



**Leeds Building Society**  
2016 Annual Results

**March 2017**



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## **Leeds Building Society**

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2016 New Lending & the Mortgage Portfolio

Funding and Liquidity

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# Introduction

## About us

- Founded in 1875, and now the 5th largest building society
- Over 756,000 members with 62 branches in the UK, Ireland and Gibraltar
- Business model is built on providing a secure home for savers' funds and helping people buy homes
- Originates mortgages secured on residential property, for owner occupation, including shared ownership and for buy to let purposes. These are sourced through our approved network of mortgage brokers, branch network and direct service
- As a building society, we are required to fund the majority of mortgage lending with members' savings. We offer savings products in branches, by post and online
- We also offer a complementary range of mortgage related insurance products and other investment services
- Long term profitability sufficient to support sustainable organic growth
- Expense ratios remain amongst the lowest in the building society sector
- One of only three Societies with an A rating with both Moody's and Fitch which has been maintained throughout the last ten years

Agency	Long Term	Short Term	Outlook
Moody's	A2	P-1	Negative
Fitch	A-	F1	Stable

# Our Vision, Mission and Strategy are:

**Vision:** To be Britain's most successful building society

**Mission:** 'Our purpose is to help people save and have the home they want. We will continually adapt to anticipate our members' changing needs and by doing the things we do well, we will help our members get on with life'

## Delivering value to a growing membership

	<b>Customer Focussed</b>	<b>Secure</b>	<b>Service Driven</b>	<b>Efficient</b>
	To support the aspirations of a wide range of borrowers and savers, in particular those who are not well served by the wider market	To generate strong levels of profit which are retained in the business to build a solid platform for growth	To deliver outstanding personal service to all our members	To continue to reinvest in the business to improve efficiency, whilst being intolerant of waste
<b>Progress in 2016</b>	<ul style="list-style-type: none"> <li>Savings rates in the market reduced further in 2016, yet the Society continued to offer a compelling product proposition and was able to pay higher savings rates than the market average.</li> <li>Gross mortgage lending was a record £4.0bn and was above our natural market share.</li> </ul>	<ul style="list-style-type: none"> <li>The Society's risk management capability has increased and it has submitted an application to the PRA to use IRB.</li> <li>The Society maintained strong CET1 and leverage ratios as the Society increased lending in low risk residential loans.</li> <li>Progressed investment to maintain resilient IT systems and mitigate the risks associated with developing cyber threats.</li> </ul>	<ul style="list-style-type: none"> <li>Customer centric processes are being developed so that members can engage with the Society across their chosen method of communication: web, email, smartphone, telephone or mail.</li> <li>Colleague engagement and leadership scores continued to be in the top quartile for the financial services industry. The Society retained its one star accreditation from the Best Companies survey.</li> </ul>	<ul style="list-style-type: none"> <li>The Society has established a continuous improvement team to lead initiatives to deliver efficiencies in customer administration processing.</li> <li>These efficiencies include a reduction in the number of days to issue mortgage offers to under nine days.</li> <li>An increase in customer administration being processed in the same day.</li> </ul>

# Mortgage Market Strategy

*'Deliver sustainable superior returns & growth by providing value to members through a differentiated proposition'*

We target lending based on the needs of our customers



We operate in traditional mainstream segments as well as in segments which are less well served that offer premium margins for the risk involved



The combination of these characteristics will support sustainable returns, whilst offering a degree of protection from larger competitors, and will allow us to build a focused capability and product offering where required



# Savings Market Strategy

*'Deliver superior returns for our savings members in a sustainable way'*

Our product range will be focused on straightforward cash savings offering a superior return to our members

We aim to pay savings rates above the market average

We will continue to operate a competitive retention model, helping to build back book loyalty

We regard our highly trained colleagues and strong brand as key enablers for our savings market strategy

Our customer led approach will deliver a realisable benefit through greater loyalty and advocacy

The savings market is split into four main segments, three of which we operate in:



We expect to continue to grow in all three segments and see particular opportunity in the ISA market, which is supported by government policy that has encouraged the long term prospects for this segment.

We are investing in technology to improve the experience for our customers and to remain relevant in tomorrow's world

**Digital** Members will be able to access and service savings products through digital and mobile channels

**Branches** In the future branches will be increasingly used for offering guidance and helping customers, as opposed to driving transactions

**ISA Capability** We will build a scalable ISA proposition, which works well in the digital space and has flexibility across all ISA types

