Total Reserves £M
Balance at 1 January 2009	433.7	(11.3)	6.9	16.9	14.3	460.5
Comprehensive income for the year	21.8	1.3	(5.5)	–	–	17.6
Balance at 31 December 2009	**455.5**	**(10.0)**	**1.4**	**16.9**	**14.3**	**478.1**

Society	General Reserve £M	Available for Sale Reserve £M	Cash Flow Hedge Reserve £M	Revaluation Reserve £M	Other Reserve £M	Total Reserves £M
Balance at 1 January 2010	441.9	(10.0)	1.4	16.9	14.1	464.3
Comprehensive income for the year	27.0	0.6	(1.4)	(3.7)	–	22.5
Balance at 31 December 2010	**468.9**	**(9.4)**	**–**	**13.2**	**14.1**	**486.8**

	General Reserve £M	Available for Sale Reserve £M	Cash Flow Hedge Reserve £M	Revaluation Reserve £M	Other Reserve £M	Total Reserves £M
Balance at 1 January 2009	428.0	(11.3)	6.9	16.9	14.1	454.6
Comprehensive income for the year	13.9	1.3	(5.5)	–	–	9.7
Balance at 31 December 2009	**441.9**	**(10.0)**	**1.4**	**16.9**	**14.1**	**464.3**

Statements of Cash Flows

For the year ended 31 December 2010

	Notes	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Profit before tax		42.2	31.7	35.6	20.4
Adjustments for changes in:					
Impairment provision		6.3	14.8	6.6	15.9
Provisions for liabilities and charges		(1.5)	(4.2)	(1.6)	(4.0)
Depreciation and amortisation		1.0	1.2	1.0	1.2
Interest on subscribed capital		3.3	3.3	3.3	3.3
Interest on subordinated debt		–	2.3	–	2.3
Cash generated from operations		**51.3**	**49.1**	**44.9**	**39.1**
Changes in operating assets and liabilities:					
Loans and advances to customers		12.9	130.6	12.9	(50.5)
Derivative financial instruments		16.0	(37.1)	4.9	(37.1)
Loans and advances to credit institutions		(1.5)	14.3	(1.2)	14.1
Investment in subsidiaries		–	–	–	180.1
Other operating assets		15.9	9.2	16.9	9.2
Shares		245.2	225.0	245.2	225.0
Credit institutions and other		(326.3)	(179.7)	(325.5)	(177.1)
Debt securities		85.4	(566.6)	97.9	(566.6)
Other operating (liabilities)/assets		(29.1)	1.0	(29.3)	0.9
Taxation paid		(10.8)	(2.0)	(7.7)	(0.3)
Net cash inflow/(outflow) from operating activities		**59.0**	**(356.2)**	**59.0**	**(363.2)**
Returns on investments and servicing of finance		(6.4)	(6.8)	(6.4)	(6.8)
Purchase of securities		(4,045.1)	(4,099.0)	(4,045.1)	(4,099.0)
Proceeds from sale and redemption of securities		3,688.6	4,774.7	3,688.6	4,774.7
Purchase of property and equipment		(0.9)	(0.8)	(0.9)	(0.8)
Proceeds from the sale of property and equipment		0.4	–	0.4	–
Purchase of investment properties		–	(7.0)	–	–
Net cash flows from investing activities		**(363.4)**	**661.1**	**(363.4)**	**668.1**
Redemption of subordinated liabilities		(39.1)	–	(39.1)	–
Net cash flow from financing activities		**(39.1)**	**–**	**(39.1)**	**–**
Net (decrease)/increase in cash and cash equivalents		**(343.5)**	**304.9**	**(343.5)**	**304.9**
Cash and cash equivalents at beginning of year		**539.3**	**234.4**	**539.3**	**234.4**
Cash and cash equivalents at the end of year	31	**195.8**	**539.3**	**195.8**	**539.3**

1. Accounting Policies

Basis of preparation

The accounts 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.

No new standards were effective in 2010 which had a material impact on the financial statements.

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

IFRS 9 Financial Instruments: Replacement of IAS 39 – Classification and Measurement

IAS 24 Revised (2009) Related Party Disclosures

Improvements to IFRS – 2010

IFRIC 19 Extinguishing Liabilities and Equity Instruments

The Directors expect that the adoption of these standards and interpretations in future periods may have a material impact on the financial statements of the Society and the Group although it is impractical to estimate the impact.

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 18.

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, mortgage arrangement and valuation fees and procuration 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.

1. Accounting Policies continued

(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 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.

(g) Cash flow hedges

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate 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.

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 cashflows 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 indicates that it is likely that losses may ultimately be realised and thus a loss event has occured. 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.

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.

Notes to the Accounts continued

For the year ended 31 December 2010

1. Accounting Policies continued

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.

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.

Income tax

Income tax on the profits for the period comprises current tax and deferred tax. Income 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.

2. Critical Accounting Estimates and Judgements

Some asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. There is, therefore, a risk of changes to the carrying amounts for these assets and liabilities within the next financial year.

Impairment losses on loans and advances and investment securities

The Group reviews its loan portfolios and investment securities to assess impairment at least on a quarterly basis, in determining whether an impairment loss should be recorded in the Income Statement. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status or borrower's local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Management also assesses the expected loss on loans and advances as a result of the expected movement in house prices and the discount on the sale of possession properties. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience.

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.

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.

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.

Financial Services Compensation Scheme (FSCS)

The Society has a provision for a levy of £4.2m (2009: £5.8m) covering the period from March 2010 to March 2012. The amount has been determined by reference to the path of future interest rates applicable at the balance sheet date. Changes in interest rates over the period of the levy will impact the final amount of the payment.

Payment Protection Insurance (PPI)

A provision for payment protection insurance was established during the year. As the ultimate cost of redress is inherently uncertain management has used signficant judgement in the principal assumptions underlying the provision. These are considered to be the number of cases requiring redress, the number of customers applying for redress with a valid claim and the estimated average cost per case.

3. Interest Receivable and Similar Income

	Group 2010 £M	Restated* Group 2009 £M	Society 2010 £M	Restated* Society 2009 £M
On loans fully secured on residential property	335.0	332.9	335.0	323.9
On other loans	36.1	39.6	36.1	39.6
On loans to subsidiary undertakings	–	–	–	1.5
On debt securities				
Interest and other income	16.5	40.6	16.5	40.6
On other liquid assets				
Interest and other income	2.5	4.2	2.5	4.2
Net expense on financial instruments	(95.6)	(83.7)	(95.6)	(83.7)
Total interest income	**294.5**	**333.6**	**294.5**	**326.1**
Interest received on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	15.9	33.6	15.9	33.6
From instruments not held at fair value through profit and loss	278.6	300.0	278.6	292.5
Total interest income	**294.5**	**333.6**	**294.5**	**326.1**

* The prior year comparatives have been restated. See note 5 for further details.

Included within interest receivable and similar income is interest accrued on impaired financial assets of £9.5m (2009 – £9.1m).

4. Interest Payable and Similar Charges

	Group 2010 £M	Restated* Group 2009 £M	Society 2010 £M	Restated* Society 2009 £M
On shares held by individuals	192.4	206.6	192.4	206.6
On other shares	–	0.1	–	0.1
On subscribed capital	3.3	3.3	3.3	3.3
On subordinated debt	0.5	2.3	0.5	2.3
On deposits and other borrowings	14.1	39.9	14.1	39.9
Net income on financial instruments	(24.9)	(28.4)	(24.9)	(28.4)
Total interest expense	**185.4**	**223.8**	**185.4**	**223.8**
Interest expense on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	(24.4)	(26.1)	(24.4)	(26.1)
From instruments not held at fair value through profit and loss	209.8	249.9	209.8	249.9
Total interest expense	**185.4**	**223.8**	**185.4**	**223.8**

* The prior year comparatives have been restated. See note 5 for further details.

5. Restatement of interest receivable and interest payable

Interest receivable and interest payable for the year ended 31 December 2009 has been restated so that the effect of hedging instruments as part of an effective hedge accounting relationship is presented with the hedged instrument. This restatement has the effect of reducing both interest receivable and interest payable for the year ended 31 December 2009 by £121.8m but this has no effect on the net interest receivable for 2009. Two years comparatives have not been included as there is no balance sheet impact.

Interest Receivable and Similar Income

	Restated* Group 2009 £M	As previously disclosed Group 2009 £M	Restated* Society 2009 £M	As previously disclosed Society 2009 £M
On loans fully secured on residential property	332.9	332.9	323.9	323.9
On other loans	39.6	39.6	39.6	39.6
On subsidiary undertakings	–	–	1.5	1.5
On debt securities				
Interest and other income	40.6	40.6	40.6	40.6
On other liquid assets				
Interest and other income	4.2	4.2	4.2	4.2
Net (expense)/income on financial instruments	(83.7)	38.1	(83.7)	38.1
Total interest income	**333.6**	**455.4**	**326.1**	**447.9**
Interest received on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	33.6	53.4	33.6	53.4
From instruments not held at fair value through profit and loss	300.0	402.0	292.5	394.5
Total interest income	**333.6**	**455.4**	**326.1**	**447.9**

Interest Payable and Similar Charges

	Restated* Group 2009 £M	As previously disclosed Group 2009 £M	Restated* Society 2009 £M	As previously disclosed Society 2009 £M
On shares held by individuals	206.6	206.6	206.6	206.6
On other shares	0.1	0.1	0.1	0.1
On subscribed capital	3.3	3.3	3.3	3.3
On subordinated debt	2.3	2.3	2.3	2.3
On deposits and other borrowings	39.9	39.9	39.9	39.9
Net (income)/expense on financial instruments	(28.4)	93.4	(28.4)	93.4
Total interest expense	**223.8**	**345.6**	**223.8**	**345.6**
Interest expense on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	(26.1)	95.7	(26.1)	95.7
From instruments not held at fair value through profit and loss	249.9	249.9	249.9	249.9
Total interest expense	**223.8**	**345.6**	**223.8**	**345.6**

6. 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 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Fees and commission receivable – at fair value	3.7	3.7	–	–
Fees and commission receivable – at amortised cost	16.0	15.6	11.0	11.0
Fees and commission payable	(0.1)	–	(0.1)	–
	19.6	**19.3**	**10.9**	**11.0**

7. Fair Value Gains Less Losses from Derivative Financial Instruments

The fair value accounting volatility loss of £1.6m (2009: £4.6m loss) 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 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Change in fair value of financial assets designated at fair value through profit and loss	9.4	5.7	9.4	5.7
Change in fair value of financial liabilities designated at fair value through profit and loss	(8.6)	(7.8)	(8.6)	(7.8)
Derivatives in designated fair value hedge accounting relationships	6.3	19.0	19.4	19.0
Adjustment to hedged items in designated fair value hedge accounting relationships	(9.7)	(21.4)	(22.0)	(21.4)
Derivatives in designated cashflow hedge accounting relationships	(1.9)	(7.7)	(1.9)	(7.7)
Adjustments to hedged items in cashflow hedge accounting relationships	1.9	7.7	1.9	7.7
Cross currency swap	1.0	(0.1)	0.2	(0.1)
	(1.6)	**(4.6)**	**(1.6)**	**(4.6)**

The net gain on the cross currency swap is composed of a fair value loss on a cross currency swap of £22.0m (2009: £6.0m loss) and an exchange gain of £23.0m (2009: £5.9m 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.

