Leeds Building Society

2017 Annual Results

March 2018

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► **Leeds Building Society**

2017 Financial Highlights

2017 New Lending & the Mortgage Portfolio

Funding and Liquidity

Outlook for 2018

Executive Summary

- Leeds Building Society has continued to build on its strengths and delivered further growth and a strong profit performance in 2017
- The strong profit performance in 2017 provides additional capital which allows us to continue to grow whilst maintaining financial security for our members
- We place members at the heart of the Society, in the most recent survey customer satisfaction remained high at 91%
- Net interest income increased to £213m due to lower costs of retail and wholesale funding and strong balance sheet growth
- Total expenses growth slowed to 4% and cost ratios remain in top quartile for our peer group
- Well placed to meet future MREL requirements with eligible market issuance to replace planned senior funding

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

	Customer Focussed	Secure	Service Driven	Efficient
Pillars	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
Progress in 2017	• Savings rates reduced further in 2017, yet the Society was able to pay higher savings rates than the market average. • Gross mortgage lending was a record £4.1bn, above our natural market share. • Significantly improved the online account opening process for new accounts. • Launched a long-term partnership with Parkrun.	• A strong profit performance provided capital to grow. The Society maintained strong capital ratios as it increased lending in low risk residential loans. • A number of projects have been completed, ensuring the Society continues to comply with its regulatory obligations. • The Society continues to progress its application to manage credit risk on an IRB basis with the PRA.	• Colleague engagement and leadership scores improved again, remaining in the top quartile for the financial services industry. • Reduced the time it takes to issue a mortgage offer to eight days, without relaxing underwriting standards. • The time to process ISA transfers has been cut from 15 days to three.	• A new building has been acquired as a Head Office. Reducing the current three Leeds City Centre locations to a single site, with resultant long-term cost savings. • Reviewed the branch network to ensure it remains relevant and in appropriate locations. As a result, eight branches closed and the London branch has been relocated.

Our points of differentiation support each other to create our unique value proposition

Customer Points of Differentiation

Using financial strength to adopt a distinct approach to savings members – including rewarding them through above average rates

Segmental lending strategy- *offers lending products to customers who are not well served by the market*

Delivering outstanding service through access to our highly skilled and engaged colleagues

Our segmental risk based lending approach supports our ability to offer above average rates

Our efficiency allows us to invest in our technology and service

Our investment in service proposition supports delivering outstanding service

Business Points of Differentiation

How we utilise and deploy our risk capability

Segmental lending strategy designed to protect margins without increasing risk appetite

Efficiency demonstrated through sector leading cost ratios

Simplified technology architecture enabling integration with emerging applications & data sources resulting in a highly scalable & adaptive platform

Our clear and purpose-led leadership which enables us to align the organisation towards achieving our strategic goals

Leeds Building Society

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Outlook for 2018

2017 Business Highlights

Source: Leeds Building Society Annual Results, as of 31st December 2017

Leeds Building Society

Strong growth performance

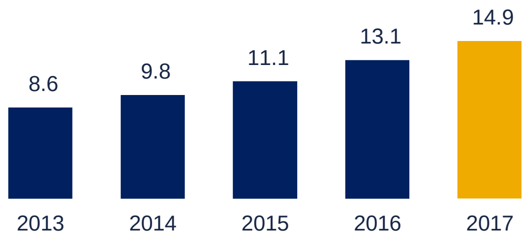
- Mortgages and Loans increased by 14% to £14.9bn whilst improving key credit metrics and maintaining strong capital ratios

- Savings balances increased by 17% to £13.1bn

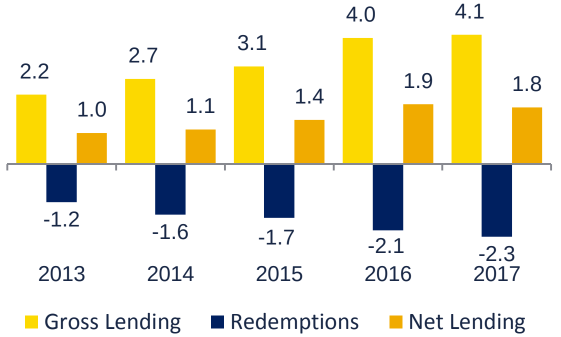
- Gross mortgage lending increased to a record £4.1bn, taking the Society's market share to 1.6%, significantly higher than its natural market share of 1.1%

- After two years of above average growth we expect to grow more modestly in 2018, in the face of strong competition and lower margins to maintain capital ratios

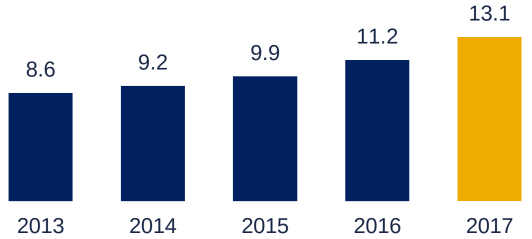
Mortgage Balances (£bn)



Residential Lending (£bn)



