Leeds Building Society

2018 Annual Results

March 2019

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- 2018 New Lending & the Mortgage Portfolio
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Executive Summary

Leeds Building Society has continued to build on its strengths and delivered annual growth of 5% and a strong post tax profit performance of £89 million in 2018

Gross mortgage lending was £3.8 billion and was above the Society's natural market share, net lending was £1.0 billion

Issued £200 million of Tier 2 capital, increasing capital resources ahead of the expected future MREL requirement

In June, the Prudential Regulation Authority (PRA) granted the Society an Internal Ratings Based (IRB) permission

Improved financial stability through further reducing legacy portfolios, via the sale of the Irish mortgage portfolio

Colleague engagement improved this year, and the Society's leadership score was maintained. It continues to be in the top quartile for the financial services industry. The Society gained a two-star award in the Best Companies survey and is the 77th Best Mid Sized Company to work for

Our Future Strategy and 2019 Deliverables

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.			
Strategic Pillars & Corporate Priorities	**Secure** Generate strong, sustainable profit levels by meeting the needs of key segments	**Customer Centred** Deliver an outstanding member and broker experience	**Simple** Drive efficiency by removing complexity	**Future Facing** Invest in our capabilities and technology to meet the evolving needs of members
2019 Deliverables	1. Deliver net lending plan by developing our segmental lending strategy, funded by strong retail savings 2. Deliver a commercial advantage by enhancing our pricing and balance sheet management 3. Improve the resilience of our technology platform 4. Deliver profit target to support future investment and growth	1. Embed Let's be Superb to achieve our customer experience aspirations 2. Improve customer and broker experience in line with the 2019 Customer Experience plan 3. Increase awareness of our brand by delivering our Brand Strategy	1. Drive agreed efficiency savings to manage the Society's cost base 2. Complete all structural work and progress the fit out of our new Head Office	1. Deliver agreed steps of Project Barney mortgage underwriting solution and ensure operational readiness 2. Develop Digital roadmap and deliver 2019 elements 3. Begin to implement digital self-serve functionality 4. Improve the flexibility and responsiveness of our technology 5. Implement our new approach to the strategic organisational roadmap
	People	Maintain our Your Voice Engagement Index at 80%		

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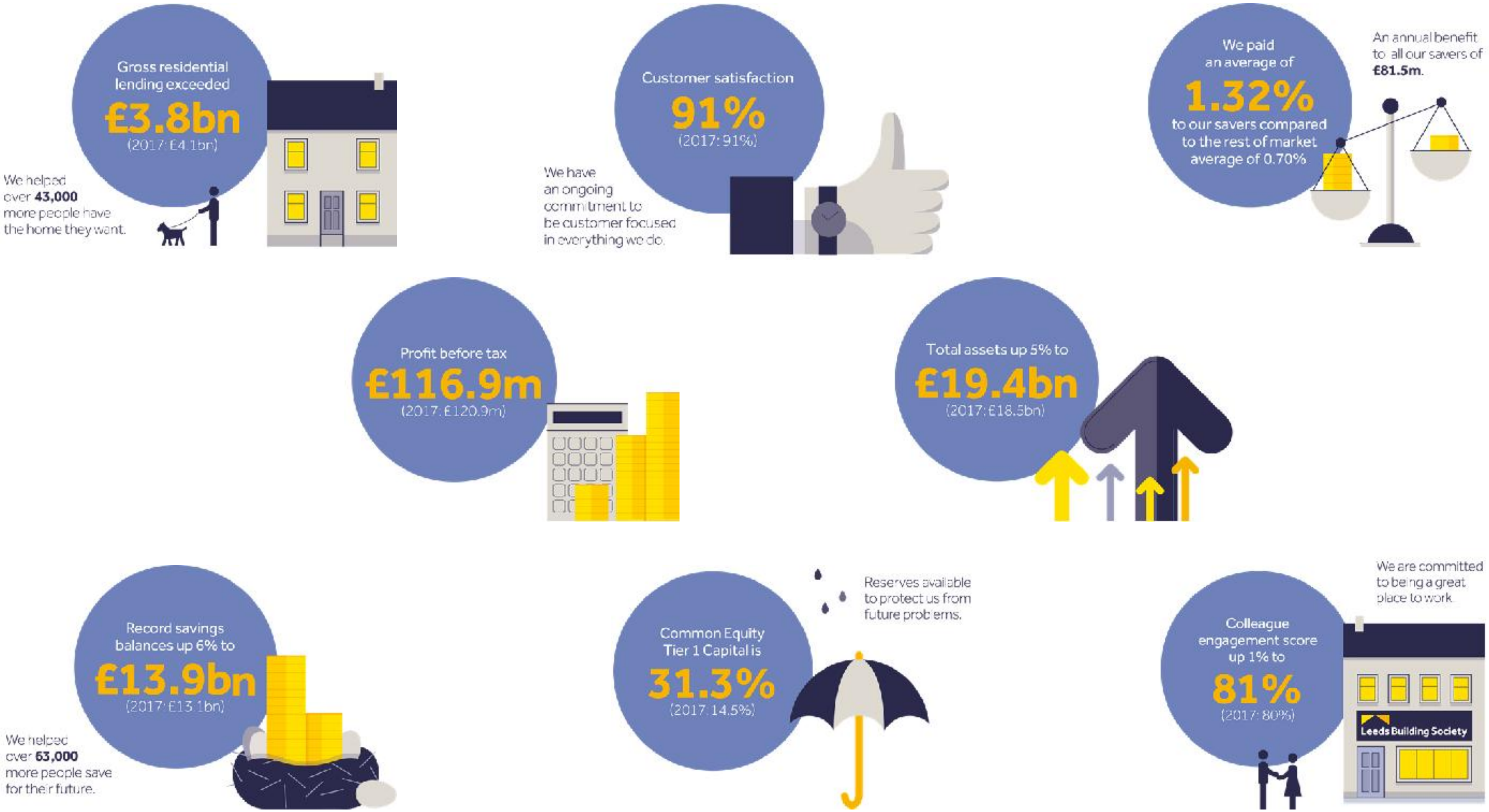
▶ **2018 Financial Highlights**

