Leeds Building Society

Annual Report & Accounts

2009

Leeds

Leeds
Building Society

Financial Highlights

For the year ended 31 December 2009

£80.1million

operating profits before impairment losses and provisions

£31.7million

pre-tax profits

£6.8 billion

member savings balances

£922 million

new mortgage lending

£543million

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*)

Abhai Rajguru, BSC (Hons), ACMA

Kim 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 2009

Leeds Building Society has emerged in strong condition from a series of market difficulties in the last year and I am, therefore, particularly proud to present to members this year's Annual Report and Accounts.

Of course, there have been some challenges, and I refer to these later, but a well-run building society should be capable of withstanding these. This is what your Society has done in 2009, our prudent business model having, once again, proved its resilience and market relevance.

2009 has been a year of world wide economic uncertainty, characterised by very turbulent trading conditions. The UK entered what many commentators believe to be the deepest recession we have experienced since the Second World War. Market conditions were particularly difficult for the building society sector, as our core markets of retail savings and mortgages both reduced significantly. I am, therefore, pleased to be able to report that your Society has delivered increased profitability, record membership, higher savings balances and increased reserves. Our capital and reserves are substantially in excess of what is required by our Regulator, the Financial Services Authority (FSA).

Our Markets

Our requirement to attract retail savings balances, notwithstanding the low interest rate environment, has been a major challenge, particularly as a number of financial institutions benefit from a real or implied unlimited guarantee as a consequence of their full or partial state ownership. This distortion of the market, combined with the limited availability of long-term wholesale funding, has left the building society sector at a significant disadvantage and caused the cost of retail savings to be increasingly expensive, in turn raising the price of mortgages. The size of the overall building society retail savings market reduced in 2009, by more than £7bn, but your Society has substantially exceeded its natural market share.

The Society's retail savings balances rose in 2009 by £225m to £6.8bn, continuing the trend seen since the beginning of 2006 where funding of net lending has been financed entirely by our savers. Your Society became even less reliant on wholesale funding, which reduced from 29% to 23% of total funding in 2009.

The volume of new mortgages in the UK has also declined sharply due to the limited supply of funding and lower demand. Net mortgage lending was down substantially to £11.5bn in 2009 compared to £40bn in 2008 and £108bn in 2007.

During the year, the Society continued with its prudent approach to lending and concentrated on attracting good quality, profitable mortgage business. Further changes were made to our lending criteria in 2009, responding to the subdued housing market, which only started to show signs of recovery in the second half of the year.

The Society's reaction to the market changes resulted in new advances reducing by 28% to £922m compared to 2008. The Society concentrated on retaining existing borrowers, resulting in redemptions reducing by 22% from £1.2bn to £944m.

Total assets reduced to £9.5bn at the year end (from £10.1bn in 2008), which includes £1.9bn of liquid assets.

Earnings and Efficiency

The Board has a responsibility to manage the interest margin to improve the Society's reserves for the long term benefit of members. The interest margin on our core activities rose from 0.96% in 2008 to 1.12% in 2009. This, combined with a further decrease in our costs in 2009, has generated improved profitability, which is extremely important in sustaining continued security for our members' savings and is an integral part of the Society remaining mutual, independent and financially strong.

We attach great importance to efficiency and our cost to asset ratio improved even further to 45 pence per £100 of assets compared to 48 pence a year ago. Our cost to income ratio was the lowest of any building society in 2008 and this ratio improved substantially in 2009 from 40% to 36%. We again expect this to be the most favourable in the sector.

Your Society achieved a record operating profit, before impairment losses and provisions, of £80.1m, a significant 17% increase compared with £68.6m in 2008.

Provisions

As the UK suffered its worst recession for over 60 years, creating uncertainty and rising unemployment, this has inevitably caused an increase in the number of borrowers experiencing difficulties in meeting their mortgage repayments. In response to this, the Society introduced a range of initiatives to help mortgage customers through this period and, pleasingly, residential arrears (2.5% or more of outstanding mortgage balances), which had been rising in the early part of 2009, stabilised in the summer and have now started to reduce. At 31 December, 2009, our arrears percentage was 2.24% (2008: 1.26%) and, based on the latest available data (30 September, 2009), is superior to the average for all lenders. Whilst any increase is disappointing, the rise in arrears was less than predicted. However, in view of the continued economic uncertainty in the UK, it is possible that the situation may deteriorate further in 2010 and we have, therefore, reflected this in our provisions, which the Board is determined to maintain at a conservative level.

The housing market was stronger than expected in 2009 with the Halifax House Price Index rising by 1.1%. This recovery assisted in reducing the Society's number

“...your Society has delivered increased profitability, record membership, higher savings balances and increased reserves”

of residential properties in possession at the end of 2009 compared to the position twelve months earlier. The commercial property sector also suffered further falls in values during 2009, before showing signs of recovery towards the end of the year.

Reflecting these market conditions, the charge for impairment losses and provisions for both commercial and residential property rose to £52.5m compared with £32.1m in 2008. Of this, £40.3m relates to commercial loans and £12.2m for residential loans.

The fall in commercial property values caused covenant breaches leading to defaults on two loans where the Society had provided subordinated finance. An impairment charge of £12.5m was made in respect of these loans during the year. A provision was also made in regard to a loan of £16m secured on a retail park in East Yorkshire which was placed into administration during the year. Having fully reviewed all the options, the Society made the decision to acquire the asset from the administrators for £7m, with a view to holding the property for the long term, as it is our firm opinion that this course of action is in the Society’s best interests.

After realised losses of £37.7m, including £26.7m relating to commercial loans, the total balance sheet provisions for commercial and residential mortgages increased by £15m to £59.1m at 31 December, 2009. Our total provisions against mortgages and liabilities and charges at the end of the year rose to £66m from £55m at the end of 2008.

Profitability

Despite these provisions, the Society’s record operating profit enabled pre-tax profit to increase to £31.7m compared to £20.3m in 2008. We believe that this represents a superior performance in the context of the overall results of UK financial services organisations. This outcome was assisted by the fact that the 2008 pre-tax profit was after the provision of £9.7m for the Society’s estimated liability, through to March 2011, under the Financial Services Compensation Scheme levy.

The Society’s post-tax profit of £22.6m in 2009 adds to our reserves, further strengthening our capital position without the need for any new external capital. Capital (subordinated debt and subscribed capital) and reserves now amount to £543m (2008: £526m). The Society’s Tier 1 capital ratio at the end of last year was 12.7%, (2008: 11.5%), this being significantly in excess of regulatory requirements.

The Society’s traditional, successful and sustainable business model of generating good levels of profit, which are held as reserves (Tier 1 capital), provides our continued capital strength. This higher than average level of profitability during recent years has resulted in our requirement for borrowed capital (Tier 2 capital, on which interest has to be paid) being much lower than most banks and many building societies.

Stakeholder Confidence

Leeds Building Society continues to develop excellent relationships with all of its key stakeholders, including our members, the FSA, the media and the credit rating agencies. Pleasingly, we have maintained strong credit ratings from both Moody’s and Fitch, despite the very challenging economic environment. Fitch said “The affirmation of Leeds Building Society’s long and short term ratings, with a stable outlook, reflects the Society’s good earnings capacity, excellent cost efficiency and strong capital position.” Moody’s, highlighted our stronger profitability, good asset quality, solid funding structure and strong management of costs.

Board Composition

There was a new Board appointment during the year. After she had worked for the Society for over 22 years in a number of different management and senior management positions, I was delighted to welcome Kim Rebecchi, a qualified banker, to the Board with effect from 7 December, 2009. Kim brings a wealth of knowledge and experience in the capacity of Sales & Marketing Director and her personal details are contained on page 7, as are those of John Anderson, Rodger Booth, Peter Hill and myself. We are all subject to election, or re-election, at the Annual General Meeting. Ian Marshall stepped down from the Board following the year end, after six years service, and I extend our thanks to him for his very valuable contribution to the Society.

Summary

It has taken tremendous skill, drive and determination to achieve these results in turbulent market conditions, and I wish to record my thanks to the Society’s professional and dedicated staff, under the leadership of Chief Executive Ian Ward, for their hard work and commitment during the year. I am also extremely grateful to my Board colleagues for their hard work and support.

Continued close scrutiny of executive performance, and measurement against testing criteria specified by the Board at the outset in the context of difficult market conditions, have resulted in performance related awards being made this year to the senior executives. Details are contained in the Directors’ Remuneration Report on pages 15 and 16.

We are confident that our performance in 2009 and our prudent approach over many years have put us in a strong position, with capital of £543m, to deal with the economic environment in 2010, which we expect to remain challenging. We have the additional uncertainty this year of the approaching General Election and its potential impact on economic activity, consumer and market confidence and our regulatory environment.

In response, Leeds Building Society will seek to offer competitively priced savings products, balancing the interests of our savings members with the interests of our borrowing members. Mortgage customers in arrears will continue to be treated sympathetically. Growth will not be a priority, with the Directors and senior management team focussing on cost control and ensuring that the Society continues to deliver an appropriate level of profit. This will ensure the Society remains strongly capitalised and will provide the resilience to withstand future pressures. We will also continue to support local communities.

The support of our members continues to be key in keeping our business successful and stable. The Board remains committed to Leeds Building Society delivering the strategy encapsulated in our mission statement of being “a successful, independent building society, providing excellent value through quality customer service, efficiency and competitive products.”

Thank you for your continued membership and support.

Robin Smith
Chairman
22 February 2010

Chief Executive's Review

For the year ended 31 December 2009

2009 Business Highlights:

- Operating profit before impairment losses and provisions increased to a record £80.1m (2008 £68.6m).
- Pre-tax profit rises to £31.7m (2008 £20.3m).
- Capital and reserves increased to a record level of £543m (2008 £526m).
- Savings balances rose by £225m to a record level of £6.8bn.
- 71,000 new members attracted taking total membership to over 681,000.
- Efficiency improved even further in 2009:
  - Cost asset ratio reduced to 45p per £100 of assets from 48p in 2008.
  - Cost income ratio reduced to 36% from 40%, which was the most favourable of any building society in 2008.
- Quality of lending remains good with the average loan to value (LTV) on 2009 advances being just 50%, the same LTV as on all our residential mortgages.
- Wholesale funding ratio reduced to 23% (29% 2008).

The Society achieved a good overall performance in 2009 against a background of economic uncertainty, delivering growth in savings balances, rising membership and a strong increase in profit. Our successful, sustainable business model strengthened further our capital and reserves in 2009 and we were able to reduce significantly our level of funding from the wholesale markets.

Savings

Retail savings are the lifeblood of a traditional, mutual building society. I am, therefore, very pleased to report that in 2009 we attracted over 71,000 new members, this being 23% higher than the previous year. Balances rose by £225m to their highest ever level of £6.8bn.

Our good retail savings performance was achieved even though market conditions were difficult with increased competition and low interest rates prevailing. An additional challenge during the year was the high number of maturing savings accounts, but our re-investment options proved popular with members and we retained a higher level of balances than expected.

Many of our members rely on the interest from their savings and, mindful of the historically low interest rate environment, your Society has worked hard to minimise the reductions in savers' rates. Since October 2008, the Bank of England Base rate has reduced from 5% to 0.5%, whereas the Society's variable interest rates have only been lowered by an average of 2.67% during this period, thereby protecting savers' interest earnings. We have consistently provided market leading products and have appeared in newspaper "best buy" tables on 650 occasions in 2009.

Our strategy of providing good rates of return in this low interest rate environment is demonstrated by our market leading ISA products, that have delivered a 30% increase in balances in 2009. The Society was one of the first financial providers to announce that it would accept the additional annual ISA allowance for the over 50s and this ensured that qualifying members were able to benefit from this opportunity.

Mortgage Lending

We have continued to lend on new residential mortgages with an increase in business during the last year on cases submitted through the internet and also via our direct mortgage call centre. However, there was an overall decrease in new lending with gross advances declining 28% to £922m compared to 2008.

This reflected the much smaller UK market with net mortgage lending declining to £11.5bn, only around a quarter of the 2008 volume and about a tenth of the 2006 and 2007 totals.

We are keen to attract good quality business with funds now available up to 85% loan to value (LTV). We welcome mortgage enquiries from members who are moving home, first time buyers and those looking to transfer their existing mortgage from their current provider.

Our prudent approach to lending is demonstrated by the average LTV on new lending in 2009 of just 50% which also matches the average LTV on the Society's residential mortgage portfolio. This means that most of our customers still have substantial equity in their properties and this is a positive position for the Society and our members, many of whom have benefited from lower mortgage repayments as a consequence of reducing interest rates.

Buy to let loans accounted for 13% of completions in 2009 and now represent 15% of total balances. This category of lending displays high quality characteristics with comparatively low levels of arrears and low LTVs. Overseas lending, which represented 4% of our 2009 lending, accounts for 5% of overall outstanding mortgages. The market conditions in Ireland and Spain have been extremely challenging and we have seen increased levels of borrowers in financial difficulty. However, our new lending in these areas has substantially reduced in 2009.

Commercial mortgage balances reduced in 2009 by £46m to £613m. We did not make any new commercial loans during the year.

Other Income

Our performance on Other Income, that includes our Leeds Financial Services (LFS) subsidiary and general insurance commission, remained strong with income of £19.3m.

LFS, which sells investment and protection products through partnerships with Aviva and Credit Suisse, achieved record earnings of £8.3m.