8. Other Operating Income

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Rent receivable	1.4	0.6	0.5	0.6
Pension fund income/(cost)	0.4	(0.4)	0.4	(0.4)
Net loss on exchange rate movements	(0.1)	(0.2)	(0.1)	(0.2)
	1.7	**–**	**0.8**	**–**

9. Administrative Expenses

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Staff costs				
Wages and salaries	21.8	22.3	19.6	20.2
Social Security costs	2.1	2.3	1.9	2.0
Other pension costs	2.9	2.5	2.8	2.3
Remuneration of auditor (see below)	0.3	0.3	0.3	0.3
Other administrative expenses	16.2	15.8	15.6	15.3
	43.3	43.2	40.2	40.1
Depreciation and amortisation	1.0	1.2	1.0	1.2
	44.3	**44.4**	**41.2**	**41.3**

There are 31 directors, senior management and members of staff, whose actions have a material impact on the risk profile of the Society, with fixed remuneration of £2.7m and variable remuneration of £0.7m (2009: 29 individuals £2.7m and £0.7m).

The analysis of auditor's remuneration is as follows:

	Group & Society 2010 £'000	Group & Society 2009 £'000
Fees payable to the Society's auditor for the audit of the society's annual accounts	127	122
Fees payable to the Society's auditor for the audit of the society's subsidiaries pursuant to legislation	12	12
Total audit fees	**139**	**134**
Other services pursuant to legislation	–	–
Tax services	24	56
Further assurance services	33	36
Other services	80	97
Total non-audit fees	**137**	**189**
Fees payable to the Society's auditor and its associates in respect of associated pension schemes	5	5

The above figures, relating to Auditor's remuneration, include 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.

10. Directors' Emoluments

(a) Remuneration of Directors

A separate Report of the Remuneration Committee setting out remuneration policy for directors is on pages 15 to 16. Emoluments of the Society's directors, from the Society and its subsidiary undertakings, are detailed below.

	Salary £'000	Performance Related Pay £'000	Long Term Incentive £'000	Sub-total £'000	Increase in accrued pension £'000	Society's contribution to pension scheme(1) £'000	Total £'000
Executive Directors – 2010							
I. W. Ward	333	107	34	474	6(3)	–	480
D. Pickersgill	237	67	24	328	7	–	335
P. A. Hill	177	57	18	252	–	35	287
K. L. Rebecchi	161	52	16	229	19	–	248
	908	**283**	**92**	**1,283**	**32**	**35**	**1,350**

	Salary £'000	Performance Related Pay £'000	Long Term Incentive £'000	Sub-total £'000	Increase in accrued pension £'000	Society's contribution to pension scheme(1) £'000	Total £'000
Executive Directors – 2009							
I. W. Ward	324	94	33	451	17	–	468
D. Pickersgill	230	66	24	320	11	–	331
P. A. Hill	169	50	17	236	–	34	270
K. L. Rebecchi – appointed on 7 December 2009	12	3	1	16	–	–	16
	735	**213**	**75**	**1,023**	**28**	**34**	**1,085**

Note:
1) Defined contribution pension scheme.
2) No Directors received any benefits in 2010 (2009 nil).
3) This Director ceased to be a member of the scheme in 2010.

Non-executive directors	**2010 Fees £'000**	**2009 Fees £'000**
R. A. Smith (Chairman)	71	69
S. R. G. Booth (Vice Chairman)	50	49
C. M. Kavanagh	37	37
J. N. Anderson	37	37
A. Rajguru	37	37
I. Robertson	42	37
R. W. Stott	37	37
L. M. Platts – appointed on 26 October 2010	7	–
I. Marshall – resigned on 12 February 2010	5	43
	323	**346**

10. Directors' Emoluments continued

(b) Pension benefits earned by Executive Directors

Defined benefit scheme

	Increase/ (Decrease) in accrued penson 2010(2) £'000	Accrued pension as at 31 December 2010(2) £'000	Transfer value of accrued pension at 31 December 2009(3) £'000	Transfer value of accrued pension at 31 December 2010(3) £'000	Increase/ (Decrease) in transfer value over the year net of Directors' Contributions £'000
I. W. Ward (5)	(127)	96	4,670	2,615	(2,050)
D. Pickersgill	7	113	1,856	2,519	636
K. L. Rebecchi	19	78	544	895	312

Notes:

1. The increase in accrued pension during the year excludes any increase for inflation.
2. The accrued pensions are the amounts which the directors would be entitled to from normal retirement age if they left service at the relevant date.
3. The transfer values have been calculated in accordance with Transfer Values Amendment Regulations 2008.
4. Members of the fund have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the table.
5. During the year, this Director transferred the value of his registered scheme benefits to an alternative personal pension arrangement. The accrued pension and transfer value at 31 December 2010 exclude the transferred benefits. At the date of the transfer the total accured pension was £227,000 p.a. and the increase in accrued pension since 31 December 2009, net of inflation, was £6,000.
6. The accrued pensions and transfer values set out in the table include any benefits that are to be provided through an unfunded Employer Retirement Scheme as well as those through Leeds Building Society Staff Pension Scheme.

(c) Directors' Loans, Transactions and Related Business Activity

The aggregate amount outstanding at 31 December 2010 in respect of loans from the Society or a subsidiary undertaking to Directors of the Society or persons associated with Directors was £217,800 being two mortgages to Directors and persons connected to Directors and one mortgage to a person connected with a Director (2009: £262,075 being two mortgages to Directors and persons connected to Directors and one mortgage to a person connected with a Director). 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.

11. Staff Numbers

	Group 2010 No	Group 2009 No	Society 2010 No	Society 2009 No
The average number of persons employed during the year was as follows:				
Head office	495	509	495	509
Branch offices	425	451	383	400
	920	**960**	**878**	**909**

Notes to the Accounts continued

For the year ended 31 December 2010

12. Impairment Losses on Loans and Advances to Customers

Group	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loans £M	Total £M
At 1 January 2010				
Collective impairment	9.0	5.0	1.4	15.4
Individual impairment	11.3	29.6	2.8	43.7
	20.3	**34.6**	**4.2**	**59.1**
Income and expenditure account				
Charge for the year				
Collective impairment	–	5.0	(0.5)	4.5
Individual impairment	15.9	23.2	1.1	40.2
Adjustments to impairment losses for bad and doubtful debts resulting from recoveries during the year	(0.5)	–	–	(0.5)
	15.4	**28.2**	**0.6**	**44.2**
Amount written off during the year				
Individual impairment	9.0	28.4	0.5	37.9
At 31 December 2010				
Collective impairment	9.0	10.0	0.9	19.9
Individual impairment	17.7	24.4	3.4	45.5
	26.7	**34.4**	**4.3**	**65.4**

Society	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loan £M	Total £M
At 1 January 2010				
Collective impairment	9.0	5.0	1.4	15.4
Individual impairment	11.3	29.3	2.8	43.4
	20.3	**34.3**	**4.2**	**58.8**
Income and expenditure account				
Charge for the year				
Collective impairment	–	5.0	(0.5)	4.5
Individual impairment	15.9	23.2	1.1	40.2
Adjustments to impairment losses for bad and doubtful debts resulting from recoveries during the year	(0.5)	–	–	(0.5)
	15.4	**28.2**	**0.6**	**44.2**
Amount written off during the year				
Individual impairment	9.0	28.1	0.5	37.6
	9.0	**28.1**	**0.5**	**37.6**
At 31 December 2010				
Collective impairment	9.0	10.0	0.9	19.9
Individual impairment	17.7	24.4	3.4	45.5
	26.7	**34.4**	**4.3**	**65.4**

13. Income Tax Expense

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits of the year	12.0	9.0	10.1	5.7
Adjustments in respect of previous years	(0.6)	0.1	(0.6)	0.1
Total current tax	11.4	9.1	9.5	5.8
Deferred tax				
Origination and reversal of timing differences	(0.1)	–	(0.1)	–
Total deferred tax	(0.1)	–	(0.1)	–
Tax on profit on ordinary activities	**11.3**	**9.1**	**9.4**	**5.8**
Factors affecting current tax charge for the year:				
Profit on ordinary activities before tax	42.2	31.7	35.6	20.4
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 28% (2008: 28%)	11.8	8.9	10.0	5.7
Effects of:				
Expenses not deductible for tax purposes	0.1	0.1	0.1	–
Adjustment in respect of prior years	(0.6)	0.1	(0.7)	0.1
	11.3	**9.1**	**9.4**	**5.8**

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 bill 2010 was published on 1 July 2010 and included a reduction in the main rate of corporation tax for the financial year beginning 1 April 2011 from 28% to 27%. This tax law change was substantively enacted in the House of Commons on 21 July and received Royal Assent on 27 July 2010. The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 24% by 1 April 2014. At this stage it is not possible to predict if any additional tax legislation impacting corporate taxes will be enacted, what the specific terms of any such legislation will be or whether, if at all, any legislation would have a material adverse effect on our financial condition and results of operations.

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

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Cash in hand	2.1	1.8	2.1	1.8
Balances with the Bank of England	113.8	313.1	113.8	313.1
Included in cash and cash equivalents (see note 31)	**115.9**	**314.9**	**115.9**	**314.9**

Balances with the Bank of England do not include mandatory reserve deposits of £7.4m (2009: £7.3m) 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.

15. Derivative Financial Instruments

Derivative financial instruments are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates, exchange rates or stock market indices. These types of instruments tend to have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return as cash flows and generally settled at a future date. Derivatives are only used by the Group in accordance with Section 9A of the Building Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors of a prescribed description which affect the business. Accordingly, such instruments are not used in trading activity or for speculative purposes. The Group utilises the following derivative instruments for hedging purposes:

Types of derivatives

The main derivatives used by the Group are interest rate swaps, interest rate options, and foreign currency rate swaps. The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using on balance sheet instruments or natural hedges that exist in the Group balance sheet.

Activity	Risk	Type of Derivative
Fixed rate savings products	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.