2018 New Lending & the Mortgage Portfolio

Funding, Liquidity and Capital

Outlook for 2019

2018 Business Highlights



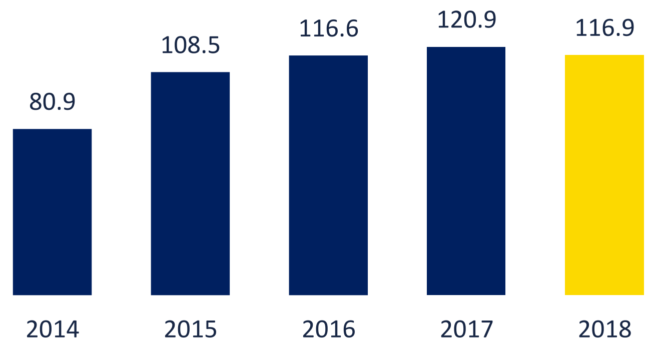
Source: Leeds Building Society Annual Results, as of 31st December 2018

Profitability

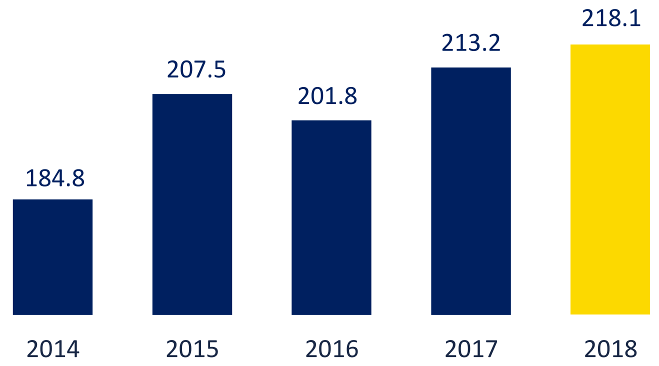
- Achieved a profit before tax of £116.9 million, including the loss from the sale of the Irish book
- Post-tax profits as a % of mean assets remains strong at 0.47% and supports the Society's growth capacity of c.9% given its leverage appetite of c.5%
- Net interest income increased to £218.1 million, driven by the increased size of the balance sheet

	2018 (£m)	2017 (£m)
Net Interest income	218.1	213.2
Fees, commissions and other income	8.5	9.1
Fair value gains less losses	(5.7)	(1.3)
Total Income	**220.9**	**221.0**
Management Expenses	(98.9)	(95.5)
Impairments on loans and advances to customers	1.2	5.5
Other impairments and provisions	0.2	(10.1)
Loss on sale of portfolio of loans and advances to customers	(6.5)	0
Profit Before Tax	**116.9**	**120.9**
Tax expense	(27.7)	(32.9)
Profit After Tax	**89.2**	**88.0**

Profit Before Tax (£m)



Net Interest Income (£m)



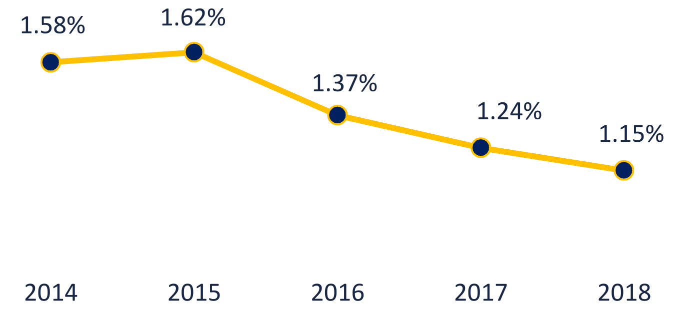
Source: Leeds Building Society Annual Results, as of 31st December 2018