General insurance activities generated commission of £5.6m. Whilst sales linked to new mortgages decreased due to lower lending volumes, we continued to reduce our reliance on this type of business by selling products to our investing members. This resulted in the number of home policies sold to investors increasing by 25% in 2009. The home insurance products that we provide are backed by Aviva, the UK's biggest insurer.

In comparison to Leeds Building Society, some other societies have higher levels of other income from their diversifications but have considerably higher expenses as a consequence. One measure, carried out independently by KPMG Chartered Accountants in its annual performance review of building societies, shows net costs (costs less other income) as a key indicator of efficiency. Leeds Building Society had the second most favourable ratio of any building society in 2008 and expects to maintain that position especially considering the reduction in the overall costs in 2009 noted in the Chairman's Statement.

Customer Service and Awards

As a member owned business, the delivery of excellent customer service is at the core of our values and I have highlighted below some examples of how this has been demonstrated in 2009.

Regular monthly surveys are carried out independently to measure the level of customer service experienced by our members who have recently interacted with the Society. During 2009, the Society's good ratings were maintained with satisfaction registering over 93% in each quarterly measure.

The Society achieved a Five Star Award in the 2009 Financial Adviser Online Service Awards which are nominated by independent mortgage and financial advisers. This reflects the significant effort and attention given to the service that we deliver to our intermediary mortgage partners.

In August, 2009, the Society received a prestigious award from 'Your Money' consumer finance magazine for our children's savings accounts. In October, Mortgage Finance Gazette made an award to the Society for the "Best Debt & Arrears Management Strategy" and we were also "Highly Commended" in two other categories.

Any customer complaints that we receive are treated extremely seriously as they help us to identify any shortfalls in our service, policies or procedures. It is pleasing that the number of complaints reduced by 11% in 2009. All customer feedback is welcomed, both positive and negative, and please feel free to contact me personally if there is any matter that you wish to bring to my attention.

We believe that it is important to provide a variety of distribution channels to enable all existing and prospective customers to be able to choose an appropriate method of contacting and dealing with the Society. We remain committed to distributing our products and services through our branch network, online, by post, by telephone and through our intermediary partners to meet these varying needs.

Our investment in branch improvements continued in 2009 with four refurbishments. We also relocated our branch in the centre of Birmingham and this has achieved excellent results since the move, as confirmed by it being the best performer for net receipts during the year.

The Society's Gibraltar branch, that opened in 2002, widened its product range last year by providing a Euro savings account for local customers and those in the Costa del Sol. We are the only UK building society offering these facilities that complement the Sterling savings products as well as Sterling and Euro mortgages. Gibraltar was one of our most successful branches last year.

We have two call centres that operate from 8am to 8pm, seven days a week and we pride ourselves on the quality of service that these operations provide. You are able to speak personally to a member of staff during these hours and the contact number is 0113 225 7777.

Community Involvement

We once again undertook a wide range of community and charitable projects. We support four main charities: Save the Children, Marie Curie, Help the Aged and the Leeds Building Society Charitable Foundation and these received £74,000 in 2009. This sum was from our Caring Saver account, that pays 1% of the average balance held over the year, the donations from votes at the Society's Annual General Meeting and the 'Your Interest… In Theirs' scheme which is the pence value of the interest paid to investors in the year.

We could raise even more for the charitable good causes if more members agreed to participate in the 'Your Interest … In Theirs' scheme – and it is easy to join. All you need to do is to contact your local branch or our Call Centre on 0113 225 7777 and they will provide the appropriate information.

The Leeds Building Society Charitable Foundation supported more than 130 registered charities throughout the UK in 2009. The amount donated last year was almost £100,000, and this takes the total over the last 10 years, since the Foundation was established, to £900,000.

Our links with Leeds Rugby were strengthened with the announcement of the renewal of our very successful main sponsorship of the Leeds Rhinos for a further three years. We are proud to be associated with a team that has won the Super League Championship for three consecutive years, making history by winning the 2009 title in the final at Old Trafford in October against St Helens. There was a crowd of over 65,000 at the game with millions watching on television. We continued to receive significant media coverage as main shirt sponsors throughout the season with over 100 press mentions and 20 live matches on TV, plus wider awareness through the sale of Leeds Building Society endorsed merchandise and sportswear.

In 2009, a specific new initiative was introduced by members of the Society's senior management to raise funds for charity. Our staff spent many hours of their own time on fund raising activities which resulted in £10,000 being raised for three charities, Martin House Children's Hospice, St Gemma's Hospice and The Great Northern Children's Hospital.

Staff

The Society was very pleased to be re-accredited as an 'Investor in People' with the assessor stating that we have excellent communication within our business combined with a culture that has a level of dynamism rarely found in the financial world.

Also, the Society was delighted to have achieved 'Top Five' status in the Yorkshire Post – Best Company to Work For Awards and this, together with our very strong staff satisfaction ratings, demonstrates the Society's commitment to making Leeds Building Society "a great place to work."

Summary

It was another challenging year in 2009 for financial services. However, your Society delivered a strong performance with rising retail balances, increased profitability and even stronger reserves.

There are still uncertainties facing most major economies, including the UK and in particular the financial sector. Unemployment is likely to rise further with the possibility that this could impact on levels of arrears and repossessions, particularly when interest rates rise from their current low levels. The slight recovery in commercial property values could stall if the economy takes longer than expected to recover from the recession. Another key issue is whether there will be adequate funding, either retail or wholesale, to enable lenders to satisfy mortgage demand. Also, there will inevitably be more regulation and political changes. If some or all of these issues do materialise, they will impact on the whole financial sector. It is, therefore, important that organisations are able to respond. Here at Leeds, we will continue to monitor market developments very closely and are confident that the Society has the skills, experience and financial strength to deal with the challenges that may arise.

Our success has only been possible with your support and I would like to thank all members for their continued loyalty. Finally, I am very grateful to all the Society's staff and directors for their huge contributions. We are in a strong position and determined to remain a successful independent building society.

Thank you.

Ian Ward
Chief Executive
22 February 2010

The Board of Directors

"The Society is independent, mutual and financially strong".


Robin Smith


Ian Ward


John Anderson


Rodger Booth


Peter Hill


Carol Kavanagh


David Pickersgill


Abhai Rajguru


Kim Rebecchi


Ian Robertson


Bob Stott

Robin Smith (67)

I Joined the Society's board in 1998 and became Chairman in March 2007. Shortly thereafter the financial crisis, from which the world economy has still not emerged, began. It has been a privilege for me since then to chair a Board with a clear understanding of the benefits of mutuality and a vision in these troubled times as an independent, mutual and efficient building society. I practised as a solicitor in Leeds, Sheffield and London, ultimately becoming senior partner of my firm (now DLA Piper). I am a non-executive director of Bartlett Group (Holdings) Limited 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 (60)

I have spent all my working life in retail financial services, which started with a brief period in banking. This was followed by a number of different roles in building societies before I joined the Society in 1995 as Chief Executive. Despite the very challenging economic environment, it is highly satisfying that we have continued to provide competitive products and a high quality service to members. The Society is independent, mutual and financially strong. I am a member of the Building Societies Association Council and the Leeds Chamber Property Forum, which I chaired for five years until recently. I have been married for 37 years to Gill and we have two sons. Our family home is in Yorkshire and we thoroughly enjoy living in this lovely area of the UK. I am very interested in sport and during the last year have enjoyed watching Leeds Rhinos become the Super League Champions, for the third successive year.

John Anderson (64)

I was delighted to be invited to join the Board as a result of the merger between the Leeds Building Society and the Mercantile Building Society, of which I was Chairman. I am a great believer in mutuality and am delighted to have joined a Board which is totally committed to mutual status. My main business interest was in the motor trade where I was Chairman of a North East garage group that represented 14 car manufacturers and employed over 500 people. I hold several public/private partnership directorships and Chair two local radio stations. I am Chairman of City Hospitals, Sunderland Foundation Trust and Regional Chairman of Coutts. I am also the executive Chairman of a training company that assists young people in achieving employment through modern apprenticeships.

Rodger Booth (66)

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 (48)

I joined the Society in 2001, and was invited to join 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. I believe that the Society gets its edge by delivering outstanding service to our members, so this is my highest priority. 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 young sons. I am also a keen golfer. I believe that the Society is best able to meet the needs of its membership by remaining independent and I am therefore 100% committed to mutuality.

Carol Kavanagh (47)

I was delighted to be invited to join the Board at the end of 2005 as a non-executive Director. I am currently a member of the Society's Remuneration Committee. The opportunity to work for a highly successful, independent building society based in Leeds, where I was born and have close family connections, was very appealing. I believe that my 20 years experience of retailing and HR expertise provides value to customers and staff alike. I hold another position as Executive Group HR Director for Travis Perkins plc. The Group operates a network of over 1,200 branches and employs over 15,000 staff. I devote most of my spare time to my family. I am a firm believer in the benefits of mutuality and consider that this is the key to the continuing success of the Society and a major differentiator in the wider financial services sector.

David Pickersgill (56)

I have worked for the Society for 23 years and joined the Board as Finance Director in 1995. In 2000 I was appointed Deputy Chief Executive. My key areas of responsibility are finance, cost control, treasury, planning and risk management. I am very proud to work for a successful independent building society that is able to offer members competitive rates due to its focus on efficiency and its mutual status. 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, a charity dedicated to preventing injury amongst young people and a member of the Court of the University of Leeds. I am a keen supporter of sport and particularly enjoy watching football, rugby and cricket.

Abhai Rajguru (44)

I was invited to join the Board in April 2008 as a non-executive Director. I have spent my entire career in the financial services sector, having worked for a stockbroker, fund manager, building society and an accountancy firm. I hold a number of directorships at present which include a mutual health insurer and a hospital trust. As an accountant with capital markets experience, I serve on the Society's 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 focussed on delivering value to its members. Much of my time outside work is taken up by my young son, but I do enjoy music, films and motorsports.

Kim Rebecchi (43)

I was privileged to be appointed to the Board in December 2009, having worked for the Society since 1988. As Sales and Marketing Director, I am responsible for all of the Society's distribution channels and our Marketing and Public Relations function. I am also Chairman and Director of our subsidiary company, Leeds Financial Services Limited. I hold the Diploma in Financial Services and am a Fellow of the Chartered Institute of Banking. Being Leeds born and bred, it is an honour to be on the Board of the only independently owned financial services organisation with its Head Office in Leeds. I am a firm believer in mutuality having worked in this sector throughout my career and witnessed first hand the benefits this brings to our members. Outside of the Society, I spend time with my husband and our teenage children. I enjoy walking and also keep active at my local gym.

Ian Robertson (62)

I was appointed to the Board in December 2008 and am currently Chairman of the Society's Audit Committee and a member of the Credit Committee. Having previously spent some fourteen years living in West Yorkshire, I was delighted to join such a highly regarded local institution and look forward to working with the Society in further enhancing its reputation as a leading example of the benefits of mutuality. I previously worked for Terry's of York and Northern Dairies/Northern Foods. Thereafter, I was Finance Director, then Chief Executive of Wilson Bowden plc, housebuilders and property developers. I was President of the Institute of Chartered Accountants of Scotland (ICAS) in 2004/5 and I am currently Chairman of the Audit Advisory Board of the Scottish Parliament Corporate Body and a non-executive Director of the Homes and Communities Agency for England. I am a keen reader, love music, and continue to serve ICAS through membership of its Ethics Committee.

Bob Stott (66)

I was privileged to be appointed to the Board in December 2008, following a successful career with Wm Morrison Supermarkets plc, Geest plc and Mars Inc. For the Society, I currently serve on the Audit and Remuneration Committees. I am a non-executive Director of the Governing Body of the Rugby Football League, the Greyhound Board of Great Britain, Frank Roberts & Sons Ltd and a Trustee of the YCCC Charitable Youth Trust. My wife and I have lived in Leeds most of our married life and we are proud of our two children and six grandchildren. I am pleased through this particular appointment that I am able to put something back into this City and the surrounding area. Mutuality to me means that your Society's endeavours can be focused entirely on our members and I intend to play my part in keeping it this way – whilst assisting your Society's continuing progress. My business and sporting interests have also tended to be the basis of my interests outside work and I also enjoy overseas travel.

Directors' Report

For the year ended 31 December 2009

The Directors have pleasure in presenting their Annual Report, together with the Annual Accounts and Business Statement of the Society and its subsidiaries ('the Group') for the year ended 31 December 2009.

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 2009, the key performance indicators were as follows:

Post-tax profit as a percentage of mean total assets

The post tax profit ratio was 0.23% (0.15% in 2008). The pre-tax profit of the Group increased by 56% to £31.7m compared with £20.3m in 2008.

Change in total assets

During the year, total assets reduced to £9.5bn from £10.1bn, a decrease of 6%. Mortgage balances reduced by 2%, reflecting the more cautious approach to lending in the year and the net repayment of wholesale funds. Mortgage advances were £0.9bn, compared to £1.28bn in 2008. Liquid assets were £1.9bn, representing a ratio of 22% of shares and borrowings. During the year, the Society increased its holdings of readily realisable liquid assets, which led to an increase in cash and cash equivalents as set out on page 24. 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 £225m, to £6.8bn (2008: £529m to £6.6bn), an increase of 3% from the end of 2008.

