Leeds Building Society

2022 Full Year Results

Fixed Income Investor Presentation

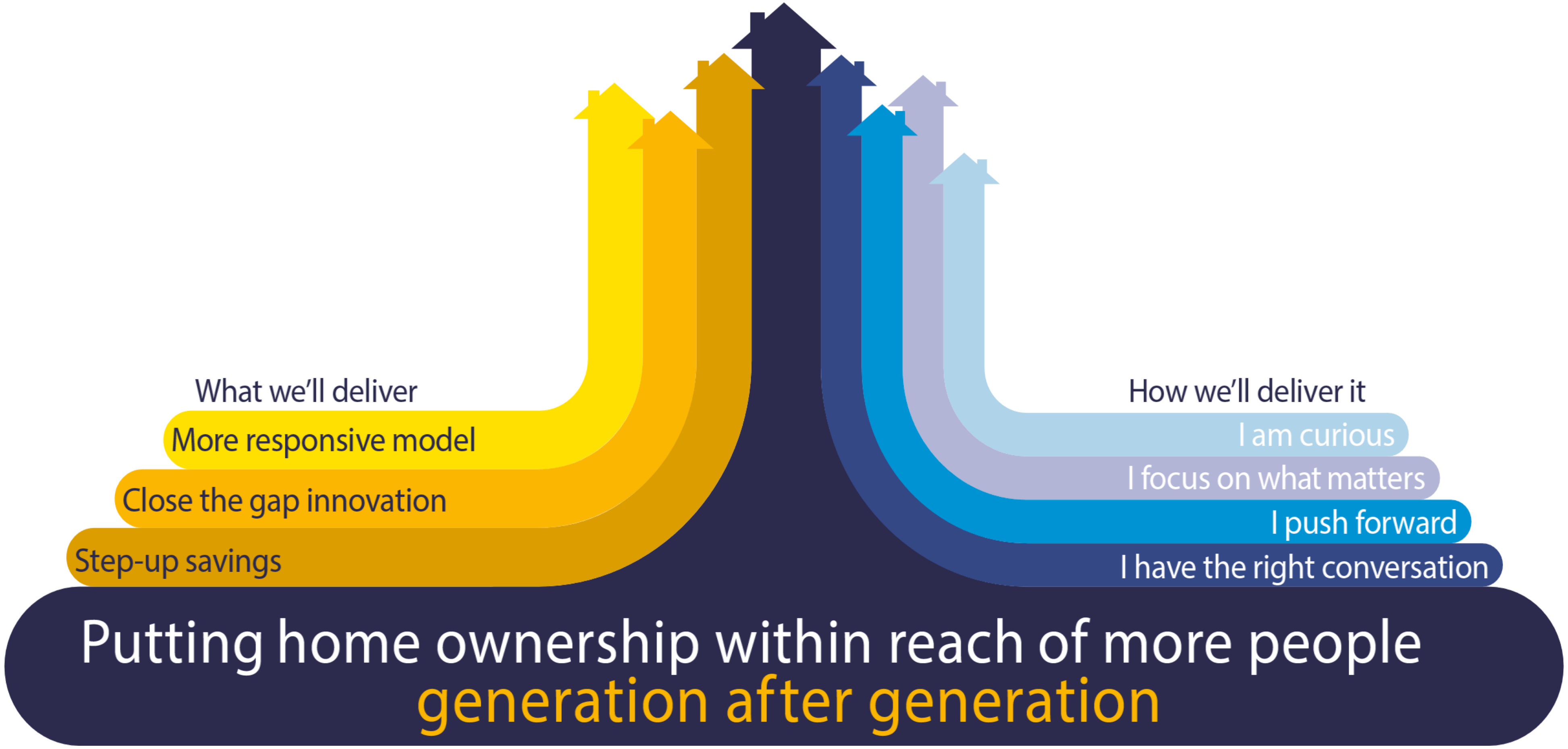
Contents

Leeds Building Society

> We really delivered on our purpose of helping to put home ownership within reach of more people than ever before.

Richard Fearon, CEO

We have a clear social purpose at our heart…



Leeds Building Society

2022 Full Year Highlights

Our continued support for the housing market enabled us to surpass all previous records.

We achieved record gross lending of £5bn as we delivered on our purpose, helping to put home ownership within reach of more people than ever before.

Key Performance Indicators

More responsive model	PBT[1] ⇧ £221m 2021: £163.7m	NIM ⇧ 1.50% 2021: 1.31%	CET1 ⇩ 33.3% 2021: 38%	UK Leverage ⇧ 6.2% 2021: 6.1%
Close the gap innovation	Cost to Income ratio ⇩ 37.4% 2021: 43.9%	Cost to Asset ratio ⇧ 0.59% 2021: 0.58%	Colleague Engagement ⇔ 8.0[2] / 10 2021: 3★	
Step-up savings	Gross Lending ⇧ £5bn 2021: £4.4bn	Net Lending ⇧ £2bn 2021: £1.5bn	App to Offer ⇩ 15 days 2021: 18 days	

1 Profit Before Tax (PBT)
2 Introduced a new survey provider having achieved 3* Best Companies score in 2021.

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We have stretching responsible business targets against our areas of focus, aligned to delivery of our Purpose

SUPPORTING HOME OWNERSHIP

Help 65,000 first time buyers into a home of their own by 2025.

Progress: Ahead
2022 target: 30,000 first time buyers supported by end of 2022
2022 actual: 38,000 first time buyers supported by end of 2022

Improve mortgage broker satisfaction scores by 20% by 2025.[1]

Progress: Ahead
2022 target: +54 Broker NPS
2022 actual: +63 Broker NPS

Maintain an average savings rate premium of at least 0.25% compared to market average.[2]

Progress: Achieved
2022 target: >0.25%
2022 actual: 0.50%

SUSTAINABLE COMMUNITIES

Provide £1.5m to charities and communities through grants, donations and sponsorship by 2025.

Progress: Ahead
2022 target: £600k by end of 2022
2022 actual: £1.4m by end of 2022

We have set a new, more ambitious target of providing £3m to communities by 2025.

Maintain our share of UK high street branches at higher than 0.50%.[3]

Progress: Achieved
2022 target: >0.50%
2022 actual: 0.62%

INCLUSION & DIVERSITY

Achieve 12% overall ethnic minority representation among our colleagues by 2025.

Progress: Ahead
2022 target: 9.75%
2022 actual: 11.9%

Achieve 7% ethnic minority representation among leaders by 2025.

Progress: Ahead
2022 target: 4.6%
2022 actual: 7.2%

Improve gender diversity with 33% female Board members by 2025.

Progress: Behind
2022 target: 33%
2022 actual: 27%

Improve gender diversity with 35% female senior leaders by 2025.

Progress: On track
2022 target: 33.5%
2022 actual: 35.25%

CLIMATE & ENVIRONMENT

Reduce absolute scope 1 and 2 market-based emissions by 90% by 2030.[4]

Progress: Ahead
2022 target: 10% reduction
2022 actual: 19% reduction

Reduce absolute scope 1 and 2 location-based emissions by 60% by 2030.[4]

Progress: Ahead
2022 target: 7% reduction
2022 actual: 43% reduction

Maintain carbon neutrality for scope 1 and 2 market-based emissions and selected scope 3 emissions, on the pathway towards net zero.[5]

Progress: Achieved[8]
2022 target: 0 tCO_2e
2022 actual: 0 tCO_2e

We're working towards alignment to an overall net zero pathway by 2050 or sooner. As part of this ambition we have updated our climate targets in 2022, and the new targets above replace our previous targets.

