Leeds Building Society

Interim Financial Report
For the period ended 30 June 2012

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Half-yearly financial report for the period ended 30 June, 2012

Business Review

Leeds Building Society continues to exceed its natural market share[1] in its core mortgages and savings markets and has again delivered another strong set of results for the first half of 2012.

On the 5th anniversary of the onset of the credit crunch, Britain is in the longest double-dip recession for more than 50 years and there remains considerable uncertainly in the Euro-zone. Despite this economic backdrop, Leeds Building Society has been able to provide members with good value for money savings and mortgage products, help people buy their own homes and grow its total assets to over £10bn (£9.5bn, 30 June 2011).

Mortgages and Savings

Competition in the retail savings market remains strong, as many large financial institutions look to strengthen their balance sheets. However, the security, value and high levels of customer service we have delivered over many years means that we have built significant trust with our members. As a result, savings balances grew by £189m in the first half of the year to a record £7.5bn. This growth is significantly above our market share.

Our ability to attract funding creates the capacity to lend, so we have significantly increased our lending in the first half of 2012. Gross lending was £769m, which represents double our market share, and is 20% higher than the same period last year (£642m, 30 June 2011). We have offered a diverse range of products and this, combined with award winning service, has enabled us to outperform the market by some margin. We have particular expertise in the first-time-buyer sector and over a quarter of our lending, almost £200m of completions, has helped over 2,500 customers to purchase their first home.

Our success in the core markets has enabled us to attract nearly 33,000 new members (21,000, 30 June 2011) taking total membership to 696,000. We believe that the quality of service we provide is a differentiating factor and 95% of members independently surveyed were happy with the service they receive.

Funding

Whilst members' savings remain a major component of our traditional building society business, we continue to benefit from access to diverse forms of funding. During the first half of the year, we successfully raised £375m of longer term wholesale funding. This takes the proportion of our wholesale funding, which has more than 1 year to maturity, to over 70%, providing even greater stability to our business. Our wholesale funding ratio remained broadly similar to the same period in 2011 at 19.0% (18.5%, 30 June 2011).

The liquidity ratio remained strong at 20.2% (20.9%, 30 June 2011) and funds held at the Bank of England, included within cash and cash equivalents, increased substantially as liquidity holdings were transferred from investment securities in order to reduce counterparty credit risk.

Loan Portfolio

The double-dip recession and continued uncertainty in the Euro-zone has put pressure on household budgets, which inevitably results in some borrowers experiencing financial difficulty. We work closely with these borrowers to provide forbearance support where appropriate. Despite this very challenging economic backdrop, our residential arrears (1.5% or more of outstanding mortgage balances) have reduced to 2.76% (3.12%, 30 June 2011).

Commercial loan balances in arrears (1.5% or more of outstanding mortgage balances) reduced to 4.58% (6.53%, 30 June 2011). The Society's exposure to this sector continues to reduce and now represents only 6% of our total mortgage portfolio.

The charge for impairment losses and provisions for residential and commercial property reduced by £3.3m to £19.9m in the first half of 2012 (£23.2m, 30 June 2011). This reduction, in part, is as a result of the higher charge in the first half of last year against the Irish loan portfolio which has not been repeated. Total balance sheet mortgage provisions increased to £91m at 30 June 2012 from £79m at 30 June 2011.

Financial Strength

We have again delivered a strong pre-tax profit performance of £27.1m (£26.9m, 30 June 2011) in the first half of 2012. The main drivers of this are net interest income growth and a reducing impairment loss charge.

[1] Leeds Building Society defines market share as follows:
Mortgages - Council of Mortgage Lenders market share statistics
Savings - Mutual sector net retails savings as published by the Building Societies Association

The Society continues to invest in the business whilst maintaining a strong culture of operational efficiency. Our cost income ratio increased slightly to 33%, from 31% at 30 June 2011, as did the cost asset ratio, from 47p at 30 June 2011 per £100 of assets to 48p. These ratios remain favourable compared to the average of the major building societies.

Capital and reserves increased by £26m, to a record £598m (£553m, 30 June 2011), resulting in a core tier 1 ratio of 14.1% (30 June 2011: 13.7%), significantly ahead of regulatory requirements.

The Society remains one of only three building societies with 'A' long term credit ratings from Moody's and Fitch.