Leeds Building Society

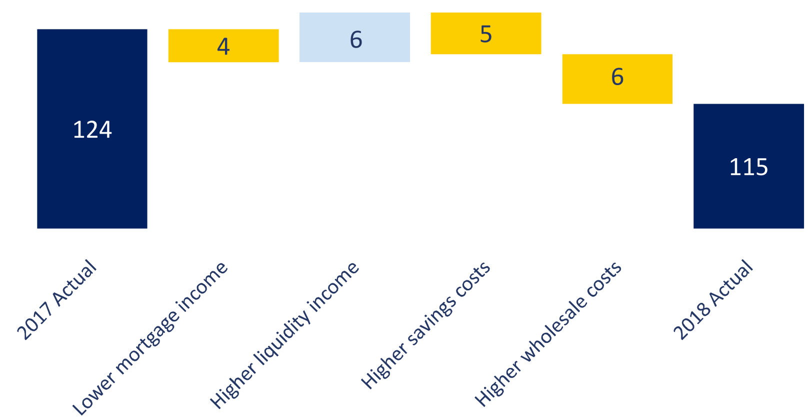
Net Interest Margin

- Net interest margin continues to reduce as expected to 1.15%
- Reduction in NIM is due to lower margins on new business, reflecting competition in the mortgage market and a reduction in the proportion of balances paying SVR

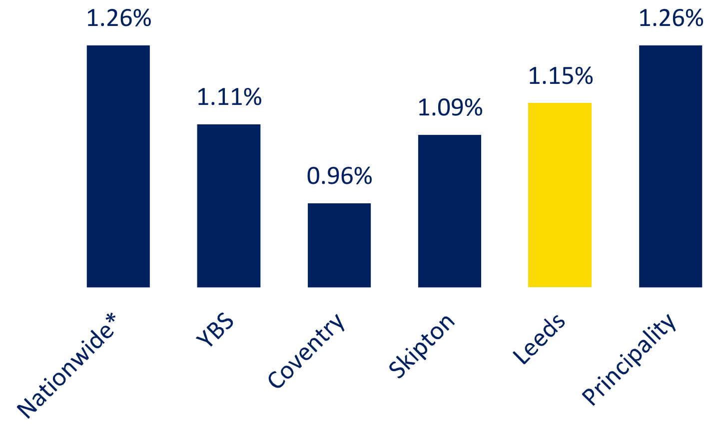
Net Interest Margin as % of Mean Assets



2017 to 2018 Actual NIM% Bridge (bps)



NIM % versus Peers



Source: Leeds Building Society Annual Results and latest available annual results as of 31st December 2018

*Figure from Q3 Interim Management Statement

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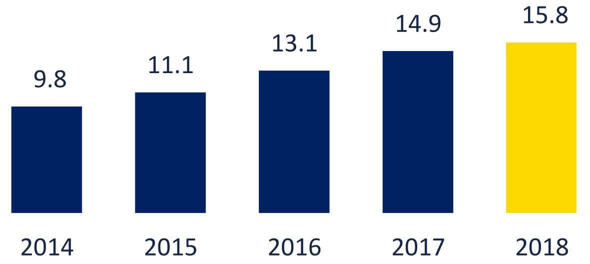
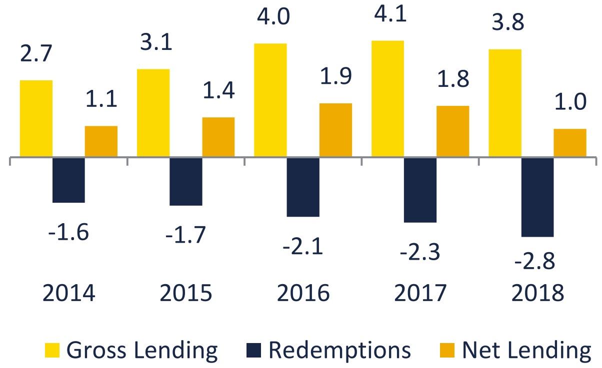
Commercial Performance

- Mortgages and Loans increased by 6% to £15.8 billion whilst improving key credit metrics and maintaining strong capital ratios
- Savings balances increased by 6% to £13.9 billion
- Gross mortgage lending decreased to £3.8 billion, with the Society targeting lower growth in a more competitive market. The Society's market share is 1.4%, significantly higher than its natural market share of 1.1%
- After two years of above average growth we grew more modestly in 2018, in the face of strong competition and higher redemptions from previous growth to maintain capital ratios