Management expenses ratios

Management expenses were £44.4m, a reduction from 2008's level of £46.1m. The management expense ratio improved to 0.45% from 0.48% in 2008. Management expenses as a percentage of total income improved to 36%, from 40%, in 2008. Net costs (management expenses less non interest income) as a percentage of mean assets increased to 0.30%, from 0.25% in 2008 due to lower non interest income.

Capital strength

At 31 December 2009, gross capital, represented by general and other reserves, revaluation reserves, subordinated liabilities and subscribed capital, amounted to £552m, 6.34% 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 £527m, 6.06% of shares and borrowings. Overall, the capital ratios reflect the continued financial strength of the Group.

Other performance measures

Net interest income increased by £17.1m to £109.8m from £92.7m in 2008, with a net interest margin of 1.12% (0.96% in 2008), as the Society proactively managed its margin during difficult economic conditions that continued throughout 2009.

Non interest income reduced to £14.7m, compared to £22m in 2008, mainly as a result of the impact of fair value losses from derivative financial instruments and changes in the net pension fund income.

The impairment provision for mortgage losses for loans and advances to customers was £59.1m (2008: £44.3m). This increase is principally due to the increase in mortgage arrears during 2009.

At 31 December 2009, there were 443 (2008: 115) mortgage accounts 12 months or more in arrears. The total mortgage arrears in these cases were £4.4m (2008: £1.4m) and the total of principal loans outstanding was £61.5m (2008: £15.6m).

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 and in more detail in Note 35 to the Accounts on pages 51 to 63.

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, it 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 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 firms 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 Statement of the Board, with any unacceptable risk exposures being managed and mitigated.

Each of the Board sub-committees include 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.

Further details relating to the GRC, ALCO, Audit Committee and BCC are set out

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

in the Corporate Governance Report on pages 12 to 14.

Additional oversight and direction is delivered through weekly Operational Review Meetings (ORM) and monthly Strategic Review Meetings (SRM), 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, 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 commitments. 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 Society credit risk is in the form of UK residential mortgages.

Residential mortgage exposures are managed in accordance with the Board approved Lending Policy, that 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 2009, the Society made appropriate changes to its Residential Lending Policy and product range to reflect the economic environment.

For two credit risk exposures (unsecured and commercial loans) the Society has withdrawn from new lending, on the basis that the Board's risk appetite, for such exposures, has reduced. 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 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 corporate 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 2009, when compared to 2008.

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 2009, the operating environment has been influenced by prevailing low interest rates and lower business volumes than in some recent years. In the second half of the year, management has targeted a reduction of the risk taken in this area, which has been overseen by the ALCO.

Liquidity risk is the risk that 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 obligations. Over 2009, the ALCO has increased the overall quality of liquid assets held and established a medium term plan for additional improvements, which will reduce this risk further.

In 2009, the Society did not experience any significant events relating to its other treasury risk exposures (settlement risk, currency risk 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 reflect the size and scale of the business. Central to the risk management framework is an annual 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 ORM and SRM forums.

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

Other Risks

In addition to the key areas of risk already noted above, the Board has identified a number of risks which standalone 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 2010, the principal uncertainties faced by the Group are associated with the outlook for financial markets and the UK economy as a whole. These include the continuing difficulties in the commercial property sector, whether the improvement in the housing market evidenced in the second half of 2009 can be sustained throughout 2010, the availability of funding and increased regulation.

The commercial property market has experienced significant falls in property values since 2007 and borrowers' ability to fulfil their future commitments is affected in such difficult market conditions. The level of impairment losses in the coming year will be determined by the extent that these conditions continue to prevail. 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.

House prices and arrears levels have been better than expected and, although management considers that the Society's residential portfolio is well placed, the outlook for the coming year could be affected by rising unemployment and increases in interest rates, which would put pressure on borrowers' ability to repay. In light of these challenges, the Society's appetite for new lending reduced in 2009 and underwriting criteria were restricted further. It is likely that this position will be maintained in 2010.

The availability of wholesale funding, for those financial institutions, which have experienced a credit ratings downgrade (below 'A'), has been restricted and increased their reliance on retail savings. In turn, this has led to a rise in the cost of new funds. The competition for retail savings is likely to continue in 2010. As the Society has not experienced a downgrade of its key credit ratings, it is able to continue to access the wholesale markets, which together with the level of expected funding requirements, for 2010, will enable it 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 proposed 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. These developments are taking up a considerable amount of management's time, in ensuring that the Society remains compliant, effective and efficient. They are also likely, to some extent, to impact the way the Society and other banks and building societies operate.

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;
- 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.

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 A. Rajguru

Ms K. L. Rebecchi
(Sales and Marketing Director, from 7 December 2009)

Mr I. Robertson

Mr R. W. Stott

Details of the Directors of the Society at 31 December 2009 and who continue in office are shown on pages 6 and 7.

In accordance with the Rules, Ms K. L. Rebecchi offers herself for election, and Mr J. N. Anderson, "the Society recognises the importance of effective communication with its members"

Mr S. R. G. Booth, Mr P. A. Hill, and Mr R. A. Smith 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.

Auditors

The auditors, 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 charitable donation of £76,000 to the Leeds Building Society Charitable Foundation. Our Caring Saver Account enabled further donations of £44,000 to be made to charities. Other charitable donations in the year amounted to £58,000. 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 'GoGreen' team, which seeks to identify and sympathetically consider environmental issues in all activities and areas of business.

In the course of premises upgrades, and refurbishments, improvements are designed to incorporate energy efficient technologies.

The Society has an active recycling waste management policy 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.

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 2010 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 2009, 11.3% 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 2009 (2008: 11 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
22 February 2010

Corporate Governance Report

For the year ended 31 December 2009

Leeds Building Society voluntarily has regard to best practice, as recommended by the Combined Code on Corporate Governance, issued by the Financial Reporting Council (FRC), which applies to listed companies. The most recent version came into effect in June 2008. The Combined Code sets out principles for ensuring the effectiveness of non-executive directors and contains 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

The most recent review of the Combined Code, (including a revised draft version of the Code), was published in December, 2009, and takes account of the recommendations made by Sir David Walker, in his review of corporate governance in UK banks and other financial industry entities. The Government has also proposed the introduction of a specific governance code for building societies and other financial mutuals. The draft version of this has not yet been published.

Subject to consultation, the changes to the Combined Code will come into effect in June 2010, and any changes will be adopted insofar as they are considered relevant to the Society. It will also be necessary to implement any changes required by the proposed governance code for building societies, as well as having regard to any changes arising out of the review of the Turnbull guidance on internal control, and the good practice guidance from the Higgs Report on the roles of the chairman and non-executive directors, both of which are due to be completed in 2010. In addition, the Society will take account of any changes arising from the FSA consultation paper on corporate governance, which has recently been published.

The Board

At 31 December, 2009, 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 criteria set out in the Combined Code, all non-executive Directors are free of any relationship which could materially interfere with the exercise of their independent judgement. 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 on pages 6 and 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 Combined 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. Under normal circumstances, Mr S. R. G. Booth, the Society's Vice Chairman, who has completed nine years as a non-Executive Director, would stand down at the 2010 Annual General Meeting. However, in light of the current unprecedented economic environment, the Nominations Committee, endorsed by the Board, considers there is a need for stability and retaining valuable experience at Board level. In all the circumstances, it is not considered that Mr Booth's independence will 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, make it appropriate to extend Mr Booth's term of office. Accordingly, Mr Booth will be standing for re-election to the Board, for a further year.

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

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 Committee	Assets & Liabilities Committee	Group Risk Committee
R. A. Smith (Chairman)	11(11)	–	_	3(3)	5(5)	–	–
S. R. G. Booth (Vice Chairman)	10(11)	–	3(3)	3(3)	1(1)	–	–
I. W. Ward (Chief Executive)	11(11)	–	–	3(3)	4(5)	12(12)	5(5)
J. N. Anderson	11(11)	1(1)	3(3)	–	–	–	–
P. A. Hill (Operations Director)	11(11)	–	–	–	4(5)	10(12)	5(5)
C. M. Kavanagh	10(11)	–	3(3)	–	–	–	–
I. Marshall (resigned 12 February 2010)	11(11)	6(6)	–	–	–	11(12)	5(5)
D. Pickersgill (Deputy Chief Executive)	11(11)	–	–	–	5(5)	10(12)	4(5)
A. Rajguru	10(11)	2(2)	–	–	–	11(12)	5(5)
K. L. Rebecchi (Sales and Marketing Director appointed 7 December 2009)	1(1)	–	–	–	–	1(1)	–
I. Robertson	11(11)	5(5)	–	–	4(4)	–	–
R. W. Stott	10(11)	4(5)	2(2)	–	–	–	–

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, embraced by the Combined 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.
- review how the Society complies with best practice in regard to corporate governance and to report annually thereon to the Board.

During the year, the Chairman of the Committee was Mr I. Marshall and the other members were Mr J. N. Anderson, Mr A. Rajguru, Mr I. Robertson, 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. At least annually, the Audit Committee meets with the external auditor without executive management being present. The Board is satisfied that the composition of the Committee provides recent and relevant financial experience. Following the year end, Mr I. Marshall resigned as a Director of the Society and Mr I. Robertson was appointed as Chairman of the Committee.

Internal Control

The Audit Committee regularly receives reports on the adequacy and effectiveness of internal control 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 31st December 2009, 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.

Group Risk Committee

The Group Risk Committee, a sub-committee of the Board, met five times in 2009, 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, on a quarterly basis. It also refines the Society's risk appetite approach for consideration by the Board. During the year, the

Corporate Governance Report continued

For the year ended 31 December 2009

Chairman of the Group Risk 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, Mr I. Marshall, and Mr A. Rajguru.

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 particuar, the Committee oversees wholesale and liquidity investment and borrowing strategies, hedging, counterparty and interest rate risk management and counterparty credit criteria. During the year, the Chairman of the Committee was Mr D. Pickersgill. The other Board members of the Committee were Mr I. W. Ward, Mr P.A. Hill, Ms K. L. Rebecchi, Mr I. Marshall, and Mr A. Rajguru.

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, 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 Combined Code on Corporate Governance. 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 three occasions. Following a review of Board composition, it was decided to appoint an additional executive Director, and Ms. K. L. Rebecchi joined the Board as Sales and Marketing Director, following approval by the Financial Services Authority, on 7 December, 2009. Ms Rebecchi has worked for the Society in a variety of different roles since 1988. She will be offering herself for election at the 2010 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 2009 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 Committee was Mr G. M. Mitchell, General Manager Finance and Risk. 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.

Auditors

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 2009 and these were conducted in accordance with the policy and are considered to be consistent with the professional and ethical standards expected of the external auditor, and in the Society's best interests. Details of the fees paid to the external auditor for audit and non-audit services are set out in Note 8 to these Accounts.

Directors' Development and Performance Evaluation

The Society's Chairman, on behalf of the 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. The Chairman's performance is reviewed, in his absence, by the other Board members. 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. 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
22 February 2010

Directors' Remuneration Report

For the year ended 31 December 2009

Introduction

This report, together with the details in Note 9 to the Accounts, aims to provide 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 Combined Code on Corporate Governance relating to remuneration, insofar as they are considered relevant to building societies. A summary of this report will be sent to all members eligible to vote at the 2010 Annual General Meeting, who will have the opportunity to participate in an advisory vote on the report.

The Remuneration Committee is responsible for the Society's policy on 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 package. 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 2009, the issues considered by the Committee included the design of, and setting of objectives for, the 2009 executive performance related pay scheme, an overview of the rewards and benefits for all members of the Society's staff, the pay award for the executive Directors, and the Society's Chairman, and the remuneration package for the Sales and Marketing Director, on appointment. It also reviewed the Society's remuneration policy in the light of the FSA Code of Practice on Remuneration, and the Walker Review, to ensure that, overall, the remuneration framework was in line with best practice. The Committee also considered the funding of the defined benefit (final salary) section of the Leeds Building Society Staff Pension Scheme, following the 31 December 2008 actuarial valuation. 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 consistent with the principles of sound risk management. 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, 2009. 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.

Only annual basic 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,

Directors' Remuneration Report
continued

For the year ended 31 December 2009

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 Director's annual salary review), either generally, or for any executive Director.

Service Contracts

The Chief Executive, Deputy Chief Executive, Operations Director, and Sales and Marketing Director have service contracts which contain provision for twelve months notice by either the Society or the Director. No other Director has a service contract with the Society.

Pensions

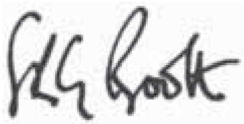
The Chief Executive, Deputy Chief Executive, and Sales and Marketing Director, in common with other employees who are members of the Society's defined benefits pension scheme, are entitled to pensions based on final salary and length of service with the Society, with a maximum pension of two-thirds of 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 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 2009

Full details of Directors' remuneration for 2009 and prior year comparatives, all of which form part of the Report, are provided in note 9 to the Accounts, on pages 33 to 34. No employee of the Society receives remuneration which exceeds that of the individuals disclosed in note 9.



S. Rodger G. Booth
Chairman of the Remuneration Committee
22 February 2010

Directors' Responsibilities

For the year ended 31 December 2009

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.