Leeds Building Society

## **2016 Financial Highlights**

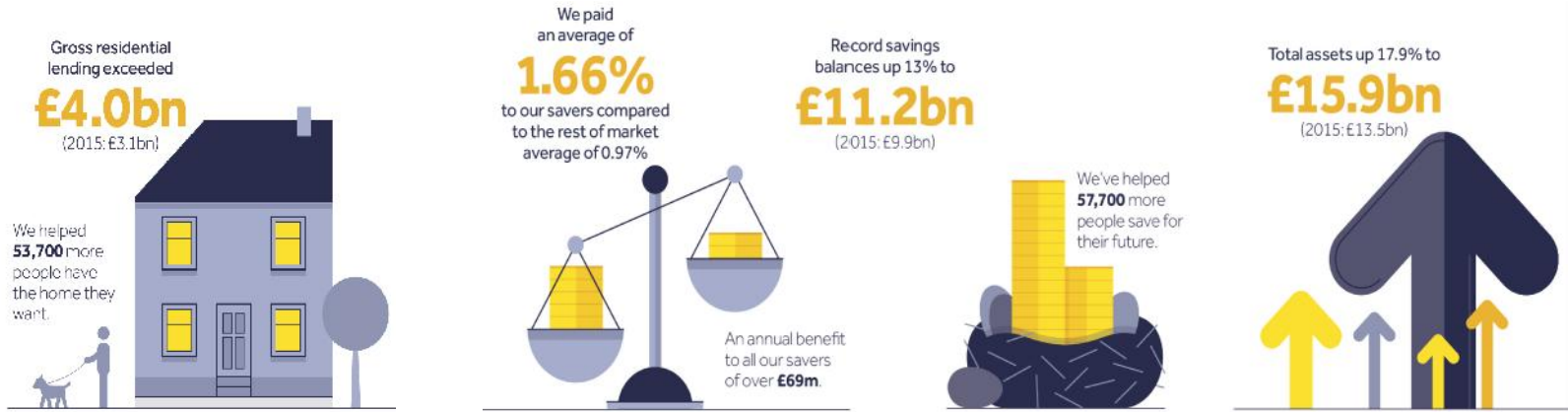
2016 New Lending & the Mortgage Portfolio

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# 2016 Business Highlights

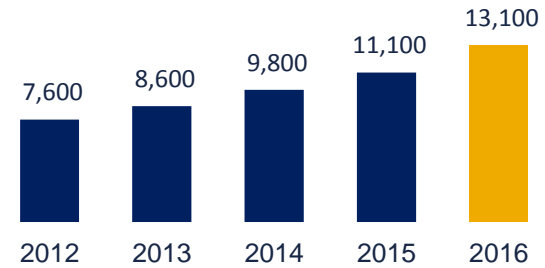


Source: Leeds Building Society Annual Results, as of 31st December 2016

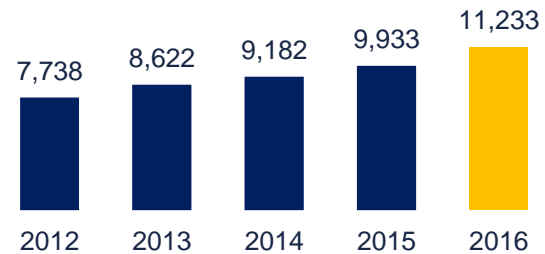
# Strong growth performance

- Mortgages and Loans increased by 18% to £13.1bn
- Savings balances increased by 13% to £11.2bn
- Gross mortgage lending increased by 29% to a record £4.0bn, taking the Society's market share to 1.61%, significantly higher than its natural market share of 0.94%

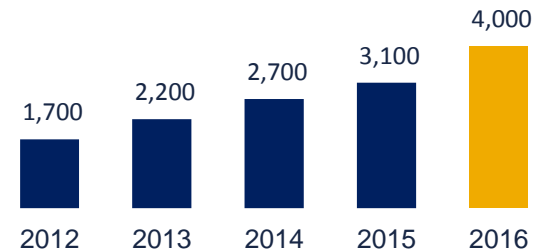
### Mortgage Balances



### Retail Savings (£m)



### New Residential Lending (£m)



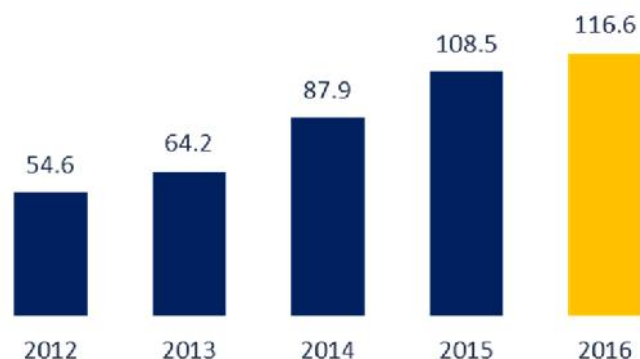
Source: Leeds Building Society Annual Results, as of 31st December 2016

