2019 Annual Results

Fixed Income Presentation

Leeds Building Society

Executive Summary

Pre-tax profit, whilst still robust, decreased to £88.0m (£116.9m 2018), primarily due to an accounting fair value charge (£19.7m)

Gross mortgage lending was £3.5 billion and was above the Society's natural market share, net lending was £1.0 billion – twice market growth

Capital and reserves up to a record £1.3bn (£1.2bn 2018), end point UK leverage ratio 5.3% (5.5% 2018), CET 1 ratio up to 33.6%, and total capital up to 40.8% - Top 10 capitalised bank and building society worldwide*

Savings balances grew to a record level of £14.5bn (£13.9bn 2018) and in wholesale funding we issued our largest (£600m) SONIA-linked Covered Bond and our first STS-labelled RMBS;

Multi-million pound, multi-year investment programme in our future, in new systems and a new Head Office building in the heart of Leeds

Developed our first Fair Pay Charter and became a Real Living Wage Employer, Named "Financial Services Company of the Year" in the National Centre for Diversity Awards

* The Banker Magazine

Strategic Pillars

<table>
<tr><th></th><th>Secure</th><th>Customer Centred</th><th>Simple</th><th>Future Facing</th><th>People</th></tr>
<tr><td rowspan="4">2019 Progress</td><td>Mortgage retention helping growth</td><td>Our highest Customer and broker satisfaction scores</td><td colspan="3">Robotic Processing Automation, streamlining processes</td></tr>
<tr><td>Well capitalised , above regulatory requirements</td><td>Award winning customer service – 4 star trust pilot score</td><td>Target Operation Model reviewed</td><td>Investment to increase capacity and capability</td><td>Proactive upskilling where automation can be introduced</td></tr>
<tr><td>Reducing legacy portfolios</td><td>Improved payment processing</td><td>Head Office relocation project</td><td>Development of new mortgage platform</td><td>Living Wage Employer</td></tr>
<tr><td></td><td>Strong delivery from mortgages and savings franchises</td><td>Low cost : asset ratios</td><td>Website and customer journey improvements</td><td>Leaders in Diversity accreditation</td></tr>
<tr><td rowspan="5">2020 Vision</td><td>New Segment Development</td><td colspan="3">New mortgage platform delivered</td><td rowspan="2">Organisational design optimisation</td></tr>
<tr><td>Increased resilience to market competition</td><td colspan="3">Improving Digital Operating Model and Self Service Capability</td></tr>
<tr><td></td><td colspan="3">Operational Transformation</td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Head Office relocation project continues</td></tr>
<tr><td></td><td></td><td></td><td>Technology change and data strategy</td><td></td></tr>
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Leeds Building Society

ESG Highlights

	Recent highlights
Environmental	Reduced carbon footprint by 95% since 2016 Held the **Carbon Trust Standard** for Carbon reduction since 2017 New Head Office (2021 move in) will be **fossil fuel free** and highly energy efficient
Social	Raised over £300,000 through our two year partnership with Samaritans to help them be there when it matters **Over £2m donated** to local communities since 1999 Signatory to the Women in Finance Charter, Race at Work Charter and The Social Mobility Pledge 2-star Best Companies rating and listed in the 2019 Sunday Times **Top 100 Best Companies to Work For** Trained 20% of our colleagues on **mental health awareness** since 2018, and helped more than 60 people in other organisations as Mental Health First Aiders
Governance	Participant in the BITC Responsible Business Tracker® aligned to UN Sustainable Development Goals (SDGs) **Fair tax strategy** commits the Society to not using aggressive tax avoidance schemes or off shore tax havens Published **Fair Pay Charter** covering our approach to remuneration and reward

Recent Accreditations

Corporate Responsibility Targets

In 2017 the Society set 12 targets under our framework to reach by the end of 2020 along with a commitment to report our progress annually.

	2020 Targets	
Money & Homes	Help over 225,000 people save for their future and 175,000 have the home they want	**ON TRACK**
	Help over 175,000 people have the home they want	**BEHIND**
	Help 30,000 first time buyers into a home of their own	**ACHIEVED**
Members & Communities	Achieve high customer satisfaction scores of over 90%	**ON TRACK**
	Provide 14,000 colleague volunteering hours	**ACHIEVED**
	Provide £1.2 million to charities and the community (£300,000 in the last 2 years to Samaritans alone)	**ON TRACK**
People & Places	Engagement scores of over 70%	**ON TRACK**
	Recycle all paper and use 100% green tariff energy	**ON TRACK**
	Reduce carbon emissions by 150,000 kg CO_2e	**ACHIEVED**
Sustainable & Responsible	Maintain financial strength and ability to grow through maintaining our total capital ratio in excess of 20%	**ON TRACK**
	Achieve better than the industry average for Financial Ombudsman Service (FOS) upheld complaints	**ON TRACK**
	Increase the number of active members on TalkingPoint to 2,500	**ACHIEVED**

Leeds Building Society

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▶ **2019 Financial Highlights**

The Mortgage Portfolio

Funding, Liquidity and Capital

Outlook for 2020

2019 Business Highlights

Source: Leeds Building Society Annual Results, as of 31st December 2019

Leeds Building Society

Profitability

Profit before tax, whilst still robust, was down from prior year

Profit before tax included elevated fair value losses that will unwind in the future.