TRUST & TRANSPARENCY

Maintain strong colleague engagement score which places us in line with the UK financial services sector benchmark.[6]

Progress: Achieved
2022 target: 8.0 (out of 10)
2022 actual: 8.0 (out of 10)

Maintain high member satisfaction scores of over 90%.[1,7]

Progress: On track
2022 target: >90%
2022 actual: 93%

Key

Ahead – where the cumulative performance to date is >5% above the target on a pro-rata basis (where appropriate).

On track – where the cumulative performance to date is between 100%-105% versus the pro-rata target.

Behind – where the cumulative or in year performance is below the associated target.

Achieved – where the reported performance for the year is in line with or above the in year target.

[1] Broker and member satisfaction figures are taken from a rolling 12 month average.
[2] CACI's CSDB, Stock, January 2022 to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.
[3] Based on bank and building society UK business count data, Office for National Statistics
[4] From a 2021 base year. For more explanation and a glossary of terms, see pages 46 to 49 and page 60.
[5] In accordance with Climate Impact Partner's CarbonNeutral Protocol, this includes emissions from our business travel, fuel and energy related activities, waste generated in operations, and home working.
[6] In 2022 we moved to a new provider for our Employee Engagement Survey (Peakon) in order to align with our purpose and enable us to benchmark our colleague experience more confidently against other organisations.
[7] Overall customer satisfaction in a survey of 3,387 members from January to December 2022.
[8] Subject to independent verification which will be completed during 2023. Any additional carbon offset credits that need to be purchased as a result of verification / final emissions calculations will be bought during 2023.

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Financials

Record profitability from better margins, higher rates and growth

Income statement

£m	2022	2021	Δ
Net Interest Income	359.6	282.2	27%
Other income	2.4	5.3	
Fair value gains / (losses)	14.7	(0.5)	
Total income	376.7	287.0	31%
Management expenses	(141.0)	(126.0)	
Loan impairments & provisions	(11.9)	4.1	
Other impairments and provisions	(3.3)	(1.4)	
Profit before tax	220.5	163.7	35%
Tax expense	(58.6)	(43.5)	
Profit after tax	161.9	120.2	35%

We delivered the highest profit in our history on the back of improving net interest income.

Increase in net interest income is driven by higher market rates and lending volumes coupled with suppressed funding costs in a rising rate environment.

During the year, significant volatility in market interest rates have resulted in fair value gains.

During the second half of the year, we introduced cash flow hedge accounting to manage volatility and mitigate some of the impact of these movements.

Continued our multi-year investment program in technology and internal capabilities.

Key ratios (%)		2022	2021
Net interest margin	⇧	1.50%	1.31%
Cost income ratio	⇩	37.4%	43.9%
Cost asset ratio	⇧	0.59%	0.58%
Cost of Risk	⇧	0.06%	0.02%

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Strong lending and savings growth resulted in 13% growth – with a focus on promoting home ownership for more people

£m	2022	2021	Δ
Residential mortgages	20,324	18,303	11%
- Mainstream	9,388	8,102	16%
- BTL	5,828	5,511	6%
- Shared Ownership	2,510	2,201	14%
- *of which FTB*	*6,093*	*5,182*	*18%*
Total assets	25,514	22,514	13%
Member equity	1,507	1,275	21%
Total liabilities & equity	25,514	22,514	13%

Our purpose focuses on enabling home ownership.

We increased lending to first time buyer and shared ownership segments by 18% and 14% respectively.

We withdrew lending on second homes in 2022.

Our key ratios remain very strong.

Capital ratios remain high despite increased RWAs from industry-wide changes to IRB risk weights. Strengthened further by strong profitability

Key ratios		2022	2021
Liquidity Coverage Ratio*	⇧	230%	195%
Wholesale funding ratio	⇩	22.9%	25.1%
CET1 Ratio	⇩	33.3%	38.0%
UK Leverage Ratio	⇧	6.2%	6.1%
MREL Ratio	⇩	47.4%	56.0%

*Note: This figure is the year end position, the ARA uses the 12m average LCR consistent with Pillar 3 disclosures which is 195%

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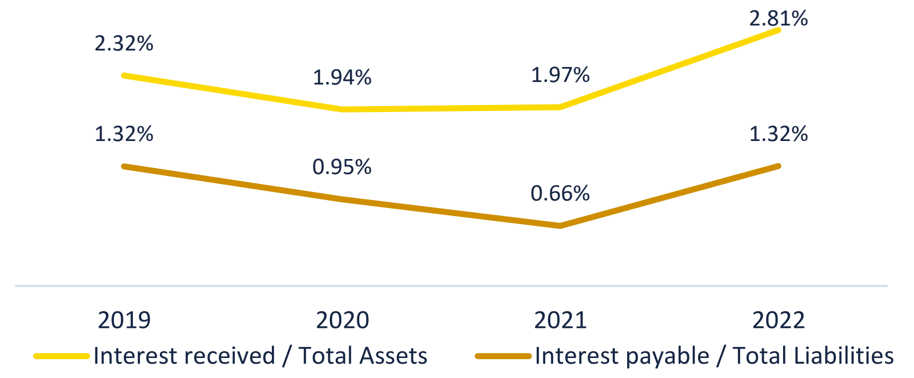
Healthy NIM as a result of strong lending margins and low funding costs

Record volumes at elevated mortgage margins, historically low funding costs and rising interest rates have led to an increased NIM of 1.5%.

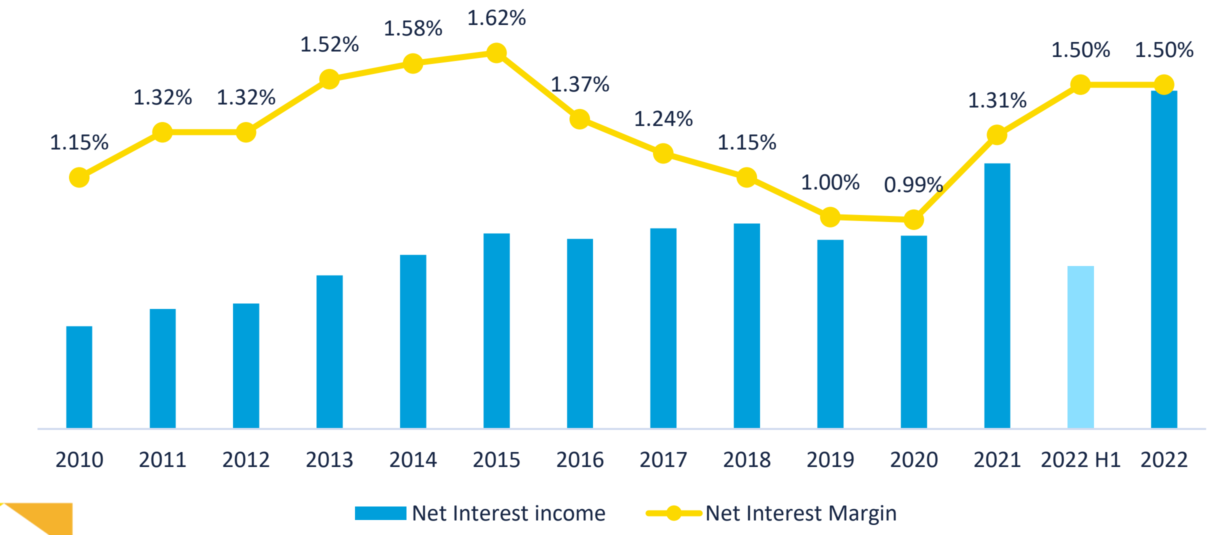
We continued balance member support and liquidity management by paying above market rates to members (1.15% vs 0.65%[1]).