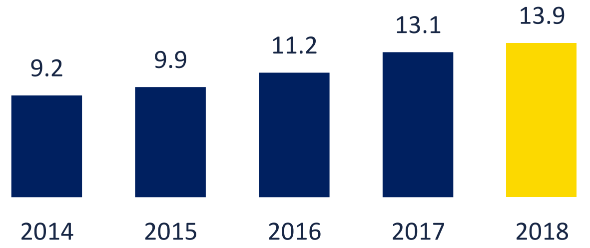
Mortgage Balances (£bn)



Residential Lending (£bn)



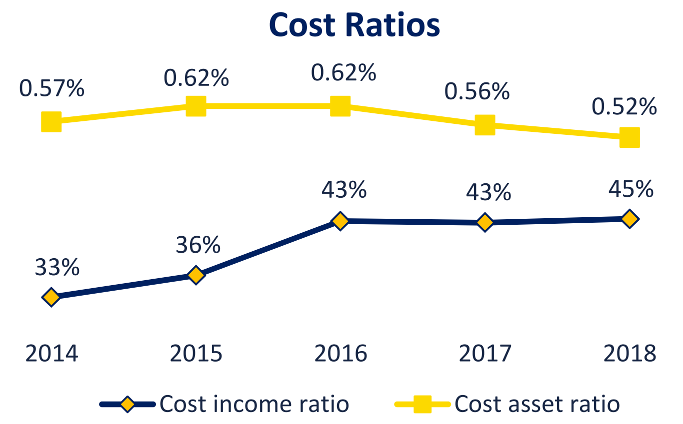
Retail Savings (£bn)

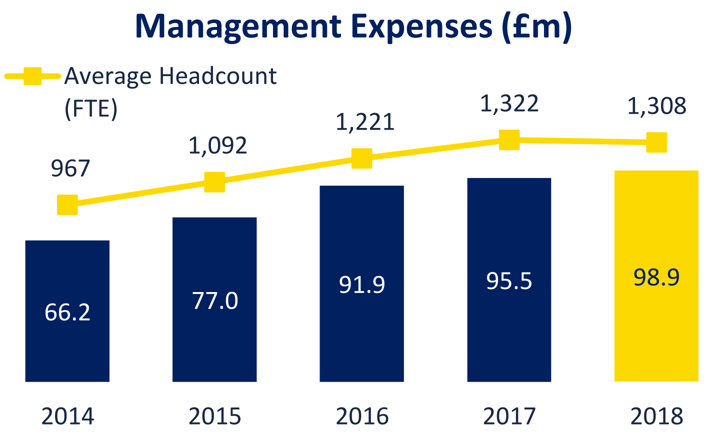


Source: Leeds Building Society Annual Results, as of 31st December 2018

Costs and Efficiency

- The Society maintains close control on costs, balancing the need to maintain profitability and grow capital with the need to invest in the business in order to meet the changing needs of members, continue to grow the business and meet the requirements of the highly regulated environment in which it operates
- Cost to income ratio is 45% and cost to mean asset ratio is 0.52%, remaining among the best in the building society sector
- Depreciation and amortisation have increased reflecting the Society's capital investment in technology in recent years. This trend is expected to continue
- Headcount dropped slightly, highlighting the switch between human to technology solutions





Source: Leeds Building Society Annual Results, as of 31st December 2018

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2018 Financial Highlights

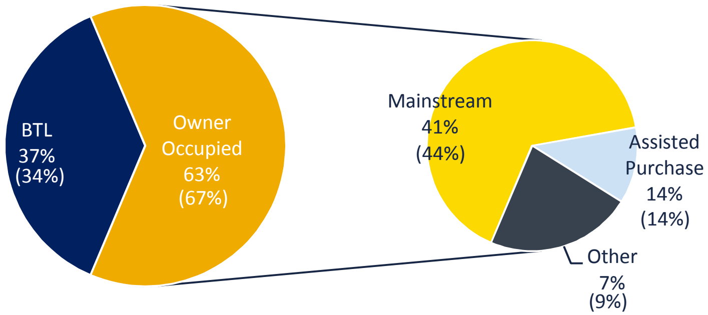
► **2018 New Lending & the Mortgage Portfolio**

Funding, Liquidity and Capital

Outlook for 2019

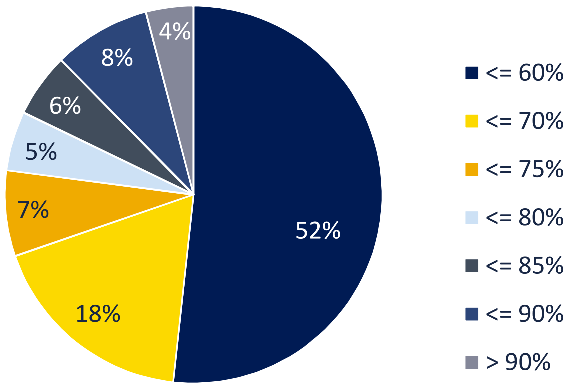
2018 New Lending

2018 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
- The Society maintains a conservative lending policy, which is reflected in the distribution of LTV ratios. The average LTV of new lending in 2018 was 62% (2017: 64%)