Net interest income down on prior year

Net interest income reflected the intensifying competition in the mortgage market.

Pressure from ring-fenced banks does not look to be abating

Profits are expected to remain at lower levels in the short to medium term, compared to 2015-2018.

Profits remain robust

Profits remain robust and at an appropriate level to support growth and prioritise investment.

Fair value losses are accounting adjustments that will unwind in the future

Fair value losses are elevated this year due to significant movements in market rates, including LIBOR impacting both our derivative and equity release portfolios.

	2019 (£m)	2018 (£m)	Change (£m)
Net Interest income	200.8	218.1	(17.3)
Fees, commissions and other income	8.2	8.5	(0.3)
Fair value gains less losses	(19.7)	(5.7)	(14.0)
Total Income	**189.3**	**220.9**	**(31.6)**
Management Expenses	(101.2)	(98.9)	(2.3)
Impairments on loans and advances to customers	(2.8)	1.2	(4.0)
Other impairments and provisions	2.7	0.2	2.5
Loss on sale of portfolio	-	(6.5)	6.5
Profit Before Tax	**88.0**	**116.9**	**(28.9)**
Tax expense	(21.8)	(27.7)	5.9
Profit After Tax	**66.2**	**89.2**	**(23.0)**

Profit Before Tax (£m)

Source: Leeds Building Society Annual Results, as of 31st December 2019

Leeds Building Society

Net Interest Income

Increase in average interest rate paid on savings accounts across the year

On average we paid 1.37% (2018: 1.32%) on our savings range, compared to the market average of 0.75%[1] (2018: 0.70%).

Paid up for protection against spread widening

We protect against spread widening by maintaining a high proportion of customers on fixed rate products.

Competition in the UK mortgage market has intensified

Our strategy of supporting less well served markets moderated the overall impact on margin but was insufficient to fully offset competitive pressure.

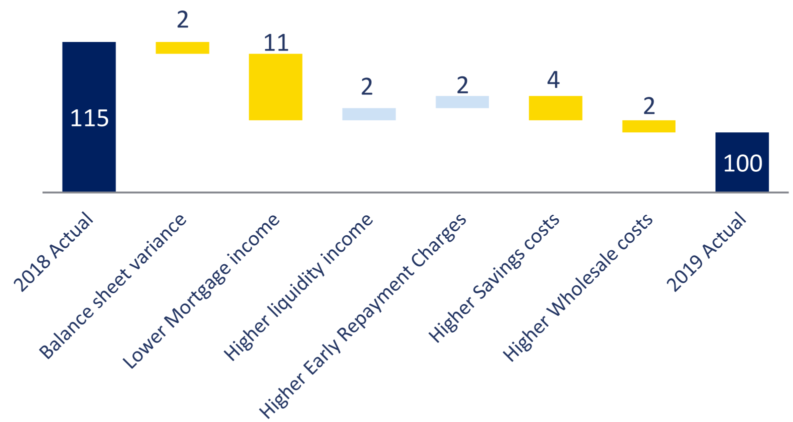
Lending book churn is increasing

High margin products being replaced with lower, increase in product transfers at the end of incentive period and customers staying on SVR for less time.

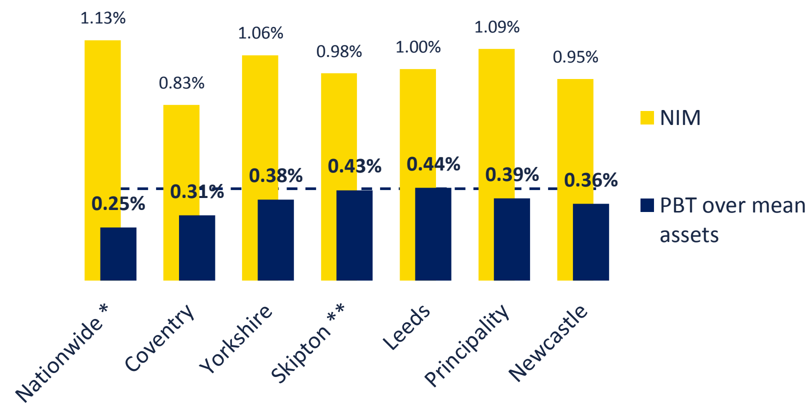
The Society is 'best in class' for PBT over mean assets

Well positioned to absorb the near term pressure on NII from the continued competitive pressure due to cost control.