The future is unknown but our latest view projects NIM to fall modestly due to an inverted yield curve, smaller and more competitive mortgage market and funding costs projected to increase.

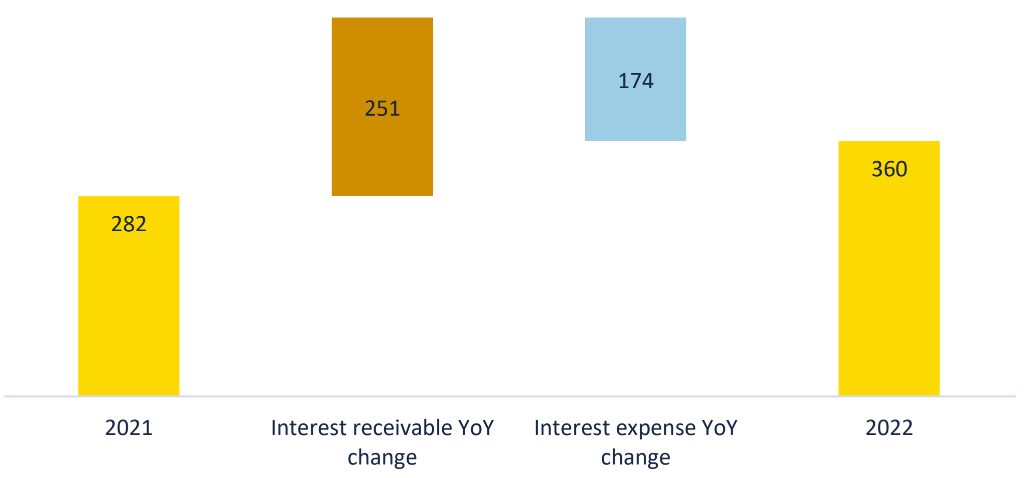
Asset and liability average rates



NIM and NII history



NII bridge



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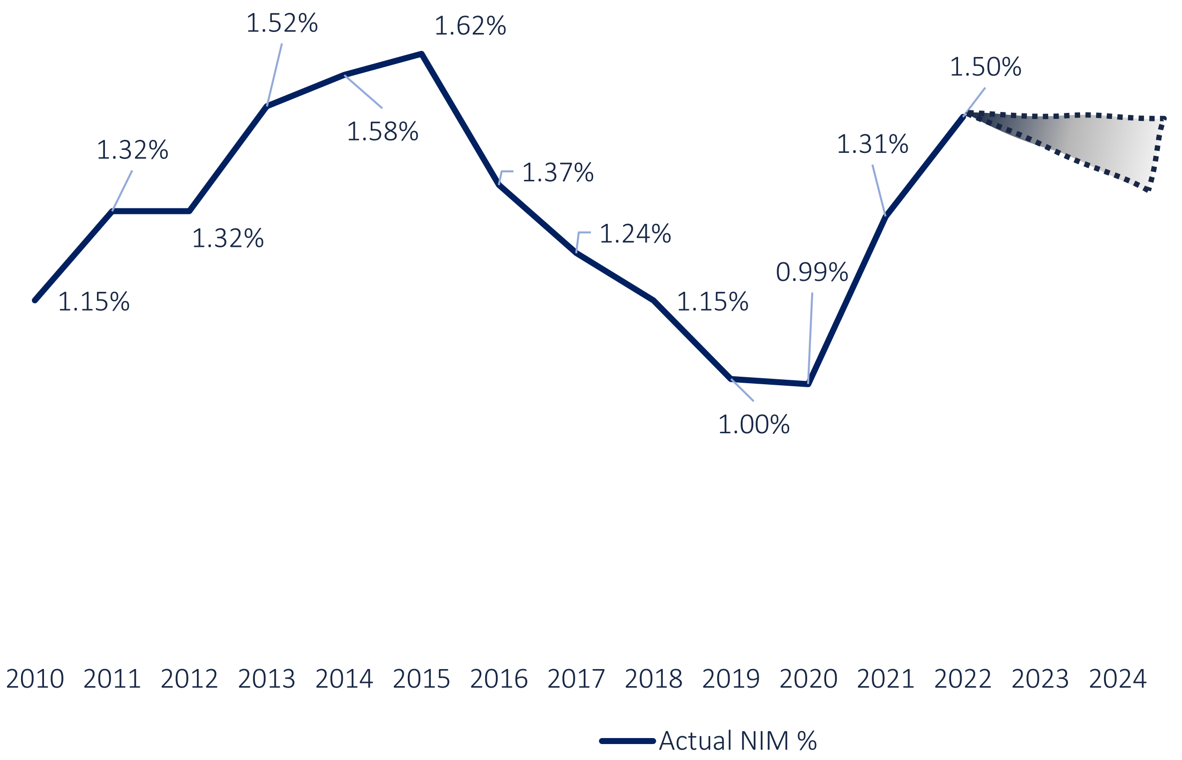
1 CACI's CSDB, Stock, January to December 2022, latest data available. CACI is an independent company that provides financial benchmarking data for the retail cash savings market.

Outlook is uncertain but on balance, NIM is expected to normalise from elevated levels

We expect to see NIM fall from the current elevated levels as funding costs normalise as a net product of head and tail winds in both the Macro environment and trading markets.



Geo-political uncertainty drives Bank rate up in the near term	**Customers remain on SVR** for longer awaiting rates to fall	**Fixed rates moderate,** increasing size of mortgage market	**Larger mortgage market** from more positive Macro environment	**High funding churn** as consumers seek rate pick up from low paying accounts
Macros (incl inflation) improve quicker and bank rate reduces	**Volatility remains in the markets** affecting balance sheet values	**Affordability concerns** limit size of mortgage market	**Suppressed market** from rate rises and low consumer confidence	**Bigger fixed savings mkt** as consumers shift from variable and Equities

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Operating efficiently means we can serve our members in the best way

We aim to operate as efficiently as possible, controlling our costs so that our ratios remain among the best in our sector, whilst also investing in the future sustainability of the society.