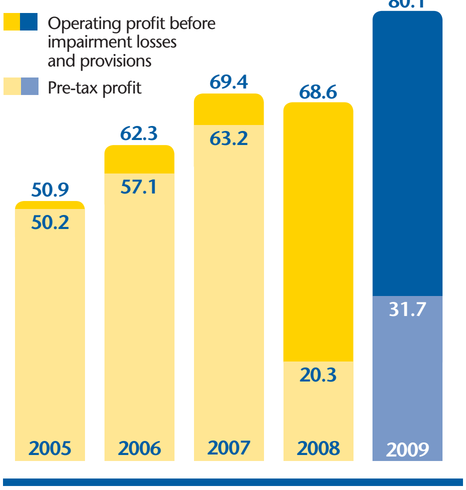
R. A. Smith

Robin Smith
Chairman
22 February 2010

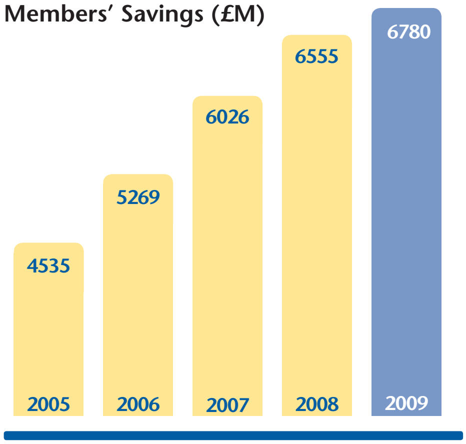
Five Year Highlights

"...our prudent business model having, once again, proved its resilience and market relevance"

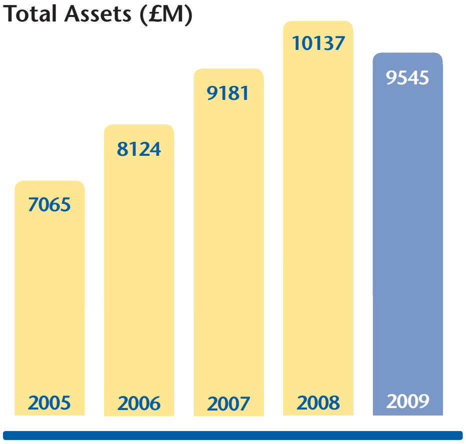
Profit (£M)



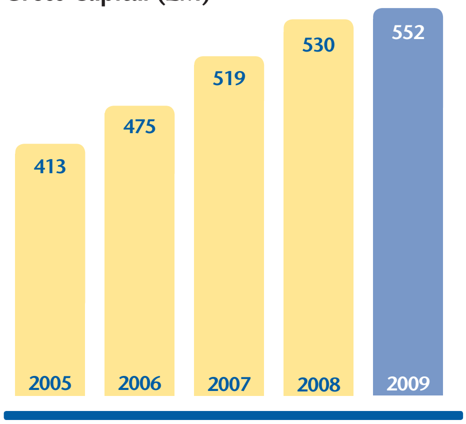
Members' Savings (£M)



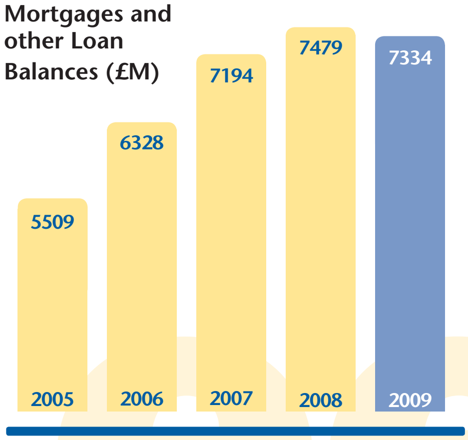
Total Assets (£M)



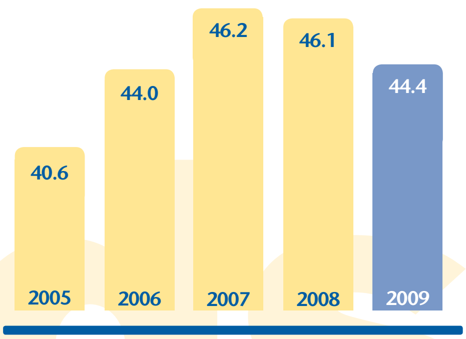
Gross Capital (£M)



Mortgages and other Loan Balances (£M)



Total Costs (£M)



Independent Auditor's Report

To the Members of Leeds Building Society

We have audited the financial statements of Leeds Building Society for the year ended 31 December 2009 which comprise the Group and Society Income Statements, the Group and Society Statements of Financial Position, the Group and Society Statements of Other Comprehensive Income, the Group and Society Statements of Changes in Members' Interest, the Group and Society Statements of Cash Flows and the related notes 1 to 36. 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.

We have examined the Annual Business Statement (other than details of directors and officers upon which we are not required to report) and the Directors' Report.

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 auditors' 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 and 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 auditors

The Directors' responsibilities for preparing the Annual Report including the Directors' Report, the Annual Business Statement, and the Annual Accounts in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of Directors and officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the Annual Accounts.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and whether the Annual Accounts are properly prepared in accordance with the Building Societies Act 1986, regulations made under it and, as regards the Group Annual Accounts, Article 4 of the IAS Regulation. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the Annual Accounts and whether the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it. The information given in the Directors' Report includes that specific information given in the Chairman's Statement and Chief Executive's Review that is cross referred from the Business Objectives and Future Developments section of the Directors' Report. We also report to you if, in our opinion, the Society has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Annual Accounts. The other information comprises only the Chairman's Statement, Chief Executive's Review, Corporate Governance Report and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

Opinion

In our opinion:

a) the Annual Accounts give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group and of the Society as at 31 December 2009 and of the income and expenditure of the Group and of the Society for the year then ended;

b) 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;

c) the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and

d) the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986, regulations made under it and, as regards the group Annual Accounts, Article 4 of the IAS Regulation.

Stephen Williams
(Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and
Registered Auditors
Leeds, United Kingdom
22 February 2010

Income Statements

For the year ended 31 December 2009

	Notes	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Interest receivable and similar income	3	455.4	583.1	447.9	581.9
Interest payable and similar charges	4	(345.6)	(490.4)	(345.6)	(490.4)
Net interest receivable		**109.8**	**92.7**	**102.3**	**91.5**
Fees and commissions receivable	5	19.3	20.4	11.0	12.4
Fees and commissions payable	5	–	(0.1)	–	(0.1)
Fair value gains less losses from derivative financial instruments	6	(4.6)	0.3	(4.6)	0.3
Other operating income	7	–	1.4	–	1.4
Total income		**124.5**	**114.7**	**108.7**	**105.5**
Administrative expenses	8	(43.2)	(44.8)	(40.1)	(41.6)
Depreciation and amortisation	18	(1.2)	(1.3)	(1.2)	(1.3)
Operating profit before impairment losses and provisions		**80.1**	**68.6**	**67.4**	**62.6**
Impairment losses on loans and advances to customers	11	(52.5)	(32.1)	(50.9)	(31.2)
Gains/(Losses) on securities available for sale	16	2.5	(10.0)	2.5	(10.0)
Provisions for liabilities and charges:					
Other	27	0.3	3.5	0.1	3.5
FSCS levy	27	1.3	(9.7)	1.3	(9.7)
Operating profit and profit on ordinary activities before income tax		**31.7**	**20.3**	**20.4**	**15.2**
Income tax expense	12	(9.1)	(6.0)	(5.8)	(4.5)
Profit for the financial year		**22.6**	**14.3**	**14.6**	**10.7**

All amounts relate to continuing operations.

The notes on pages 25 to 65 are an integral part of these consolidated financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2009

	Notes	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Profit for the financial year		22.6	14.3	14.6	10.7
Other comprehensive income					
Available for sale investment securities					
Fair value changes taken to reserves		(3.0)	(8.9)	(3.0)	(8.9)
Amortisation/disposals post 1 July 2008		4.8	3.1	4.8	3.1
Cash flow hedges					
(Loss)/gain taken to reserves		(7.7)	10.4	(7.7)	10.4
Actuarial loss on retirement benefit obligations		(1.1)	(4.1)	(1.1)	(4.1)
Tax relating to components of other comprehensive income	34	2.0	(0.1)	2.0	(0.1)
Other comprehensive income net of tax		**(5.0)**	**0.4**	**(5.0)**	**0.4**
Total comprehensive income for the year		**17.6**	**14.7**	**9.6**	**11.1**

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 16.

Statements of Financial Position

As at 31 December 2009

	Notes	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Assets					
Cash in hand and balances with the Bank of England	13	314.9	2.1	314.9	2.1
Loans and advances to credit institutions		227.8	250.0	227.6	249.6
Derivative financial instruments	14	142.1	195.5	142.1	195.5
Loans and advances to customers	15				
Loans fully secured on residential property		6,600.8	6,673.5	6,600.4	6,493.4
Other loans		732.8	805.5	733.1	805.5
Investment securities	16				
Available for sale		807.1	1,239.3	807.1	1,239.3
At fair value through profit and loss		–	42.1	–	42.1
Loans and receivables		566.6	768.2	566.6	768.2
Investments in subsidiary undertakings	17	–	–	19.6	199.7
Other investments	17	0.1	0.1	0.1	0.1
Property, plant and equipment	18	33.0	33.4	33.0	33.4
Investment properties	19	7.0	–	–	–
Current income tax assets		–	4.6	–	6.2
Deferred income tax assets	20	3.6	3.8	2.8	3.0
Other assets, prepayments and accrued income	21	109.3	118.5	108.4	117.6
Total Assets		**9,545.1**	**10,136.6**	**9,555.7**	**10,155.7**
Liabilities					
Shares	22	6,780.0	6,555.0	6,780.0	6,555.0
Derivative financial instruments	14	142.2	227.2	142.2	227.2
Amounts owed to credit institutions	23	538.8	688.8	538.8	688.8
Amounts owed to other customers	24	709.5	739.2	740.3	767.4
Debt securities in issue	25	675.3	1,243.2	675.3	1,243.2
Current income tax liabilities		4.6	–	1.3	–
Deferred income tax liabilities	20	3.8	6.1	3.8	6.1
Other liabilities and accruals	26	138.3	136.5	135.8	134.1
Provisions for liabilities and charges	27	6.5	10.7	5.9	9.9
Retirement benefit obligations	32	3.0	3.0	3.0	3.0
Subordinated liabilities	28	40.0	41.4	40.0	41.4
Subscribed capital	29	25.0	25.0	25.0	25.0
		9,067.0	**9,676.1**	**9,091.4**	**9,701.1**
Reserves					
Cash flow hedge reserve		1.4	6.9	1.4	6.9
Available for sale reserve		(10.0)	(11.3)	(10.0)	(11.3)
Revaluation reserve		16.9	16.9	16.9	16.9
Other reserve		14.3	14.3	14.1	14.1
General reserve		455.5	433.7	441.9	428.0
Total Reserves and Liabilities		**9,545.1**	**10,136.6**	**9,555.7**	**10,155.7**
Memorandum items					
Commitments: Irrevocable undrawn loan facilities	31	1.9	2.5	1.9	2.5

These financial statements were approved by the Board of Directors on 22 February 2010.
Signed on behalf of the Board of Directors

Robin Smith
Chairman

Ian W. Ward
Chief Executive

David Pickersgill
Deputy Chief Executive and Finance Director

Statements of Changes in Members' Interest

For the year ended 31 December 2009

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 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**

	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 2008	422.4	(7.2)	(0.6)	16.9	14.3	445.8
Comprehensive income for the year	11.3	(4.1)	7.5	–	–	14.7
Balance at 31 December 2008	**433.7**	**(11.3)**	**6.9**	**16.9**	**14.3**	**460.5**

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 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**

	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 2008	420.3	(7.2)	(0.6)	16.9	14.1	443.5
Comprehensive income for the year	7.7	(4.1)	7.5	–	–	11.1
Balance at 31 December 2008	**428.0**	**(11.3)**	**6.9**	**16.9**	**14.1**	**454.6**

Statements of Cash Flows

For the year ended 31 December 2009

	Notes	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Profit before tax		31.7	20.3	20.4	15.2
Adjustments for changes in:					
Impairment provision		14.8	26.8	15.9	25.9
Provisions for liabilities and charges		(4.2)	6.0	(4.0)	6.0
Depreciation and amortisation		1.2	1.3	1.2	1.3
Interest on subscribed capital		3.3	3.3	3.3	3.3
Interest on subordinated debt		2.3	2.3	2.3	2.3
Cash generated from operations		**49.1**	**60.0**	**39.1**	**54.0**
Changes in operating assets and liabilities:					
Loans and advances to customers		130.6	(312.2)	(50.5)	(273.4)
Other liquid assets		–	15.7	–	15.7
Derivative financial instruments		(37.1)	58.2	(37.1)	58.2
Loans and advances to credit institutions		14.3	95.4	14.1	95.8
Investment in subsidiaries		–	–	180.1	(38.4)
Other operating assets		9.2	(113.2)	9.2	(113.0)
Shares		225.0	528.9	225.0	528.9
Credit institutions and other		(179.7)	176.7	(177.1)	180.0
Debt securities		(566.6)	(58.0)	(566.6)	(58.0)
Other operating liabilities		1.0	95.4	0.9	95.2
Taxation paid		(2.0)	(13.0)	(0.3)	(11.1)
Net cash (outflow)/inflow from operating activities		**(356.2)**	**533.9**	**(363.2)**	**533.9**
Returns on investments and servicing of finance		(6.8)	9.8	(6.8)	9.8
Purchase of securities		(4,099.0)	(3,987.8)	(4,099.0)	(3,987.8)
Proceeds from sale and redemption of securities		4,774.7	3,176.7	4,774.7	3,176.7
Purchase of property and equipment		(0.8)	(2.7)	(0.8)	(2.7)
Purchase of investment properties		(7.0)	–	–	–
Net cash flows from investing activities		**661.1**	**(804.0)**	**668.1**	**(804.0)**
Net increase/(decrease) in cash and cash equivalents		**304.9**	**(270.1)**	**304.9**	**(270.1)**
Cash and cash equivalents at beginning of year		**234.4**	**504.5**	**234.4**	**504.5**
Cash and cash equivalents at the end of year	30	**539.3**	**234.4**	**539.3**	**234.4**

Notes to the Accounts

For the year ended 31 December 2009

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, with the exception of the policy for investment properties, have been consistently applied from the prior year.