2018 to 2019 Actual NIM Bridge (bps)



Cost control means Leeds' Profit to Total Asset Ratio is best in class



Source: Leeds Building Society Annual Results and latest available annual results as of 31st December 2019

*Figure from Sept 19 Interim Management Statement and annualised
** Mortgage and Savings division only

Commercial Performance

Total assets increased by 7%, to £20.8 billion

Growth is consistent with 2018 as we continue to manage carefully overall balance sheet growth in support of the long term strength and stability of the Society.

Our innovative strategy supported strong net growth in lending book

Our share of new mortgage lending remained above our natural market share at 1.3%. Net lending of £1bn is twice the market growth.

Conscious decision to manage growth to protect margin

Gross new lending during the year was £3.5 billion with the reduction on last year primarily from targeting lower growth due to increased competition in the mortgage market.

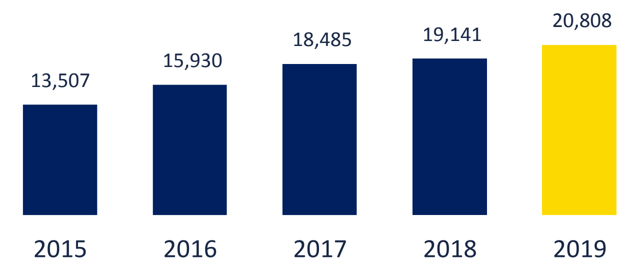
Increased level of product transfers

Product Transfers now represent almost two thirds of the value of gross mortgage lending.

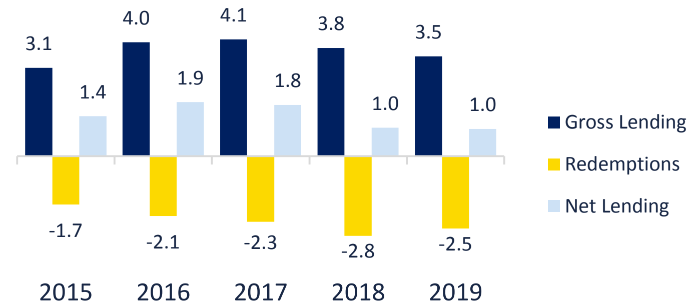
Strong retail savings growth

Savings balances increased by £0.6 billion, representing growth of 4% to a record £14.5 billion.

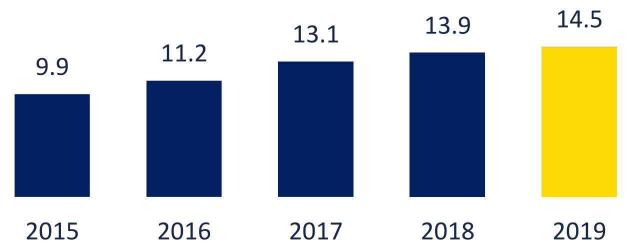
Total Assets (£m)



Residential Lending (£bn)



Retail Savings (£bn)

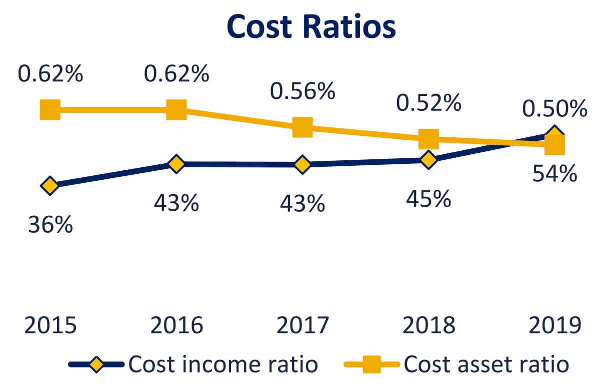


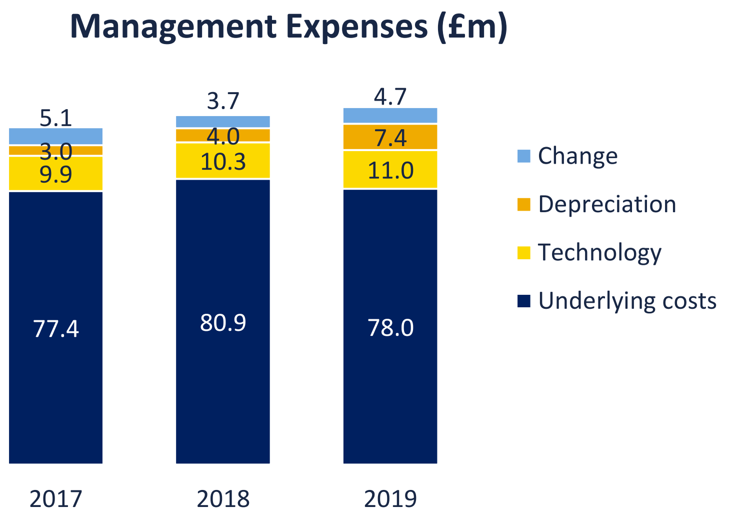
Source: Leeds Building Society Annual Results, as of 31st December 2019