# Income Statement

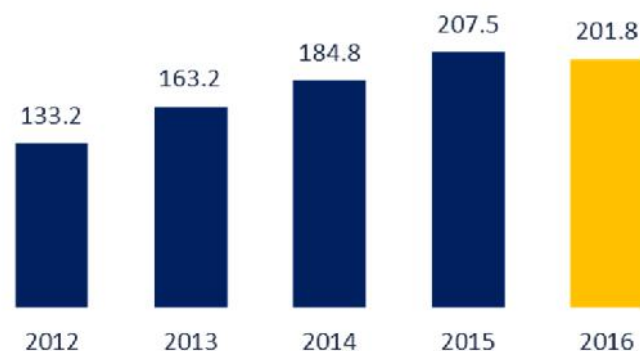
- Profit before tax rose by 7% to a record £116.6m
- Post-tax profits as a % of mean assets remains strong at 0.58%
- A significant reduction in impairment losses, mainly due to the reduced impairment charge on the commercial loan portfolio
- The total tax charge increased by £11m as a result of the banking surcharge

	2016 (£m)	2015 (£m)
Net Interest income	201.8	207.5
Other Income	10.2	11.4
<b>Total Income</b>	<b>212.0</b>	<b>218.9</b>
Management Expenses	(88.7)	(77.0)
Depreciation	(3.2)	(2.7)
Loan Loss Charges	0.9	(18.5)
FSCS & Other Provisions	(3.9)	(8.8)
Impairment Losses on land and buildings	(0.5)	0.0
Investment property for value movement	0.0	(3.4)
<b>Profit Before Tax</b>	<b>116.6</b>	<b>108.5</b>
Tax	(30.6)	(19.6)
<b>Profit After Tax</b>	<b>86.0</b>	<b>88.9</b>

Profit Before Tax (£m)



Net Interest Income (£m)

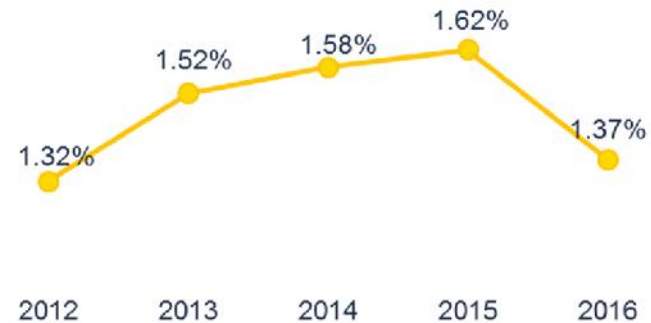


Source: Leeds Building Society Annual Results, as of 31st December 2016

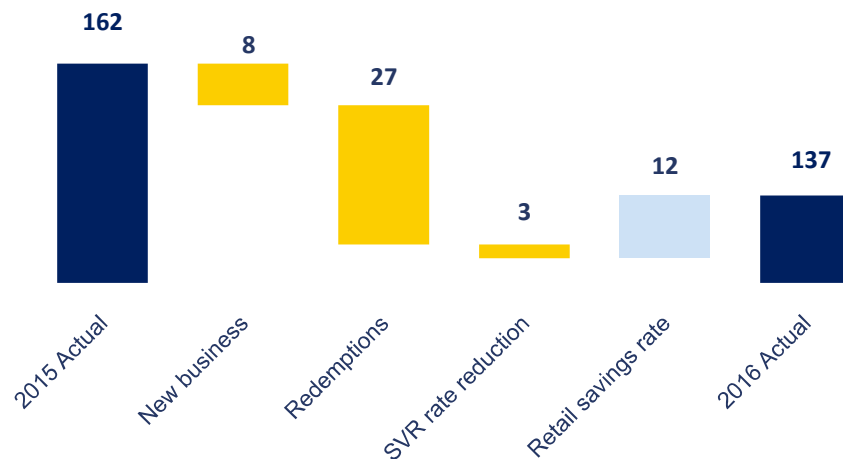
# Net Interest Margin

- Net interest margin decreased to 1.37% in 2016, compares strongly with peers
- The decrease was largely due to stronger competition in the mortgage market and increased customer retention activity
- We continue to pay higher than market average savings rates to members

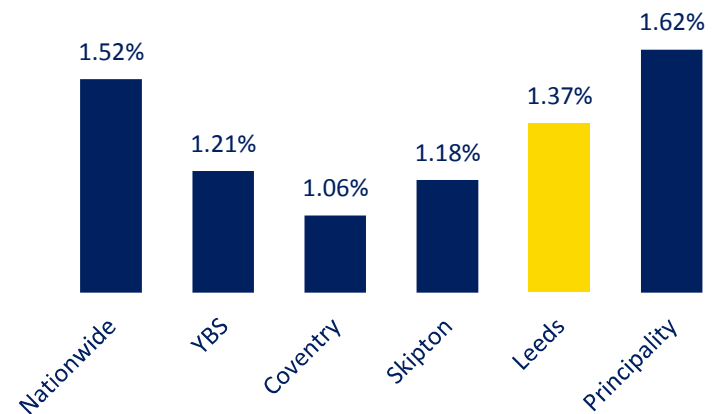
**Net Interest Margin as % of Mean Assets**