Leeds Building Society continues to perform strongly in a challenging and uncertain economic environment. We have, since the onset of the credit crunch, consistently offered value and security to our members and helped many thousands of people buy their own home. We are very well positioned to continue to grow in the second half of the year and beyond, delivering our successful proposition to many more people.

Principal risks and uncertainties

Principal Risks

The principal risks that arise from the Society's operations are classified as credit, treasury, operational, conduct, strategic and external and these are common to most financial services firms in the UK. In order to ensure that the interests of members are adequately protected at all times, the Society has embedded a robust governance structure and risk management framework. These are designed to identify, manage, monitor and control the major risks exposed in the delivery of the Society's strategic objectives. Full details of the risks faced by the Society, which are unchanged from 2011, can be found on pages 14 and 15 of the 2011 Annual Report and Accounts.

Uncertainties

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

There continues to be concern over the uncertainty in the Eurozone regarding the indebtedness of certain sovereigns, particularly Greece, Portugal, Spain, Italy and Ireland, and the health of their banking sectors. As at 30 June 2012 the Society has no sovereign or counterparty exposure to these countries.

The difficulties in the EU have also resulted in some speculation over the long term future of the Euro. The Society has less than 4% of its mortgage assets in Ireland and Spain. These are denominated in Euros but the currency risk is mitigated through derivative instruments. The impact from a departure of the Irish currency from the Euro has, based on current known facts, been largely mitigated through matching Euro liabilities.

The outlook for the UK economy over the remainder of the year is for low growth in GDP, following negative growth in the first quarter of 2012, relatively high unemployment, a continued deterioration in household income and broadly flat house prices. In this context interest rates are expected to remain at historically low levels. If there was a material increase in unemployment and/or large reductions in house prices and/or a rapid increase in interest rates the level of arrears and losses could be higher than anticipated in the second half of the year.

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

Although there has been some improvement in the wholesale funding markets, the uncertainties in the Eurozone could impact the availability and cost of funding, particularly long term wholesale funds, in the second half of the year.

The external regulatory framework continues to evolve, with changes covering the mortgage market, the ring-fencing of retail bank operations, the management of funding, liquidity and capital levels, the potential for pre-funding the Financial Services Compensation Scheme and the split of the Financial Services Authority into the Prudential Regulation Authority and the Financial Conduct Authority. These changes are likely, to some extent, impact the way the Society and other banks and building societies operate.

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

Cautionary statement

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

Responsibility statement

We confirm that to the best of our knowledge:

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

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

Signed on behalf of the Board by

Robin A. Smith Chairman	Peter A. Hill Chief Executive

Independent Review report

We have been engaged by the Leeds Building Society ("Society") to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the condensed consolidated income statement, the condensed consolidated statements of comprehensive income, the condensed consolidated statements of financial position, the condensed consolidated statements of changes in members' interests, the condensed consolidated statements of cash flows and related notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting (amended)', as adopted by the European Union.

Our responsibility

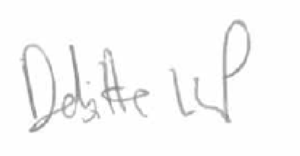
Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with the International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.



Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
7 August 2012

Condensed Consolidated Income Statements for the period ended 30 June 2012

	Notes	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
Continuing operations				
Interest receivable and similar income	5	176.9	161.2	334.9
Interest payable and similar charges	6	(112.6)	(98.6)	(207.3)
Net interest receivable		**64.3**	**62.6**	**127.6**
Fees and commissions receivable	7	8.1	8.9	19.7
Fees and commissions payable	7	(0.1)	-	(0.1)
Fair value gain less losses from derivative financial instruments		(1.5)	0.2	0.1
Other operating income	8	0.4	1.3	1.7
Total income		**71.2**	**73.0**	**149.0**
Administrative expenses	9	(23.3)	(22.0)	(45.7)
Depreciation	9	(0.4)	(0.5)	(0.9)
Impairment losses on loans and advances to customers	11	(19.9)	(23.2)	(48.5)
Provisions for liabilities and charges	12	(0.5)	(0.4)	(3.4)
Investment property fair value movement		-	-	(0.3)
Profit before tax		**27.1**	**26.9**	**50.2**
Tax expense	10	(6.6)	(7.1)	(13.6)
Profit for the period		**20.5**	**19.8**	**36.6**