Leeds Building Society

Costs and Efficiency

Cost to asset ratio improved further	Cost to asset ratio of 50bps (52bps) remains among best in the sector.
Cost to income ratio has increased to 53.5%:	The ratio remains one of the best in the sector but has increased primarily from lower in income in 2019 with costs continuing to be managed tightly.
The Society recognises the need to invest in the business	Investment to meet the changing needs of members is balanced with the need to control costs and maintain competitive advantage.
Management expenses increased by 2% in the year	Underlying operating expenses (incl. technology) reduced by 2.5% with the additional costs arising from investing in future facing capabilities.
Multi-million pound transformation program	Investment in new lending platform, digital delivery and functional redesign.
Average headcount reduced from 1,308 to 1,303	FTE savings in operational areas were reinvested in digital and project delivery future facing roles.





Cost Saving Initiatives

Managing costs allows us to give value back to members and is a real source of competitive advantage. We've continued to make some real progress in simplifying the business which helps to drive that continued efficiency

Automation	Robotic Processing Automation – Our robots have processed 1.7 million units of work in 2019, starting at 4am each day and working 365 days a year
Rationalisation of Properties	The development of our new Head Office building continues with a focus on energy efficiency. Once complete we will reduce our property footprint by once again having all of our Leeds-based staff in one building
Organisational Effectiveness	Operational Transformation is simplifying and enhancing customer and colleague experience and proving enhancements to service channel capabilities. Team structures being reviewed with a focus on upskilling

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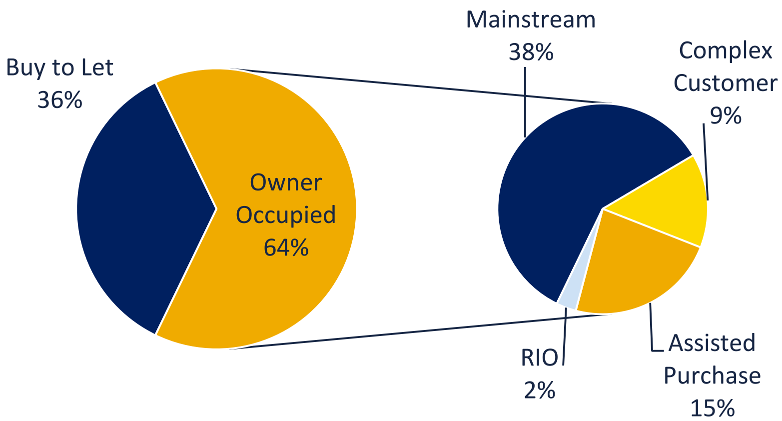
► **The Mortgage Portfolio**

Funding, Liquidity and Capital

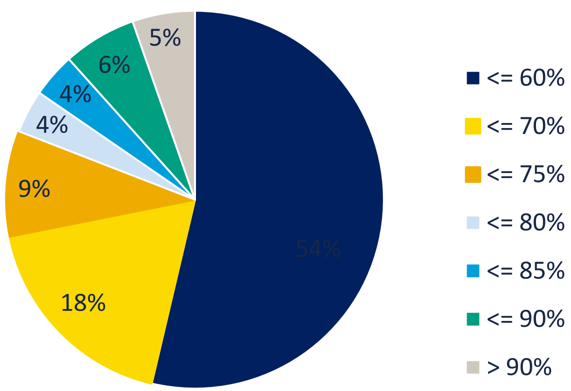
Outlook for 2020

2019 New Lending

2019 Lending by Segment



New lending LTV Distribution



Utilize strong funding franchises

Utilising our funding capacity and strong capital position to support a wide range of borrowers.

Segmental lending strategy remains appropriate

We continue to focus on borrowers not well served by the wider market, such as buy to let or shared ownership and first time buyers or later life homeowners.

New lending remains low LTV risk

The average LTV of new lending in 2019 was 60% (2018: 61%).