The Directors have adopted IAS 1 Presentation of Financial Statements (2007), IAS 23 Borrowing Costs (Revised), IAS 40 Investment Property and IFRS 8, Operating Segments.

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

The Directors anticipate that the adoption of this standard and interpretation in future periods is likely to have a material impact on the financial statements of the Society and the Group.

At the date of authorisation of these financial statements, the following standards and interpretations have not been adopted by the European Union and hence have not been applied:

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Revised IAS 24 Related Party Disclosures

The Directors anticipate that the adoption of these standards and interpretations in future periods is not likely to have a material impact on the financial statements of the Society or the Group.

Accounting convention

The Group prepares its accounts under the historical cost convention, except for the revaluation of available-for-sale financial assets, financial assets and liabilities held at fair value through profit or loss, all derivative contracts, and certain freehold, long leasehold and investment properties.

Basis of consolidation

The Group accounts consolidate the accounts of Leeds Building Society and all its subsidiaries.

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.

Notes to the Accounts continued

For the year ended 31 December 2009

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. 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.

(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.

Notes to the Accounts continued

For the year ended 31 December 2009

1. Accounting Policies (continued)

(h) Fair value hedges (continued)

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. 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.

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 internal valuers. 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.

Notes to the Accounts continued

For the year ended 31 December 2009

1. Accounting Policies (continued)

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.

Notes to the Accounts continued

For the year ended 31 December 2009

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 credit risk characteristics and objective evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce 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 £5.8m (2008: £9.7m) covering the period from March 2009 to March 2011. 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.

3. Interest Receivable and Similar Income

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
On loans fully secured on residential property	332.9	381.8	323.9	372.8
On other loans	39.6	55.4	39.6	55.4
On subsidiary undertakings	–	–	1.5	7.8
On debt securities				
Interest and other income	40.6	92.4	40.6	92.4
On other liquid assets				
Interest and other income	4.2	31.5	4.2	31.5
Net income on financial instruments	38.1	22.0	38.1	22.0
Total interest income	**455.4**	**583.1**	**447.9**	**581.9**
Interest received on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	53.4	41.1	53.4	41.1
From instruments not held at fair value through profit and loss	402.0	542.0	394.5	540.8
Total interest income	**455.4**	**583.1**	**447.9**	**581.9**

Included within interest receivable and similar income is interest accrued on impaired financial assets of £9.1m (2008 – £7.7m).

4. Interest Payable and Similar Charges

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
On shares held by individuals	206.6	310.9	206.6	310.9
On other shares	0.1	0.4	0.1	0.4
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	150.9	39.9	150.9
Net expense on financial instruments	93.4	22.6	93.4	22.6
Total interest expense	**345.6**	**490.4**	**345.6**	**490.4**
Interest expense on amounts included in the cost of qualifying assets:				
From instruments held at fair value through profit and loss	95.7	24.9	95.7	24.9
From instruments not held at fair value through profit and loss	249.9	465.5	249.9	465.5
Total interest expense	**345.6**	**490.4**	**345.6**	**490.4**

Notes to the Accounts continued

For the year ended 31 December 2009

5. Fees and Commissions Receivable and Payable

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

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Fees and commissions receivable – at fair value	3.7	3.3	–	–
Fees and commissions receivable – not at fair value	15.6	17.1	11.0	12.4
Fees and commissions payable	–	(0.1)	–	(0.1)
	19.3	**20.3**	**11.0**	**12.3**

6. Fair Value Accounting Volatility

The fair value accounting volatility loss of £4.6m (2008: £0.3m gain) represents the net fair value loss on derivative instruments that are matching risk exposures on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The gain or loss is primarily due to timing differences in income recognition between the derivative instruments and the hedged assets and liabilities. This gain or loss will trend to zero over time and this is taken into account by the Board when considering the Group's underlying performance.

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

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Change in fair value of financial assets designated at fair value through profit and loss	5.7	39.9	5.7	39.9
Change in fair value of financial liabilities designated at fair value through profit and loss	(7.8)	(40.2)	(7.8)	(40.2)
Derivatives in designated fair value hedge accounting relationships	19.0	(120.1)	19.0	(120.1)
Adjustment to hedged items in designated fair value hedge accounting relationships	(21.4)	119.8	(21.4)	119.8
Derivatives in designated cashflow hedge accounting relationships	(7.7)	10.4	(7.7)	10.4
Adjustments to hedged items in cashflow hedge accounting relationships	7.7	(9.6)	7.7	(9.6)
Cross currency swap	(0.1)	0.1	(0.1)	0.1
	(4.6)	**0.3**	**(4.6)**	**0.3**

The net loss on the cross currency swap includes a fair value loss on the cross currency swap of £6.0m (2008: £81.1m gain) and an exchange gain of £5.9m (2008: £81.0m loss) on retranslation of the related Euro liabilities. The cross currency swap has been entered into to reduce the exchange risk from funding in foreign currency.

7. Other Operating Income

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Rent receivable	0.6	0.5	0.6	0.5
Pension fund (cost)/income	(0.4)	0.8	(0.4)	0.8
Net (loss)/gain on exchange rate movements	(0.2)	0.1	(0.2)	0.1
	–	**1.4**	**–**	**1.4**

8. Administrative Expenses

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Staff costs				
Wages and salaries	22.3	22.4	20.2	20.0
Social Security costs	2.3	2.3	2.0	2.0
Other pension costs	2.5	2.6	2.3	2.4
Remuneration of auditors (see below)	0.3	0.3	0.3	0.3
Other administrative expenses	15.8	17.2	15.3	16.9
	43.2	44.8	40.1	41.6
Depreciation and amortisation	1.2	1.3	1.2	1.3
	44.4	**46.1**	**41.3**	**42.9**

In the Pre Budget Report a new bank payroll tax was announced. A provision of £79,000 has been accrued within administration expenses for the estimated amount of tax on performance related payments of £158,000 in respect of five individuals.

The analysis of auditors' remuneration is as follows:

	Group & Society 2009 £'000	Group & Society 2008 £'000
Fees payable to the society's auditors for the audit of the society's annual accounts	122	118
Fees payable to the society's auditors for the audit of the society's subsidiaries pursuant to legislation	12	9
Total audit fees	**134**	**127**
Other services pursuant to legislation		
Tax services	56	75
Further assurance services	36	23
Other services	97	54
Total non-audit fees	**189**	**152**
Fees payable to the society's auditors and their associates in respect of associated pension schemes	5	5

The above figures, relating to Auditors' 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.

Notes to the Accounts continued

For the year ended 31 December 2009

9. 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 – 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**

	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 – 2008							
I. W. Ward	311	54	48	413	10	–	423
D. Pickersgill	221	40	34	295	8	–	303
P. A. Hill	161	29	25	215	–	35	250
	693	**123**	**107**	**923**	**18**	**35**	**976**

Note:
(1) Defined contribution pension scheme.
(2) Benefits were nil in 2009 (2008 nil).

Non-executive directors	2009 Fees £'000	2008 Fees £'000
R. A. Smith (Chairman)	69	67
S. R. G. Booth (Vice Chairman)	49	45
I. Marshall – resigned on 12 February 2010	43	40
C. M. Kavanagh	37	35
J. N. Anderson	37	35
A. Rajguru – appointed on 2 April 2008	37	27
I. Robertson – appointed on 8 December 2008	37	3
R. W. Stott – appointed on 8 December 2008	37	3
F. R. Dee – retired on 2 April 2008	–	12
E. M. Ziff – resigned on 28 April 2008	–	12
	346	**279**

9. Directors' Emoluments (continued)

(b) Pension benefits earned by Executive Directors

Defined benefit scheme

	Increase in accrued pension during 2009[2]	Accrued pension as at 31 December 2009[2]	Transfer value of accured pension transferred in at 31 December 2008[3]	Transfer value of accured pension with Leeds Building Society 2008[3]	Transfer value of accrued pension transferred in at 31 December 2009[3]	Transfer value of accrued pension with Leeds Building Society 2009[3]	Increase in transfer value over the year net of Directors' Contributions[8] transferred in 2009	Increase in transfer value over the year net of Directors' Contributions[8] with Leeds Building Society 2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
I. W. Ward	17	216	1,917	1,583	2,459	2,211	530	616
D. Pickersgill	11	103	–	1,377	_	1,856	–	462
K. L. Rebecchi	–[6]	57	–	_	–	544	–	5

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 Guidance Note, GN11, published by the Institute of Actuaries and Faculty of Actuaries.
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. The accrued pensions and transfer values set out in the table include any benefits that are to be provided through an Employer Retirement Scheme as well as those through Leeds Building Society Staff Pension Scheme.
6. K. L. Rebecchi was appointed a Director on 7 December 2009. The increases are shown from that date.
7. P. A. Hill is a member of the defined contribution pension scheme and therefore is not included in the above table.
8. During the 2009 financial year changes in market conditions have led to a significant increase in the value placed on the Directors' accrued pensions when measured using the transfer basis set by the Trustees, as required in preparing this disclosure. In particular, falls in the yields on high quality corporate bonds and increases in market expectations for price inflation have led to substantial increases in the transfer values disclosed, which are significantly higher than the proportionate increase in the Directors' accrued pension entitlement.

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

The aggregate amount outstanding at 31 December 2009 in respect of loans from the Society or a subsidiary undertaking to Directors of the Society or persons associated with Directors was £262,075 being two mortgages to Directors and persons connected to Directors and one mortgage to a person connected with a Director (2008: £127,404 being one mortgage to a Director and a person connected with a Director 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.

10. Staff Numbers

	Group 2009 No	Group 2008 No	Society 2009 No	Society 2008 No
The average number of persons employed during the year was as follows:				
Head office	509	513	509	513
Branch offices	451	475	400	421
	960	**988**	**909**	**934**

Notes to the Accounts continued

For the year ended 31 December 2009

11. 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 2009				
Collective impairment	9.0	7.0	2.6	18.6
Individual impairment	8.2	14.0	3.5	25.7
	17.2	**21.0**	**6.1**	**44.3**
Income and expenditure account				
Charge for the year				
Collective impairment	–	(2.0)	(1.2)	(3.2)
Individual impairment	12.5	42.3	1.2	56.0
Adjustments to impairment losses for bad and doubtful debts resulting from recoveries during the year	(0.3)	–	–	(0.3)
	12.2	**40.3**	**–**	**52.5**
Amount written off during the year				
Individual impairment	9.1	26.7	1.9	37.7
At 31 December 2009				
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**

Society	Loans fully secured on residential property £M	Loans fully secured on land £M	Other loan £M	Total £M
At 1 January 2009				
Collective impairment	8.4	7.0	2.6	18.0
Individual impairment	7.4	14.0	3.5	24.9
	15.8	**21.0**	**6.1**	**42.9**
Income and expenditure account				
Charge for the year				
Collective impairment	–	(2.0)	(1.2)	(3.2)
Individual impairment	11.2	42.0	1.2	54.4
Adjustments to impairment losses for bad and doubtful debts resulting from recoveries during the year	(0.3)	–	–	(0.3)
	10.9	**40.0**	**–**	**50.9**
Amount written off during the year				
Collective impairment	(0.6)	–	–	(0.6)
Individual impairment	7.0	26.7	1.9	35.6
	6.4	**26.7**	**1.9**	**35.0**
At 31 December 2009				
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**

Notes to the Accounts continued

For the year ended 31 December 2009

12. Income Tax Expense

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Analysis of charge in the year				
Current tax				
UK corporation tax on profits of the year	9.0	4.8	5.7	3.3
Adjustments in respect of previous years	0.1	0.2	0.1	0.2
Total current tax	9.1	5.0	5.8	3.5
Deferred tax				
Origination and reversal of timing differences	–	1.0	–	1.0
Total deferred tax	–	1.0	–	1.0
Tax on profit on ordinary activities	**9.1**	**6.0**	**5.8**	**4.5**
Factors affecting current tax charge for the year:				
Profit on ordinary activities before tax	31.7	20.3	20.4	15.2
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 28% (2008: 28%)	8.9	5.7	5.7	4.3
Effects of:				
Expenses not deductible for tax purposes	0.1	0.1	–	0.1
Adjustment in respect of prior years	0.1	0.2	0.1	0.2
Transfer pricing adjustment	–	–	–	(0.1)
	9.1	**6.0**	**5.8**	**4.5**

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.

13. Cash and Balances with the Bank of England

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Cash in hand	1.8	2.1	1.8	2.1
Balances with the Bank of England	313.1	–	313.1	–
Included in cash and cash equivalents (see note 30)	**314.9**	**2.1**	**314.9**	**2.1**

Balances with the Bank of England do not include mandatory reserve deposits of £7.3m (2008: £6.6m) which are not available for use in the Group's day to day operations.