New lending LTV Distribution



		Margin	Maximum LTV	Average LTV
Owner Occupied	**Mainstream**	Low - Medium	Up to 95%.	73%
Owner Occupied	**Assisted Purchase** Shared ownership, Gov't assisted, Right to Buy, Shared Equity	Premium	Shared Ownership – Up to 95% of borrower share†	52%
Owner Occupied	**Complex Consumer** Interest only	Premium	Interest Only = Up to 60%	49%
BTL	**Investment & Wealth** BTL, Holiday Let, Second home	Medium - Premium	BTL = Up to 70% for standard BTL, 75% for HMO, 85% for 2nd Home	55%

Source: December 2018 Internal Reports

† Maximum borrower share up to 75%

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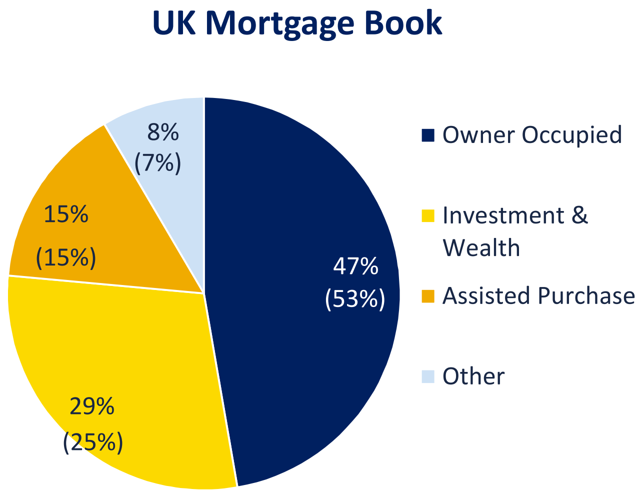
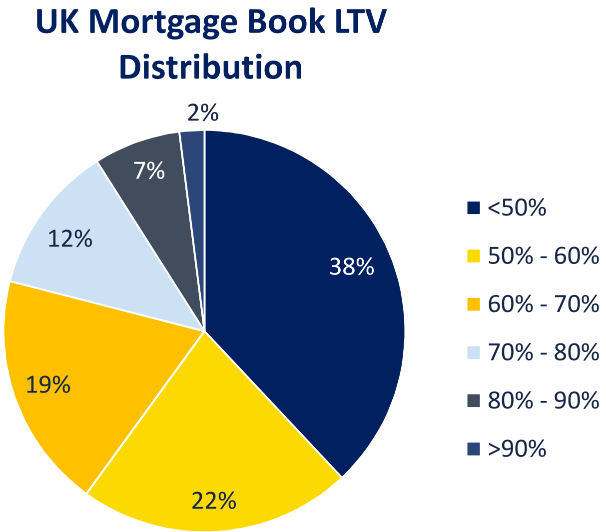
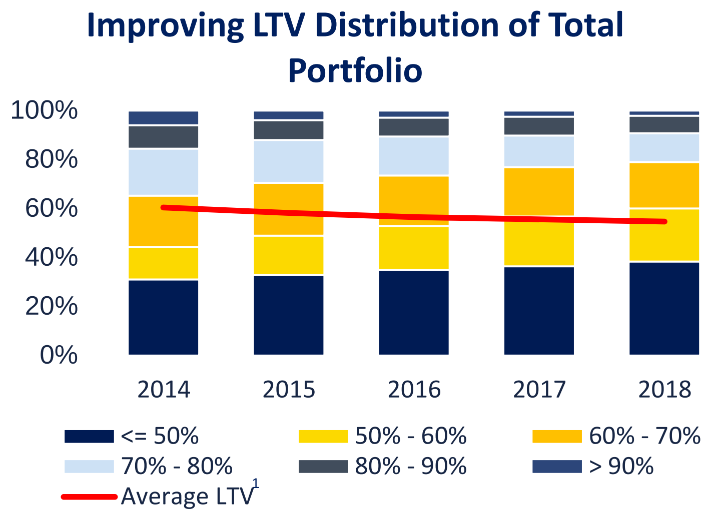
Residential Mortgage Portfolio

- Residential owner occupied balances now make up less than half of UK residential mortgage balances, with BTL increasing to 29% (25%: 2017)
- Proportion of the book above 90% fell to 2.2% (2.6%: 2017) the average indexed LTV fell to 55% (56%: 2017)