		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†	48%
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 80% for BTL, 85% for 2nd Home	55%

Source: December 2019 Internal Reports

† Maximum borrower share up to 75% LTV

Residential Mortgage Portfolio

Segmental approach is well established

Residential owner occupied balances now make up less than half of UK residential mortgage balances, with buy to let increasing to 32%.

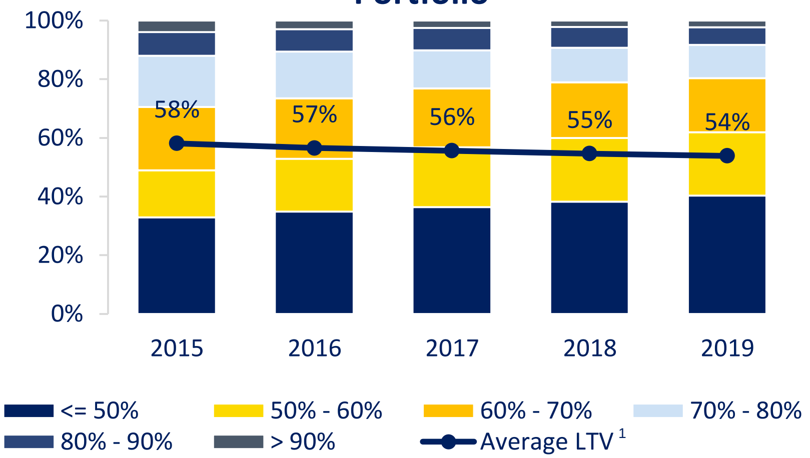
Low exposure at high LTV

Proportion of the book above 90% remained at 2%, the average[1] indexed LTV fell to 54% (55%: 2018).

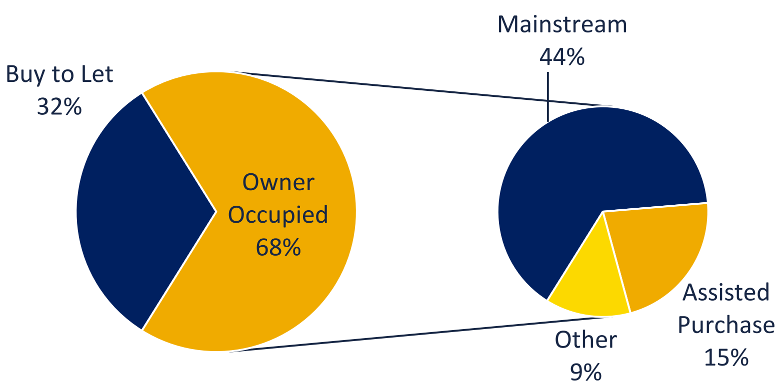
BTL lending has been underpinned by a low risk strategy and benchmarks well on LTV

Two-thirds of BTL lending being <=60% LTV over the last three year;
Highest average ICR in peer group and significant proportion paying Capital & Interest.

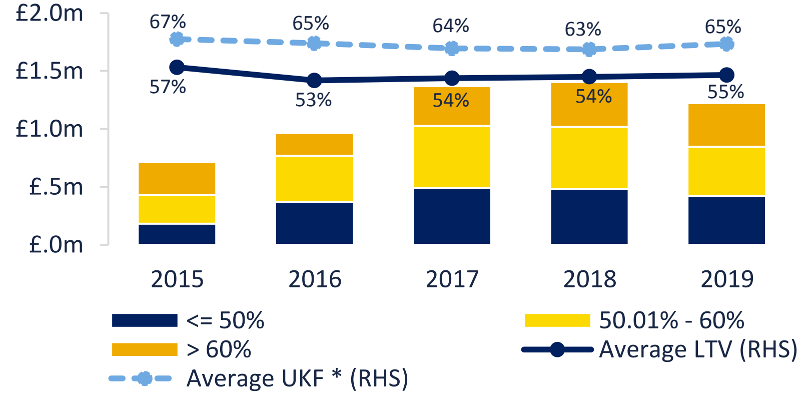
Improving LTV Distribution of Total Portfolio



UK Mortgage Book



BTL - New Lending by LTV compared to industry average



Source: December 2019 Internal Reports

[1] Average Indexed LTV weighted by balance
* UK Finance available data on BTL lending is split by different LTV bands. To create an average the mid-points for all bands were used except 50-60% and 60-70% where the upper point of the band was used.

Leeds Building Society

Arrears and Provisions

Modest rise in arrears, remains well below UK average

Our arrears ratio[1] increased to 0.54% compared to 0.46% at the end of 2018.

Forecast economics have worsened – driving higher credit charges

Increase in arrears and a worsening view of key economic conditions combined with Brexit uncertainty have combined in the models to result in an increased charge for the year.