**2015 to 2016 Actual NIM% Bridge (bps)**



**NIM % versus Peers**

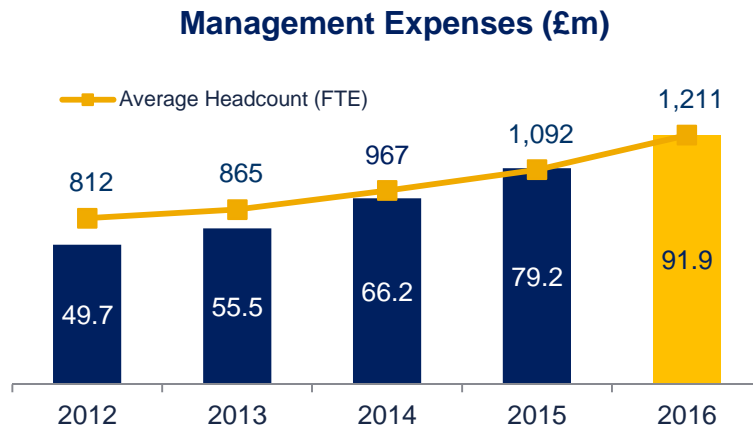
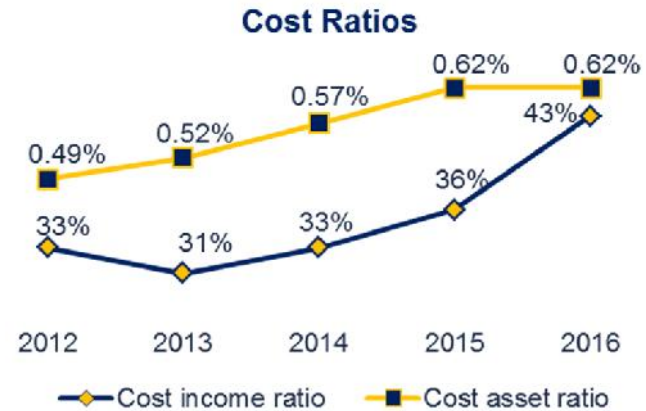


Source: 2016 Annual Results and 2016 Interim Results



# Costs and Efficiency

- Costs increased to accommodate investment to support future growth
- The cost increases of the last 3 years are expected to slow as the Society realises efficiencies from its investment programme
- Ratios demonstrate top quartile efficiency vs peer group

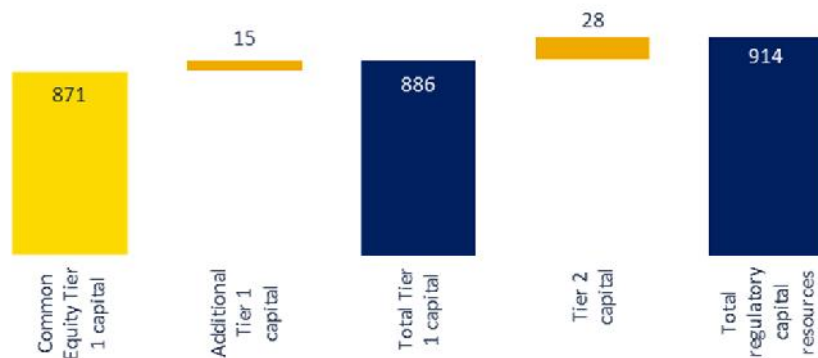


Key Investment Areas	
✓	Lending transformation
✓	Omni-channel proposition
✓	Credit Risk Management
✓	Digital & IT capability

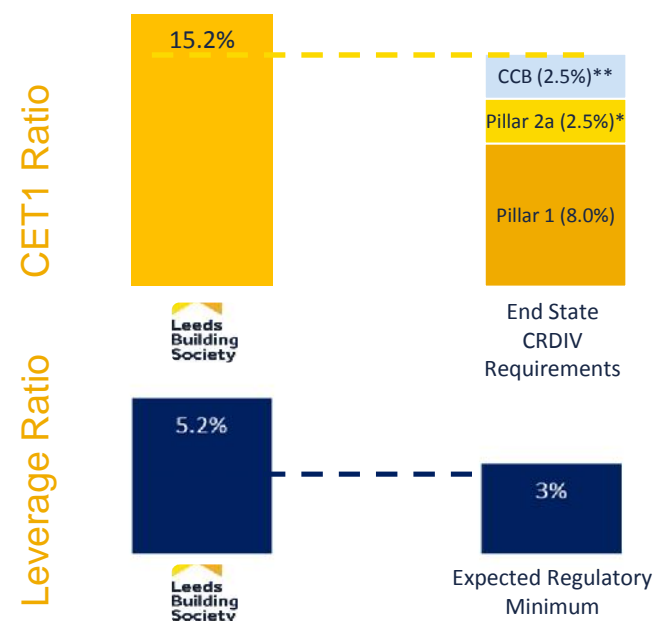
Source: Leeds Building Society Annual Results, as of 31st December 2016

# Capital

- CET1 capital resources have increased by £88m during 2016 primarily driven by strong profit performance.
- RWAs have increased as a result of the growth in residential lending.
- CET1 ratio of 15.2% and leverage ratio of 5.2% are comfortably above our regulatory requirements
- The Society remains well placed to meet regulatory capital requirements, including MREL, as they continue to evolve