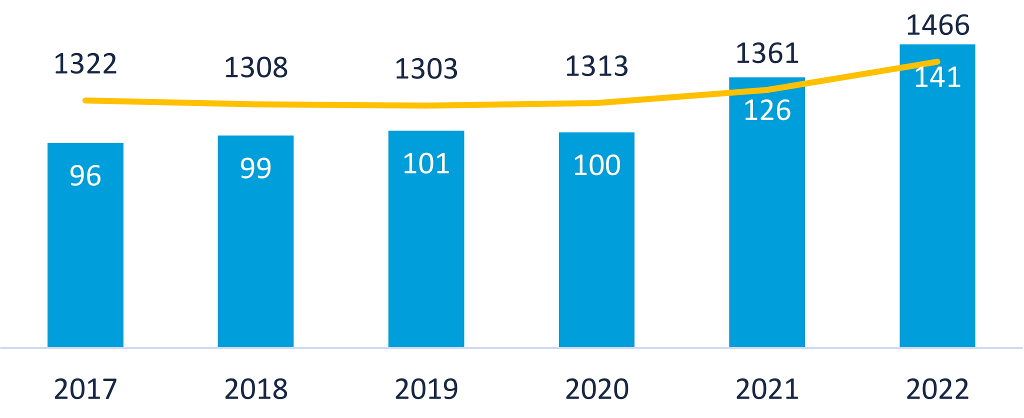
We have invested in technology during high profitability which has improved the member and broker experience.

These benefits are reflected in improved customer experience with broker NPS[1] score of 63 (2021: 56).

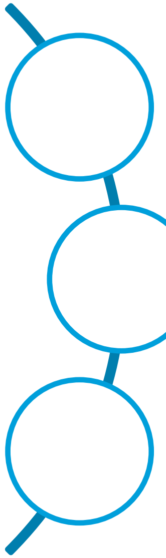
Although costs have increased, we have developed greater flexibility to speed up or slow down project related spend to manage our overall cost position.

Overall level of costs expected to remain elevated whilst we complete our multi-year investment program and support colleagues through the cost-of-living crisis.

Management expenses (£m) and Total Colleagues



Key investment areas



Resilience
Transfer of data centres to improve IT security; multi-year IT transformation

Service
Online functionality; contact centre

Productivity
Improving pace of change, underwriting capacity and use of data

£m	2022	2021
Colleague costs	83.3	73.0
Other administrative expenses	46.3	43.9
Depreciation and amortization	10.9	9.1
Total management expenses	141.0	126.0

Key Ratios (%)		2022	2021
Cost to income ratio	⇩	37.4	43.9
Cost to mean asset ratio	⇧	0.59	0.58

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1 Net Promoter Score (“NPS”)

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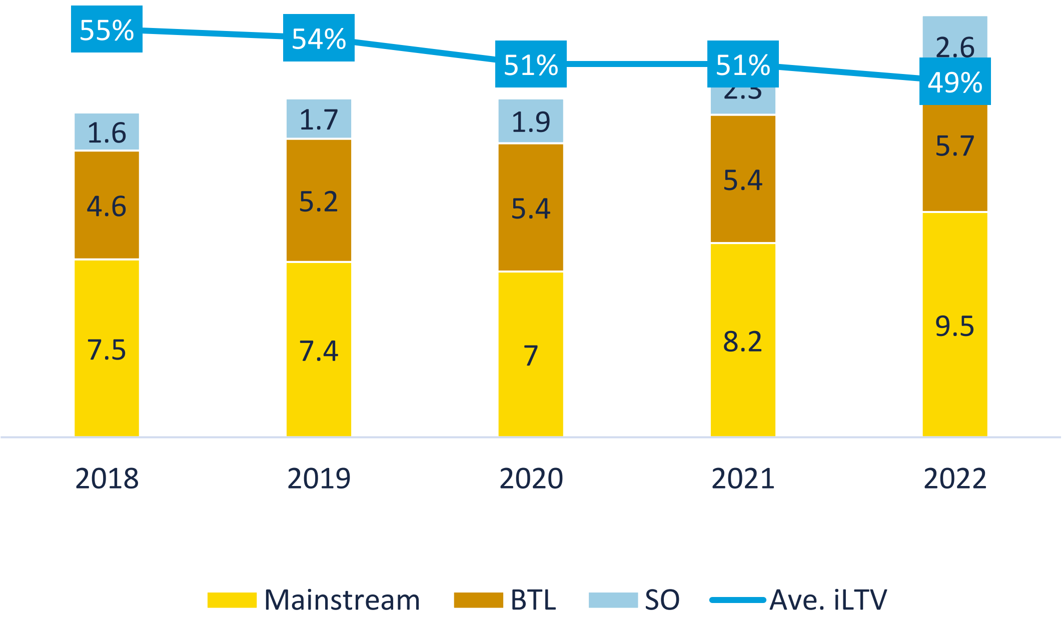
Asset quality

Our segmental focus provides access for those less well served by the wider market whilst balancing overall book risk

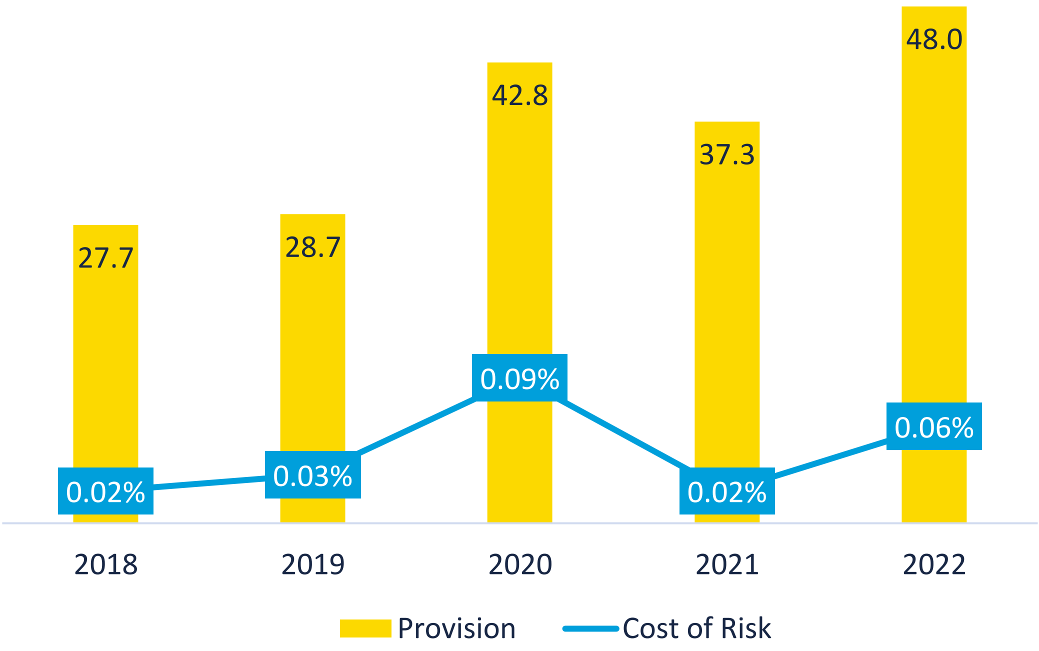
Mortgage book evolution (£bn)

Growth was moderated through 2018-19 with step up in 2021 and 22 as market conditions improved. Growth in house prices has supported iLTV.



Low historical provisions (£m) and Cost of Risk

Cost of risk has been impacted by Pandemic, uncertainty in the Macro environment and subsequent affordability concerns in a rising rate environment; but remains fully absorbed by net returns



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We have improved lending criteria and maintained high quality lending

Tighter scorecard cut off across all segments and controls relating to indebtedness.