15. Derivative Financial Instruments continued

The Group utilises the following derivative instruments for hedging purposes:

	Group 2010			Group 2009		
	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	3,885.4	20.2	(110.4)	3,988.2	12.9	(111.0)
Derivatives designated as cash flow hedges:						
Interest rate swaps	20.0	–	–	310.0	2.9	(0.9)
Other derivatives held at fair value:						
Quanto swaps	89.3	0.1	(0.3)	125.5	0.3	(0.4)
Inflation Linked swaps	3.0	0.1	–	132.0	5.5	–
Equity swaps	416.6	35.2	(30.1)	382.7	25.0	(23.8)
Cross Currency swaps	738.8	70.8	(2.9)	783.2	95.4	(5.5)
Basis swaps	–	–	–	50.0	–	–
Floating swaps	41.7	–	–	–	–	–
Options	7.9	–	(0.2)	15.3	–	(0.6)
Swaptions	–	–	–	20.0	0.1	–
Total	1,297.3	106.2	(33.5)	1,508.7	126.3	(30.3)
Total derivative assets/(liabilities) held for hedging	**5,202.7**	**126.4**	**(143.9)**	**5,806.9**	**142.1**	**(142.2)**

	Society 2010			Society 2009		
	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	3,635.4	20.2	(97.3)	3,988.2	12.9	(111.0)
Derivatives designated as cash flow hedges:						
Interest rate swaps	20.0	–	–	310.0	2.9	(0.9)
Other derivatives held at fair value:						
Quanto swaps	89.3	0.1	(0.3)	125.5	0.3	(0.4)
Inflation Linked swaps	3.0	0.1	–	132.0	5.5	–
Equity swaps	416.6	35.2	(30.1)	382.7	25.0	(23.8)
Cross Currency swaps	738.8	68.7	(2.8)	783.2	95.4	(5.5)
Basis swaps	–	–	–	50.0	–	–
Floating swaps	41.7	–	–	–	–	–
Options	7.9	–	(0.2)	15.3	–	(0.6)
Swaptions	–	–	–	20.0	0.1	–
Total	1,297.3	104.1	(33.4)	1,508.7	126.3	(30.3)
Total derivative assets/(liabilities) held for hedging	**4,952.7**	**124.3**	**(130.7)**	**5,806.9**	**142.1**	**(142.2)**

The net fair value of cashflow hedges of nil (2009 – £2.0m) will be reported in income in 2011 to 2012. There was nil (2009 – nil) charge to income and expenditure in respect of hedging ineffectiveness during the year.

There were no transactions for which cashflow hedge accounting had to cease in 2010 or 2009 as a result of the cashflows no longer being expected to occur.

Control of derivatives

Control of derivative activity undertaken by the Group is held by the Assets and Liabilities Committee ('ALCO'), a subcommittee 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.

16. Loans and advances to customers

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
(a) Loans and receivables				
Loans fully secured on residential property	6,466.7	6,389.2	6,466.3	6,388.8
Other loans				
Loans fully secured on land	544.7	579.5	544.7	579.5
Other loans	5.9	9.2	5.9	9.2
Fair value adjustment for hedge risk	73.3	101.6	73.3	101.6
	7,090.6	**7,079.5**	**7,090.2**	**7,079.1**
(b) At fair value through profit and loss				
Loans fully secured on residential property	94.4	130.1	94.4	130.1
Other loans	168.3	162.4	168.3	162.4
Fair value adjustment for hedge risk	26.5	20.7	26.5	20.7
	289.2	**313.2**	**289.2**	**313.2**
Less:				
Impairment losses (see note 12)	(65.4)	(59.1)	(65.4)	(58.8)
	7,314.4	**7,333.6**	**7,314.0**	**7,333.5**

The Society has purchased a number of mortgage portfolios 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 £5.4m (2009: £6.9m gain) for both the Group and Society.

Loans and advances to customers include £1.5bn (2009 – £1.8bn) for both the Group and Society which have been transferred from the Society to Leeds Building Society Covered Bonds LLP, a limited Liability Partnership which is consolidated by the Group. The loans secure £0.9bn (2009: £1.25bn) of covered bonds issued by the Society. The covered bonds have been used to enable the Group to participate in the Bank of England's Special Liquidity Scheme and secure long term funding from other counterparties. The loans are retained on the Society's balance sheet as the Society substantially retains the risk and reward relating to the loans.

Loans and advances to customers include an unlisted equity investment of 628,089 shares which originated from a restructure of a commercial loan and which has been fair valued at nil (2009: nil).

17. Investment Securities

	Group & Society 2010 £M	Group & Society 2009 £M
Debt securities		
Listed	1,296.4	856.4
Unlisted	435.0	517.3
Total investment securities	**1,731.4**	**1,373.7**

Investment securities increased by £1.2m in 2010 (2009: decreased by £0.2m) 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 2010 (2009: nil). The Society received a further £3.2m in the year after it sold its entire exposure in a UK subsidiary of an Icelandic Bank (2009: £2.5m).

17. Investment Securities continued

The movement in investment securities is summarised as follows:

	Available for Sale £M	Fair value through profit and loss £M	Loans and receivables £M	Total £M
Group and Society				
At 1 January 2010	807.1	–	566.6	1,373.7
Additions	4,045.1	–	–	4,045.1
Disposals (sale and redemption)	(3,553.1)	–	(135.5)	(3,688.6)
Change in fair value	(2.5)	–	3.7	1.2
At 31 December 2010	**1,296.6**	**–**	**434.8**	**1,731.4**

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 2010 was £434.8m (2009: £566.6m) and this compares with the market value of £427m (2009: £530m).

The fair value gain that would have been recorded directly in reserves if the assets had not been reclassified was £22m (2009: £33m 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 £460m (2009: £585m).

The net loss, after deferred tax, of £9.3m (2009: £10.8m) 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 0.90% and 0.91% respectively (2009: 0.74% and 0.72%).

18. Investments in subsidiary undertakings

	Society 2010 £M	Society 2009 £M
(a) Shares held in subsidiary undertakings		
Cost		
At 1 January 2010	19.6	19.6
At 31 December 2010	**19.6**	**19.6**
(b) Loans to subsidiary undertakings		
Cost		
At 1 January 2010	–	180.1
Additions	–	–
Repayments	–	(180.1)
At 31 December 2010	**–**	**–**
Total investments in subsidiary undertakings	**19.6**	**19.6**

18. Investments in subsidiary undertakings continued

(c) Other investments

	Group & Society	
	2010 £M	2009 £M
Investments in Mutual Vision Technologies Ltd	0.1	0.1

(d) 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	*	*

*The Society's interest is in substance equal to being a 100% owned subsidiary. Consequently it has been consolidated in the Group accounts.

(e) Interest in other investments

The Society has an interest in the following unlisted company, which is registered in the UK.

Name	Major activities	Class of Shares held	Interest of Society
Mutual Vision Technologies Ltd	Mutual Vision Technologies Ltd	Ordinary £1 shares	13.87%

19. 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 2010	28.7	0.4	1.4	22.2	0.1	52.8
Additions	–	–	–	0.9	–	0.9
Decrease in valuation taken to other comprehensive income	(5.2)	(0.1)	–	–	–	(5.3)
Disposals	(0.4)	–	–	–	–	(0.4)
At 31 December 2010	**23.1**	**0.3**	**1.4**	**23.1**	**0.1**	**48.0**
Depreciation and impariment						
At 1 January 2010	–	–	1.3	18.4	0.1	19.8
Charged in year	–	–	–	1.0	–	1.0
Decrease in valuation taken to income statement	0.3	–	–	–	–	0.3
Disposals	–	–	–	–	–	–
At 31 December 2010	**0.3**	**–**	**1.3**	**19.4**	**0.1**	**21.1**
Net book value						
At 31 December 2010	**22.8**	**0.3**	**0.1**	**3.7**	**–**	**26.9**
At 31 December 2009	**28.7**	**0.4**	**0.1**	**3.8**	**–**	**33.0**
(b) Society						
Cost or valuation						
At 1 January 2010	28.7	0.4	1.4	22.2	–	52.7
Additions	–	–	–	0.9	–	0.9
Decrease in valuation taken to other comprehensive income	(5.2)	(0.1)	–	–	–	(5.3)
Disposals	(0.4)	–	–	–	–	(0.4)
At 31 December 2010	**23.1**	**0.3**	**1.4**	**23.1**	**–**	**47.9**
Depreciation						
At 1 January 2010	–	–	1.3	18.4	–	19.7
Charged in year	–	–	–	1.0	–	1.0
Decrease in valuation taken to income statement	0.3	–	–	–	–	0.3
Disposals	–	–	–	–	–	–
At 31 December 2010	**0.3**	**–**	**1.3**	**19.4**	**–**	**21.0**
Net book value						
At 31 December 2010	**22.8**	**0.3**	**0.1**	**3.7**	**–**	**26.9**
At 31 December 2009	**28.7**	**0.4**	**0.1**	**3.8**	**–**	**33.0**

The freehold and long leasehold premises were valued as at 31 December 2010 by Knight Frank on the basis of existing use value.

19. Property, plant and equipment continued

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £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	9.8	9.7	9.8
Long leasehold premises	0.1	0.1	0.1	0.1
Net book value	**9.8**	**9.9**	**9.8**	**9.9**
(d) Land and buildings occupied by the Group and Society for its own activities				
Net book value	**17.3**	**21.9**	**17.3**	**21.9**

The cost of equipment, fixtures and vehicles held under finance leases was £0.7m (2009: £0.7m). The related cumulative depreciation of £0.7m (2009: £0.7m) includes £nil charged during the year (2009: £nil).

20. Investment Properties

	Group 2010 £M	Society 2010 £M
At 1 January 2010	7.0	–
Net gain/(loss) from fair value adjustment	–	–
At 31 December 2010	**7.0**	**–**

The investment property was acquired on 31 December 2009 for £7.0m. The investment property was valued as at 31 December 2010 by DTZ Debenham Tie Lung 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.

21. Deferred income tax

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Deferred tax				
At 1 January 2010	(0.2)	(2.3)	(1.0)	(3.1)
Amount recognised directly in equity	0.9	2.1	0.9	2.1
Income and expenditure movement during the year	0.1	–	0.1	–
At 31 December 2010	**0.8**	**(0.2)**	**–**	**(1.0)**

21. Deferred income tax continued

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Deferred income tax liabilities				
Gain on revaluation	0.6	2.1	0.6	2.1
Cash flow hedges	0.6	0.5	0.6	0.5
Other temporary differences	0.8	1.2	0.8	1.2
	2.0	**3.8**	**2.0**	**3.8**

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Deferred income tax assets				
Pensions and other post retirement benefits	0.2	0.8	0.2	0.8
Excess of capital allowances over depreciation	0.3	0.3	0.3	0.3
Other provisions	2.3	2.5	1.5	1.7
	2.8	**3.6**	**2.0**	**2.8**

The deferred tax charge in the income statement comprises the following temporary differences:

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Other provisions	(0.1)	–	0.1	–
	(0.1)	**–**	**(0.1)**	**–**

22. Other assets, prepayments and accrued income

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Other assets, prepayments and accrued income	93.4	109.3	91.5	108.4
	93.4	**109.3**	**91.5**	**108.4**

Other assets include £81.7m (2009: £98.6m) owed by credit institutions on cash collateralisation of swaps.

23. Shares

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Held by individuals	6,977.4	6,737.9	6,977.4	6,737.9
Other shares	10.4	12.6	10.4	12.6
Fair value adjustment for hedge risk	37.4	29.5	37.4	29.5
	7,025.2	**6,780.0**	**7,025.2**	**6,780.0**

Shares have either variable or fixed interest rates.