Retail Savings (£bn)



Source: Leeds Building Society Annual Results, as of 31st December 2017

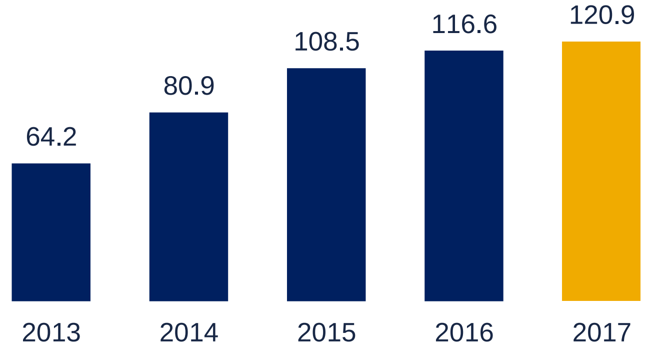
Leeds Building Society

Income Statement

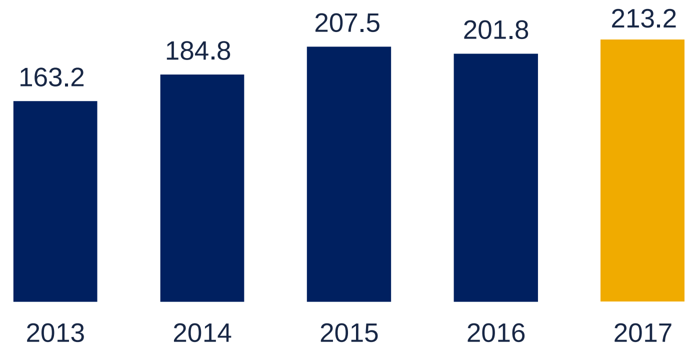
- Profit before tax rose by 4% to a record £120.9m
- Post-tax profits as a % of mean assets remains strong at 0.51%
- Net interest income increased to £213.2m, driven by growth of 16% in total assets.

	2017 (£m)	2016 (£m)
Net Interest income	213.2	201.8
Other Income	7.8	10.2
Total Income	**221.0**	**212.0**
Administrative Expenses	(92.5)	(88.7)
Depreciation	(3.0)	(3.2)
Loan Loss Charges	5.5	0.9
Impairment losses on intangible assets	(5.6)	0.0
FSCS & Other Provisions	(3.6)	(3.9)
Impairment Losses on land and buildings	(0.9)	(0.5)
Investment property for value movement	0.0	0.0
Profit Before Tax	**120.9**	**116.6**
Tax	(32.9)	(30.6)
Profit After Tax	**88.0**	**86.0**

Profit Before Tax (£m)



Net Interest Income (£m)



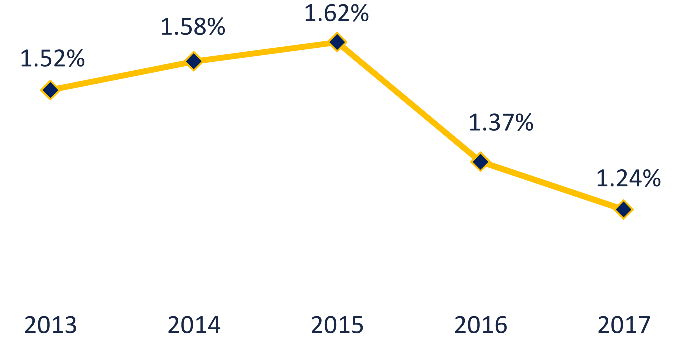
Source: Leeds Building Society Annual Results, as of 31st December 2017

Leeds Building Society

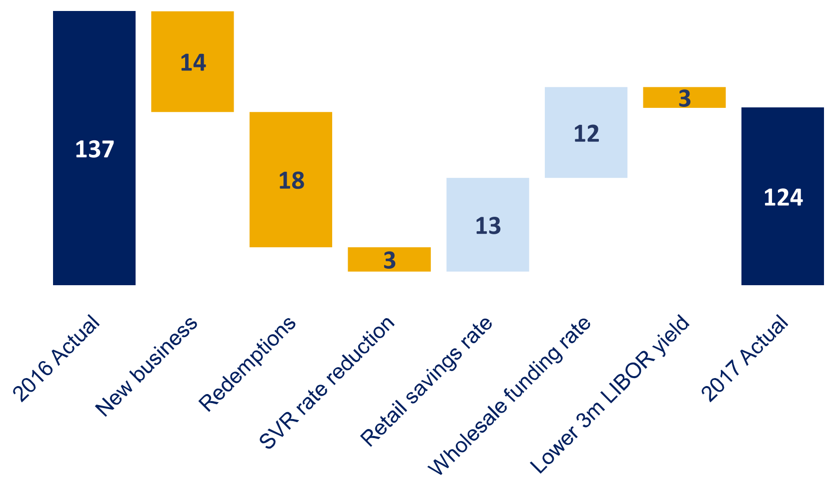
Net Interest Margin

- Net interest margin decreased to 1.24% in 2017, 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