Condensed Consolidated Statements of Comprehensive Income for the period ended 30 June 2012

	Notes	Unaudited 30 June 2012 £M	Unaudited 30 June 2011 £M	Audited 31 December 2011 £M
Continuing operations				
Profit for the period		20.5	19.8	36.6
Other comprehensive income				
Available for sale investment securities				
Fair value changes taken to reserves		1.4	(0.1)	3.4
Amortisation/disposals post 1 July 2008		2.6	2.1	4.3
Actuarial gain/(loss) on retirement benefit obligations		3.0	0.5	(1.4)
Tax relating to components of other comprehensive income		(1.7)	(0.6)	(1.6)
Other Comprehensive income net of tax		**5.3**	**1.9**	**4.7**
Total Comprehensive income for the period		**25.8**	**21.7**	**41.3**

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

Condensed Consolidated Statements of Financial Position as at 30 June 2012

	Notes	Unaudited 30 June 2012 £M	Unaudited 30 June 2011 £M	Audited 31 December 2011 £M
Assets				
Cash in hand and balances with the Bank of England		723.1	96.2	186.9
Loans and advances to credit institutions		117.3	68.7	79.7
Derivative financial instruments		108.5	47.4	139.5
Loans and advances to customers				
Loans fully secured on residential property	18	7,236.0	6,795.5	6,906.1
Other loans	18	667.1	695.6	690.6
Investment securities				
Available for sale		886.6	1,300.1	1,475.1
Loans and receivables		140.3	358.7	238.1
Retirement benefit surplus		2.5	0.5	-
Property, plant and equipment		27.9	26.8	27.5
Investment properties		6.8	7.0	6.7
Deferred income tax assets		1.1	2.2	2.3
Other assets, prepayments and accrued income		146.2	114.1	107.2
Total assets		**10,063.4**	**9,512.8**	**9,859.7**
Liabilities				
Shares	13	7,542.9	7,151.8	7,354.2
Derivative financial instruments		148.1	141.2	146.7
Amounts owed to credit institutions		416.0	325.6	355.6
Amounts owed to other customers		255.1	446.7	508.3
Debt securities in issue		1,026.8	815.3	815.7
Current income tax liabilities		6.9	6.6	7.1
Deferred income tax liabilities		3.2	2.0	1.3
Other liabilities and charges		59.6	65.4	91.3
Provision for liabilities	12	6.6	5.4	6.2
Retirement benefit obligations		-	-	0.9
Subordinated liabilities	15	0.9	0.9	0.9
Subscribed capital		25.0	25.0	25.0
		9,491.1	**8,985.9**	**9,313.2**
Reserves				
Available for sale reserve		(0.7)	(8.0)	(3.7)
Revaluation reserve		13.2	13.2	13.2
Other reserve		14.3	14.3	14.3
General reserve		545.5	507.4	522.7
Total reserves		**572.3**	**526.9**	**546.5**
Total reserves and liabilities		**10,063.4**	**9,512.8**	**9,859.7**

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

Condensed Consolidated Statements of Changes in Members' Interest for the period ended 30 June 2012

Unaudited
30 June 2012

	General Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M
Balance at 1 January 2012	522.7	(3.7)	13.2	14.3	546.5
Comprehensive income for the period	22.8	3.0	-	-	25.8
Balance at 30 June 2012	**545.5**	**(0.7)**	**13.2**	**14.3**	**572.3**

Unaudited
30 June 2011

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

Audited
31 December 2011

	General Reserve	Available for Sale Reserve	Revaluation Reserve	Other Reserve	Total Reserves
	£M	£M	£M	£M	£M
Balance at 1 January 2011	487.1	(9.4)	13.2	14.3	505.2
Comprehensive income for the year	35.6	5.7	-	-	41.3
Balance at 31 December 2011	**522.7**	**(3.7)**	**13.2**	**14.3**	**546.5**

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

Condensed Consolidated Statements of Cash Flows for the period ended 30 June 2012