Notes to the Accounts continued

For the year ended 31 December 2010

24. Amounts owed to credit institutions

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Amounts owed to credit institutions	**482.6**	**538.8**	**482.6**	**538.8**

All amounts owed to credit institutions have fixed interest rates.
Amounts owed to credit institutions include £297.9m (2009: £489.9m) for both the Group and Society for which the underlying security was the covered bond programme secured on certain loans and advances to customers.

25. Amounts owed to other customers

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Amounts owed to subsidiary undertakings	–	–	31.6	30.8
Other deposits	439.4	709.5	439.4	709.5
	439.4	**709.5**	**471.0**	**740.3**

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

26. Debt securities in issue

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Certificates of deposit	63.3	139.9	63.3	139.9
Floating rate notes	426.6	535.4	426.6	535.4
Covered bonds	270.2	–	282.7	–
	760.1	**675.3**	**772.6**	**675.3**

The interest rates on debt securities in issue are a combination of fixed and variable.
The underlying security for the covered bonds was the covered bond programme secured on certain loans and advances to customers.

27. Other liabilities and accruals

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Income tax	7.8	9.9	7.8	9.9
Accruals	9.3	8.6	9.0	8.5
Other creditors	91.8	119.8	89.4	117.4
	108.9	**138.3**	**106.2**	**135.8**

Included within other creditors is a liability for financial guarantee contracts of £3.2m (2009: £3.2m).

Other creditors includes £73.8m (2009: £102m) owed to credit institutions on cash collateralisation of swaps.

28. Provisions for Liabilities and Charges

Group	FSCS levy £m	Customer redress and other related provisions £M	Commission Clawback £M	Total £M
At 1 January 2010	5.8	0.1	0.6	6.5
Amounts paid during the year	(2.4)	(0.1)	–	(2.5)
Provision increase / (credit) in the year	0.8	0.3	(0.1)	1.0
At 31 December 2010	**4.2**	**0.3**	**0.5**	**5.0**
Society				
At 1 January 2010	5.8	0.1	–	5.9
Amounts paid during the year	(2.4)	(0.3)	–	(2.7)
Provision increase / (credit) in the year	0.8	0.3	–	1.1
At 31 December 2010	**4.2**	**0.1**	**–**	**4.3**

Financial Services Compensation Scheme (FSCS) Levy

The levy represents the balance of the estimated amount payable under the FSCS for the period March 2010 to March 2012 calculated with reference to the protected deposits held at 31 December 2010. Refer to note 32 for the Society's contingent liability in relation to the FSCS as at the balance sheet date.

Customer redress and other related provisions

This provision is in respect of claims for redress by customers, including potential claims on payment protection insurance, endowment policies sold by the Group and other fees and premiums charged.

Commission clawback

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

29. Subordinated Liabilities

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
Subordinated debt notes 2015	0.9	40.0	0.9	40.0
	0.9	**40.0**	**0.9**	**40.0**

The subordinated debt has a fixed interest rate of 4.34% (2009: 5.75%) and a maturity date of 9 March 2015. The Society exercised its option to repay £39.1m of the debt on 9 March 2010 which resulted in a £3.5m gain for the Society. The debt is subordinated to the claims of members and all other creditors.

30. Subscribed Capital

	Group 2010 £M	Group 2009 £M	Society 2010 £M	Society 2009 £M
$13\frac{3}{8}$% 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.

31. 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	
	2010 £M	2009 £M
Cash in hand and balances with the Bank of England (note 14)	115.9	314.9
Loans and advances to credit institutions	79.9	224.4
	195.8	**539.3**

32. 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 provided by the Financial Services and Markets Act 2000.

Based on its share of protected deposits, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business ('Kaupthing Edge') and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. In December 2008 an additional claim against the FSCS was triggered by London Scottish Bank being placed in administration and later Dunfermline Building Society. The FSCS will also be liable to claims from depositors of Landsbanki hf and KSF whose balances have not been transferred to ING direct, but are covered by the FSCS. The FSCS has met, or will meet, the claims by way of loans received from the Bank of England which will eventually be replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective Bank of England loans. Due to the inherent uncertainty in respect to this matter, the ultimate liability for the Society is presently unknown. This matter is therefore considered by the Directors to be a contingent liability for 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 2010 (2009: nil) contracted but not provided for.

32. 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	
	2010 £M	**2009 £M**
Land and buildings		
Commitment expiring:		
Within one year	0.3	0.3
Between two and five years inclusive	0.4	0.4
After five years	1.1	1.0
	1.8	**1.7**
Other operating leases		
Commitment expiring:		
Within five years	1.4	1.4
	1.4	**1.4**
(e) Irrevocable loan facility commitments	**1.2**	**1.9**

33. Retirement Benefit Obligations

The Society operates both defined benefit and defined contribution schemes including the Mercantile Building Society Retirement and Death Benefit Plan. The total cost charged to income during the year relating to defined contribution schemes was £0.8m (2009: £0.6m). As at 31 December 2010, contributions of £0.1m (2009: £0.1m) due in respect of the current reporting period had not been paid over to the schemes. In addition, the Society has, for two individuals in the UK, an unfunded unapproved benefits scheme. The schemes have been accounted for under IAS19 covering employee benefits. IAS19 requires disclosure of certain information about the schemes as follows.

The defined benefit section of the Scheme provides benefits based on final salary for certain employees. The assets of the Scheme are held in a separate trustee-administered fund. Contributions to the defined benefit section are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The defined benefit section was closed to new entrants from 1 January 2000.

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				
	2010	**2009**	**2008**	**2007**	**2006**
Rate of increase in salaries	5.70%	5.80%	5.30%	5.40%	5.00%
Rate of increase for pensions in payment*	3.60%	3.69%	3.25%	3.40%	3.00%
Rate of increase for deferred pensions*	3.70%	3.80%	3.30%	3.40%	3.00%
Discount rate	5.55%	5.85%	6.20%	5.80%	5.20%
Inflation assumption RPI	3.70%	3.80%	3.30%	3.40%	3.00%
Inflation assumption CPI	3.20%	n/a	n/a	n/a	n/a
Expected return on assets	6.07%	6.65%	5.86%	7.00%	6.90%

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

33. Retirement Benefit Obligations continued

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 including the medium cohort effect and a 0.5% (2009: 0.5%) underpin for members. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a member aged 63.

	2010		2009		2008	
	Pensioner	Non-pensioner	Pensioner	Non-pensioner	Pensioner	Non-pensioner
Male	23	24	23	24	23	25
Female	25	27	25	27	25	27

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.

	Group & Society				
Category of assets	2010	2009	2008	2007	2006
Equities	53.7%	63.2%	54.4%	59.0%	70.0%
Property	5.5%	5.8%	6.8%	3.5%	4.2%
Government bonds	20.2%	20.1%	26.0%	24.9%	15.7%
Corporate bonds	19.9%	10.1%	12.6%	11.6%	6.7%
Cash/other	0.7%	0.8%	0.2%	1.0%	3.4%

	Group & Society				
Reconciliation of funded statement	2010 £M	2009 £M	2008 £M	2007 £M	2006 £M
Present value of pension scheme's liabilities	(74.6)	(71.9)	(60.7)	(64.3)	(64.2)
Assets at fair value	73.9	68.9	57.7	62.8	58.6
Deficit	**(0.7)**	**(3.0)**	**(3.0)**	**(1.5)**	**(5.6)**

The amounts recognised in the Income Statements are as follows:

	Group & Society	
	2010 £M	2009 £M
Current service cost	2.0	1.7
Prior service cost	0.2	0.2
Interest cost	4.2	3.7
Expected return on plan assets	(4.6)	(3.3)
Total cost – defined benefit scheme	**1.8**	**2.3**

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

33. Retirement Benefit Obligations continued

Experience recognised in the Statements of Comprehensive Income (SOCI)

	Group & Society				
	2010 £M	**2009 £M**	**2008 £M**	**2007 £M**	**2006 £m**
Experience (loss)/gain on pension scheme liabilities	(2.3)	(7.2)	7.6	2.7	3.0
Percentage of scheme liabilities (%)	(3.1%)	(10.0%)	12.4%	4.2%	4.7%
Experience gain/(loss) on assets	3.2	6.1	(11.7)	(1.5)	1.8
Percentage of scheme liabilities (%)	4.3%	8.9%	(18.6%)	(2.4%)	3.1%
Total gains/(losses) recognised in SOCI during the year	**0.9**	**(1.1)**	**(4.1)**	**1.2**	**4.8**

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

	Group & Society	
	2010 £M	**2009 £M**
At 1 January 2010	71.9	60.7
Current service cost	2.0	1.7
Interest cost	4.2	3.7
Prior service cost	0.2	0.2
Employee contributions	–	0.1
Actuarial loss	2.3	7.2
Benefits paid	(6.0)	(1.7)
At 31 December 2010	**74.6**	**71.9**

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

	Group & Society	
	2010 £M	**2009 £M**
At 1 January 2010	68.9	57.7
Expected return	4.6	3.3
Actuarial gain	3.2	6.1
Contribution by employer	3.2	3.4
Employee contributions	–	0.1
Benefits paid	(6.0)	(1.7)
At 31 December 2010	**73.9**	**68.9**

Estimated contributions for 2011 financial year

	2011 £M
Estimated contributions in Financial Year 2011	3.2
Estimated employee contributions in Financial Year 2011	–
Estimated Total contributions in Financial Year 2011	**3.2**

34. 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 18.

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	
	2010 £M	2009 £M	2010 £M	2009 £M
Loans payable to the Society				
Loans outstanding at 1 January 2010	–	180.1	0.3	0.1
Net movement during the year	–	(180.1)	(0.1)	0.2
Loans outstanding at 31 December 2010	**–**	**–**	**0.2**	**0.3**
Deposits payable by the Society				
Deposits outstanding at 1 January 2010	30.8	28.2	2.2	1.7
Net movement during the year	0.8	2.6	0.6	0.5
Deposits outstanding at 31 December 2010	**31.6**	**30.8**	**2.8**	**2.2**
Net interest income				
Interest receivable	–	1.4	–	–
Interest expense	–	–	0.1	0.1

	2010 £M	2009 £M
Directors' emoluments (see note 10)		
Short-term benefits	1.7	1.4

Directors' emoluments include those emoluments received by directors from the Society and its associated bodies.

Three Directors are members of the defined benefit section of the Leeds Building Society Pension Scheme (2009: three).

One Director is a member of the defined contribution section of the Leeds Building Society Pension Scheme (2009: one).