	2016	2015
<b>Capital resources (£m)</b>		
Common Equity Tier 1 (CET1) capital	871	783
Additional Tier 1 capital	15	18
<b>Total Tier 1 capital</b>	<b>886</b>	<b>801</b>
Tier 2 capital	28	29
<b>Total regulatory capital resources</b>	<b>914</b>	<b>830</b>
Risk Weighted Assets (RWAs)	5,731	5,046
<b>CRD IV capital ratios</b>		
CET1 ratio	15.2%	15.5%
Leverage ratio	5.2%	5.5%



Source: Leeds Building Society Annual Results, as of 31st December 2016

\*Pillar 2a is the sum of variable and fixed add-ons.

\*\* CCB is the 2019 end point position (0.625% at Dec'16).

All capital ratio's have been presented under end state CRDIV

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2016 Financial Highlights

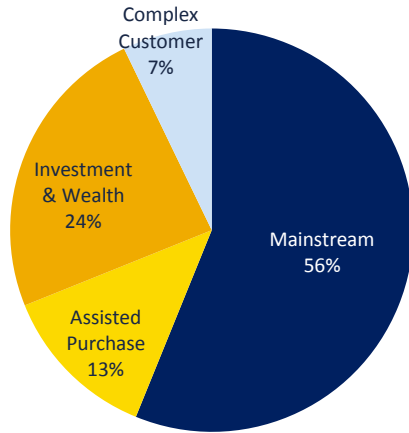
**2016 New Lending & the Mortgage Portfolio**

Funding and Liquidity

Outlook for 2017

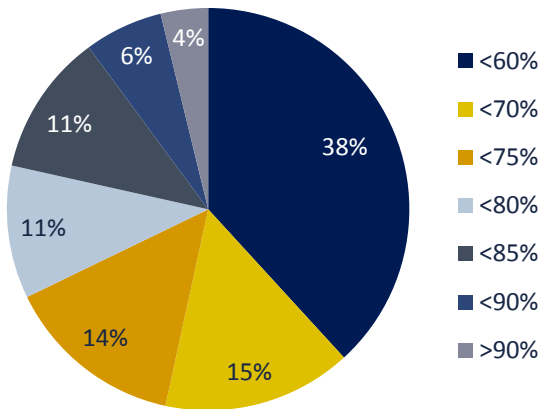
# 2016 New Lending

2016 New Lending



- We remained focused on helping borrowers who are not well served by the wider market by supporting first time buyers, Shared Ownership, Affordable Housing, Help to Buy and Interest Only
- Combining this with our mainstream and Buy to Let lending, our record mortgage performance in 2016 was achieved across a balanced product range
- The Society's market share of new mortgage lending was 1.61% (2015: 1.43%)

New Lending LTV Distribution



	Margin	Maximum LTV	Average LTV
<b>Mainstream</b>	Low-Medium	Up to 95%. Only 10% above 85%.	76%
<b>Assisted Purchase</b> Shared ownership, Gov't assisted, Right to Buy, Shared Equity	Premium	Shared Ownership – Up to 95% of borrower share <sup>†</sup>	42%
<b>Investment &amp; Wealth</b> BTL, Holiday Let, Second home	Premium	BTL = Up to 70%	53%
<b>Complex Consumer</b> Interest only	Premium	Interest Only = Up to 60%	43%