Forward looking inflation and energy cost increases added into our affordability model.

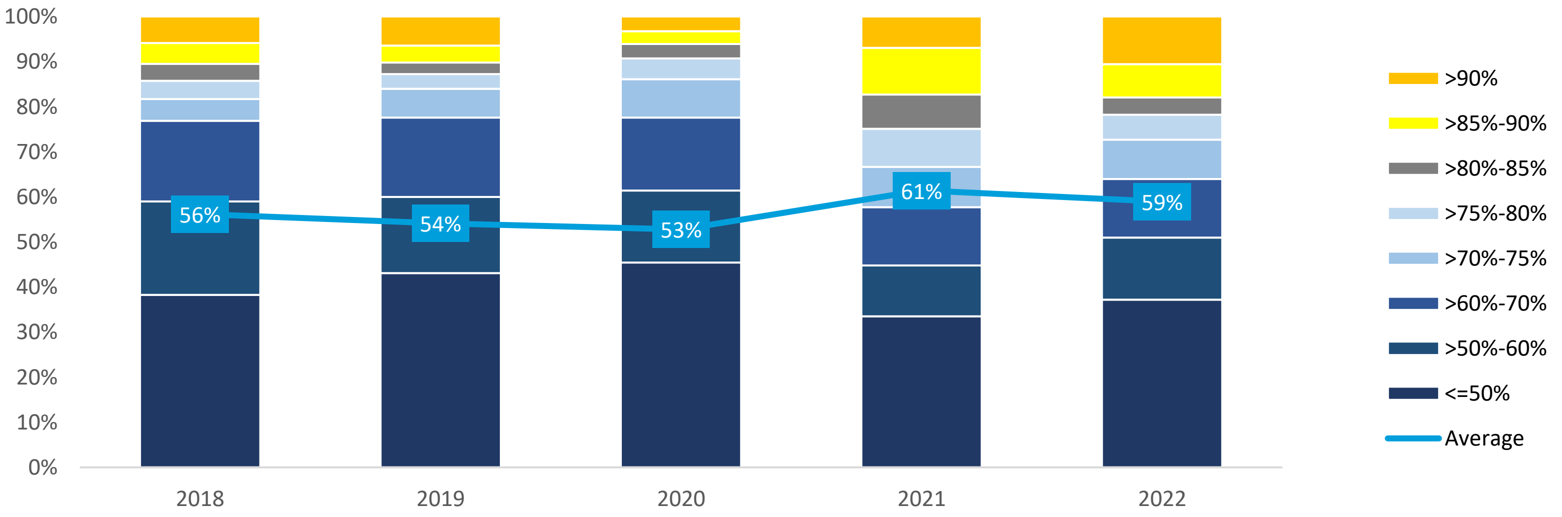
Targeted use of EPC data to enable refined energy cost assumption to support purposeful lending.

Residential Mortgage Asset Quality		2022	2021
Proportion of mortgages in arrears[1]	⇩	0.58	0.66
Indexed LTV[2]	⇩	48.8	50.5
LTV of 2022 lending[3]	⇩	65.1	67.4

We are closely monitoring the performance of the Society's lending portfolios and the appropriateness of credit policies, criteria and affordability assessments versus prevailing conditions.

In particular, the Society has adjusted the stressed interest rate used in affordability assessments to account for the higher interest rate environment.

New lending by original LTV



1 Arrears of more than 1.5% of the balance or in possession. 2 Balance-weighted average of indexed loan to value of mortgage portfolio. 3 Balance weighted average loan to value of new lending in 2022.

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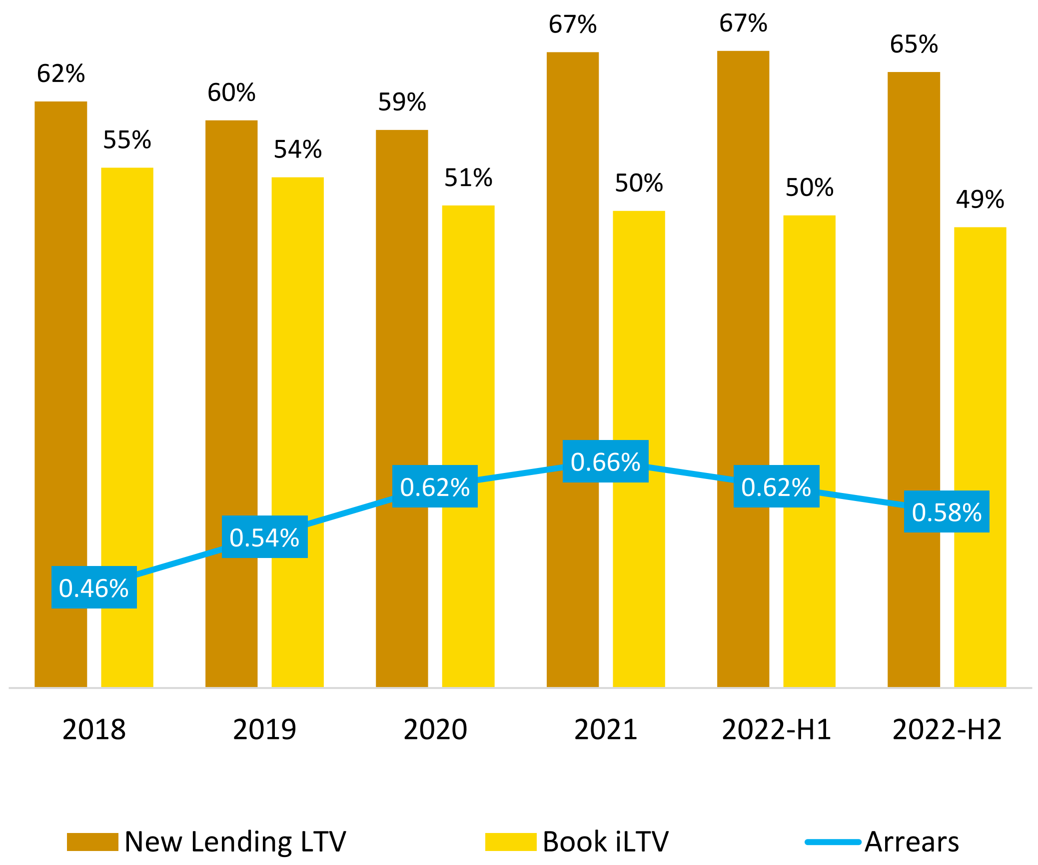
Arrears have remained stable despite inflationary pressures

Portfolio and new lending LTV



Arrears levels have improved modestly and remain low.

The proportion of residential mortgages in arrears by 1.5% of balance or more reducing from 0.66% to 0.58%.

Our arrears levels still compare favourably to the industry average.

Key Ratios		2022	2021
Arrears Rate (> 1.5% Bal)	⇩	0.58%	0.66%
LBS UK portfolio >3mths Rate	⇩	0.70%	0.78%
UK Finance >3mths Rate	⇩	0.72%	0.83%
Forbearance Balances	⇩	£99.4m	£224.0m

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Provision coverage has increased in response to future economic uncertainty and affordability concerns

UK residential provision coverage has increased to 0.23% which is high relative to peers.