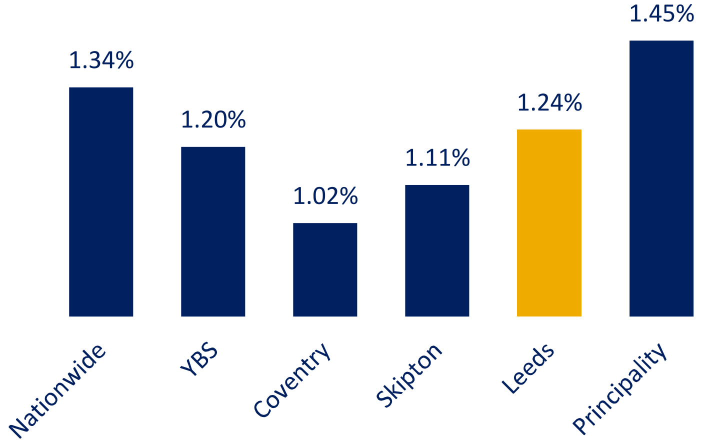
Net Interest Margin as % of Mean Assets



2016 to 2017 Actual NIM% Bridge (bps)



NIM % versus Peers



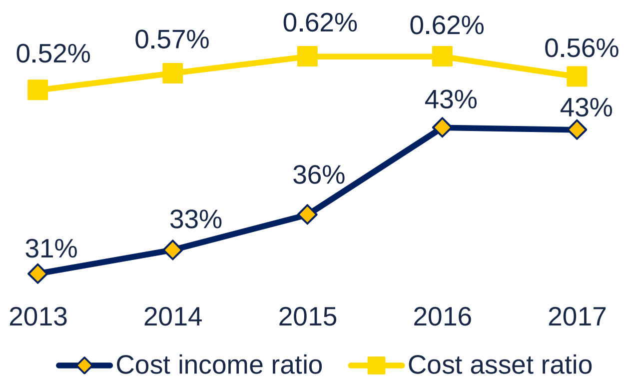
Source: 2017 Annual Results and 2017 Interim Results

Leeds Building Society

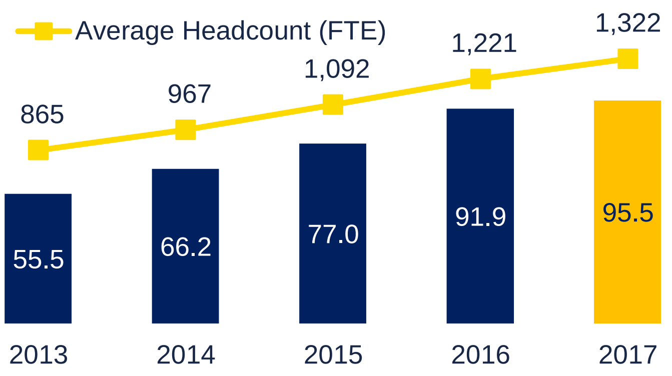
Costs and Efficiency

- Cost growth slowed in 2017 as headcount growth slowed and remained flat in 2017
- The cost increases of the last three years are expected to slow further as the Society realises efficiencies from its investment programme
- Ratios demonstrate top quartile efficiency vs peer group and have improved, demonstrating the cost control

Cost Ratios



Management Expenses (£m)



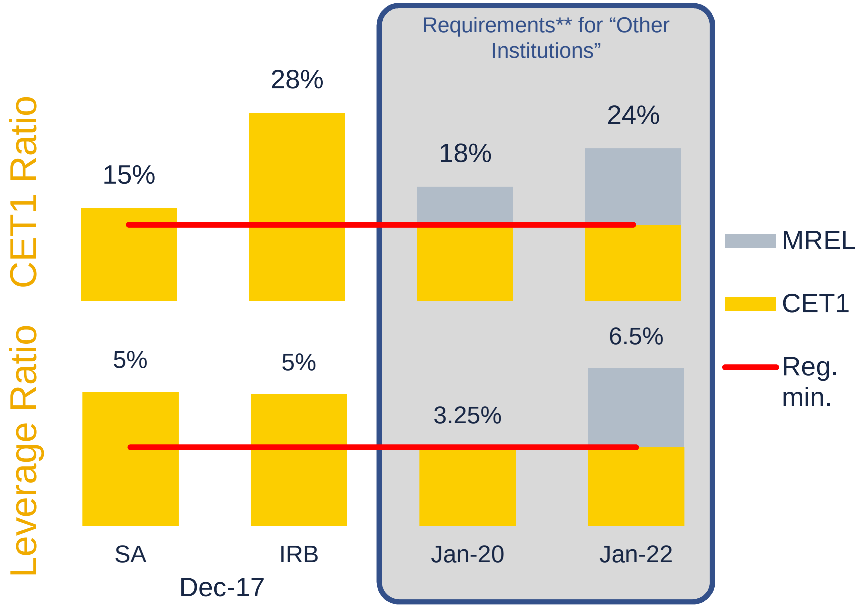
- Omni Channel platform will go live in March 2018. Customer benefits include full online account opening, debit card funding, secure messaging, and enhanced security
- Ongoing development of our segmental lending strategy with ‘anchor’ segments defined that demonstrate clear areas of expertise for the Society (e.g. Shared Ownership)
- Focus on improving the customer experience by putting our members at the heart of our decision making