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

2010
Group & Society

	Before tax Amount £M	Tax benefit/ (expense) £M	Net of tax Amount £M
Revaluation reserve	(5.3)	1.6	(3.7)
Available for sale investment securities	0.8	(0.2)	0.6
Cash flow hedges	(1.9)	0.5	(1.4)
Actuarial gain on retirement benefit obligations	0.9	(0.2)	0.7
Other comprehensive income	**(5.5)**	**1.7**	**(3.8)**

2009
Group & Society

	Before tax Amount £M	Tax benefit/ (expense) £M	Net of tax Amount £M
Available for sale investment securities	1.8	(0.5)	1.3
Cash flow hedges	(7.7)	2.2	(5.5)
Actuarial losses on retirement benefit obligations	(1.1)	0.3	(0.8)
Other comprehensive income	**(7.0)**	**2.0**	**(5.0)**

36. 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.

36. 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 debtors 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, although 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 investee's financial health and uncertainty within the wholesale market generally. Wholesale lending credit risk is managed through setting strict upper and lower limits to each type of investment that are dependant 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.

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

The table below shows the split of the Group's loans and advances:

	Group & Society 2010		Group & Society 2009	
	£M	%	£M	%
Retail lending:				
Secured on residential property	6,561.1	90.1	6,519.3	89.6
Other loans	174.2	2.4	171.6	2.4
Commercial lending	544.7	7.5	579.5	8.0
Gross balances	**7,280.0**	**100.0**	**7,270.4**	**100.0**
Impairment provisions	(65.4)		(59.1)	
Fair value adjustment	99.8		122.3	
	7,314.4		**7,333.6**	

36. 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 and unsecured personal loans within this area. The Group's retail lending exposures are predominately in the United Kingdom. At 31 December 2010, the Group had £289m of loans and advances secured on residential property in Ireland and Spain (2009: £298m).

The table below provides further information on the Group's loans and advances to customers by payment due status as at 31 December 2010. The balances exclude the fair value adjustment for hedge risk and impairment losses.

	Group & Society Residential		Group & Society Other[1]	
	2010	2010	2010	2010
	£M	%	£M	%
Not impaired:				
– neither past due nor impaired	6,074.3	92.6	170.6	97.9
– Past due up to 3 months but not impaired	271.3	4.1	–	–
Impaired:				
– Past due 3 to 6 months	86.8	1.3	–	–
– Past due 6 to 12 months	68.0	1.0	3.6	2.1
– Past due over 12 months	42.9	0.7	–	–
– Possessions	17.8	0.3	–	–
	6,561.1	**100.0**	**174.2**	**100.0**

Note:

1) Other loans include lifetime mortgages (£168.3m) and unsecured personal loans (£5.9m).

	Group & Society Residential		Group & Society Other	
	2009	2009	2009	2009
	£M	%	£M	%
Not impaired:				
– neither past due nor impaired	6,038.4	92.7	168.8	98.4
– Past due up to 3 months but not impaired	258.9	4.0	–	–
Impaired:				
– Past due 3 to 6 months	87.9	1.3	–	–
– Past due 6 to 12 months	77.0	1.2	2.8	1.6
– Past due over 12 months	41.3	0.6	–	–
– Possessions	15.8	0.2	–	–
	6,519.3	**100.0**	**171.6**	**100.0**

£128m (2009: £63m) of loans that would be past due or impaired have had their terms renegotiated.

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

Fair value of collateral held for residential loans:

	Group & Society	
	2010	2009
	£M	£M
Not individually impaired	12,659.4	12,459.0
Impaired	262.5	275.2
Possessions	18.8	14.6
	12,940.7	**12,748.8**

36. Risk Management and Control continued

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

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	
	2010 %	**2009 %**
Secured on residential property		
<70%	54.3	54.6
70% – 80%	15.9	13.8
80% – 90%	14.6	13.7
>90%	15.2	17.9
	100.0	**100.0**

The overall indexed loan-to-value of the residential portfolio is 50% (2009: 51%).
The indexed loan-to-value on the lifetime mortgage portfolio is 30% (2009: 29%). The collateral held amounts to £560m (2009: £553m).

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 2010. The balances exclude the fair value adjustment for hedge risk and impairment losses.

	Group & Society Commercial		Group & Society Commercial	
	2010 £M	**2010 %**	**2009 £M**	**2009 %**
Not impaired:				
– neither past due nor impaired	483.3	88.7	461.5	79.6
– Past due up to 3 months but not impaired	11.2	2.1	26.5	4.6
Impaired:				
– Past due 3 to 6 months	3.4	0.6	50.3	8.7
– Past due 6 to 12 months	–	–	24.3	4.2
– Past due over 12 months	20.1	3.7	–	–
– Possessions	26.7	4.9	16.9	2.9
	544.7	**100.0**	**579.5**	**100.0**

£13.3m (2009: £6.1m) of loans that would be past due or impaired have had their terms renegotiated.
Loans in the analysis above which have less than three months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears.

Fair value of collateral held:

	Group & Society	
	2010 £M	**2009 £M**
Not individually impaired	513.6	469.1
Impaired	21.6	66.6
Possessions	17.0	4.9
	552.2	**540.6**

36. Risk Management and Control continued

The collateral held against commercial loans consists of commercial property. The use of such collateral is in line with terms that are usual and customary to commercial lending activities. The fair value is based on open market value or indices of similar assets.

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

	Group & Society Commercial		Group & Society Commercial	
	2010	2010	2009	2009
	£M	%	£M	%
Leisure and Hotel	11.6	2.1	4.5	0.7
Retail	164.5	30.2	184.7	31.9
Offices	210.6	38.7	238.7	41.2
Commercial investment and industrial units	102.0	18.7	90.3	15.6
Miscellaneous	56.0	10.3	61.4	10.6
	544.7	**100.0**	**579.6**	**100.0**

c) Wholesale lending

At 31 December 2010 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.

94.8% (2009: 92.9%) 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 grade A1 or above.

The table below provides ratings details for the Group's treasury investment portfolio as at 31 December 2010:

	Group & Society		Group & Society	
	2010	2010	2009	2009
	£M	%	£M	%
Aaa	1,246.5	64.6	1,020.8	53.2
Aa1	10.0	0.5	10.2	0.5
Aa2	14.5	0.8	57.1	3.0
Aa3	269.3	13.9	255.6	13.3
A1	193.6	10.0	227.4	11.9
A2	61.6	3.2	157.5	8.2
A3	34.8	1.8	53.2	2.8
Baa1	35.7	1.8	40.4	2.1
Baa2	26.8	1.4	–	–
Baa3	21.5	1.1	11.1	0.6
Unrated:				
UK Building Societies	5.8	0.3	58.7	3.1
Other	12.0	0.6	24.4	1.3
	1,932.1	**100.0**	**1,916.4**	**100.0**

The Society investment portfolio mirrors the Group except in its holdings of Aa2 rated investments where the value held is £14.0m (2009: £56.9m).

36. Risk Management and Control continued

Geographical exposure:

	Group & Society 2010 £M	Group & Society 2010 %	Group & Society 2009 £M	Group & Society 2009 %
UK	1,512.2	78.2	1,390.2	72.6
Rest of Europe	345.7	17.9	447.0	23.3
North America	32.2	1.7	25.3	1.3
Australasia	36.9	1.9	53.9	2.8
Far East	5.1	0.3	–	–
	1,932.1	**100.0**	**1,916.4**	**100.0**

The Society's geographical exposure is equal to the Group's except it holds £1,511.7m (2009: £1,390.0m) in the UK.

The Group has £48m exposure to Ireland, Spain and Portugal (2009: £86m).

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 currently has the following types of derivatives. 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.

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

	Group 2010			Group 2009		
	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	4,463.8	81.6	55.6	5,003.7	45.5	46.6
Cross currency swaps	738.9	78.8	70.8	783.2	152.1	95.5
Swaptions	–	–	–	20.0	–	0.1
	5,202.7	**160.4**	**126.4**	**5,806.9**	**197.6**	**142.2**
Under one year	2,236.6	86.0	78.6	2,421.3	13.2	20.0
Between one and five years	1,823.7	55.8	46.4	2,651.0	172.5	120.2
Over five years	1,142.4	18.6	1.4	734.6	11.9	2.0
	5,202.7	**160.4**	**126.4**	**5,806.9**	**197.6**	**142.2**

36. Risk Management and Control continued

	Society 2010			Society 2009		
	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	4,213.8	77.9	53.5	5,003.7	45.5	46.6
Cross currency swaps	738.9	78.8	70.8	783.2	152.1	95.5
Swaptions	–	–	–	20.0	–	0.1
	4,952.7	**156.7**	**124.3**	**5,806.9**	**197.6**	**142.2**
Under one year	2,236.6	86.0	78.6	2,421.3	13.2	20.0
Between one and five years	1,823.7	55.8	46.4	2,651.0	172.5	120.2
Over five years	892.4	14.9	1.4	734.6	11.9	2.0
	4,952.7	**156.7**	**126.4**	**5,806.9**	**197.6**	**142.2**

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.

Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of member value.

The Group's exposure to market risk is governed by a policy approved by the ALCO. This policy sets out the nature of risk which may be taken and aggregate risk limits. Based on these aggregate limits, the ALCO assigns risk limits to all Group businesses and monitors compliance with these limits. At each meeting the ALCO reviews reports showing the Group's exposure to market and liquidity risks.

The Group's exposure to market risk is managed by Group Treasury. Group Treasury manages market risk by using appropriate hedging instruments or by taking advantage of natural hedges within the Group's businesses. Market risk is managed within a clearly defined framework of policy limits.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, duration analysis, basis point value analysis, scenario analysis, and earnings at risk.

There has been no change in the year to the Group's exposure to market risks or the manner in which it manages and measures the risk.

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 level of risk can deviate from this – subject to limits – in particular as a result of decisions made by the Group's Treasury department to temporarily deviate from the benchmark profile in the light of market conditions. The Group uses interest rate stress testing and gap analysis to manage its interest rate position.