Increase in PMAs reflects impacts of inflationary pressures and cost of living crisis affecting affordability.

We retain PMAs on possible losses from continued problems with cladding and additional risk of underestimating the probability of default with euro accounts.

Post Model Adjustments	£m
Economic Uncertainty/Affordability	20.0
Inadequate Cladding	2.9
Transaction bias	1.1
Probability of default (temporary)	1.1
Total PMAs	25.1 (2021: 9.4)

	2022		2021		Δ
	Gross Exposure £m	Provision Coverage %	Gross Exposure £m	Provision Coverage %	Gross Exposure %
Stage 1	16,965.3	0.03	16,208.6	0.06	4.7
Stage 2 and <30 days past due	3,088.3	0.97	1,824.2	0.54	69.3
Stage 2 and 30+ days past due	97.2	1.65	79.1	2.28	22.9
Stage 3 and <90 days past due	108.5	1.75	113.1	5.84	-4.1
Stage 3 and >90 days past due	113.0	8.14	115.4	8.24	-2.1
Total Retail Mortgages	20,372.3	0.23	18,340.3	0.20	8.9

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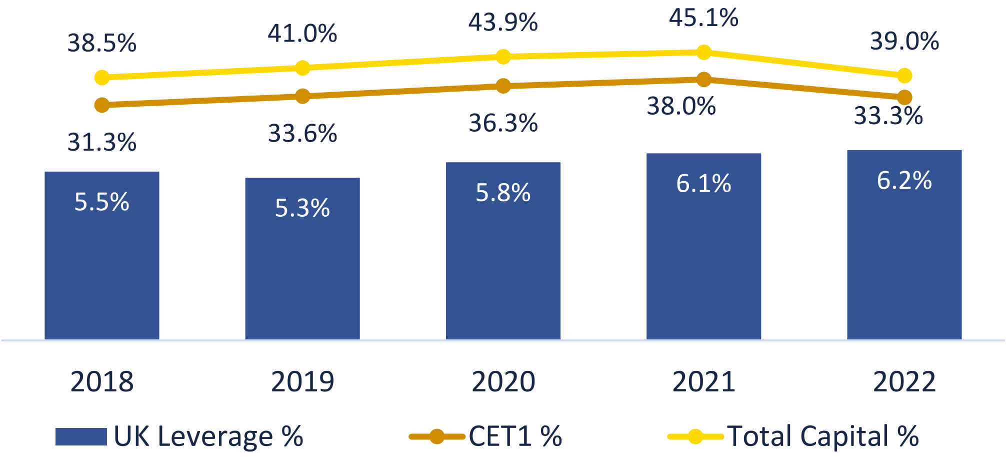
Capital, Liquidity & Funding

Very well capitalised despite the introduction of new hybrid models

Capital ratios remain very strong



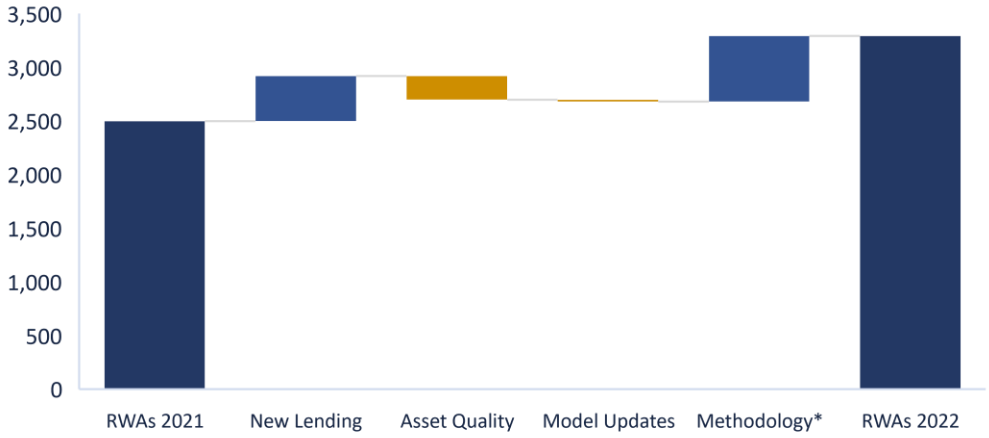
Strong capital resource growth in the last two years which is set to continue. Work is underway to optimise value from ‘surplus’ capital.

Changes to prudential regulation in the UK, taking effect from January 2022, have necessitated redevelopment of Internal Rating Based (IRB) model suites across the industry.

Since 1 January 2022 the Society has applied a post model adjustment to its current IRB rating system as an estimation of the potential impact of transitioning the new model suite.

Impact of Basel 3.1 is not yet fully determined. Initial assessments suggest we will retain significant headroom over min regulatory and internal capital requirements.

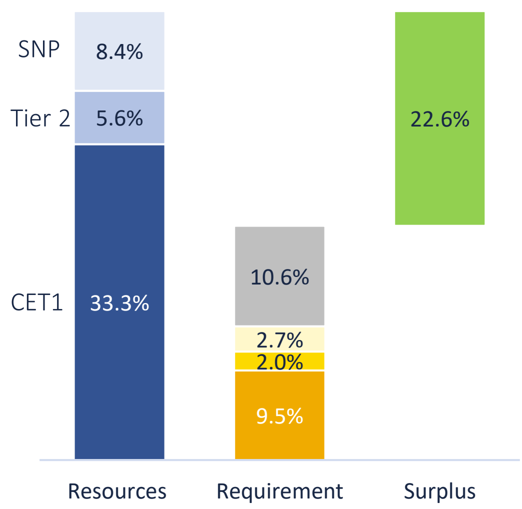
IRB risk weight changes in 2022



* Methodology changes – 25% post model adjustment, see comments in text.

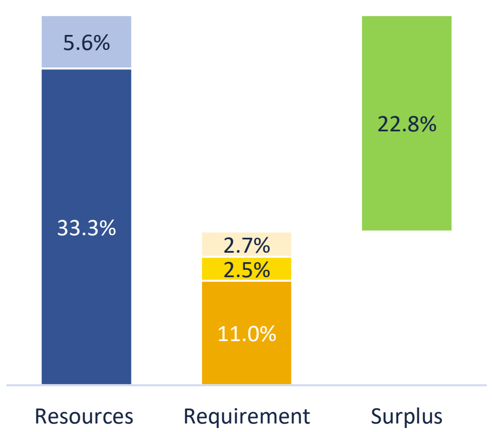
MREL

(% of RWAs)



Total Capital

(% of RWAs)



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Record net retail savings growth of £2.2bn has supported the record lending

Retail funding remains our core source of funding

Despite the savings market slowdown, we delivered over £2bn in net retail savings in one year for the first time ever.

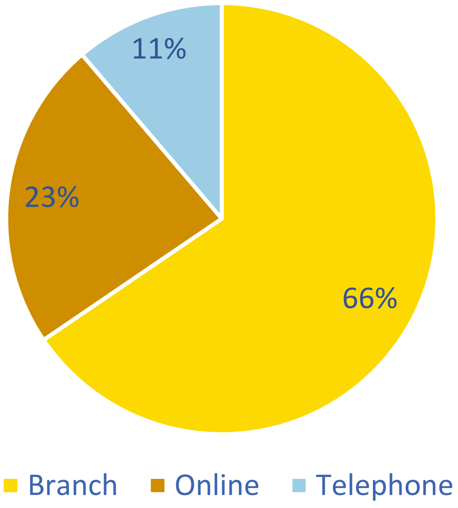
Increased investment in our branch network

Supporting our purpose by investing in our branch network and our online channel to provide our savings members with the service they require.