Source: Leeds Building Society Annual Results, as of 31st December 2017

High quality capital position backed by nearly 100% reserves leaves the Society well placed to meet future requirements

- A strong capital position was maintained throughout the year with all capital ratios significantly in excess of the regulatory minimum
- CET 1 capital resources have increased by £80m during 2017. The CET 1 ratio has decreased in the year, reflecting the growth in residential lending
- The Society has a strong CRD IV leverage ratio of 5.0% (5.5% on a UK leverage ratio basis*)
- LBS expects to receive an advanced IRB waiver which will increase CET 1 to circa 28%

	Dec-17	Dec-16
Capital resources (£m)		
Common Equity Tier 1 (CET1) capital	952	871
Additional Tier 1 capital	12	15
Total Tier 1 capital	**964**	**886**
Tier 2 capital	24	28
Total regulatory capital resources	**988**	**914**
Risk Weighted Assets (RWAs)	6,577	5,731
CRD IV capital ratios		
CET1 ratio	14.5%	15.2%
CRR leverage ratio	5.0%	5.2%
UK leverage ratio	5.5%	5.6%



* The UK leverage ratio is based on the latest announcements from the PRA to exclude certain central bank claims from the total leverage exposure measure and to increase the minimum leverage ratio requirement to 3.25% for UK firms with retail deposits equal to or greater than £50bn

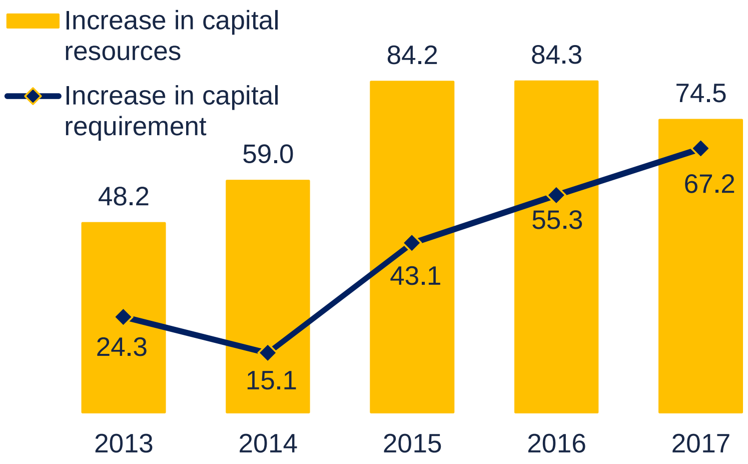
** Buffers to apply on top of MREL requirements

Leeds Building Society

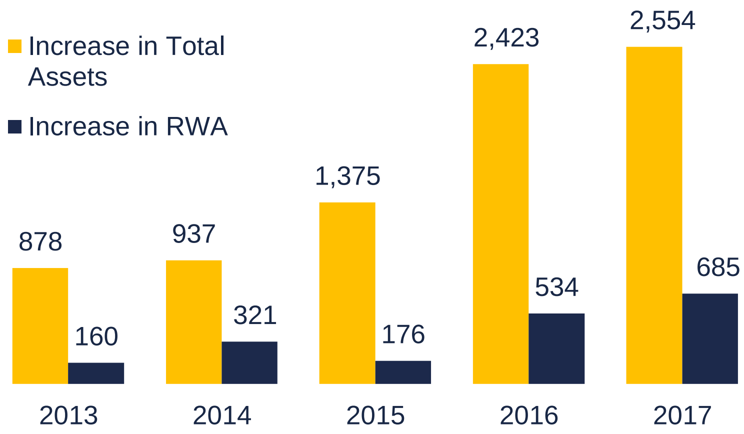
Balancing Growth, Capital, Risk and Profitability

- In 2016 and 2017, we decided to deploy some of our surplus capital to support stronger growth
- Our Transformation Programme has created more capacity; we have a mature risk capability; the competitive climate has enabled growth at good margins – it has been a good time to accelerate growth
- We are proud of that at the same time as being very focussed on making sure we grow responsibly and sustainably. This means creating sufficient capital to support growth and balancing risk and return to ensure sustainable performance through the economic cycle
    - Over the last 5 years we have created £350m of regulatory capital resources
    - Over the same period our risk weighted capital requirements have grown £205m
    - Capital surplus has increased (+£145m) and average risk weights have reduced from 39% to 36% (on a standardised basis)

Capital Resources & Requirement (£m)



Increase in Total Assets and RWAs (£m)