	Notes	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
Profit before tax		27.1	26.9	50.2
Adjusted for changes in:				
Impairment provision		3.5	13.3	22.4
Provision for liabilities and charges		0.4	0.4	1.2
Depreciation and amortisation		0.4	0.5	0.9
Interest on subscribed capital		1.7	1.7	0.3
Interest on subordinated debt		-	-	3.3
Cash generated from operations		**33.1**	**42.8**	**78.3**
Changes in net operating assets and liabilities				
Loans and advances to customers		(309.9)	(190.0)	(304.7)
Derivative financial instruments		32.4	76.3	(10.3)
Loans and advances to credit institutions		(6.0)	(2.4)	(0.7)
Other operating assets		(38.9)	(20.6)	(13.8)
Shares		188.7	126.6	329.0
Credit institutions and other		(192.8)	(149.7)	(58.1)
Debt securities		214.1	56.6	61.3
Other operating liabilities		(32.9)	(44.2)	(18.4)
Taxation		(3.8)	(4.1)	(10.8)
Net cash flows from operating activities		**(116.0)**	**(108.7)**	**51.8**
Returns from investments and servicing of finance		(5.6)	(3.4)	(11.0)
Purchase of securities		(1,270.5)	(1,831.7)	(3,645.7)
Proceeds from sale and redemption of securities		1,960.7	1,906.0	3,671.6
Purchase of property and equipment		(0.8)	(0.4)	(1.5)
Net cash flows from investing activities		**683.8**	**70.5**	**13.4**
Net cash flows from financing activities		**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**567.8**	**(38.2)**	**65.2**
Cash and cash equivalents at beginning of the period		**261.0**	**195.8**	**195.8**
Cash and cash equivalents at end of the period	16	**828.8**	**157.6**	**261.0**

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

Notes to the condensed consolidated financial statements

1. General Information

1.1 The half-yearly financial information set out above, which was approved by the Board of Directors on 7th August 2012, does not constitute statutory accounts within the meaning of the Building Societies Act 1986.
1.2 The financial information for the 12 months to 31 December 2011 has been extracted from the accounts for that year which have been filed with the Financial Services Authority and on which the auditors gave an unqualified opinion. The audit opinion for the 31 December 2011 annual statutory financial statements included no reference to any matter on which the auditor is required to report by exception.
1.3 The half-yearly information for the 6 months to 30 June 2012 and 30 June 2011 is unaudited.
1.4 Copies of the announcement will be available on the Society's website, www.leedsbuildingsociety.co.uk.

2. Basis of preparation

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

3. Accounting policies and Judgements

The same accounting policies and judgements are followed in this condensed set of financial statements as applied in the Group's latest annual audited financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. During the interim period there have been no material changes made to the underlying assumptions used where key estimates have been included in the financial statements.

4. Going Concern basis

The directors have reviewed the plans and forecasts for the period including giving due consideration to the ongoing challenging environment in the UK, as well as the economic difficulties being experienced in the Eurozone, especially in relation to Ireland and Spain. In this context the directors consider that the Society has adequate liquidity to meet both the normal demands of the business and the requirements which might arise in stressed circumstances for the foreseeable future. The directors also have a reasonable expectation that the Society is able to generate adequate profits to enhance its capital to improve its solvency in the future. Accordingly, the going concern basis has been adopted in the preparation of the half-yearly financial information.

5. Interest Receivable and Similar Income

	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
On loans fully secured on residential property	172.9	168.1	342.6
On other loans	15.6	16.9	34.0
On debt securities			
Interest and other income	8.0	9.1	17.5
On other liquid assets			
Interest and other income	2.1	1.2	2.4
Net expense on financial instruments	(21.7)	(34.1)	(61.6)
Total interest income	**176.9**	**161.2**	**334.9**
Interest received on amounts included in the cost of qualifying assets:			
From instruments held at fair value through profit and loss	7.4	9.0	17.3
From instruments not held at fair value through profit and loss	169.5	152.2	317.6
Total interest income	**176.9**	**161.2**	**334.9**

Notes to the condensed consolidated financial statements (continued)

6. Interest Payable and Similar Charges

	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
On shares held by individuals	96.8	91.7	188.6
On subscribed capital	1.7	1.7	3.3
On subordinated debt	-	-	0.1
On deposits and other borrowings	21.7	14.9	34.4
Net income on financial instruments	(7.6)	(9.7)	(19.1)
Total interest expense	**112.6**	**98.6**	**207.3**
Interest expensed on amounts included in the cost of qualifying assets:			
From instruments held at fair value through profit and loss	(7.6)	(9.7)	(19.1)
From instruments not held at fair value through profit and loss	120.2	108.3	226.4
Total interest expense	**112.6**	**98.6**	**207.3**