Source: December 2018 Internal Reports

[1] Average Indexed LTV weighted by balance

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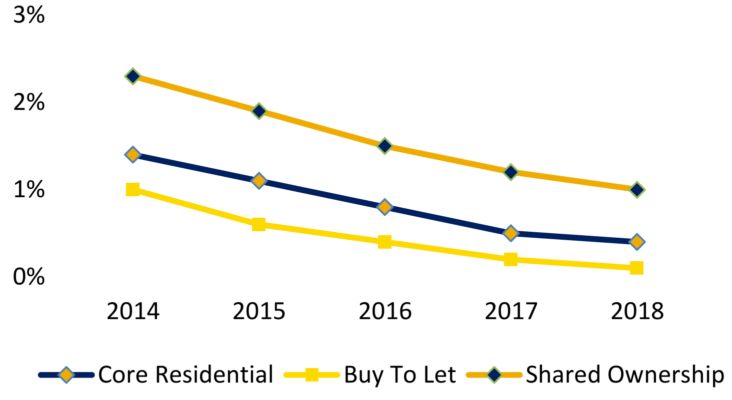
Arrears and Provisions

- IFRS 9 was adopted by the Society at the beginning of 2018. Calculation of impairment loss provisions is now on an expected credit loss (ECL) basis
- The UK arrears ratio[1] reduced to 0.41% compared to 0.54% at the end of 2017
- Impairment losses before recoveries in the year were £4.2 million (2017: £3.6 million) and total impairment provisions at Dec-18 of £27.7 million represent 6.6 years coverage
- The improvement in the arrears ratio is partly due to the sale of the Irish mortgage portfolio
- Arrears have reduced but probability weightings are more prudent to reflect the Brexit uncertainty so the total level of coverage has increased

Portfolio Arrears[1]



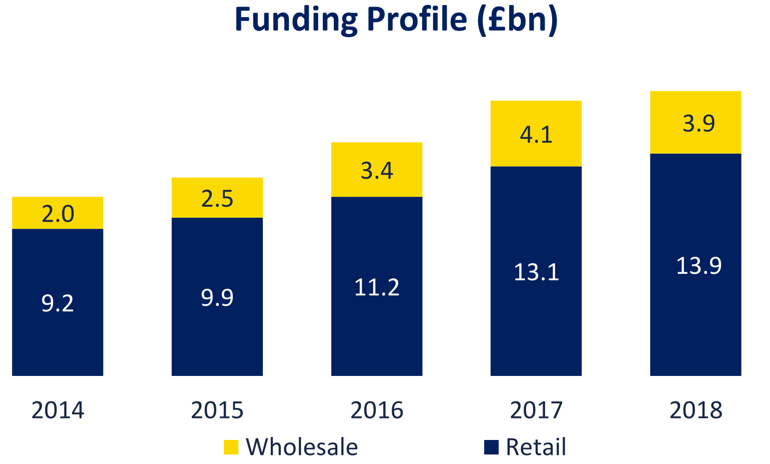
	31st Dec 2018	1st Jan 2018
Stage 1	89.7%	89.4%
Stage 2 and <30 days past due	8.7%	8.5%
Stage 2 and 30+ days past due	0.5%	0.5%
Stage 3	1.1%	1.5%
Total	100%	100%

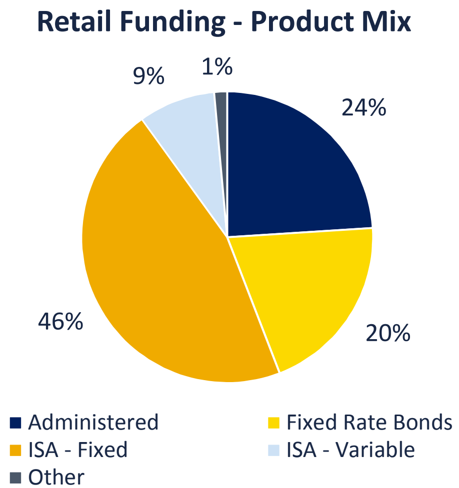
Source: December 2018 Internal Reports

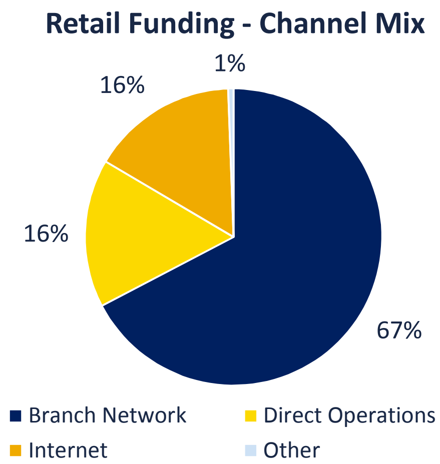
[1] measured as those either in possession or arrears of more than 1.5% of the balance