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2017 Financial Highlights

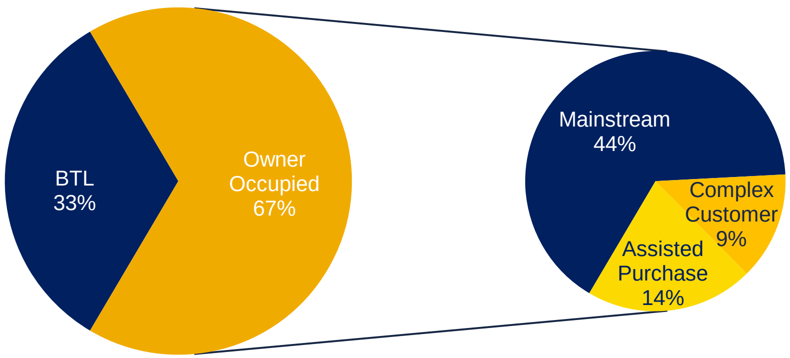
► **2017 New Lending & the Mortgage Portfolio**

Funding and Liquidity

Outlook for 2018

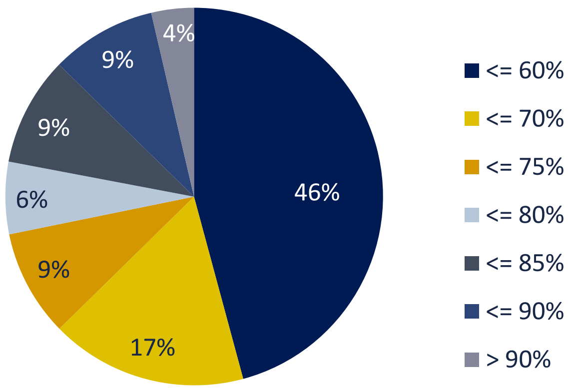
2017 New Lending

2017 Lending by Segment



- 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 2017 was achieved across a balanced product range
- The Society's market share of new mortgage lending was 1.6% (2016: 1.6%)

New lending LTV Distribution



		Margin	Maximum LTV	Average LTV
Owner Occupied	**Mainstream**	Low-Medium	Up to 95%. 29% above 85%.	69%
Owner Occupied	**Assisted Purchase** Shared ownership, Gov't assisted, Right to Buy, Shared Equity	Premium	Shared Ownership – Up to 95% of borrower share†	46%
Owner Occupied	**Complex Consumer** Interest only	Premium	Interest Only = Up to 60%	39%
BTL	**Investment & Wealth** BTL, Holiday Let, Second home	Premium	BTL = Up to70%	50%

Source: December 2017 Internal Reports

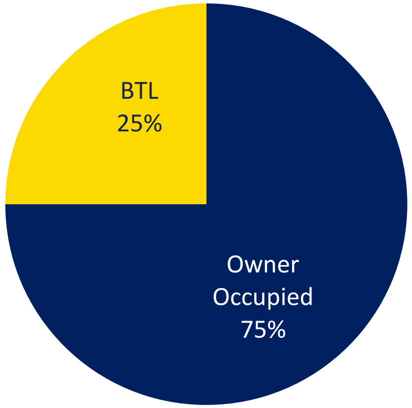
† Maximum borrower share up to 75%

Leeds Building Society

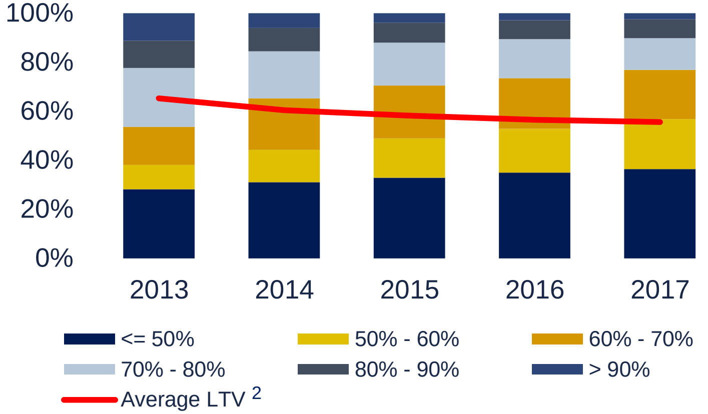
Residential Mortgage Portfolio

- The arrears ratio[1] reduced to 0.70% compared to 1.02% at the end of 2016
- 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 remained at c.3% and the average indexed LTV stabilised at 56%

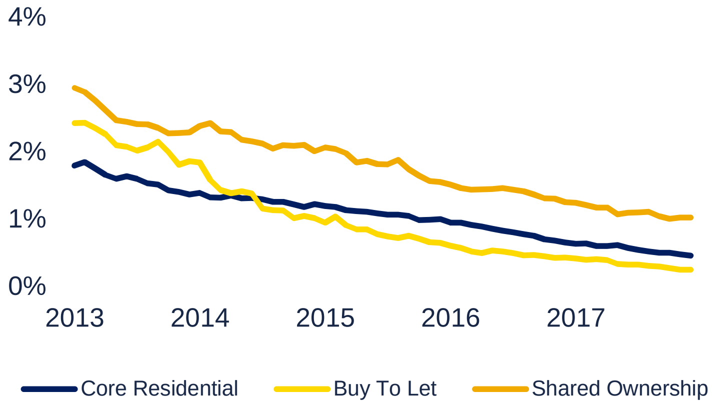
Mortgage Book



Indexed Loan to Value Distribution of Total Portfolio



Portfolio Arrears (3+ MIA)