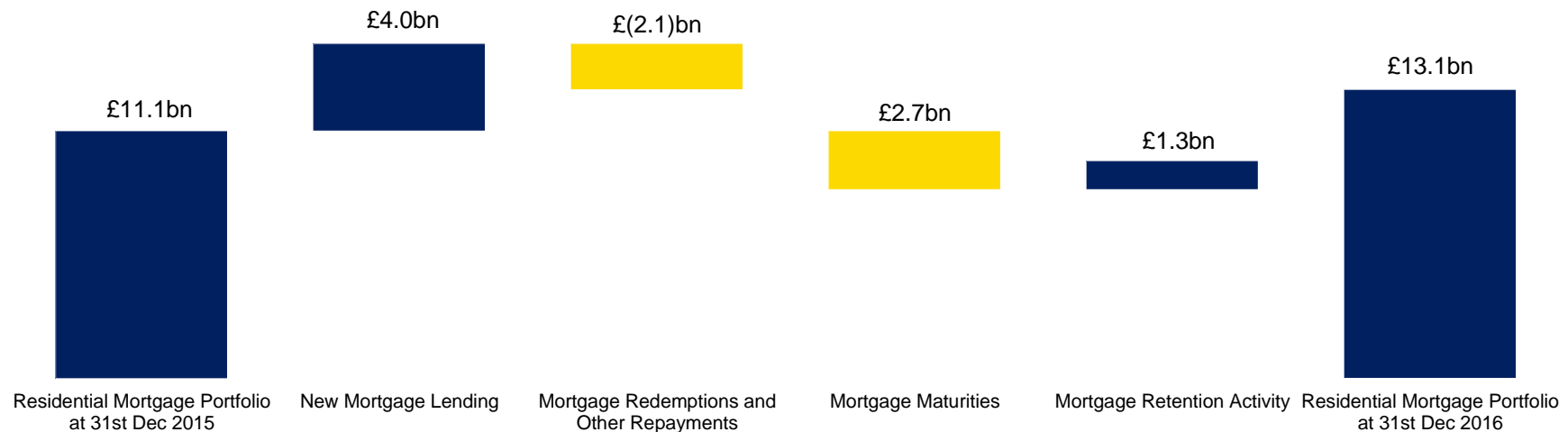
Source: December 2016 Internal Reports

<sup>†</sup> Maximum borrower share up to 75%



# New lending supported by strong retention activity

- Gross mortgage lending increased by 29% to £4bn, (2015 : £3.1bn)
- Redemptions as a proportion of the mortgage book were broadly similar to the previous year, and in 2016 totalled £2.1bn
- Retention of existing mortgage customers played a key role in our lending performance in 2016 and we retained £1.3bn of balances in a follow on product
- This strong performance resulted in record net lending of £1.9bn, an increase of 35%

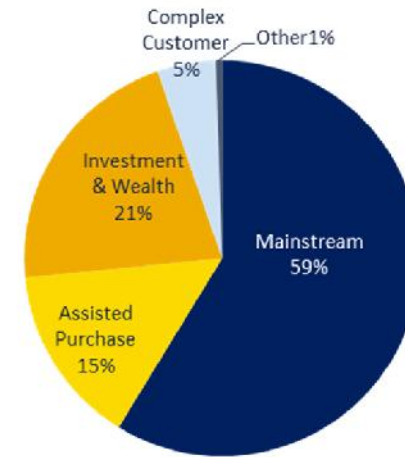


Source: December 2016 Internal Reports

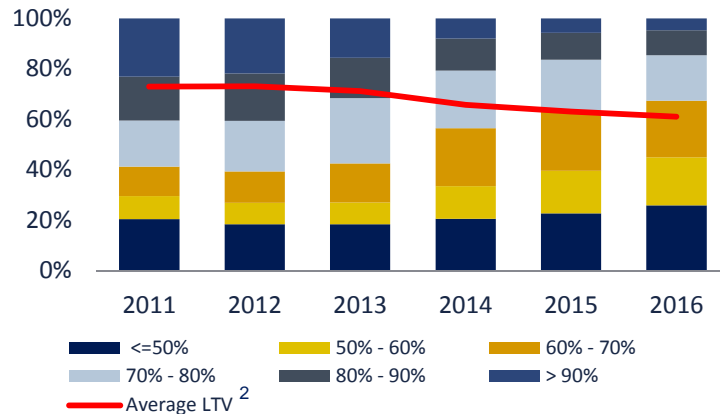
# Residential Mortgage Portfolio

- The arrears ratio<sup>1</sup> reduced to 1.02% compared to 1.43% at the end of 2015
- Sustained improvements in the economy, continued low interest rates and high quality lending are the main drivers of the improvement in the arrears ratio
- Proportion of the book above 90% LTV has reduced to c.3%

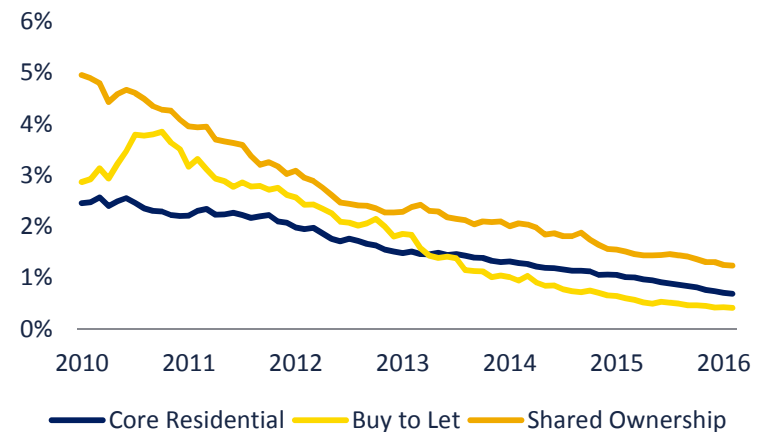
**Mortgage Book**



**Indexed Loan to Value Distribution of Total Portfolio**



**Portfolio Arrears (3+ MIA)**



Source: December 2016 Internal Reports

<sup>1</sup> measured as those either in possession or arrears of more than 1.5% of the balance

<sup>2</sup> Average Indexed LTV weighted by balance

Leeds Building Society

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2016 New Lending & the Mortgage Portfolio