Sustained Retail Savings Performance

- Retail savings from our members remain at the heart of our funding strategy. On average the Society paid 1.32% on its savings range, compared to the market average of 0.70%[1], equating to an annual benefit to our savers of £82 million
- Savings balances increased by 6% to a record £13.9 billion (2017: £13.1 billion)
- During the year the Society successfully enhanced its online savings proposition and will continue to focus on this area
- In 2018 we increased our market share[2] of savings and grew deposits by £0.8 billion
- Awarded the Moneyfacts 'Best Building Society Savings Provider' award for the third year running







[1] Source: CACI CSDB, stock, January 2018 – December 2018, latest data available. CACI is an independent company that provides financial services benchmarking data and covers 87% 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

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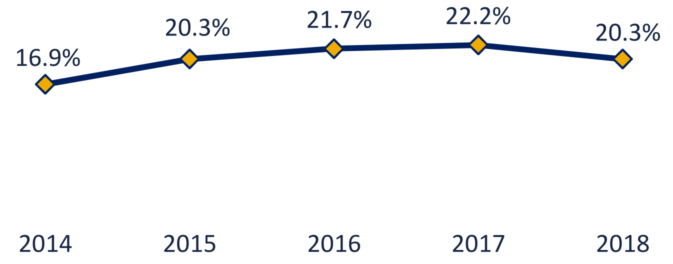
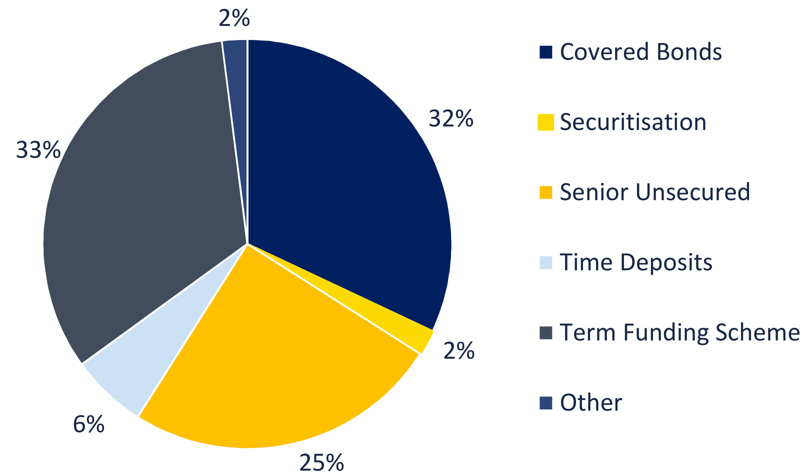
Stable Wholesale Funding Profile

- The Society continues to access wholesale markets and has a portfolio of wholesale funding, including TFS, totalling £3.9 billion (2017: £4.1 billion) which equates to 20.3% of total funding
- The Society has raised £200 million in Tier 2 funding. A total of £1,225 million has been drawn under the TFS at the end of 2018
- The Society's NSFR is 145% (2017: 135%) compared to an expected regulatory minimum of 100%