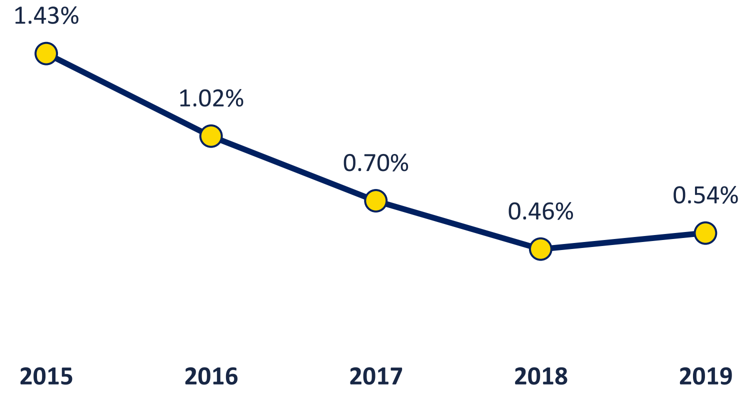
Impairment coverage remains strong

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.

Continue to manage down non-core assets

Our commercial and non-core assets now consist of less than 0.6% of total lending book.

Total arrears



	31st Dec 2019	1st Jan 2019
Stage 1	90.5%	90.8%
Stage 2 and <30 days past due	8.1%	7.7%
Stage 2 and 30+ days past due	0.5%	0.5%
Stage 3	1.0 %	1.0 %
Total	100%	100%

Source: December 2019 Internal Reports

Sustained Retail Savings Performance

Strong growth in retail funds

Savings balances increased by £0.6 billion, representing growth of 4% to a record £14.5 billion (2018: £13.9 billion), increasing market share.

Maintained a keen focus on building society principles

This is a reflection of the core building society principles, with the provision of a safe place for members' funds being the primary source of funds to meet lending needs.

Retained simple, branch based focus to our retail proposition

We continue to offer competitive savings rates to both existing and new members with a simple product proposition.

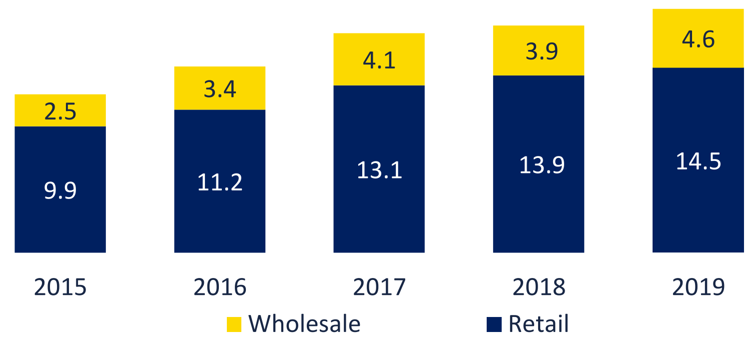
Retained protection from spread widening

Paid up for high proportion of term funding to maintain protection from future spread widening.

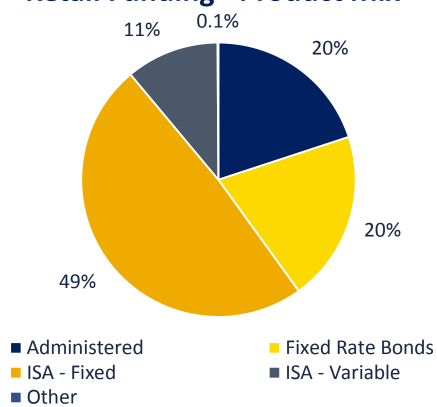
Externally recognized for savings provision

Awarded the Fairer Finance Gold Ribbon for savings.

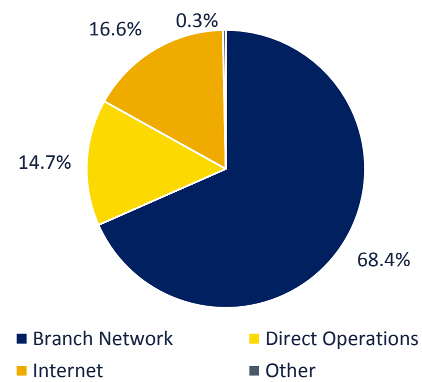
Funding Profile (£bn)



Retail Funding - Product Mix



Retail Funding - Channel Mix



Leeds Building Society

Stable Wholesale Funding Profile

Wholesale markets an important, complementary source of funding

Society continues to access wholesale markets and has a portfolio of wholesale funding, including TFS, totalling £4.6 bn (2018: £3.9 bn).

We have taken advantage of positive winds in the wholesale markets

We issued our largest Covered Bond to date (£600m) and we raised £400 million through our Albion No.4 RMBS issuance.