Source: December 2017 Internal Reports

[1] measured as those either in possession or arrears of more than 1.5% of the balance
[2] Average Indexed LTV weighted by balance

Leeds Building Society

Introduction of IFRS 9

- No material profit/loss impact in the current environment
- We expect the new regime to increase provision volatility in the future under differing scenarios
- Non-performing loans for the residential portfolio are classed as those that are >1.5% in arrears
- The IFRS9 ‘top-up’ is expected to be £21m to £26m. This represents a c0.2% reduction in CET1 prior to transitional arrangements.

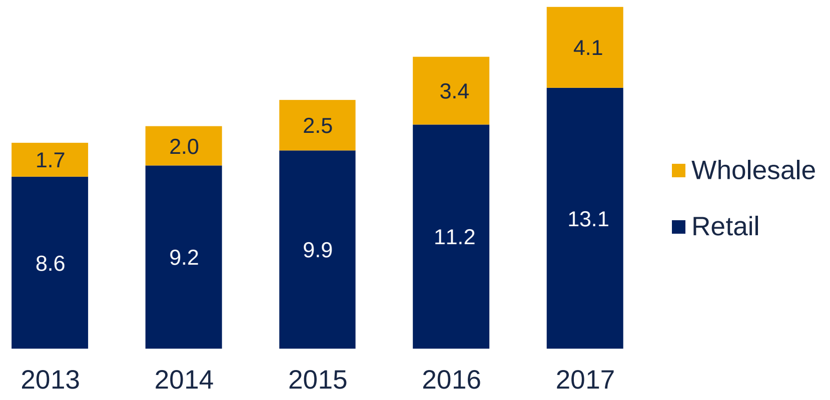
	Balance (£m)	Non-performing loans (£m)	IAS39 provision (£m)	Total cover (%)	NPL cover (%)	IFRS9 estimated provision (£)	Total cover (%)
Residential							
UK	14,675	86.1	7.7	0.05%	8.94%	21.1	0.14%
Euro	245	19.7	16.1	6.57%	81.73%	24.0 - 29.0	9.80%
Commercial inc HA	84	39	17.2	20.48%	44.10%	17.2	20.48%
Total	**15,004**	**144.8**	**41.0**	**0.27%**	**28.31%**	**62.3 - 67.3**	**0.42%**

Source: December 2017 Internal Reports

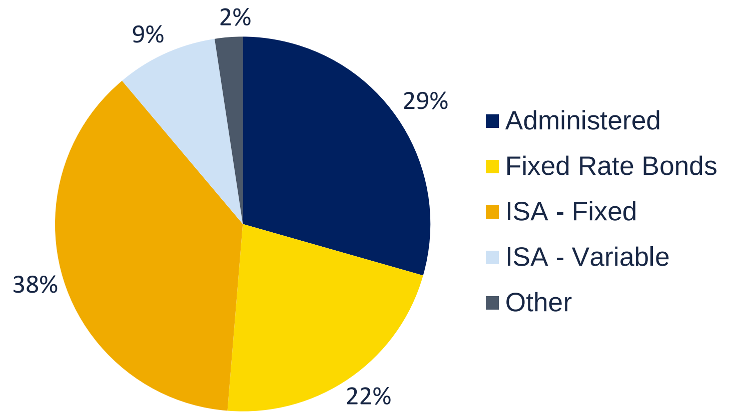
Sustained Retail Savings Performance

- Retail savings from our members remain at the heart of our funding strategy. On average the Society paid 1.33% on its savings range, compared to the market average of 0.70%[1], resulting in £75m in value to our members
- Savings balances increased by 17% to a record £13.1 billion (2016: £11.2 billion)
- During the year the Society simplified the structure of rates across its range of savings accounts, paying at least 0.5% on all accounts.
- In 2017 we increased our market share[2] of savings and grew deposits by more than £1.5bn for the first time
- Awarded the Moneyfacts 'Best Building Society Savings Provider' award for the second year running

Funding Profile (£bn)



Retail Funding Mix

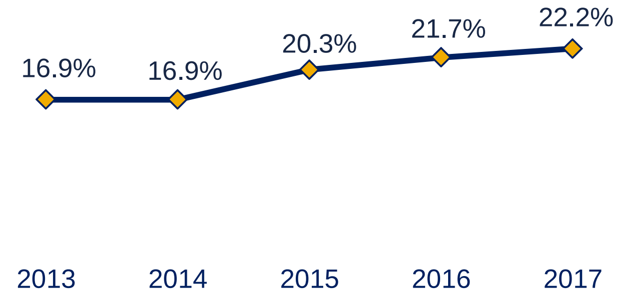


[1] Source: CACI CSDB, stock, January 2017 – December 2017, latest data available. CACI is an independent company that provides financial services benchmarking data and covers 86% of the high street cash savings market.
[2] Savings market share defined as mutual sector net retail savings as published by the Building Societies Association