Notes to the Accounts continued

For the year ended 31 December 2009

14. Derivative Financial Instruments

Derivatives 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. 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:

	Group and Society 2009			Group and Society 2008		
	Contract or underlying principal amount	Fair values		Contract or underlying principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	£M	£M	£M	£M	£M	£M
Derivatives held for hedging						
Derivatives designated as fair value hedges	3,988.2	12.9	(111.0)	5,033.1	30.6	(149.6)
Derivatives designated as cash flow hedges	310.0	2.9	(0.9)	450.0	10.6	(0.7)
Other derivatives held for hedging	1,508.7	126.3	(30.3)	1,586.4	154.3	(76.9)
Total	**5,806.9**	**142.1**	**(142.2)**	**7,069.5**	**195.5**	**(227.2)**

Other derivatives held for hedging are used for financial assets that are economically hedged but where it is not practical to apply hedge accounting.

The net fair value of cashflow hedges of £2.0m (2008 – £9.9m) will be reported in income in 2010 to 2011. There was nil (2008 – £0.8m gain) 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 2009 or 2008 as a result of the cashflows no longer being expected to occur.

Types of derivatives and uses

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. The Group's market risk policy and application of economic hedging is, however, materially unchanged. 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
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps
Fixed rate funding	Sensitivity to falls in interest rates	Receive fixed interest rate swaps
Fixed rate asset investments	Sensitivity to increases in interest rates	Pay fixed interest rate swaps

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.

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.

14. Derivative Financial Instruments (continued)

Control of derivatives

Control of derivative activity undertaken by the Group is held by the Assets and Liabilities Committee ('ALCO'), a sub-committee of the Board of Directors. The minutes of the ALCO meetings are presented to the Board, which retains overall responsibility for monitoring Balance Sheet exposures. All limits over the use of derivatives are the responsibility of ALCO. The Board has authorised the use of derivatives under Section 9A of the Building Societies Act 1986. Limits on the use of derivatives are provided for in the Board approved Policy on Financial Risk Management.

The following table analyses the derivatives by type of contract and residual maturity:

	Group and Society 2009			Group and Society 2008		
	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	5,003.7	45.5	46.5	6,285.8	85.9	59.6
Cross currency swaps	783.2	152.1	95.5	777.9	170.1	135.9
Cap/collars and floors	–	–	–	5.8	–	–
Swaptions	20.0	–	0.1	–	–	–
	5,806.9	**197.6**	**142.1**	**7,069.5**	**256.0**	**195.5**
Under one year	2,421.3	13.2	20.0	2,643.5	18.9	17.6
Between one and five years	2,651.0	172.5	120.1	3,688.0	221.6	173.5
Over five years	734.6	11.9	2.0	738.0	15.5	4.4
	5,806.9	**197.6**	**142.1**	**7,069.5**	**256.0**	**195.5**

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

Notes to the Accounts continued

For the year ended 31 December 2009

15. Loans and advances to customers

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
(a) Loans and receivables				
Loans fully secured on residential property	6,389.2	6,397.3	6,388.8	6,215.8
Other loans				
Loans fully secured on land	579.5	625.8	579.5	625.8
Other loans	9.2	15.7	9.2	15.7
Fair value adjustment for hedge risk	101.6	148.3	101.6	148.3
	7,079.5	**7,187.1**	**7,079.1**	**7,005.6**
(b) At fair value through profit and loss				
Loans fully secured on residential property	130.1	145.0	130.1	145.0
Other loans	183.1	191.2	183.1	191.2
	313.2	**336.2**	**313.2**	**336.2**
Less:				
Impairment losses (see note 11)	(59.1)	(44.3)	(58.8)	(42.9)
	7,333.6	**7,479.0**	**7,333.5**	**7,298.9**

The Society has purchased certain 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 gain on loans and advances which are designated as fair value through profit and loss was £6.9m (2008: £24m gain) for both the Group and Society.

Loans and advances to customers include £1.8bn (2008 – £1.5bn) 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 £1.25bn of covered bonds issued by the Society. The loans are retained on the Society's balance sheet as the Society substantially retains the risk and reward relating to the loans. As the covered bonds have been immediately purchased by the Society they have not been recognised in the accounts of the Group or the Society as they do not create a liability to a third party, thereby not changing the underlying risk profile of the Group. The covered bonds were issued to enable the Group to participate in the Bank of England's Special Liquidity Scheme. These underlying bonds have not been issued to any third party, and as such have been retained within the Group. Loans and advances to customers include an unlisted equity investment of 628,089 shares which has been fair valued at nil.

16. Investment Securities

	Group and Society 2009 £M	Group and Society 2008 £M
Debt securities		
Listed	856.4	1,012.3
Unlisted	517.3	1,037.3
Total investment securities	**1,373.7**	**2,049.6**

Investment securities reduced by £0.2m in 2009 (2008: £3.8m) due to changes in fair value. This movement was recorded in equity or through profit and loss. Investment securities are stated after a provision of nil (2008: £10m) against exposures to a UK subsidiary of an Icelandic Bank. The anticipated recovery from the original exposure is included in other assets and reflects a reduction in the provision of £2.5m due to an improvement in the expected recovery rate.

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 2009	1,239.3	42.1	768.2	2,049.6
Additions	4,099.0	–	–	4,099.0
Disposals (sale and redemption)	(4,528.2)	(40.1)	(206.4)	(4,774.7)
Change in fair value	(3.0)	(2.0)	4.8	(0.2)
At 31 December 2009	**807.1**	**–**	**566.6**	**1,373.7**

16. Investment Securities (continued)

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 2009 was £566.6m (2008: £768.2m) and this compares with the market value of £530m (2008: £699m). The fair value gain that would have been recorded directly in reserves if the assets had not been reclassified was £33m (2008: £64m loss).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 £585m (2008: £786m).

The net loss, after deferred tax, of £10.8m (2008: £13.1m and £18.6m at 1 July 2008) 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 0.74% and 0.72% respectively (2008: 4.32% and 5.43%).

17. Investments in subsidiary undertakings

	Society 2009 £M	Society 2008 £M
(a) Shares held in subsidiary undertakings		
Cost		
At 1 January 2009	19.6	19.6
At 31 December 2009	**19.6**	**19.6**
(b) Loans to subsidiary undertakings		
Cost		
At 1 January 2009	180.1	142.4
Additions	–	37.7
Repayments	(180.1)	–
At 31 December 2009	**–**	**180.1**
Total investments in subsidiary undertakings	**19.6**	**199.7**

(c) Other investments

	Group and Society 2009 £M	Group and Society 2008 £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 Financial Services (Overseas) Ltd (dissolved 5 January 2010)	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	Purchase of mortgage assets	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

Notes to the Accounts continued

For the year ended 31 December 2009

17. Investments in subsidiary undertakings (continued)

(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	Computer software development	Ordinary 1p shares	13.87%

18. 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 2009	28.7	0.4	1.4	21.4	0.1	52.0
Additions	–	–	–	0.8	–	0.8
Revaluations	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 December 2009	**28.7**	**0.4**	**1.4**	**22.2**	**0.1**	**52.8**
Depreciation						
At 1 January 2009	–	–	1.3	17.2	0.1	18.6
Charged in year	–	–	–	1.2	–	1.2
Disposals	–	–	–	–	–	–
At 31 December 2009	**–**	**–**	**1.3**	**18.4**	**0.1**	**19.8**
Net book value						
At 31 December 2009	**28.7**	**0.4**	**0.1**	**3.8**	**–**	**33.0**
At 31 December 2008	**28.7**	**0.4**	**0.1**	**4.2**	**–**	**33.4**
(b) Society						
Cost or valuation						
At 1 January 2009	28.7	0.4	1.4	21.4	–	51.9
Additions	–	–	–	0.8	–	0.8
Revaluations	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 December 2009	**28.7**	**0.4**	**1.4**	**22.2**	**–**	**52.7**
Depreciation						
At 1 January 2009	–	–	1.3	17.2	–	18.5
Charged in year	–	–	–	1.2	–	1.2
Disposals	–	–	–	–	–	–
At 31 December 2009	**–**	**–**	**1.3**	**18.4**	**–**	**19.7**
Net book value						
At 31 December 2009	**28.7**	**0.4**	**0.1**	**3.8**	**–**	**33.0**
At 31 December 2008	**28.7**	**0.4**	**0.1**	**4.2**	**–**	**33.4**

The freehold and long leasehold premises were valued as at 31 December 2007 by Jones Lang LaSalle on the basis of existing use value.

18. Property, plant and equipment (continued)

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £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	9.8	9.8	9.8	9.8
Long leasehold premises	0.1	0.1	0.1	0.1
Net book value	**9.9**	**9.9**	**9.9**	**9.9**
(d) Land and buildings occupied by the Group and Society for its own activities				
Net book value	21.9	21.9	21.9	21.9

The cost of equipment, fixtures and vehicles held under finance leases was £0.7m (2008: £0.7m). The related cumulative depreciation of £0.7m (2008: £0.7m) includes £nil charged during the year (2008: £nil).

19. Investment Properties

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
At 1 January 2009	–	–	–	–
Additions	7.0	–	–	–
At 31 December 2009	**7.0**	**–**	**–**	**–**

The investment property was acquired on 31 December 2009. The fair value of the investment properties was arrived at by reference to the market evidence at the time of the acquisition.

20. Deferred income tax

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Deferred tax				
At 1 January 2009	(2.3)	1.3	(3.1)	0.6
Amount recognised directly in equity	2.1	(2.6)	2.1	(2.6)
Income and expenditure movement during the year	–	(1.0)	–	(1.1)
At 31 December 2009	**(0.2)**	**(2.3)**	**(1.0)**	**(3.1)**

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Deferred income tax liabilities				
Gain on revaluation	2.1	2.1	2.1	2.1
Cash flow hedges	0.5	2.7	0.5	2.7
Other temporary differences	1.2	1.3	1.2	1.3
	3.8	**6.1**	**3.8**	**6.1**

Notes to the Accounts continued

For the year ended 31 December 2009

20. Deferred income tax (continued)

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Deferred income tax assets				
Pensions and other post retirement benefits	0.8	0.8	0.8	0.8
Excess of capital allowances over depreciation	0.3	0.2	0.3	0.2
Other provisions	2.5	2.8	1.7	2.0
	3.6	3.8	2.8	3.0

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

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Accelerated tax depreciation	–	0.1	–	0.1
Other provisions	–	0.9	–	1.0
	–	1.0	–	1.1

21. Other assets, prepayments and accrued income

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Other assets, prepayments and accrued income	109.3	118.5	108.4	117.6
	109.3	118.5	108.4	117.6

Other assets include £98.6m (2008: £104m) owed by credit institutions on cash collateralisation of swaps.

22. Shares

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Held by individuals	6,737.9	6,502.8	6,737.9	6,502.8
Other shares	12.6	14.0	12.6	14.0
Fair value adjustment for hedge risk	29.5	38.2	29.5	38.2
	6,780.0	6,555.0	6,780.0	6,555.0

Shares have either variable or fixed interest rates.

23. Amounts owed to credit institutions

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Amounts owed to credit institutions	538.8	688.8	538.8	688.8

All amounts owed to credit institutions have fixed interest rates.

Amounts owed to credit institutions include £489.9m (2008: £400m) for both the Group and Society for which the underlying security was the covered bond programme secured on certain loans and advances to customers.

Notes to the Accounts continued

For the year ended 31 December 2009

24. Amounts owed to other customers

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Amounts owed to subsidiary undertakings	–	–	30.8	28.2
Other deposits	709.5	739.2	709.5	739.2
	709.5	**739.2**	**740.3**	**767.4**

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

25. Debt securities in issue

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Certificates of deposit	139.9	345.9	139.9	345.9
Floating rate notes	535.4	897.3	535.4	897.3
	675.3	**1,243.2**	**675.3**	**1,243.2**

The interest rates on debt securities in issue are a combination of fixed and variable

26. Other liabilities and accruals

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Income tax	9.9	21.2	9.9	21.2
Accruals	8.6	8.6	8.5	8.3
Other creditors	119.8	106.7	117.4	104.6
	138.3	**136.5**	**135.8**	**134.1**

Included within other creditors is a liability for financial guarantee contracts of £3.2m (2008: £3.2m).

Other creditors includes £102m (2008: £96m) owed to credit institutions on cash collateralisation of swaps.

Notes to the Accounts continued

For the year ended 31 December 2009

27. Provisions for Liabilities and Charges

Group	FSCS levy £m	Customer redress and other related provisions £M	Commission Clawback £M	Total £M
At 1 January 2009	9.7	0.2	0.8	10.7
Amounts paid during the year	(2.6)	–	–	(2.6)
Provision (credit) for the year	(1.3)	(0.1)	(0.2)	(1.6)
At 31 December 2009	**5.8**	**0.1**	**0.6**	**6.5**
Society				
At 1 January 2009	9.7	0.2	–	9.9
Amounts paid during the year	(2.6)	–	–	(2.6)
Provision (credit) for the year	(1.3)	(0.1)	–	(1.4)
At 31 December 2009	**5.8**	**0.1**	**–**	**5.9**

Financial Services Compensation Scheme (FSCS) Levy

The levy represents the balance of the estimated amount payable under the FSCS for the period March 2009 to March 2011, based on the latest estimates of the contribution required as advised by the FSCS.