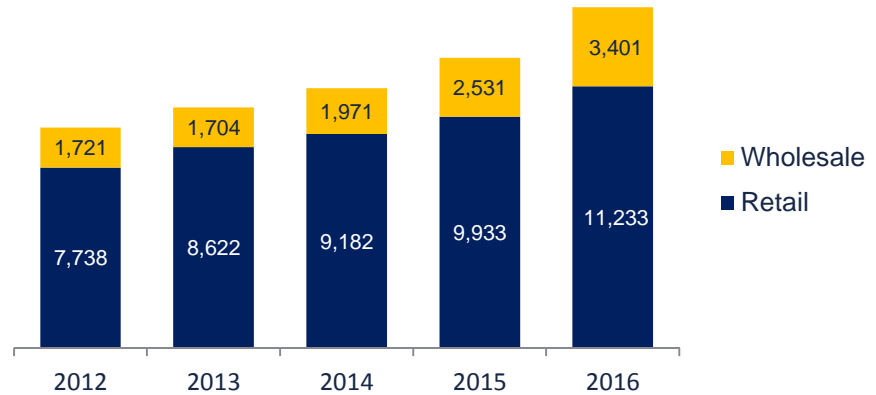
**Funding and Liquidity**

Outlook for 2017

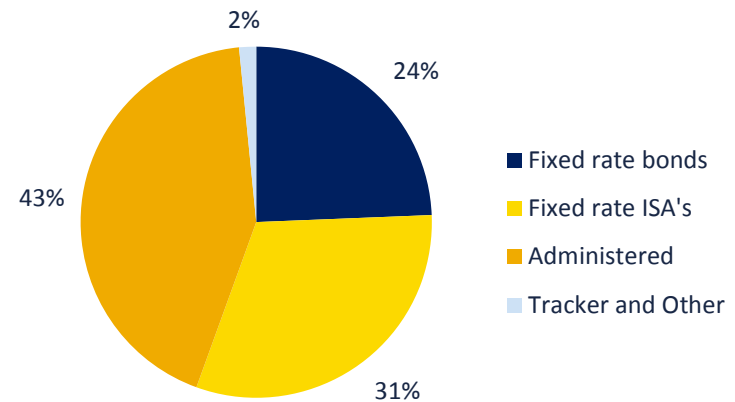
# Sustained Retail Savings Performance

- Retail savings from our members remain at the heart of our funding strategy. The majority of our lending continues to be funded by our members
- Savings balances increased by 13% to a record £11.2 billion (2015: £9.9 billion)
- We paid on average 1.66% to our savers compared to the rest of the market average of 0.97%<sup>1</sup> which equates to an annual benefit to our savers of over £69m
- In 2016 we increased our market share<sup>2</sup> of savings and grew deposits by more than £1bn for the first time

Funding Profile (£m)



Retail Funding Mix



<sup>1</sup> Source: CACI CSDB, stock, January – November 2016 – CACI is an independent company that provides financial services benchmarking data and covers 85% of the high street cash savings market.

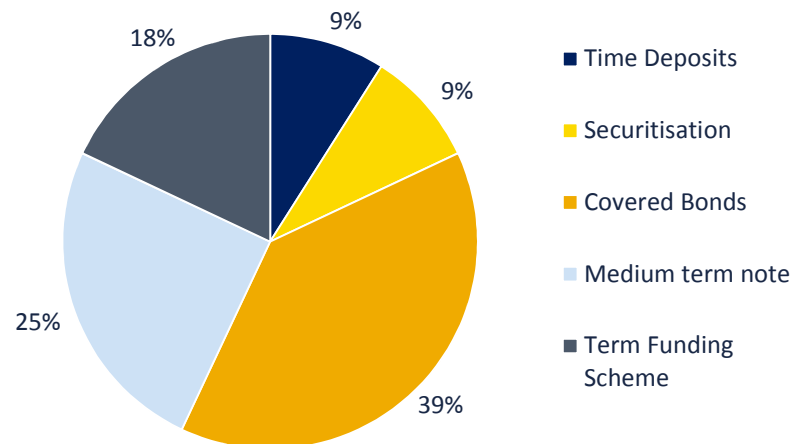
<sup>2</sup> Savings market share defined as mutual sector net retail savings as published by the Building Societies Association