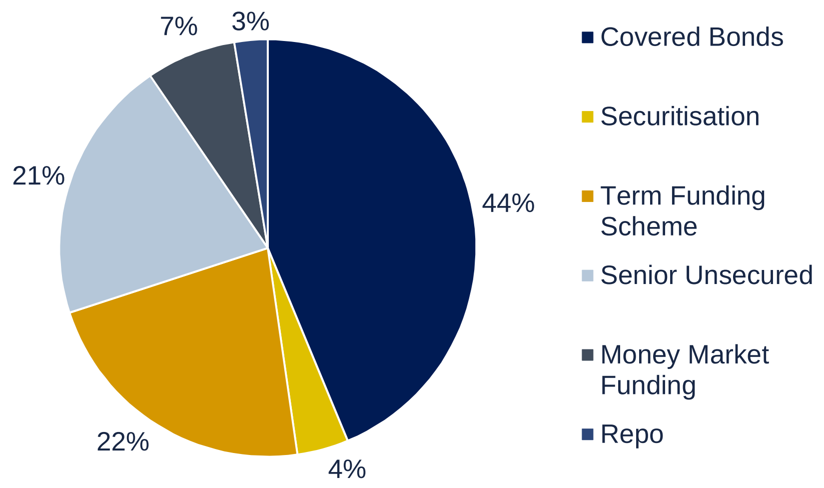
Stable Wholesale Funding Profile

- The Society continues to access wholesale markets and has a portfolio of wholesale funding, including TFS, totalling £4.1 billion (2016: £3.4 billion) which equates to 22.2% of total funding
- The Society has raised a further €500 million under its covered bond programme. A total of £850 million has been drawn under the TFS at the end of 2017
- The Society's NSFR is 135% (2016: 131%) compared to an expected regulatory minimum of 100%

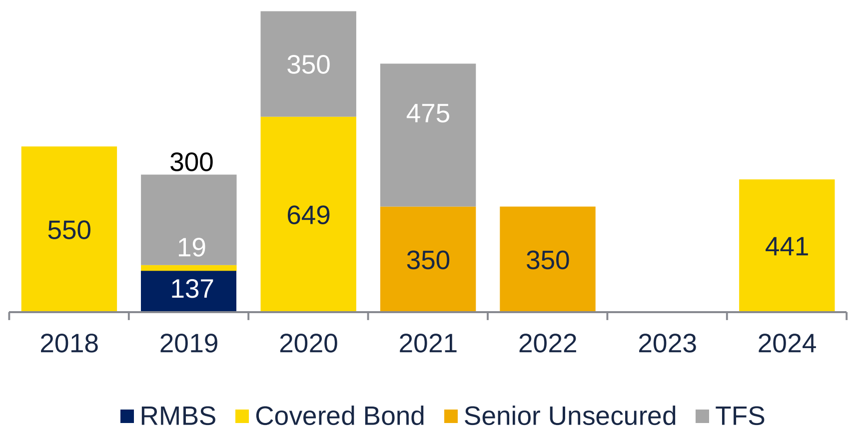
Wholesale Funding Ratio



Wholesale Funding Composition



Wholesale Funding Maturity Profile (£m)

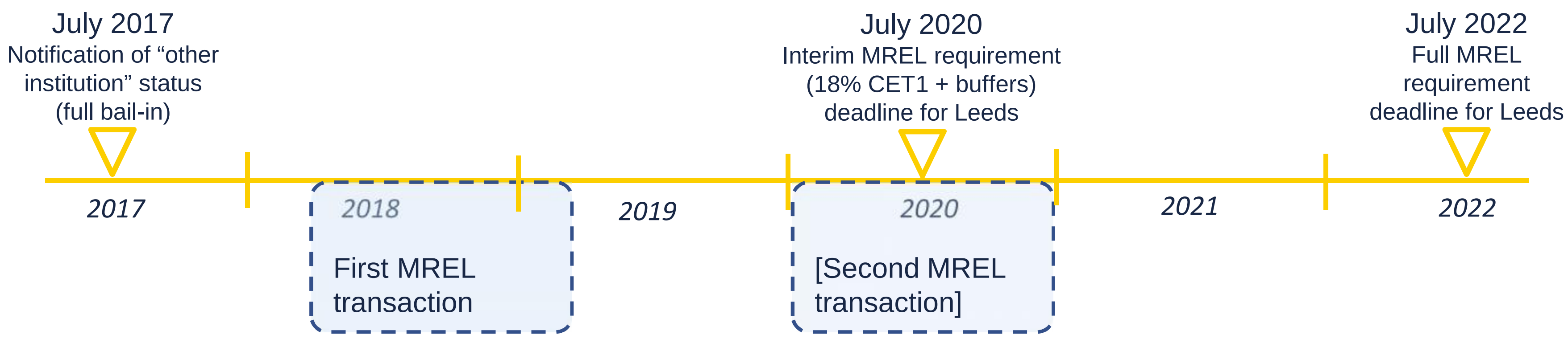


Figures are all GBP equivalent and correct from 31st December 2017
RMBS repayments modelled using current CPR expectations