7. Fees and Commissions Receivable and Payable

	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
Fees and commission receivable - at fair value	0.9	1.6	3.5
Fees and commission receivable - at amortised cost	7.2	7.3	16.2
Total fees and commission receivable	**8.1**	**8.9**	**19.7**
Fees and commission payable	(0.1)	-	(0.1)
	8.0	**8.9**	**19.6**

Notes to the condensed consolidated financial statements (continued)

8. Other Operating Income

	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
Rent receivable	0.9	0.8	1.6
Pension fund (expense) / income	(0.1)	0.2	0.4
Net (loss)/gain on exchange rate movements	(0.4)	0.3	(0.3)
	0.4	**1.3**	**1.7**

9. Administrative Expenses

	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
Staff costs			
Wages and salaries	11.2	11.0	23.2
Social security costs	1.1	1.1	2.2
Other pension costs	1.5	1.4	3.2
Remuneration of auditor	0.1	0.1	0.3
Other administrative expenses	9.4	8.4	16.8
	23.3	22.0	45.7
Depreciation	0.4	0.5	0.9
	23.7	**22.5**	**46.6**

10. Taxation

An effective rate of 24.5% (Half year ended 30 June 2011: 26.5%, Full year ended 31 December 2011: 27%) has been applied to the Group's profit. This is in line with the standard corporation tax rate for the period.

The reduction in the corporation tax rate from 25% to 24% as substantively enacted on 26th March 2012 is expected to reduce the Group's deferred tax assets by approximately £0.1m.

11. Impairment losses on loans and advances to customers

	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
Impairment charge for the period:			
Loans fully secured on residential property	9.7	15.5	29.9
Loans fully secured on land	10.5	8.2	19.1
Other loans	(0.3)	(0.5)	(0.5)
	19.9	**23.2**	**48.5**
Impairment provision at the end of the period:			
Loans fully secured on residential property	46.8	37.6	45.3
Loans fully secured on land	42.2	37.8	39.4
Other loans	2.3	3.3	3.1
	91.3	**78.7**	**87.8**

The Group continues to invest in developing and enhancing its arrears management strategies to minimise credit risk whilst ensuring that customers are treated fairly. Such forbearance strategies include the use of arrangements to assist borrowers in arrears who are now able to meet agreed repayment strategies, including or excluding arrears balances. Forbearance strategies exercised by the Group comprise of mortgage term extensions, transfer of mortgages (in full or in part) to an interest only or hardship product and capitalisation of arrears once the customer has demonstrated six months of consecutive contractual payments. These strategies are only adopted where they will not give rise to customer detriment.

12. Provisions for Liabilities and Charges

Unaudited 30 June 2012

	FSCS levy £M	Customer redress and other related provisions £M	Commission clawback £M	Total £M
Balance at 1 January 2012	5.4	0.3	0.5	6.2
Amounts paid during the period	-	(0.1)	-	(0.1)
Provision increase in the period	0.5	-	-	0.5
Balance at 30 June 2012	**5.9**	**0.2**	**0.5**	**6.6**

Notes to the condensed consolidated financial statements (continued)

12. Provisions for Liabilities and Charges (continued)

Unaudited 30 June 2011

	FSCS levy	Customer redress and other related provisions	Commission Clawback	Total
	£M	£M	£M	£M
Balance at 1 January 2011	4.2	0.3	0.5	5.0
Provision increase in the period	0.4	-	-	0.4
Balance at 30 June 2011	**4.6**	**0.3**	**0.5**	**5.4**

Audited 31 December 2011

	FSCS levy	Customer redress and other related provisions	Commission Clawback	Total
	£M	£M	£M	£M
Balance at 1 January 2011	4.2	0.3	0.5	5.0
Amounts paid during the year	(2.2)	-	-	(2.2)
Provision increase / (credit) in the year	3.4	-	-	3.4
Balance at 31 December 2011	**5.4**	**0.3**	**0.5**	**6.2**

Financial Services Compensation Scheme (FSCS) Levy

The FSCS has borrowings of approximately £18bn in the form of loans funds from HM Treasury, used to safeguard depositors' money following the financial institution failures in 2008 and 2009. While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, the FSCS has advised of an expected shortfall in excess of £800m. The Group's share of the shortfall is estimated to be in the region of £5.7m and is expected to be levied in three equal instalments beginning in the scheme year 2013/14.