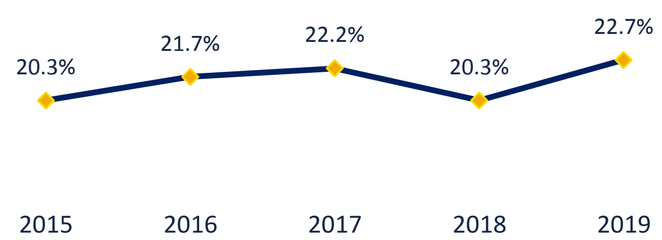
SONIA reference supports reducing our LIBOR exposure

These issuances were linked to SONIA as we move to reduce our exposure to LIBOR led by the interest rate benchmark reform.

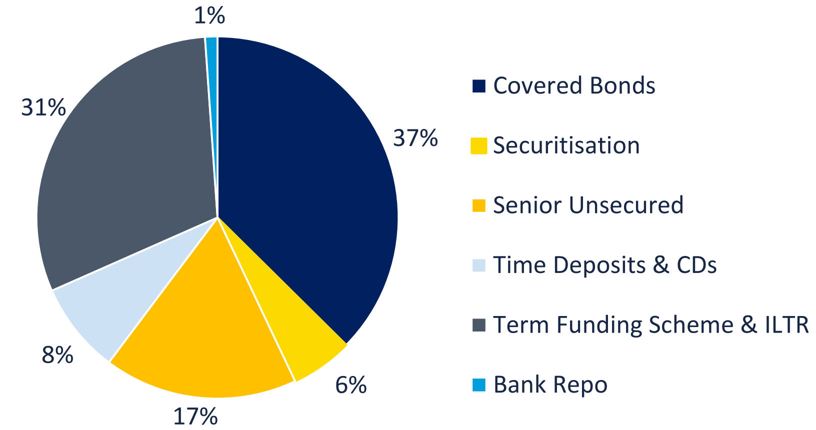
Maintained strong NSFR

The Society's NSFR is 142% (2018: 145%) compared to an expected regulatory minimum of 100%.

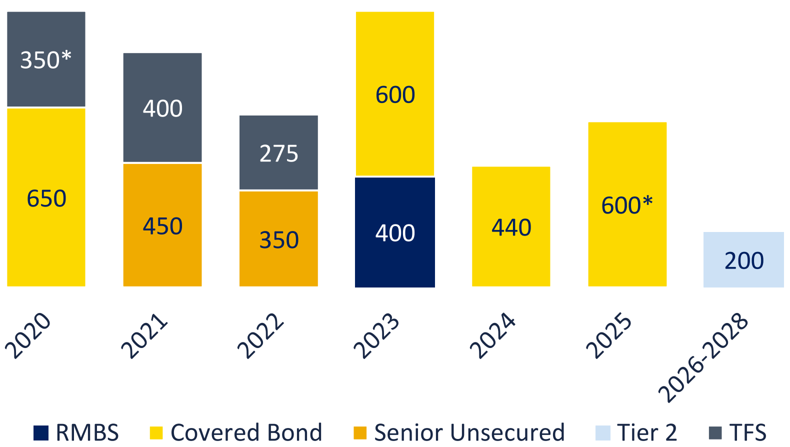
Wholesale Funding Ratio



Wholesale Funding Composition



Wholesale Funding Maturity Profile (£m)



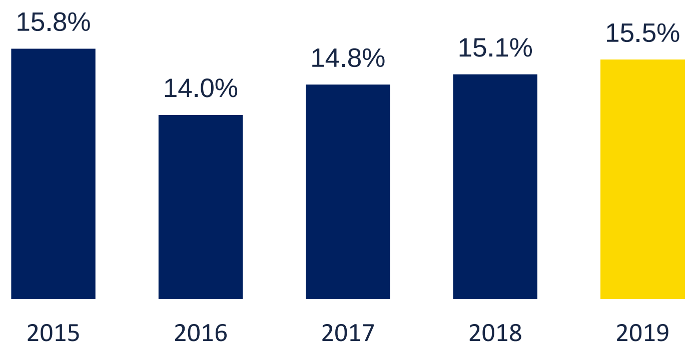
Figures are all GBP equivalent and correct from 31st December 2019

TFS repayments are contractual
*£200m TFS repayment made in January 2020, a further £350m to be repaid, £600m Covered Bond issued in January 2020