36. Risk Management and Control continued

The following table provides a summary of the interest rate repricing profile of the Group's assets and liabilities as at 31 December 2010. 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 2010	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 reprice date £M	Non interest bearing £M	Total £M
Assets								
Liquid assets	1,156.7	378.6	173.2	210.1	4.7	–	8.8	1,932.1
Loans fully secured on residential property and other loans	3,921.3	647.2	339.7	1,872.5	430.1	–	103.6	7,314.4
Property, plant and Equipment	–	–	–	–	–	–	26.9	26.9
Investment properties	–	–	–	–	–	–	7.0	7.0
Other assets	–	–	–	–	–	–	222.7	222.7
Total assets	**5,078.0**	**1,025.8**	**512.9**	**2,082.6**	**434.8**	**–**	**369.0**	**9,503.1**
Liabilities								
Shares	3,777.8	364.4	555.3	2,123.1	70.1	–	134.5	7,025.2
Amounts owed to credit institutions, other customers and debt securities in issue	1,370.5	54.6	20.3	3.0	228.1	–	5.6	1,682.1
Other liabilities	–	–	–	–	–	–	264.7	264.7
Subordinated debt	–	–	–	0.9	–	–	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Reserves	–	–	–	–	–	–	505.2	505.2
Total liabilities	**5,148.3**	**419.0**	**575.6**	**2,127.0**	**298.2**	**25.0**	**910.0**	**9,503.1**
Effect of derivative items	598.6	(759.7)	236.3	80.7	(155.9)	–	–	–
Interest rate sensitivity gap	528.3	(152.9)	173.6	36.3	(32.4)	(25.0)	(527.9)	–

36. Risk Management and Control continued

31 December 2009	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 reprice date £M	Non interest bearing £M	Total £M
Assets								
Liquid assets	1,628.3	0.8	–	271.1	1.6	–	14.6	1,916.4
Loans fully secured on residential property and other loans	3,935.7	242.6	613.6	1,811.2	596.5	–	134.0	7,333.6
Property, plant and equipment	–	–	–	–	–	–	33.0	33.0
Investment properties	–	–	–	–	–	–	7.0	7.0
Other assets	–	–	–	–	–	–	255.1	255.1
Total assets	**5,564.0**	**243.4**	**613.6**	**2,082.3**	**598.1**	**–**	**443.7**	**9,545.1**
Liabilities								
Shares	3,820.6	219.3	625.6	1,921.5	75.1	–	117.9	6,780.0
Amounts owed to credit institutions, other customers and debt securities in issue	1,715.2	108.3	93.8	3.0	–	–	3.3	1,923.6
Other liabilities	–	–	–	–	–	–	298.4	298.4
Subordinated debt	–	–	–	40.0	–	–	–	40.0
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Reserves	–	–	–	–	–	–	478.1	478.1
Total liabilities	**5,535.8**	**327.6**	**719.4**	**1,964.5**	**75.1**	**25.0**	**897.7**	**9,545.1**
Effect of derivative items	989.0	(119.6)	(44.1)	(305.0)	(520.3)	–	–	–
Interest rate sensitivity gap	1,017.2	(203.8)	(149.9)	(187.2)	2.7	(25.0)	(454.0)	–

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 +100bps 2010 £M	Group –100bps 2009 £M	Society +100bps 2010 £M	Society –100bps 2009 £M
Impact on equity reserves	8.9	(17.2)	9.0	(16.2)
Impact on profit and loss	3.2	(4.9)	2.9	(5.1)

36. 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 Society'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 monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2010 £M	2009 £M	2010 £M	2009 £M
Euro	789.1	883.1	789.1	883.1

At the year end the Group has hedges in place to match 100% of its foreign currency exposures, via the use of currency swaps and foreign currency forward contracts. Therefore any movement in foreign currency through profit or loss and other equity will be minimised.

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) 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, through committed wholesale funding facilities through securitisaton arrangements and through management control of the growth of the business.

36. Risk Management and Control continued

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 draw-down 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.

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.

In addition, it is the Group's policy to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of the Group's liquidity. At the year end the Group had committed facilities of £90m with two banks (2009: £90m with two banks) of which £nil (2009: £nil) was drawn at the year end. The weighted average period until maturity of those facilities was 0.4 years (2009: 1.4 years).

Significant development has occurred in 2010 for liquidity stress testing and forecast models under the FSA standard PS09/16 – Strengthening Liquidity Standards.

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

	Group & Society		Group & Society	
	2010 £M	2010 %	2009 £M	2009 %
Cash in hand and balances with the Bank of England	113.8	5.9	313.0	16.3
Deposits with Financial Institutions	69.4	3.6	194.3	10.1
UK Government Securities	810.3	41.9	266.5	13.9
Certificates of deposit	435.1	22.5	517.3	27.1
Floating rate notes	154.8	8.0	241.4	12.6
Fixed rate bonds	51.4	2.7	23.3	1.2
UK RMBS	279.9	14.5	325.3	17.0
Other	17.4	0.9	35.3	1.8
	1,932.1	**100.0**	**1,916.4**	**100.0**

The Society's liquidity portfolio is equal to the Group's except it has £68.9m (2009: £194.1m) 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 95.3% (2009: 95.8%) are in AAA rated tranches with the remainder in AA rated tranches.

The Group has enhanced its management liquity risk through the development of liquidity stress testing models. There has been no other change in the manner in which the Group manages and measures liquidity risk.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will be accrued to those instruments except where the Group is entitled and intends to repay the liabilities before their maturity.

The subscribed capital has a fixed rate of interest of 13 3/8% payable semi-annually for an indeterminate period.

36. Risk Management and Control continued

31 December 2010	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	4,708.5	175.6	556.1	1,654.9	68.4	7,163.5
Amounts owed to credit institutions, other customers and debt securities in issue	427.5	670.3	97.9	352.2	310.9	1,858.8
Subordinated debt	–	–	–	0.9	–	0.9
Other liabilities	120.8	–	–	–	–	120.8
Subscribed capital	–	–	–	–	25.0	25.0
Reserves	–	–	–	–	505.2	505.2
Total liabilities	**5,256.8**	**845.9**	**654.0**	**2,008.0**	**909.5**	**9,674.2**

31 December 2009	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	4,531.0	308.3	588.3	1,481.3	7.5	6,916.4
Amounts owed to credit institutions, other customers and debt securities in issue	1,204.0	110.3	102.8	521.3	–	1,938.4
Subordinated debt	42.3	–	–	–	–	42.3
Other liabilities	156.2	–	–	–	–	156.2
Subscribed capital	–	–	–	–	25.0	25.0
Reserves	–	–	–	–	478.1	478.1
Total liabilities	**5,933.5**	**418.6**	**691.1**	**2,002.6**	**510.6**	**9,556.4**

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.

36. Risk Management and Control continued

	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 2010					
Swap contracts	18.4	15.3	28.0	55.8	17.6
31 December 2009					
Swap contracts	29.3	22.6	41.9	94.1	12.3

Value of financial instruments

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities by category. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest rates.

		Group 2010		Society 2010	
		Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets					
Cash in hand and balances with the Bank of England		115.9	115.9	115.9	115.9
Loans and advances to credit institutions	i)	84.8	84.8	84.3	84.3
Derivative financial instruments	ii)	126.4	126.4	124.3	124.3
Loans and advances to customers					
Loans fully secured on residential property	iii)	6,607.3	6,751.0	6,606.9	6,750.6
Other loans		707.1	719.7	707.1	719.7
Investment Securities	iv)				
Available for sale		1,296.6	1,296.6	1,296.6	1,296.6
Loans and receivables		434.8	417.1	434.8	417.1
Investment in subsidiary undertakings	v)	–	–	19.6	19.6
Other investments		0.1	0.1	0.1	0.1
Property, plant and equipment		26.9	26.9	26.9	26.9
Investment properties		7.0	7.0	–	–
Deferred income tax assets		2.8	2.8	2.0	2.0
Other assets, prepayments and accrued income		93.4	93.4	91.5	91.5
		9,503.1	**9,641.7**	**9,510.0**	**9,648.6**
Financial liabilities					
Shares	iii)	7,025.2	7,123.9	7,025.2	7,123.9
Derivative financial instruments	ii)	143.9	143.9	130.7	130.7
Amounts owed to credit institutions	vi)	482.6	482.6	482.6	482.6
Amounts owed to other customers	iii)	439.4	439.4	471.0	471.0
Debt securities in issue	iv)	760.1	827.8	772.6	815.3
Current income tax liabilities		4.2	4.2	2.0	2.0
Deferred income tax liabilities		2.0	2.0	2.0	2.0
Other liabilities and accruals		108.9	108.9	106.2	106.2
Provisions for liabilities and charges		5.0	5.0	4.3	4.3
Retirement benefit obligations		0.7	0.7	0.7	0.7
Subordinated liabilities	vii)	0.9	0.9	0.9	0.9
Subscribed capital	vii)	25.0	25.0	25.0	25.0
Total Reserves		505.2	505.2	486.8	486.8
		9,503.1	**9,669.5**	**9,510.0**	**9,651.4**

36. Risk Management and Control continued

		Group 2009 Carrying value £M	Group 2009 Fair value £M	Society 2009 Carrying value £M	Society 2009 Fair value £M
Financial assets					
Cash in hand and balances with the Bank of England		314.9	314.9	314.9	314.9
Loans and advances to credit institutions	i)	227.8	227.1	227.6	227.0
Derivative financial instruments	ii)	142.1	142.1	142.1	142.1
Loans and advances to customers	iii)	7,333.6	7,439.8	7,333.5	7,440.3
Investment Securities	iv)				
Available for sale		807.1	807.1	807.1	807.1
Loans and receivables		566.6	530.0	566.6	530.0
Investment in subsidiary undertakings	v)	–	–	19.6	19.6
Other investments		0.1	0.1	0.1	0.1
Property, plant and equipment		33.0	33.0	33.0	33.0
Investment properties		7.0	7.0	–	–
Deferred income tax assets		3.6	3.6	2.8	2.8
Other assets, prepayments and accrued income		109.3	109.3	108.4	108.4
		9,545.1	**9,614.0**	**9,555.7**	**9,625.3**
Financial liabilities					
Shares	iii)	6,780.0	6,852.3	6,780.0	6,852.3
Derivative financial instruments	ii)	142.2	142.2	142.2	142.2
Amounts owed to credit institutions	vi)	538.8	538.8	538.8	538.8
Amounts owed to other customers	iii)	709.5	709.5	740.3	709.5
Debt securities in issue	iv)	675.3	676.5	675.3	676.5
Current income tax liabilities		4.6	4.6	1.3	1.3
Deferred income tax liabilities		3.8	3.8	3.8	3.8
Other liabilities and accruals		138.3	138.3	135.8	135.8
Provisions for liabilities and charges		6.5	6.5	5.9	5.9
Retirement benefit obligations		3.0	3.0	3.0	3.0
Subordinated liabilities	vii)	40.0	40.0	40.0	40.0
Subscribed capital	vii)	25.0	25.0	25.0	25.0
Total reserves		478.1	478.1	464.3	464.3
		9,545.1	**9,618.6**	**9,555.7**	**9,598.4**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The following methods and assumptions have been applied in determining fair value:

i) The carrying amount of loans and advances to credit institutions with a maturity of under 12 months is assumed to equate to their fair value.

ii) All derivatives are all held for economic hedge purposes. The fair value of interest rate swaps is calculated via a discounted cash flow valuation model. The fair value of cross currency swaps is obtained from external counterparties.

iii) Loans and advances to customers, shares and amounts due to customers are recorded in the balance sheet using the effective interest rate method, less provisions for impairment together with the fair value adjustment for hedged items as required by IAS 39. This value is considered to be a good approximation of fair value.

iv) Fair values are based on quoted market prices. For instruments where quoted market prices are not available, the market price is based on discounted cash flows using interest rates for securities with similar credit, maturity and yield characteristics.

36. Risk Management and Control continued

v) The fair value of investments in subsidiary undertakings is assumed to approximate their carrying amounts.
vi) The fair value of floating rate and overnight deposits is approximately equal to their carrying amount. The estimated fair value of fixed rate loans and deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.
vii) The fair value of subordinated liabilities and subscribed capital are obtained from market prices.