Based on publicly available information, the levy charge for and the first instalment of the capital shortfall for 2012 are expected to be in the region of £3.2m and £1.9m respectively and these will be provided for in full at the end of the year in accordance with the International Accounting Standards Board draft IFRIC interpretation on "Levies Charged by Public Authorities on Entities that Operate in a Specific Market".

Customer redress and other related provisions

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

Commission clawback

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

Notes to the condensed consolidated financial statements (continued)

13. Shares

	Unaudited	Unaudited	Audited
	30 June 2012	30 June 2011	31 December 2011
	£M	£M	£M
Held by individuals	7,483.8	7,121.6	7,296.1
Other shares	8.4	9.2	8.9
Fair value adjustment for hedge risk	50.7	21.0	49.2
	7,542.9	**7,151.8**	**7,354.2**

14. Contingent Liabilities

There is no material change to the Group's contingent liabilities reported in the 2011 Annual Report & Accounts.

15. Subordinated Liabilities

	Unaudited	**Unaudited**	**Audited**
	30 June 2012	**30 June 2011**	**31 December 2011**
	£M	**£M**	**£M**
Subordinated debt notes 2015	**0.9**	**0.9**	**0.9**

16. Cash and Cash Equivalents

	Unaudited	**Unaudited**	**Audited**
	30 June 2012	**30 June 2011**	**31 December 2011**
	£M	**£M**	**£M**
Cash and balances with the Bank of England	723.1	96.2	186.9
Loans and advances to credit institutions repayable on demand	105.7	61.4	74.1
	828.8	**157.6**	**261.0**

17. Related party transactions

The Group had no material or unusual related party transactions in the 6 months ended 30 June 2012.

Notes to the condensed consolidated financial statements (continued)

18. Segmental information

Segmental interest income and operating profit:

	Unaudited Six months to 30 June 2012 £M	Unaudited Six months to 30 June 2011 £M	Audited Year to 31 December 2011 £M
Interest receivable and similar income			
Interest receivable			
Residential loan portfolio	178.4	173.6	354.3
Commercial loan portfolio	10.1	11.3	22.2
Other	-	0.1	0.1
	188.5	185.0	376.6
Other interest income	10.1	10.3	19.9
Net expense on financial instruments	(21.7)	(34.1)	(61.6)
Total interest receivable and similar income	**176.9**	**161.2**	**334.9**
Operating profit before impairment losses and provisions	47.5	50.5	102.4
Impairment losses and provisions on loans and advances			
Residential loan portfolio	(9.7)	(15.5)	(29.9)
Commercial loan portfolio	(10.5)	(8.2)	(19.1)
Other	0.3	0.5	0.5
Impairment losses and provisions on loans and advances	(19.9)	(23.2)	(48.5)
Other gains	-	-	(0.3)
Provision for liabilities and charges	(0.5)	(0.4)	(3.4)
Operating profit and profit on ordinary activities before income tax	27.1	26.9	50.2
Income tax	(6.6)	(7.1)	(13.6)
Profit for the financial period	**20.5**	**19.8**	**36.6**

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

Notes to the condensed consolidated financial statements (continued)

18. Segmental information (continued)

Segmental loans and advances to customers

	Unaudited 30 June 2012 £M	Unaudited 30 June 2011 £M	Audited 31 December 2011 £M
Loans and advances to customers			
Residential loan portfolio	7,145.4	6,696.5	6,808.9
Of which: Irish loan book	*171.6*	*194.8*	*179.1*
Commercial loan portfolio	481.4	533.6	504.9
Other	2.8	4.5	3.7
	7,629.6	7,234.6	7,317.5
At fair value through profit and loss	287.2	270.5	285.8
Less: impairment provisions			
Residential loan portfolio	(46.8)	(37.6)	(45.7)
Of which: Irish loan book	*(15.7)*	*(12.1)*	*(15.2)*
Commercial loan portfolio	(42.2)	(37.8)	(39.0)
Other	(2.3)	(3.3)	(3.1)
	(91.3)	(78.7)	(87.8)
Fair value adjustment for hedged risk	77.6	64.7	81.2
Total loans and advances to customers	**7,903.1**	**7,491.1**	**7,596.7**

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