Customer redress and other related provisions

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

Commission clawback

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

28. Subordinated Liabilities

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Subordinated debt notes 2015	40.0	40.0	40.0	40.0
Fair value hedging adjustment	–	1.4	–	1.4
	40.0	**41.4**	**40.0**	**41.4**

The subordinated debt has a fixed interest rate of 5.75%. The Society has an option to repay the debt on 9 March 2010. The debt is subordinated to the claims of members and all other creditors.

29. Subscribed Capital

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
13⅜% 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.

30. 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 and Society	
	2009 £M	2008 £M
Cash in hand and balances with the Bank of England (note 13)	314.9	2.1
Loans and advances to credit institutions	224.4	232.3
	539.3	**234.4**

31. 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 deposits 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 2009 (2008: nil) contracted but not provided for.

Notes to the Accounts continued

For the year ended 31 December 2009

31. 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 and Society	
	2009 £M	**2008 £M**
Land and buildings		
Commitment expiring:		
Within one year	0.3	0.2
Between two and five years inclusive	0.4	0.3
After five years	1.0	1.1
	1.7	**1.6**
Other operating leases		
Commitment expiring:		
Within five years	1.4	1.2
	1.4	**1.2**
(e) Irrevocable loan facility commitments	**1.9**	**2.5**

32. Retirement Benefit Obligations

The Society operates both defined benefit and defined contribution schemes including the Mercantile Building Society Retirement and Death Benefit Plan. 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 and Society				
	2009	**2008**	**2007**	**2006**	**2005**
Rate of increase in salaries	5.80%	5.30%	5.40%	5.00%	4.55%
Rate of increase for pensions in payment*	3.69%	3.25%	3.40%	3.00%	2.80%
Rate of increase for deferred pensions*	3.80%	3.30%	3.40%	3.00%	2.80%
Discount rate	5.85%	6.20%	5.80%	5.20%	4.80%
Inflation assumption	3.80%	3.30%	3.40%	3.00%	2.80%
Expected return on assets	6.65%	5.86%	7.00%	6.90%	7.20%

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

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% (2008: 1.0%) 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.

	2009		**2008**		**2007**	
	Pensioner	**Non-pensioner**	**Pensioner**	**Non-pensioner**	**Pensioner**	**Non-pensioner**
Male	23	24	23	25	23	24
Female	25	27	25	27	26	27

Notes to the Accounts continued

For the year ended 31 December 2009

32. Retirement Benefit Obligations (continued)

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 and Society			
Category of assets	**2009**	**2008**	**2007**	**2006**
Equities	63.2%	54.4%	59.0%	70.0%
Property	5.8%	6.8%	3.5%	4.2%
Government bonds	20.1%	26.0%	24.9%	15.7%
Corporate bonds	10.1%	12.6%	11.6%	6.7%
Cash/other	0.8%	0.2%	1.0%	3.4%

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

The amounts recognised in the Income Statements are as follows:

	Group and Society	
	2009 £M	**2008 £M**
Current service cost	1.7	1.8
Prior service cost	0.2	–
Interest cost	3.7	3.7
Expected return on plan assets	(3.3)	(4.5)
Total cost – defined benefit scheme	**2.3**	**1.0**

Note: Service cost is the Society's cost net of employee contributions and inclusive of interest to the reporting date.
The amount recognised in the income statement for the Society's expense in relation to the defined contribution scheme was £0.7m (2008 £0.7m).

Experience recognised in the Statements of Comprehensive Income (SOCI)

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

Notes to the Accounts continued

For the year ended 31 December 2009

32. Retirement Benefit Obligations (continued)

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

	Group and Society	
	2009 £M	**2008 £M**
At 1 January 2009	60.7	64.3
Current service cost	1.7	1.8
Interest cost	3.7	3.7
Prior service cost	0.2	–
Employee contributions	0.1	0.1
Actuarial gain	7.2	(7.6)
Benefits paid	(1.7)	(1.6)
At 31 December 2009	**71.9**	**60.7**

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

	Group and Society	
	2009 £M	**2008 £M**
At 1 January 2009	57.7	62.8
Expected return	3.3	4.5
Actuarial gain/(loss)	6.1	(11.7)
Contribution by employer	3.4	3.6
Employee contributions	0.1	0.1
Benefits paid	(1.7)	(1.6)
At 31 December 2009	**68.9**	**57.7**

Estimated contributions for 2010 financial year

	2010 £M
Estimated contributions in Financial Year 2010	1.9
Estimated employee contributions in Financial Year 2010	0.1
Estimated Total contributions in Financial Year 2010	**2.0**

Notes to the Accounts continued

For the year ended 31 December 2009

33. 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 17.

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	
	2009 £M	2008 £M	2009 £M	2008 £M
Loans payable to the Society				
Loans outstanding at 1 January 2009	180.1	142.4	0.1	0.1
Net movement during the year	(180.1)	37.7	0.2	–
Loans outstanding at 31 December 2009	**–**	**180.1**	**0.3**	**0.1**
Deposits payable by the Society				
Deposits outstanding at 1 January 2009	28.2	25.6	1.7	1.5
Net movement during the year	2.6	2.6	0.5	0.2
Deposits outstanding at 31 December 2009	**30.8**	**28.2**	**2.2**	**1.7**
Net interest income				
Interest receivable	1.4	7.8	–	–
Interest expense	–	–	0.1	0.1

	2009 £M	2008 £M
Directors' emoluments (see note 9)		
Short-term benefits	1.4	1.2

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 (2008: two). One Director is a member of the defined contribution section of the Leeds Building Society Pension Scheme (2008: one).

Leeds

Notes to the Accounts continued

For the year ended 31 December 2009

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

2009

Group and 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)**

2008

Group and Society

	Before tax Amount £M	Tax benefit/ (expense) £M	Net of tax Amount £M
Available for sale investment securities	(5.8)	1.6	(4.2)
Cash flow hedges	10.4	(2.9)	7.5
Actuarial losses on retirement benefit obligations	(4.1)	1.2	(2.9)
Other comprehensive income	**0.5**	**(0.1)**	**0.4**

35. Risk Management and Control

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, liquidity risk and operational 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.

35. Risk Management and Control (continued)

Committee	Status	Main responsibilities	Membership
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.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due. The Group is firmly committed to the management of this risk in both its retail and commercial lending activities and its investment of liquid assets.

The Group employs appropriate underwriting and fraud detection techniques to support sound decision making and minimise losses in its lending activities. In addition, a proactive approach to the control of bad and doubtful debtors is maintained within the collections area.

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 Sub Board policy committees. The Credit Committee is responsible for the formulation of policy pertaining to asset quality and credit risk for approval by the Board.

Policy statements covering, amongst other things, criteria to be used in considering limits on counterparties and countries, are reviewed at least quarterly by the ALCO and Board. Authorised limits on a counterparty are determined following rigorous analysis giving due consideration to both internal and external credit ratings.

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

The table below provides further information on the Group's loans and advances to customers by payment due status as at 31 December 2009. The balances exclude the fair value adjustment for hedge risk and impairment losses.

	Group Residential & Other		Group FSOL(1)		Group Total	
	2009	2009	2009	2009	2009	2009
	£M	%	£M	%	£M	%
Not impaired:						
– neither past due nor impaired	6,227.9	92.8	461.5	79.6	6,689.4	91.8
– Past due up to 3 months but not impaired	258.9	3.9	26.5	4.6	285.4	3.9
Impaired:						
– Past due 3 to 6 months	87.9	1.3	50.3	8.7	138.2	1.9
– Past due 6 to 12 months	79.8	1.2	24.3	4.2	104.1	1.4
– Past due over 12 months	41.3	0.6	–	–	41.3	0.6
– Possessions *	15.8	0.2	16.9	2.9	32.7	0.4
	6,711.6	**100.0**	**579.5**	**100.0**	**7,291.1**	**100.0**

Note:
(1) FSOL are loans fully secured on land.

Notes to the Accounts continued

For the year ended 31 December 2009

35. Risk Management and Control (continued)

	Group Residential & Other		Group FSOL		Group Total	
	2008 £M	2008 %	2008 £M	2008 %	2008 £M	2008 %
Not impaired:						
– neither past due nor impaired	6,274.4	93.0	563.4	90.0	6,837.8	92.7
– Past due up to 3 months but not impaired	321.6	4.8	26.8	4.3	348.4	4.7
Impaired:						
– Past due 3 to 6 months	90.9	1.3	16.2	2.6	107.1	1.4
– Past due 6 to 12 months	34.8	0.5	15.2	2.4	50.0	0.7
– Past due over 12 months	5.2	0.1	–	–	5.2	0.1
– Possessions *	22.3	0.3	4.2	0.7	26.5	0.4
	6,749.2	**100.0**	**625.8**	**100.0**	**7,375.0**	**100.0**

*Against possession cases, £27m (2008: £28m) of collateral is held.

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

The fair value of impaired assets not in possession is £362m (2008 – £349m). The fair value is based on an indexed valuation or open market value. £63m (2008: £28m) 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 average LTV of the residential and other loan portfolios is 49%, based on an indexed valuation (2008: 49%).

The average LTV of the commercial loan portfolio is 106% based on an indexed valuation (2008: 101%).

Market risk

Market risk is the potential adverse change in Group income or the value of Group net worth arising from movements in interest rates, exchange rate or other market prices. Market risk exists to some extent in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of member value.

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

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

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

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

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.

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.

35. 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 2009. 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 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)	–

Notes to the Accounts continued

For the year ended 31 December 2009

35. Risk Management and Control (continued)

31 December 2008	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	2,029.0	30.8	12.6	182.0	24.0	–	23.3	2,301.7
Loans fully secured on residential property and other loans	3,716.7	216.0	528.3	2,289.6	561.3	–	167.1	7,479.0
Property, plant and equipment	–	–	–	–	–	–	33.4	33.4
Other assets	–	–	–	–	–	–	322.5	322.5
Total assets	**5,745.7**	**246.8**	**540.9**	**2,471.6**	**585.3**	**–**	**546.3**	**10,136.6**
Liabilities								
Shares	3,751.3	637.9	867.6	1,050.4	67.0	–	180.8	6,555.0
Amounts owed to credit institutions, other customers and debt securities in issue	2,453.2	84.0	62.0	46.5	–	–	25.5	2,671.2
Other liabilities	–	–	–	–	–	–	383.5	383.5
Subordinated debt	–	–	–	41.4	–	–	–	41.4
Subscribed capital	–	–	–	–	–	25.0	–	25.0
Reserves	–	–	–	–	–	–	460.5	460.5
Total liabilities	**6,204.5**	**721.9**	**929.6**	**1,138.3**	**67.0**	**25.0**	**1,050.3**	**10,136.6**
Effect of derivative items	740.0	363.2	647.4	(1,266.3)	(484.3)	–	–	–
Interest rate sensitivity gap	281.2	(111.9)	258.7	67.0	34.0	(25.0)	(504.0)	–

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 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
100 basis point increase				
Profit or loss	2.9	(5.5)	2.9	(5.5)
Other equity	9.0	12.7	9.0	12.7
100 basis point decrease				
Profit or loss	(5.1)	5.1	(5.1)	5.1
Other equity	(16.2)	(24.6)	(16.2)	(24.6)

35. 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.

Foreign currency risk

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:

	Liabilities		Assets	
	2009 £M	2008 £M	2009 £M	2008 £M
Euro	883.1	1,035.8	883.1	1,035.8

At the year end the group has hedges in place to match 100% of its foreign currency exposures. Therefore any movement in foreign currency through profit or loss and other equity will be minimised.

Other price risk

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 and through management control of the growth of the business.

It is Group policy to ensure that sufficient liquid assets are at all times available to meet the Group's obligations including the withdrawal of customer deposits, the 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 (2008: £90m with two banks) of which £nil (2008: £nil) was drawn at the year end. The weighted average period until maturity of those facilities was 1.4 years (2008: 2.4 years).

Notes to the Accounts continued

For the year ended 31 December 2009

35. Risk Management and Control (continued)

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 95.8% (2008: 98.6%) are in AAA rated tranches with the remainder in AA rated tranches.

There has been no 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 13⅜% payable semi-annually for an indeterminate period.

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**

31 December 2008	Not more than 3 months £M	More than 3 months but not more than 6 months £M	More than 6 months but not more than 1 year £M	More than 1 year but not more than 5 years £M	More than 5 years £M	Total £M
Liabilities						
Shares	5,007.5	395.9	1,026.4	250.4	0.2	6,680.4
Amounts owed to credit institutions, other customers and debt securities in issue	1,719.9	91.9	282.9	671.1	–	2,765.8
Subordinated debt	2.3	–	–	42.3	–	44.6
Other liabilities	156.3	–	–	–	–	156.3
Subscribed capital	–	–	–	–	25.0	25.0
Reserves	–	–	–	–	460.5	460.5
Total liabilities	**6,886.0**	**487.8**	**1,309.3**	**963.8**	**485.7**	**10,132.6**

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.

35. Risk Management and Control (continued)

For example, interest rates have been projected as illustrated by the yield curves existing at the reporting date and where the amount varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

	Not more than 3 months £M	More than 3 months but not more than 6 months £M	More than 6 months but not more than 1 year £M	More than 1 year but not more than 5 years £M	More than 5 years £M
31 December 2009					
Swap contracts	29.3	22.6	41.9	94.1	12.3
31 December 2008					
Swap contracts	23.0	22.5	57.2	102.8	19.7

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.