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 2010	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	115.9	–	–	–	–	115.9
Loans and advances to credit institutions	–	79.9	2.2	–	2.7	84.8
Derivative financial instruments	–	0.9	77.7	46.4	1.4	126.4
Loans and advances to customers:						
Loans fully secured on residential property	5.1	51.8	111.3	772.6	5,666.5	6,607.3
Other loans	–	50.9	58.4	215.5	382.3	707.1
Investment securities	–	536.0	613.6	297.3	284.5	1,731.4
Other investments	0.1	–	–	–	–	0.1
Property, plant and equipment	26.9	–	–	–	–	26.9
Investment properties	7.0	–	–	–	–	7.0
Deferred income tax assets	2.8	–	–	–	–	2.8
Other assets, prepayments, accrued income and current tax	93.4	–	–	–	–	93.4
Total Assets	**251.2**	**719.5**	**863.2**	**1,331.8**	**6,337.4**	**9,503.1**
Liabilities						
Shares	4,543.2	345.1	553.5	1,517.6	65.8	7,025.2
Derivative financial instruments	–	2.4	12.2	41.0	88.3	143.9
Amounts owed to credit institutions	–	427.6	55.0	–	–	482.6
Amounts owed to other customers	40.1	302.7	94.6	2.0	–	439.4
Debt securities in issue	–	63.6	402.2	67.4	226.9	760.1
Current income tax liabilities	4.2	–	–	–	–	4.2
Deferred income tax liabilities	2.0	–	–	–	–	2.0
Provision for liabilities, accruals and deferred income	113.9	–	–	–	–	113.9
Retirement benefit obligations	0.7	–	–	–	–	0.7
Subordinated liabilities	0.9	–	–	–	–	0.9
Subscribed capital	–	–	–	–	25.0	25.0
Available for sale reserve	(9.4)	–	–	–	–	(9.4)
Revaluation reserve	13.2	–	–	–	–	13.2
General and other reserves	501.4	–	–	–	–	501.4
Total Reserves and Liabilities	**5,210.2**	**1,141.4**	**1,117.5**	**1,628.0**	**406.0**	**9,503.1**

36. Risk Management and Control continued

31 December 2009	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	314.9	–	–	–	–	314.9
Loans and advances to credit institutions	–	224.4	0.8	–	2.6	227.8
Derivative financial instruments	–	2.8	17.2	120.1	2.0	142.1
Loans and advances to customers:						
Loans fully secured on residential property	1.8	46.6	108.5	742.7	5,701.2	6,600.8
Other loans	–	22.0	27.8	239.3	443.7	732.8
Investment securities	–	567.4	–	479.4	326.9	1,373.7
Other investments	0.1	–	–	–	–	0.1
Property, plant and equipment	33.0	–	–	–	–	33.0
Investment properties	7.0	–	–	–	–	7.0
Deferred income tax assets	3.6	–	–	–	–	3.6
Other assets, prepayments, accrued income and current tax	109.3	–	–	–	–	109.3
Total Assets	**469.7**	**863.2**	**154.3**	**1,581.5**	**6,476.4**	**9,545.1**
Liabilities						
Shares	4,558.7	305.1	573.4	1,337.3	5.5	6,780.0
Derivative financial instruments	–	5.1	23.9	59.1	54.1	142.2
Amounts owed to credit institutions	–	441.4	97.4	–	–	538.8
Amounts owed to other customers	39.3	465.8	203.3	1.1	–	709.5
Debt securities in issue	158.5	–	3.5	513.3	–	675.3
Current income tax liabilities	4.6	–	–	–	–	4.6
Deferred income tax liabilities	3.8	–	–	–	–	3.8
Provision for liabilities, accruals and deferred income	144.8	–	–	–		144.8
Retirement benefit obligations	3.0	–	–	–	–	3.0
Subordinated liabilities	–	40.0	–	–	–	40.0
Subscribed capital	–	–	–	–	25.0	25.0
Cash flow hedge reserve	1.4	–	–	–	–	1.4
Available for sale reserve	(10.0)	–	–	–	–	(10.0)
Revaluation reserve	16.9	–	–	–	–	16.9
General and other reserves	469.8	–	–	–	–	469.8
Total Reserves and Liabilities	**5,390.8**	**1,257.4**	**901.5**	**1,910.8**	**84.6**	**9,545.1**

36. 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 2010	Financial assets at fair value through Income Statement £M	Financial assets at available for sale £M	Financial assets at 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	–	–	–	115.9	–	–	–	115.9
Loans and advances to credit institutions	–	–	–	84.8	–	–	–	84.8
Derivative financial instruments	126.4	–	–	–	–	–	–	126.4
Loans and advances to customers:								
Loans fully secured on residential property	1,229.9	–	–	5,377.4	–	–	–	6,607.3
Other loans	289.8	–	–	417.3	–	–	–	707.1
Investment securities	–	1,296.6	–	434.8	–	–	–	1,731.4
Other investments	–	–	0.1	–	–	–	–	0.1
Non financial assets	–	–	–	–	–	–	130.1	130.1
Total Assets	**1,646.1**	**1,296.6**	**0.1**	**6,430.2**	**–**	**–**	**130.1**	**9,503.1**
Liabilities								
Financial Liabilities:								
Shares	–	–	–	–	691.3	6,333.9	–	7,025.2
Derivative financial instruments	–	–	–	–	143.9	–	–	143.9
Amounts owed to credit institutions	–	–	–	–	–	482.6	–	482.6
Amounts owed to other customers	–	–	–	–	–	439.4	–	439.4
Debt securities in issue	–	–	–	–	270.3	489.8	–	760.1
Subordinated liabilities	–	–	–	–	–	0.9	–	0.9
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Non financial liabilities	–	–	–	–	–	–	120.8	120.8
General and other reserves	–	–	–	–	–	–	505.2	505.2
Total Reserves and Liabilities	**–**	**–**	**–**	**–**	**1,105.5**	**7,771.6**	**626.0**	**9,503.1**

36. Risk Management and Control continued

31 December 2009	Financial assets at fair value through Income Statement £M	Financial assets at available for sale £M	Financial assets at 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	–	–	–	314.9	–	–	–	314.9
Loans and advances to credit institutions	–	–	–	227.8	–	–	–	227.8
Derivative financial instruments	142.1	–	–	–	–	–	–	142.1
Loans and advances to customers:								
Loans fully secured on residential property	2,057.0	–	–	4,543.8	–	–	–	6,600.8
Other loans	385.9	–	–	346.9	–	–	–	732.8
Investment securities	–	807.1	–	566.6	–	–	–	1,373.7
Other investments	–	–	0.1	–	–	–	–	0.1
Non financial assets	–	–	–	–	–	–	152.9	152.9
Total Assets	**2,585.0**	**807.1**	**0.1**	**6,000.0**	**–**	**–**	**152.9**	**9,545.1**
Liabilities								
Financial Liabilities:								
Shares	–	–	–	–	952.3	5,827.7	–	6,780.0
Derivative financial instruments	–	–	–	–	142.2	–	–	142.2
Amounts owed to credit institutions	–	–	–	–	_	538.8	–	538.8
Amounts owed to other customers	–	–	–	–	–	709.5	–	709.5
Debt securities in issue	–	–	–	–	2.9	672.4	–	675.3
Subordinated liabilities	–	–	–	–	–	40.0	–	40.0
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Non financial liabilities	–	–	–	–	–	–	156.2	156.2
General and other reserves	–	–	–	–	–	–	478.1	478.1
Total Reserves and Liabilities	**–**	**–**	**–**	**–**	**1,097.4**	**7,813.4**	**634.3**	**9,545.1**

36. Risk Management and Control continued

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 2010 was £219.1m (2009: £236.9m), which is equal to the carrying value of the assets. Maximum credit risk exposure at 31 December 2010 approximates to the carrying value for all assets and loan commitments apart from loans and advances to customers where the carrying value included an increase of £73.3m (2009: increase of £101.6m) 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.

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 £82m (2009: £99m), have been pledged as security. The holder of the security does not have the right to sell or re-pledge the assets.

Fair Value of Financial Instruments

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

2010 **Group and Society**	**Level 1** **£M**	**Level 2** **£M**	**Level 3** **£M**	**Total** **£M**
Financial assets				
Investment securities – available for sale	283.3	1,013.3	–	1,296.6
Derivative financial instruments	–	126.4	–	126.4
Financial liabilities				
Derivative financial instruments	–	117.4	26.5	143.9

2009 **Group and Society**	**Level 1** **£M**	**Level 2** **£M**	**Level 3** **£M**	**Total** **£M**
Financial assets				
Investment securities – available for sale	163.4	643.7	–	807.1
Designated as such upon initial recognition	–	258.4	–	258.4
Derivative financial instruments	–	142.1	–	142.1
Financial liabilities				
Derivative financial instruments	–	121.5	20.7	142.2
Designated as such upon initial recognition	–	445.9	–	445.9

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.

36. Risk Management and Control continued

Reconciliation of Level 3 fair value measurements of financial liabilities

	Fair value through profit and loss £M	Total £M
Balance at 1 January 2010	20.7	20.7
Total losses in the Income Statement	5.8	5.8
Balance at 31 December 2010	**26.5**	**26.5**

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 gains or losses for the year included in the Income Statement, £5.8m (2009: £10.6m) 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.

Unlisted equity investments are also included in Level 3, but as stated in note 16, these are fair valued at zero at the balance sheet date.

In the Directors' view, changing any of the assumptions used in the valuation of the derivatives or the unlisted equity investments included in Level 3, would not have a significant impact on the Income Statement, or total assets and liabilities.

37. Operating Segments

Products and services from which reportable segments derive their revenues

The information reported to the Group's Chief Executive for the purposes of resources allocation and assessment or segment performance is specifically focused on the category of customer for each type of activity. The Group's reportable segments under IFRS 8 are therefore as follows:

- Residential loan portfolio
- Commercial loan portfolio

Information regarding the Group's reporting segments is reported overleaf.

37. Operating Segments continued

Segment Interest income and operating profit

The following is an analysis of the Group's interest income and operating profit by reportable segment:

	2010 £M	2010 £M	Restated* 2009 £M	Restated* 2009 £M
Interest receivable and similar income				
Interest receivable				
Residential Loan Portfolio	346.4		340.4	
Commercial Loan Portfolio	24.4		31.4	
Other	0.3		0.7	
		371.1		372.5
Other interest income		19.0		44.8
Net expense on financial instruments		(95.6)		(83.7)
Total interest receivable and similar income		**294.5**		**333.6**
Operating profit and profit on ordinary activities before income tax				
Operating profit before impairment losses and provisions		84.5		80.1
Impairment losses and provisions on loan and advances				
Residential loan Portfolio	(15.8)		(12.2)	
Commercial Loan Portfolio	(27.8)		(40.3)	
Other	(0.6)		–	
Impairment losses on loans and advances to customers		(44.2)		(52.5)
Other gains		2.9		2.5
Provision for liabilities and charges		(1.0)		1.6
Operating profit and profit on ordinary activities before income tax		42.2		31.7
Income tax		(11.3)		(9.1)
Profit for the financial year		**30.9**		**22.6**

* The prior year comparatives have been restated. See note 5 for further details.