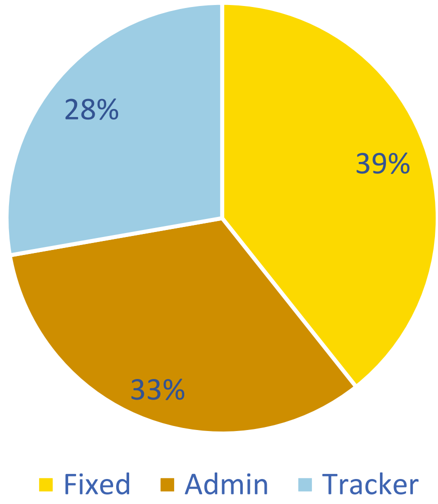
Savings composition is spread across channels

We offer our members a range of savings products including instant access and fixed rate bonds and ISAs. Fixed rate ISAs now make up over half of our book at 53% (2021: 41%).

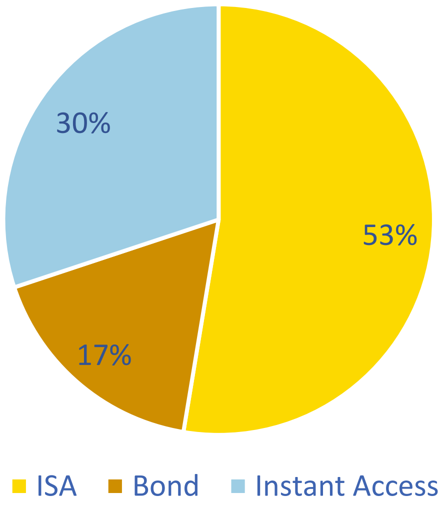
Savings by channel



Savings by basis



Savings by type



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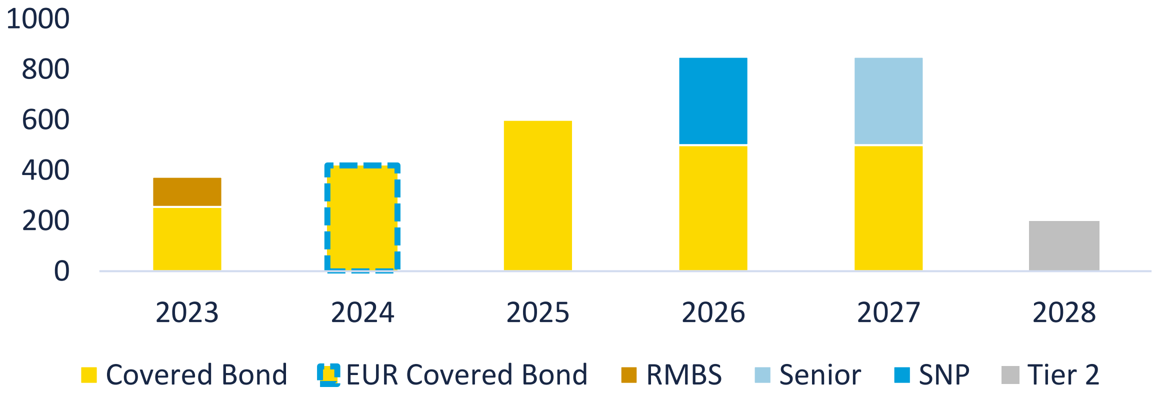
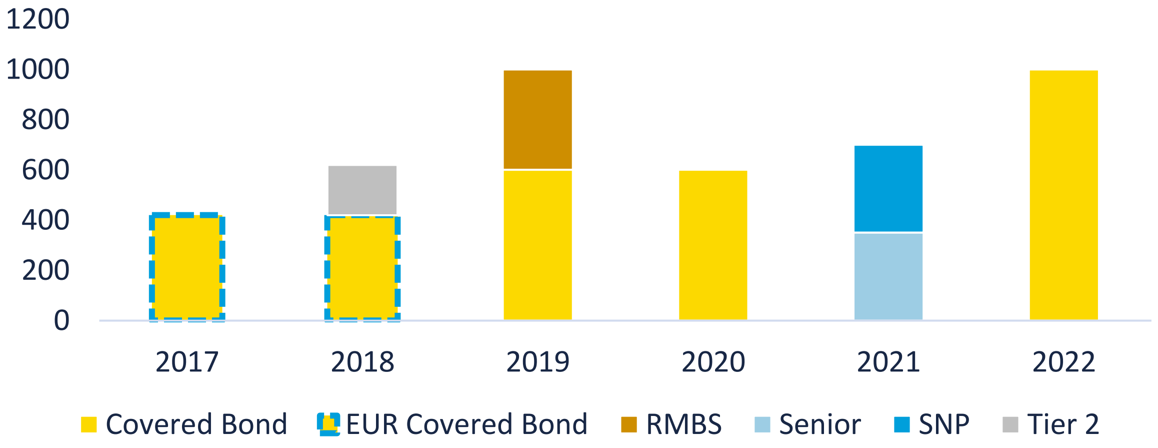
Wholesale funding strategy presents a smooth refinancing profile

Smooth wholesale refinancing



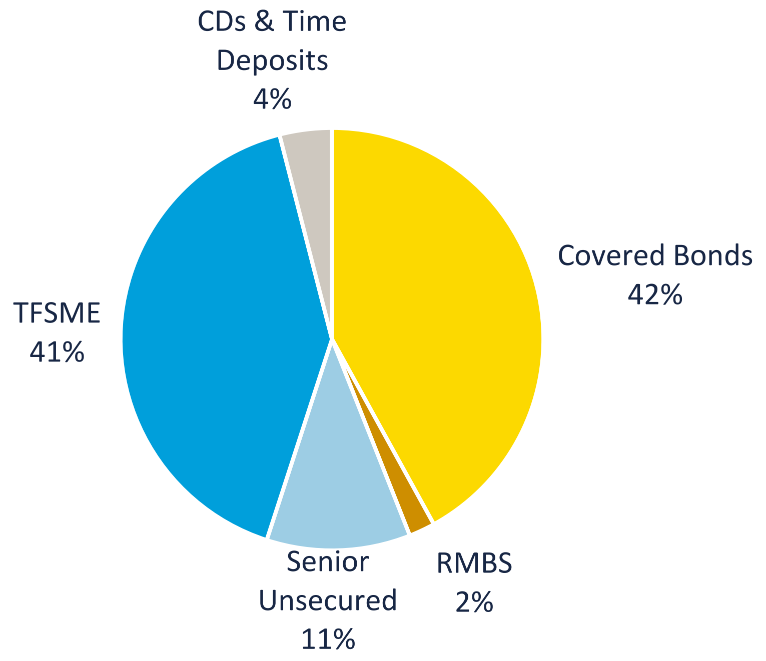
Consistent public issuance



Leeds is an active issuer in capital markets, using wholesale markets to diversify the funding base and extend duration.