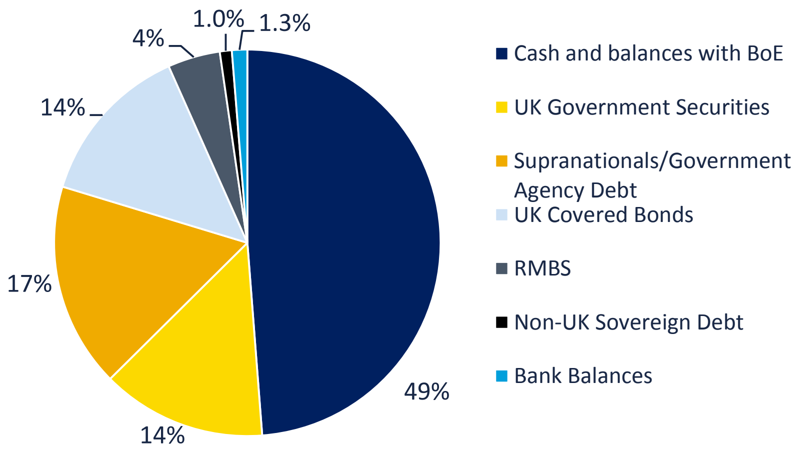
Leeds Building Society

High Quality Liquidity

Liquidity



HQLA Liquidity Portfolio



Maintained strong levels of liquid assets	Total liquid assets at the end of 2019 were £3.3 billion, compared to £2.8 billion at the end of 2018.
Quality of liquidity book preserved at the highest level	Liquidity included £3.0 billion of High Quality Liquid Assets (2018: £2.6 billion).
	100% of assets are rated 'A' or above (2018: 100%).
Access to contingent liquidity	The Society has access to contingent liquidity through the Bank of England's Sterling Monetary Framework.
LCR significantly above regulatory minimum	Our Liquidity Coverage Ratio (LCR) is 235% (2018: 214%), in excess of the regulatory minimum of 100% for the entire year.
High capacity of unencumbered assets	Our unencumbered liquidity ratio, which is another measure of readily realisable assets, was 15.5% at 31 December 2019 (2018: 15.1%).

Source: Leeds Building Society Annual Results, as of 31st December 2019

Leeds Building Society

Capital

Capital continues to grow from strong profits

Total regulatory capital has increased by £46 million during 2019 to £1,271 million (2018: £1,225 million).

RWAs reduced through low risk lending

Risk weighted assets (RWAs) have reduced by £67 million during 2019 to £3,116 million (31 December 2018: £3,183 million).

One of the highest capitalized bank or building society globally

The CET 1 ratio, calculated on a transitional basis, has increased to 33.5% from 31.3% at 31 December 2018.

Strong on both risk adjusted and leverage regimes

The Society has a strong UK leverage ratio of 5.3%, and an MREL leverage ratio[1] of 6.5%, above the end state requirement (excl. buffers).

We already meet the transitional requirements for MREL

The transitional MREL period for the Society changes to the higher rate of 18% of risk weighted assets by 21 July 2021 until the end state requirement by 21 July 2022.

Well progressed on our project to reflect recent IRB reforms

Early indications are that RWAs will increase but we are confident that we will remain well above the regulatory minimum and maintain a solid capital position that supports future growth plans.

	Dec-19	Dec-18
Capital Resources (£m)		
Common Equity Tier 1 (CET1) Capital	1,044	997
Additional Tier 1 Capital	8	10
Total Tier 1 Capital	**1,052**	**1,007**
Tier 2 Capital	219	218
Total Regulatory Capital Resources	**1,271**	**1,225**
Risk Weighted Assets (RWAs)	3,116	3,183
CRD IV Capital Ratios		
Total Capital Ratio	40.8%	38.5%
CET1 Ratio	33.5%	31.3%
CRR Leverage Ratio	5.0%	5.1%
UK Leverage Ratio	5.3%	5.5%
MREL Leverage Ratio	6.5%	6.8%

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

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► **Outlook for 2020**

Outlook for 2020 and Beyond

Uncertainty remains in the domestic and global macro economics	The outlook for the UK economy remains uncertain going into 2020, with the impact of the UK leaving the EU on 31 January and the outcome of negotiations over trade deals unknown. Initial global impacts of the Coronavirus are being felt with the full impact unknown.
Very strong capital levels maintained	The level of profits generated in recent years mean we have a strong capital position and financial security meaning we are well placed to withstand market uncertainty.
Profit pressure expected to continue but still conducive for growth and investment	Profits are expected to stay at lower levels in the short to medium term, compared with 2015-2018, but they remain robust and at an appropriate level to allow us to manage our growth and prioritise investment in technology and infrastructure to support the needs of existing and future members.
Service to brokers and members improving with tech advances	We retain a strong franchise in mortgage lending and retail savings which will help support future growth and this will be improved further with the investment in future facing initiatives. Growth levels for 2020 will be planned to minimise execution risk of our new lending platforms.
Tradition of good cost and risk control to support financial stability	Strong efficiency ratios and a conservative risk appetite are expected to support continuing strong profitability underpinning the financial security that is so important to members' confidence.

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