Leeds Building Society

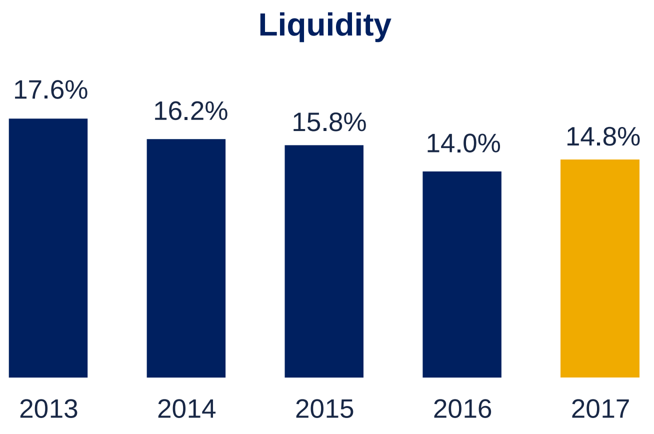
MREL requirement gives Leeds flexibility to meet the new regulations

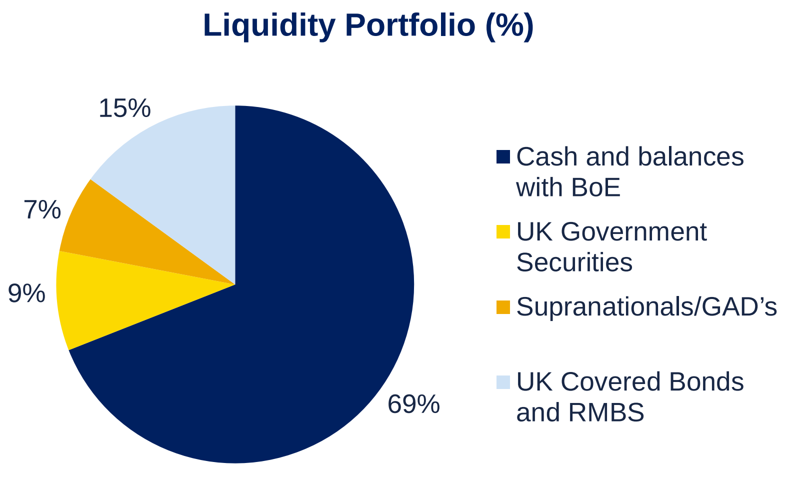
- The Society is categorised by the PRA as a full bail in firm for resolution purposes
- The current expectation is to gain IRB status which will see our CET1 ratio rise to c.28%, which will leave leverage as our binding constraint
- The Society has three years to meet the interim requirement (July 2020) which will be met when we obtain our IRB waiver
- The final MREL shortfall including internal appetite buffers is currently expected to be c.£300-400m to meet the 2x leverage requirement
- The Society has a strong leverage ratio of 5.0% (4.9% on an IRB basis) hence the MREL requirement
- The Society does not require external capital for regulatory purposes (other than MREL). We expect to meet this requirement via two MREL transactions to manage concentration risk in the maturity profile



Leeds Building Society

High Quality Liquidity





- Liquid assets at the end of 2017 were £2.7 billion compared to £1.9 billion at the end of 2016
- 99% of the portfolio is High Quality Liquid Assets (HQLA) compared to 99% in 2016
- 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 198% (2016: 179%), compared to the regulatory minimum of 100%

Source: Leeds Building Society Annual Results, as of 31st December 2017

Leeds Building Society

Outlook for 2018 and Beyond

- 2017 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
- Brexit continues to create political and economic uncertainty but to date the UK economy has shown resilience. Consequently, we see the UK continuing to be a good place to lend into whilst we remain vigilant to any potential headwinds
- We expect the growing competition in the mortgage market that we have seen in the latter part of 2017 to continue as now all of the large lenders are competing for market share. In the face of greater competition and narrower margins we plan to grow at a more moderate pace compared to recent years
- The Bank of England is beginning to unwind the stimulus it has provided to the UK economy for many years with the withdrawal of the TFS and the first rise in Bank Base rate in 10 years. We expect any rises in the base rate to be gradual and the strength of our retail and wholesale funding franchises positions us well for the removal of central bank funding
- We, like many other banks and building societies have been investing in our customer proposition, particularly in our digital offering. We will see through our investment programme to ensure that we continue to provide high quality customer service and to respond to ever-changing customer demands
- We remain committed to maintaining our financial strength and ensuring we balance our appetite to grow with the need to manage risk and create sufficient capital to support that growth

Key Contacts

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