Segment loans and advances to customers

The following is an analysis of the Group's loans and advances to customers by reportable segment:

	2010 £M	2010 £M	2009 £M	2009 £M
loans and advances to customers				
loans and advances to customers				
Residential Loan Portfolio	6,466.6		6,389.2	
Commercial Loan Portfolio	544.8		579.5	
Other	5.9		9.2	
		7,017.3		6,977.9
At fair value through profit and loss		289.2		313.2
Less: impairment provisions				
Residential Loan Portfolio	(27.1)		(20.3)	
Commercial Loan Portfolio	(34.0)		(34.6)	
Other	(4.3)		(4.2)	
		(65.4)		(59.1)
Fair value adjustment for hedge risk		73.3		101.6
Total loans and advances to customers		**7,314.4**		**7,333.6**

No geographical analysis is presented because substantially all activity is in the UK, and all material exposures are UK resident.

Annual Business Statement

For the year ended 31 December 2010

1. Statutory Percentages

	31 December 2010	Statutory Limit
Lending limit	13.7%	25%
Funding limit	19.9%	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 owing 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 2010	31 December 2009
As a percentage of shares and borrowings:		
Gross capital	6.21%	6.34%
Free capital	6.05%	6.06%
Liquid assets	22.19%	22.02%
Profit for the financial year as a percentage of mean total assets	0.32%	0.23%
Management expenses as a percentage of mean total assets	0.47%	0.45%

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.
- 'Gross capital' represents the aggregate of general reserve, other reserve, revaluation reserve, subordinated liabilities and subscribed capital.
- 'Free capital' represents the aggregate of gross capital and collective impairment provisions for loans and advances to customers less tangible fixed assets and investment properties.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities.
- 'Management expenses' represent the aggregate of administration expenses, depreciation and amortisation.

3. Information Relating to the Directors and Other Officers

Name	Occupation	Date of Birth	Date first appointed
Chairman			
R. A. Smith	Company Director	15.02.43	18.05.98
Vice Chairman			
S. R. G. Booth	Company Director	18.04.43	01.12.00
Chief Executive			
*I. W. Ward	Chief Executive	04.05.49	25.09.95
Directors			
J. N. Anderson	Company Director	20.08.45	01.08.06
*P. A. Hill	Operations Director	28.07.61	01.08.06
C. M. Kavanagh	Company Director	30.03.62	13.12.05
I. Marshall (resigned 12 February 2010)	Company Director	27.05.47	30.03.04
*D. Pickersgill	Deputy Chief Executive	05.04.53	18.12.95
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 & Marketing Director	31.03.66	07.12.09
I. Robertson	Company Director	10.08.47	08.12.08
R. W. Stott	Company Director	22.03.43	08.12.08

(*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. A. Smith	Bartlett Group (Holdings) Ltd Catholic Trust for England and Wales Diocese of Leeds Trustee (Limited by Guarantee) Hinsley Properties Ltd Hinsley Properties No. 2 Ltd Yorkshire County Cricket Club Ltd
I. W. Ward	Leeds Financial Services Ltd*
J. N. Anderson	Alpha Radio Limited City Hospitals Sunderland Foundation Trust Leeds Building Society Staff Pension Scheme Ltd Milltech Training Ltd Normand Trustees Ltd North East Business Innovation Centre Ltd North East of England Business and Innovation Centre Ltd Sun FM Ltd Sunderland Arc Ltd Tyne & Wear Education Business Link Organisation Ltd
S. R. G. Booth	Leeds Building Society Staff Pension Scheme Ltd
P. A. Hill	Countrywide Rentals 1, 2, 3, 4, 5 Ltd (Dormant)* Headrow Commercial Property Services Ltd* Leeds Mortgage Funding Ltd* Leeds Overseas (Isle of Man) Ltd* Mercantile Asset Management Ltd*

C. M. Kavanagh	Benchmarx Kitchens and Joinery Limited CCF Limited City Plumbing Supplies Holdings Limited Keyline Builders Merchants Limited Leeds Building Society Staff Pension Scheme Ltd Travis Perkins Trading Company Ltd Wickes Building Supplies Limited
D. Pickersgill	Countrywide Rentals 1, 2, 3, 4, 5 Ltd (Dormant)* Leeds Financial Services Ltd* Leeds Mortgage Funding Ltd* Leeds Overseas (Isle of Man) Ltd* Mercantile Asset Management Ltd* Smartrisk Foundation UK
L. M. Platts	A J Bell Holdings Limited
A. Rajguru	Alexander Rosse Ltd Kettering Hospital NHS Foundation Trust Northampton College
K. L. Rebecchi	Leeds Building Society Staff Pension Scheme Ltd Leeds Financial Services Ltd*
I. Robertson	Homes and Communities Agency for England
R. W. Stott	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

Executive Management

Name	Occupation	Directorships (*Society Subsidiary)
Andrew J. Greenwood	General Manager & Secretary	Leeds Financial Services Ltd*
Paul M. Kaye	General Manager	Headrow Commercial Property Services Ltd* Leeds Financial Services Ltd*
Gary M. Mitchell	Acting Finance Director	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*
Martin J. Richardson	General Manager	Mercantile Asset Management Ltd*
Paul Riley	General Manager	Leeds Building Society Staff Pension Scheme Ltd
Geoffrey Turnbull	General Manager	Headrow Commercial Property Services Ltd* Mutual Vision Technologies Ltd
Karen Wint	General Manager	None

Where to find us

Aberdeen
68 Carden Place, Aberdeen AB10 1UL
Tel: 01224 642641

Banbury
19 High Street, Banbury OX16 5EE
Tel: 01295 277912

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
Tel: 0121 643 6722

Bradford
Broadway House, Bank Street,
Bradford BD1 1HJ
Tel: 01274 391401

Braintree
61 High Street, Braintree CM7 1JX
Tel: 01376 553063

Brecon
12a The Bulwark, Brecon, Powys LD3 7AD
Tel: 01874 611525

Bristol
Wine Street, Bristol BS1 2HP
Tel: 0117 922 6772

Cardiff
5 St John Street, Cardiff CF10 1GJ
Tel: 029 2037 2730

Cheltenham
12 Winchcombe Street, Cheltenham
GL52 2LX
Tel: 01242 222911

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

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

Doncaster
8 Frenchgate, Doncaster DN1 1QQ
Tel: 01302 730485

Epsom
13 High Street, Epsom KT19 8DA
Tel: 01372 728695

Glasgow
182 Hope Street, Glasgow G2 2UE
Tel: 0141 331 4525

Gloucester
43 Northgate Street, Gloucester GL1 2AN
Tel: 01452 520163

Halifax
31 Commercial Street,
Halifax HX1 1BE
Tel: 01422 362359

Harrogate
12 Oxford Street, Harrogate HG1 1PU
Tel: 01423 546510

Huddersfield
8 Cherry Tree Centre, Market Street,
Huddersfield HD1 2ET
Tel: 01484 530842

Hull
78 Paragon Street, Hull HU1 3PW
Tel: 01482 224892

Kendal
83 Stricklandgate, Kendal LA9 4RA
Tel: 01539 724460

Leeds Area Branches

Head Office
105 Albion Street, Leeds LS1 5AS
Tel: 0113 225 7555

Adel
475 Otley Road, Adel, Leeds LS16 7NR
Tel: 0113 225 8500

Armley
45/47 Town Street, Armley, Leeds LS12 1XD
Tel: 0113 225 8510

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

Boston Spa
181a High Street, Boston Spa, Wetherby
LS23 6AA
Tel: 01937 843190

Chapel Allerton
3 Stainbeck Corner, Chapel Allerton,
Leeds LS7 3PG
Tel: 0113 225 8550

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 Arndale Centre, Otley Road, Headingley,
Leeds LS6 2UE
Tel: 0113 225 8620

Horsforth
80 Town Street, Horsforth, Leeds LS18 4AP
Tel: 0113 258 1668

Moortown
4/5 Harrogate Parade, Moortown,
Leeds LS17 6PX
Tel: 0113 225 8680

Morley
23 Windsor Court, Morley LS27 9BG
Tel: 0113 253 7444

Street Lane
69 Street Lane, Roundhay, Leeds LS8 1AP
Tel: 0113 225 8720

Wetherby
2 Horsefair Centre, Wetherby LS22 6FL
Tel: 01937 585768

Yeadon
59 High Street, Yeadon LS19 7SP
Tel: 0113 250 6313

Leicester
13 Halford Street, Leicester LE1 1JA
Tel: 0116 251 6748

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

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

North East Area Branches

Blyth
18 Church Street, Blyth NE24 1BG
Tel: 01670 354725

Chester-le-Street
144 Front Street, Chester-le-Street
County Durham DH3 3AY
Tel: 0191 389 1794

Durham
9 North Road, Durham DH1 4SH
Tel: 0191 384 0561

Morpeth
34 Bridge Street, Morpeth NE61 1NL
Tel: 01670 514083

Newcastle
142 Northumberland Street, Newcastle
NE1 7DQ
Tel: 0191 232 2801

North Shields
23 West Percy Street, North Shields
NE29 0AH
Tel: 0191 296 0222

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
NE28 8HX
Tel: 0191 262 4751

Silverlink
Mercantile House, Kingfisher Way, Silverlink
Business Park, Wallsend NE28 9NY
Tel: 0191 295 9500

Whitley Bay
104 Park View, Whitley Bay NE26 3QL
Tel: 0191 251 1376

Norwich
6/7 Guildhall Hill, Norwich NR2 1JG
Tel: 01603 626978

Nottingham
23 Listergate, Nottingham NG1 7DE
Tel: 0115 947 2841

Peterborough
2 Queen Street, Peterborough PE1 1PA
Tel: 01733 896565

Reading
10 Cross Street, Reading RG1 1SN
Tel: 0118 957 5192

Ripon
17 Market Place North, Ripon HG4 1BW
Tel: 01765 600300

Sale
26 School Road, Sale, Cheshire M33 7XF
Tel: 0161 973 0093

Sheffield
14 Pinstone Street, Sheffield S1 2HN
Tel: 0114 272 2230

Southampton
41 London Road, Southampton SO15 2AD
Tel: 023 8022 6699

Stevenage
52 Queensway, Stevenage SG1 1EE
Tel: 01438 741822

Swansea
16 Union Street, Swansea SA1 3EH
Tel: 01792 472503

Watford
67 The Parade, High Street, Watford
WD17 1LJ
Tel: 01923 240589

York
49 York Road, Acomb, York YO24 4LN
Tel: 01904 335500

Overseas Branches

Dublin
Ground Floor, 7 Upper Fitzwilliam Street
Dublin 2
Tel: (00353) 16788824

Gibraltar
For customers in Gibraltar and Spain
First Floor, Heritage House,
235 Main Street, Gibraltar
Tel: (00350) 20050602

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105 Albion Street, Leeds LS1 5AS
Tel: 0113 225 7777