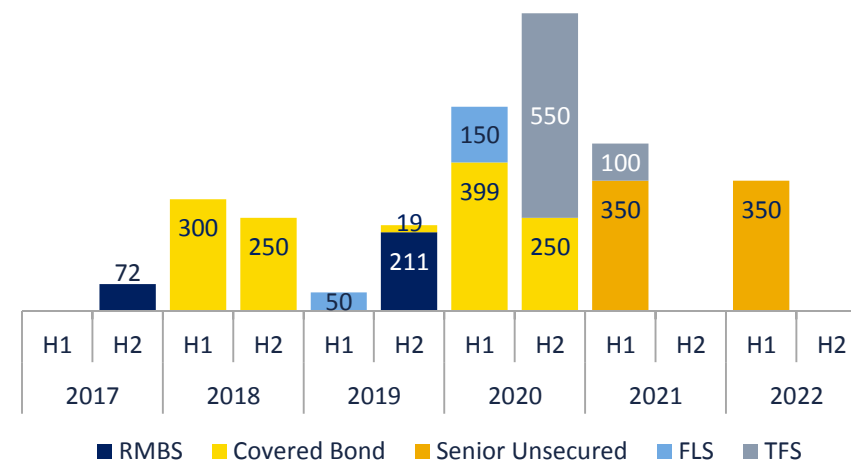
# Stable Wholesale Funding Profile

- The Society continues to access wholesale markets and has a portfolio of wholesale funding, including TFS, totalling £3.4 billion (2015: £2.5 billion) which equates to 21.7% of SDL's
- The Society has benefited from favourable funding conditions in the first half of 2016 and raised a further €500 million under the Society's covered bond programme
- The Bank of England responded to the outcome of the EU referendum by launching the Term Funding Scheme (TFS)
- The Society has drawn down a total of £550 million under the TFS. As a result, the Society's wholesale funding ratio increased to 21.7% (2015: 20.3%)
- The Society's NSFR is 131% (2015: 133%) compared to an expected regulatory minimum of 100%

**Wholesale Funding Composition**

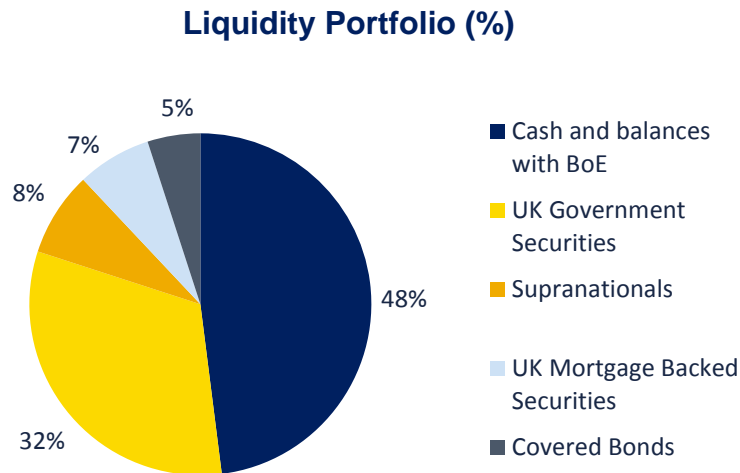
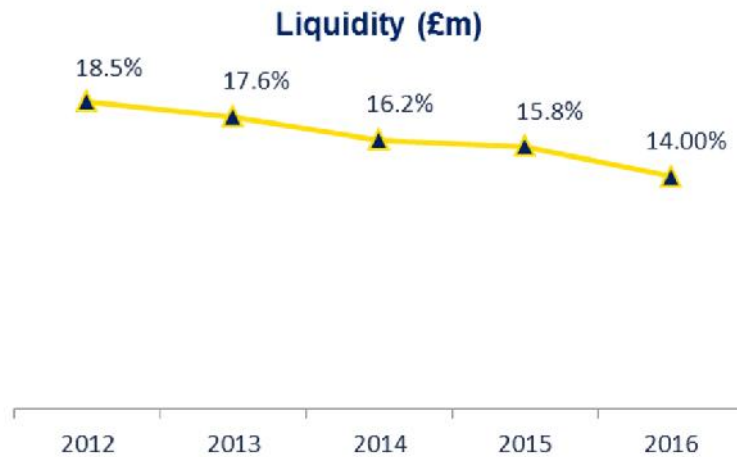


**Wholesale Maturity Profile (£m)**



Figures are all GBP equivalent and correct from 31<sup>st</sup> December 2016  
RMBS repayments modelled using current CPR expectations

# High Quality Liquidity



- Liquid assets at the end of 2016 were £2.0 billion compared to £1.7 billion at the end of 2015
- 99% of the portfolio is High Quality Liquid Assets (HQLA) compared to 93% in 2015
- The Society also has access to contingent liquidity through the Bank of England's Sterling Monetary Framework and the European Central Bank
- The Society's LCR is 179% (2015: 194%), compared to the regulatory minimum of 100%

Source: Leeds Building Society Annual Results, as of 31st December 2016

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**Outlook for 2017**

# Outlook for 2017 and Beyond

- 2016 has been another successful year for the Society and represents solid progress in delivering its vision to be the UK's most successful building society
- The vote to leave the EU has created political and economic uncertainty for the UK. Whilst in the second half of 2016 the economy has performed positively, OBR forecasts predict a slow-down in the coming period
- Inevitably any slow-down will impact both house prices and the number of house purchase transactions taking place. Coupled with increased competition and continuing low interest rates margins are likely to reduce further which may constrain the Society's ability to grow
- However, the Society will continue to grow whilst market conditions allow it to do so profitably
- The overriding objective remains to deliver sufficient profit to support growth, whilst ensuring a strong and sustainable financial position
- The Bank of England is expected to continue its programme of stimulus, notably the Term Funding Scheme. This will provide low cost funding, which may further reduce market rates paid to savers over 2017 and beyond



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