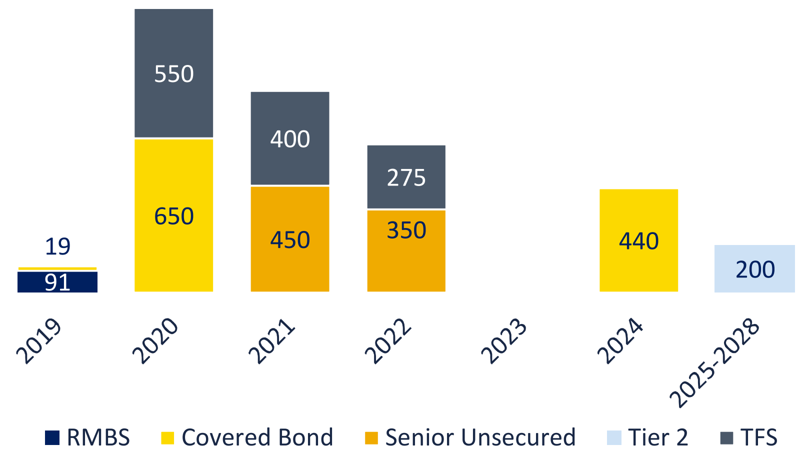
Wholesale Funding Ratio



Wholesale Funding Composition



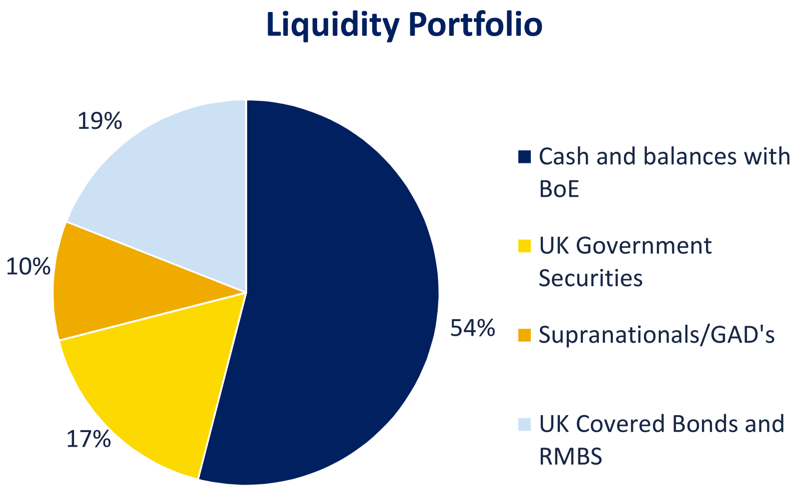
Wholesale Funding Maturity Profile (£m)



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

Leeds Building Society

High Quality Liquidity



- Liquid assets at the end of 2018 were £2.8 billion compared to £2.7 billion at the end of 2017
- 99% of the portfolio is High Quality Liquid Assets (HQLA) compared to 99% in 2017
- The Society also has access to contingent liquidity through the Bank of England's Sterling Monetary Framework
- The Society's LCR is 214% (2017: 198%), compared to the regulatory minimum of 100%

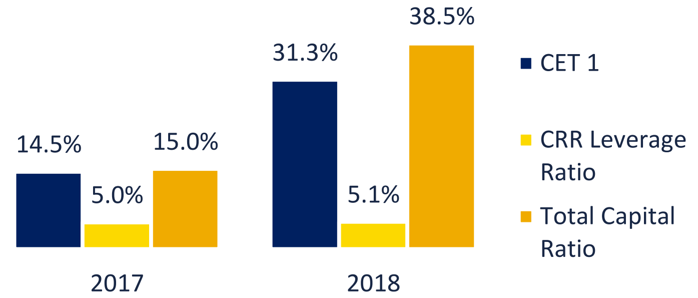
Source: Leeds Building Society Annual Results, as of 31st December 2018

Capital

- The Society has raised £200 million Tier 2 to strengthen its capital base in advance of MREL requirements coming into force
- LBS has now received an advanced IRB waiver which has increased the CET1 ratio to 31.3%
- The Society has a strong UK leverage ratio of 5.5%, and an MREL leverage ratio[1] of 6.8%, above the end state requirement (excl. buffers)
- The completion of the sale of the Irish mortgage portfolio reduces tail risk associated with future downturns and Brexit related uncertainties

	Dec-18	Dec-17
Capital Resources (£m)		
Common Equity Tier 1 (CET1) Capital	997	952
Additional Tier 1 Capital	10	12
Total Tier 1 Capital	**1,007**	**964**
Tier 2 Capital	218	24
Total Regulatory Capital Resources	**1,225**	**988**
Risk Weighted Assets (RWAs)	3,183	6,577
CRD IV Capital Ratios		
Total Capital Ratio	38.5%	15.0%
CET1 Ratio	31.3%	14.5%
CRR Leverage Ratio	5.1%	5.0%
UK Leverage Ratio	5.5%	5.5%
MREL Leverage Ratio	6.8%	5.6%

Capital Ratios



[1] Inclusive of MREL eligible debt instruments such as Tier 2 and SNP
[2] UK leverage framework

Leeds Building Society

Leeds Building Society

2018 Financial Highlights

2018 New Lending & the Mortgage Portfolio

Funding, Liquidity and Capital

► **Outlook for 2019**

Outlook for 2019 and Beyond

- Peter Hill retired as Chief Executive Officer in February 2019 after seven years in the position, during which time the Society's total assets and profits have more than doubled. Peter will be succeeded by Richard Fearon, who joined the Society as Chief Commercial Officer in 2016
- 2018 has been another successful year for the Society and represents solid progress in delivering our vision to be the UK's most successful building society. Our strong performance over many years has resulted in record retained capital and reserves and we have further consolidated our financial strength
- At the end of the year, the outlook for the UK economy is particularly uncertain, with the basis for and impact of leaving the EU on 29 March 2019 unclear. Notwithstanding this, we are well placed to continue to act in the long term interests of the Society and deliver sustainable growth for the benefit of our members
- It is expected that competition in the mortgage and savings markets will continue to intensify, both from existing participants and new technology driven entrants. This will drive continued downward pressure on margins. The Society will continue to look to mitigate this impact by targeting specific segments of the market which are less well served by the wider market
- The Society will continue to improve its digital capability as we strive to meet the changing needs of our members. We've successfully enhanced our online savings proposition and focus on this important area will continue, as will our investment to improve our mortgage processing capability
- The Bank of England introduced changes to discontinue the use of LIBOR. We have already begun assessing the possible impact so we can prepare for the changes, which come into effect in 2021
- 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

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