Counterparty risk

The table below shows the Group's exposures to customer groups.

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Loans secured on residential mortgages	6,600.8	6,673.5	6,600.4	6,493.4
Other loans	732.8	805.5	733.1	805.5
Total	**7,333.6**	**7,479.0**	**7,333.5**	**7,298.9**

Notes to the Accounts continued

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35. Risk Management and Control (continued)

Fair values of financial assets and liabilities

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the Group and Society balance sheets at their fair value.

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 2009		Society 2009	
	Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets				
Loans and advances to customers	7,333.6	7,439.8	7,333.5	7,440.3
Loans and advances to credit institutions	227.8	227.1	227.6	227.0
Investment Securities – loans and receivables	566.6	530.0	566.6	530.0
Financial liabilities				
Shares	6,780.0	6,852.3	6,780.0	6,852.3
Due to credit institutions	538.8	538.8	538.8	538.8
Due to customers	709.5	709.5	749.1	749.1
Debt securities in issue	675.3	676.5	675.3	676.5

	Group 2008		Society 2008	
	Carrying value £M	Fair value £M	Carrying value £M	Fair value £M
Financial assets				
Loans and advances to customers	7,479.0	7,574.2	7,298.9	7,394.1
Loans and advances to credit institutions	250.0	250.0	249.6	249.6
Investment Securities – loans and receivables	768.2	699.0	768.2	699.0
Financial liabilities				
Shares	6,555.0	6,610.3	6,555.0	6,610.3
Due to credit institutions	688.8	688.8	688.8	688.8
Due to customers	739.2	739.5	767.4	767.7
Debt securities in issue	1,243.2	1,247.4	1,243.2	1,247.4

Due to and from credit institutions

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.

Loans and advances to customers, shares and amounts due to customers

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.

Investment securities, debt securities in issue and other borrowed funds

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.

35. Risk Management and Control (continued)

Financial assets and liabilities classification

The following table analyses the financial assets and liabilities into which category they have been classified.

	Group 2009 £M	Group 2008 £M	Society 2009 £M	Society 2008 £M
Financial assets held at fair value through profit and loss				
Designated as such upon initial recognition	258.4	366.5	258.4	366.5
Derivatives held for hedging	142.1	195.5	142.1	195.5
Loans and receivables				
Loans and receivables not in fair value hedging relationships	5,556.3	5,508.7	5,556.8	5,328.2
Loans and receivables in fair value hedging relationships	2,726.8	2,770.2	2,726.8	2,770.2
Available for sale				
Investment securities	807.1	1,239.3	807.1	1,239.2
Financial liabilities held at fair value through profit and loss				
Designated as such upon initial recognition	445.9	398.5	445.9	398.5
Derivatives held for hedging	142.2	227.2	142.2	227.2
Financial liabilities measured at amortised cost				
Financial liabilities not in fair value hedging relationships	7,365.4	7,658.0	7,303.1	7,686.2
Financial liabilities in fair value hedging relationships	994.2	1,265.7	994.2	1,265.7

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 2009 was £236.9m (2008: £292.9m), which is equal to the carrying value of the assets. Maximum credit risk exposure at 31 December 2009 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 £101.6m (2008: increase of £148.3m) 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 £99m (2008: £104m), have been pledged as security. The holder of the security does not have the right to sell or re-pledge the assets.

Notes to the Accounts continued

For the year ended 31 December 2009

35. Risk Management and Control (continued)

Remaining maturity profile

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 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**

35. Risk Management and Control (continued)

31 December 2008	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	2.1	–	–	–	–	2.1
Loans and advances to credit institutions	–	232.3	13.9	1.0	2.8	250.0
Derivative financial instruments	–	1.8	15.8	173.5	4.4	195.5
Loans and advances to customers:						
Loans fully secured on residential property	1.4	54.2	107.0	714.4	5,796.5	6,673.5
Other loans	–	6.6	39.7	249.5	509.7	805.5
Investment securities	–	1,060.8	124.2	477.6	387.0	2,049.6
Other investments	0.1	–	–	–	–	0.1
Property, plant and equipment	33.4	–	–	–	–	33.4
Deferred income tax assets	3.8	–	–	–	–	3.8
Other assets, prepayments and accrued income	123.1	–	–	–	–	123.1
Total Assets	**163.9**	**1,355.7**	**300.6**	**1,616.0**	**6,700.4**	**10,136.6**
Liabilities						
Shares	4,597.4	396.2	1,345.4	215.9	0.1	6,555.0
Derivative financial instruments	–	18.5	16.3	108.6	83.8	227.2
Amounts owed to credit institutions	–	687.0	1.8	–	–	688.8
Amounts owed to other customers	46.4	528.8	160.8	3.2	–	739.2
Debt securities in issue	–	393.4	206.2	643.6	–	1,243.2
Deferred income tax liabilities	6.1	–	–	–	–	6.1
Provision for liabilities, accruals and deferred income	137.5	–	–	9.7		147.2
Retirement benefit obligations	3.0	–	–	–	–	3.0
Subordinated liabilities	–	–	–	41.4	–	41.4
Subscribed capital	–	–	–	–	25.0	25.0
Cash flow hedge reserve	6.9	–	–	–	–	6.9
Available for sale reserve	(11.3)	–	–	–	–	(11.3)
Revaluation reserve	16.9	–	–	–	–	16.9
General and other reserves	448.0	–	–	–	–	448.0
Total Reserves and Liabilities	**5,250.9**	**2,023.9**	**1,730.5**	**1,022.4**	**108.9**	**10,136.6**

Notes to the Accounts continued

For the year ended 31 December 2009

35. Risk Management and Control (continued)

Fair Value Measurement

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

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	–	107.8	34.3	142.1
Financial liabilities				
Derivative financial instruments	–	142.2	–	142.2
Designated as such upon initial recognition	–	445.9	–	445.9

2008 **Group and Society**	**Level 1** **£M**	**Level 2** **£M**	**Level 3** **£M**	**Total** **£M**
Financial assets				
Investment securities – available for sale	23.7	1,215.6	–	1,239.0
Designated as such upon initial recognition	–	366.5	–	366.5
Derivative financial instruments	–	146.0	49.5	195.5
Financial liabilities				
Derivative financial instruments	–	227.2	–	227.2
Designated as such upon initial recognition	–	398.5	–	398.5

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset and liability, either directly (i.e. as price) or indirectly (i.e. derived prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

These definitions have been taken from the March 2009 amendment to IFRS7 Improving Disclosures about Financial Instruments.

Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit and loss **£M**	**Total** **£M**
Balance at 1 January 2009	49.5	49.5
Total (losses) in Income Statement	(15.2)	(15.2)
Balance at 31 December 2009	**34.3**	**34.3**

The table above only includes financial assets. There were no financial liabilities 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, (£15.2m) 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 15, 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.

36. Operating Segments

Adoption of IFRS 8 Operating Segments

The Group has adopted IFRS 8 Operating segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. As a result following adoption of IFRS 8, the identification of the Group's reportable segments has changed.

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 below.

Segment Interest income and operating profit

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

	2009 £M	2009 £M	2008 £M	2008 £M
Interest receivable and similar income				
Interest receivable				
Residential Loan Portfolio	332.9		381.8	
Commercial Loan Portfolio	31.2		42.7	
Other	8.4		12.7	
		372.5		437.2
Other interest income		44.8		123.9
Net expense/income on financial instruments		38.1		22.0
Total interest receivable and similar income		**455.4**		**583.1**
Operating profit and profit on ordinary activities before income tax				
Operating profit before impairment losses and provisions		80.1		68.6
Impairment losses and provisions on loan and advances				
Residential loan Portfolio	(12.2)		(11.0)	
Commercial Loan Portfolio	(40.3)		(19.1)	
Other	–		(2.0)	
Impairment losses on loans and advances to customers		(52.5)		(32.1)
Other gains/(losses)		2.5		(10.0)
Provision for liabilities and charges		1.6		(6.2)
Operating profit and profit on ordinary activities before income tax		31.7		20.3
Income tax		(9.1)		(6.0)
Profit for the financial year		**22.6**		**14.3**

Notes to the Accounts continued

For the year ended 31 December 2009

36. Operating Segments (continued)

Segment loans and advances to customers

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

	2009 £M	2009 £M	2008 £M	2008 £M
loans and advances to customers				
loans and advances to customers				
Residential Loan Portfolio	6,389.2		6,397.3	
Commercial Loan Portfolio	579.5		625.8	
Other	9.2		15.7	
		6,977.9		7,038.8
At fair value through profit and loss		313.2		336.2
Less: impairment provisions				
Residential Loan Portfolio	(20.3)		(17.2)	
Commercial Loan Portfolio	(34.6)		(21.0)	
Other	(4.2)		(6.1)	
		(59.1)		(44.3)
Fair value adjustment for hedge risk		101.6		148.3
Total loans and advances to customers		**7,333.6**		**7,479.0**

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 2009

1. Statutory Percentages

	31 December 2009	Statutory Limit
Lending limit	14.8%	25%
Funding limit	22.6%	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 2009	31 December 2008
As a percentage of shares and borrowings:		
Gross capital	6.34%	5.74%
Free capital	6.06%	5.58%
Liquid assets	22.02%	24.95%
Profit for the financial year as a percentage of mean total assets	0.23%	0.15%
Management expenses as a percentage of mean total assets	0.45%	0.48%

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.

Annual Business Statement continued

For the year ended 31 December 2009

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
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 executive Directors of the Society have one year rolling service contracts with the Society, which can be terminated on twelve months notice.

Documents may be served on the above named Directors at: c/o Deloitte LLP (Ref SW), 1 City Square, Leeds LS1 2AL.

Details of Directors – Other Directorships

(*Society Subsidiary)

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

C. M. Kavanagh	Leeds Building Society Staff Pension Scheme Ltd Travis Perkins Trading Company Ltd Benchmarx Kitchens and Joinery Limited CCF Limited City Plumbing Supplies Holdings Limited Keyline Builders Merchants Limited Wickes Building Supplies Limited
I. Marshall (resigned 12 February 2010)	Barnardo's Ian Marshall Ltd Markel International Insurance Company Ltd Markel Syndicate Management Ltd MicroEnterprise Africa Ltd United Youth Development Organization Terra Nova Pension Trustee Limited
D. Pickersgill	Countrywide Rentals 1, 2, 3, 4, 5 Ltd (Dormant)* Leeds Financial Services Ltd* Leeds Overseas (Isle of Man) Ltd* Leeds Mortgage Funding Ltd* Mercantile Asset Management Ltd* Smartrisk Foundation UK
A. Rajguru	Alexander Rosse Ltd Kettering Hospital NHS Foundation Trust Northampton College Simplyhealth Access
K. L. Rebecchi	Leeds Financial Services Ltd* Leeds Building Society Staff Pension Scheme Ltd
I. Robertson	Homes and Communities Agency for England
R. W. Stott	Rugby Football League Ltd Yorkshire County Cricket Club Charitable Youth Trust RFL (Governing Body) Limited The Greyhound Board of Great Britain Limited Frank Roberts & Sons Limited

Executive Management

Name	Occupation	Directorships (*Society Subsidiary)
Andrew J. Greenwood	General Manager & Secretary	Leeds Financial Services Ltd*
Paul M. Kaye	General Manager Sales	Leeds Financial Services Ltd*
Gary M. Mitchell	General Manager Finance & Risk	Countrywide Rentals 1, 2, 3, 4, 5 Ltd (Dormant)* Leeds Overseas (Isle of Man) Ltd* Leeds Mortgage Funding Ltd* Leeds Building Society Staff Pension Scheme Ltd Headrow Commercial Property Services Ltd*
Martin J. Richardson	General Manager Marketing & Business Development	Mercantile Asset Management Ltd*
I. Paul Riley	General Manager & Group Treasurer	Leeds Building Society Staff Pension Scheme Ltd
Geoffrey Turnbull	General Manager Management Services	Mutual Vision Technologies Ltd Headrow Commercial Property Services Ltd*
Karen Wint	General Manager Customer Services	None

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Tel: 01539 724460

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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
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Leeds LS11 5LF
Tel: 0113 225 8520

Boston Spa
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Wetherby LS23 6AA
Tel: 01937 843190

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3 Stainbeck Corner, Chapel Allerton,
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Crossgates
57 Station Road, Crossgates,
Leeds LS15 8DT
Tel: 0113 225 8560

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

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

Headingley
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Tel: 0113 225 8620

Horsforth
80 Town Street, Horsforth,
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Moortown
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Leeds LS17 6PX
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Morley
23 Windsor Court, Morley LS27 9BG
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Street Lane
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Wetherby
2 Horsefair Centre,
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Yeadon
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Leicester
13 Halford Street, Leicester LE1 1JA
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London (Kingsway)
41 Kingsway, London WC2B 6TP
Tel: 020 7240 2808

Manchester
47 Cross Street,
Manchester M2 4JF
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Tel: 01670 354725

Chester-le-Street
144 Front Street, Chester-le-Street
County Durham DH3 3AY
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North Shields
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South Shields
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South Shields NE33 1PG
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North East Area Branches ...cont.d

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Overseas Branches

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

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Or go online – whenever and wherever it suits you!

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www.leedsbuildingsociety.co.uk

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