TFSME refinancing will begin in 2023, before contractual maturities in 2024-25.

Wholesale funding by type



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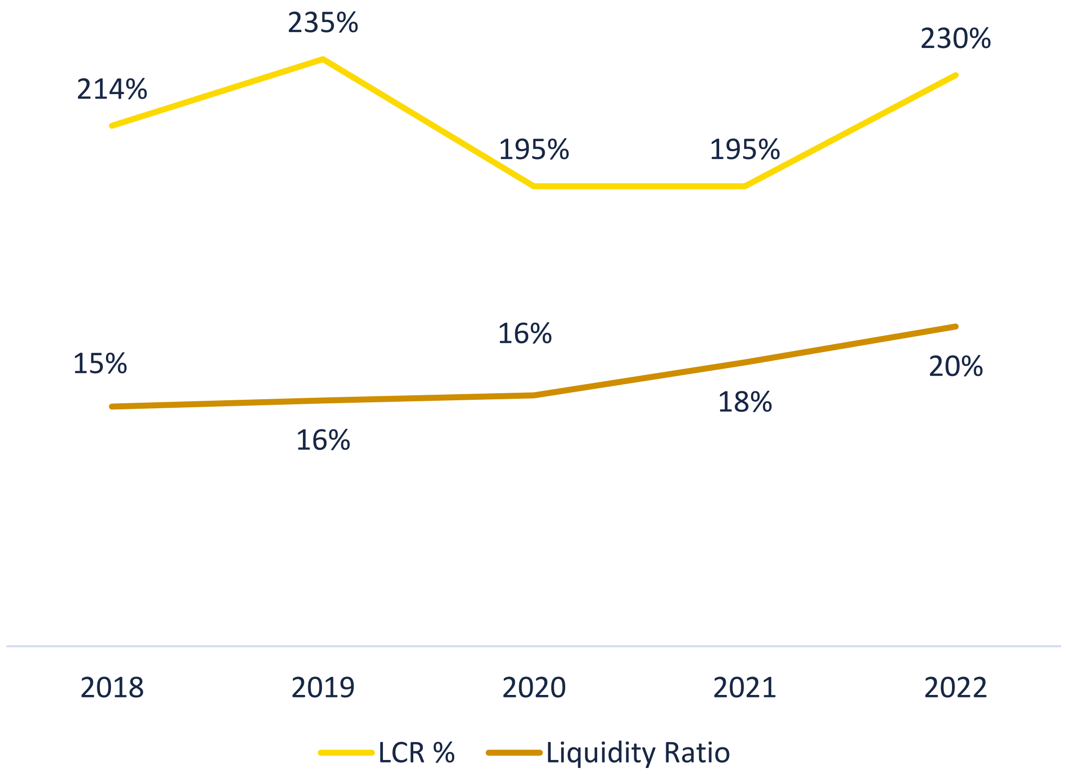
2023 starts with very healthy liquidity, giving solid foundations for macro uncertainty

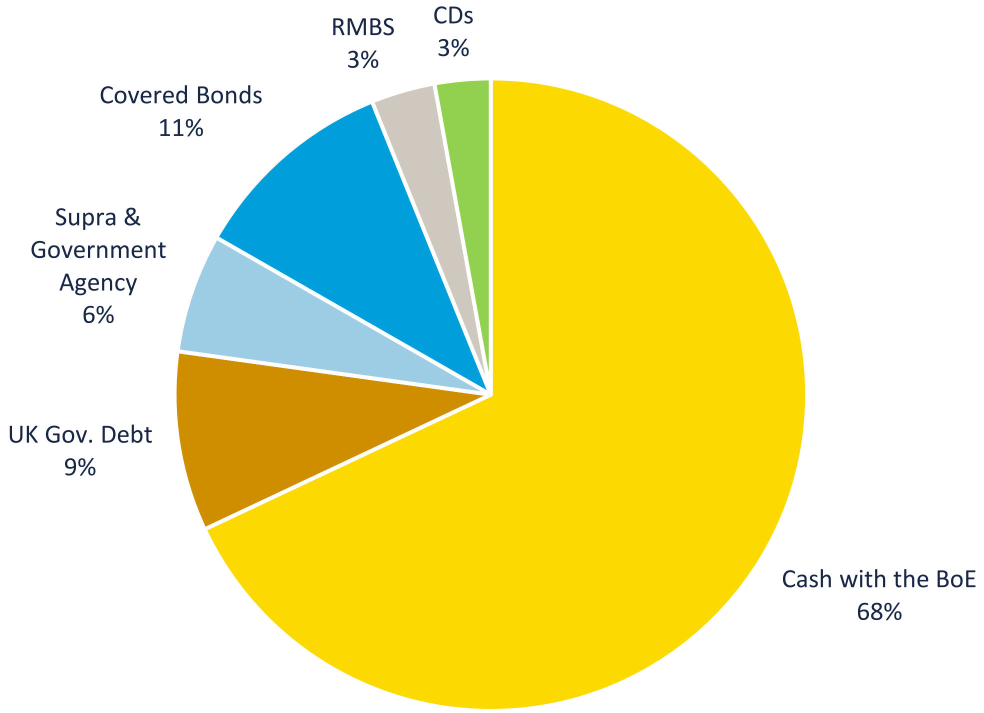
Liquidity ratios remain sound



Note: This figure is the year end position, the ARA uses the 12m average LCR consistent with Pillar 3 disclosures which is 195%

High quality liquidity portfolio

£4.58bn (2021: £3.65bn)



Leeds Building Society

Key contacts

Investor relations website

https://www.leedsbuildingsociety.co.uk/treasury/

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Appendices

Mortgage book stratifications

New Business 2022 (Completed Applications by value)	Non-BTL		BTL		Total	
	£bn	% of Total	£bn	% of Total	£bn	% of Total
0-60%	0.8	20.9%	0.8	68.2%	1.6	31.6%
60-75%	0.8	20.1%	0.4	31.8%	1.1	22.8%
75-80%	0.3	8.1%	0.0	0.0%	0.3	6.3%
80-85%	0.3	8.4%			0.3	6.5%
85-90%	0.9	22.2%			0.9	17.2%
90-95%	0.8	20.1%			0.8	15.5%
Over 95%	0.0	0.2%			0.0	0.1%
Total	**3.9**		**1.1**		**5.0**	
Average LTV	**68.2%**		**54.7%**		**65.2%**	

Loan Book Balances (by value)	Non-BTL		BTL		Total	
	£bn	% of Total	£bn	% of Total	£bn	% of Total
0-50%	7.1	48.5%	4.0	71.0%	11.1	54.7%
50-60%	2.2	14.9%	1.1	20.0%	3.3	16.3%
60-70%	2.3	15.6%	0.4	7.2%	2.7	13.2%
70-80%	1.6	11.0%	0.1	1.7%	1.7	8.4%
80-90%	1.3	8.7%	0.0	0.0%	1.3	6.3%
90-100%	0.2	1.3%	0.0	0.0%	0.2	1.0%
Over 100%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	**14.7**		**5.7**		**20.3**	
Indexed LTV	**50.8%**		**43.3%**		**48.8%**	

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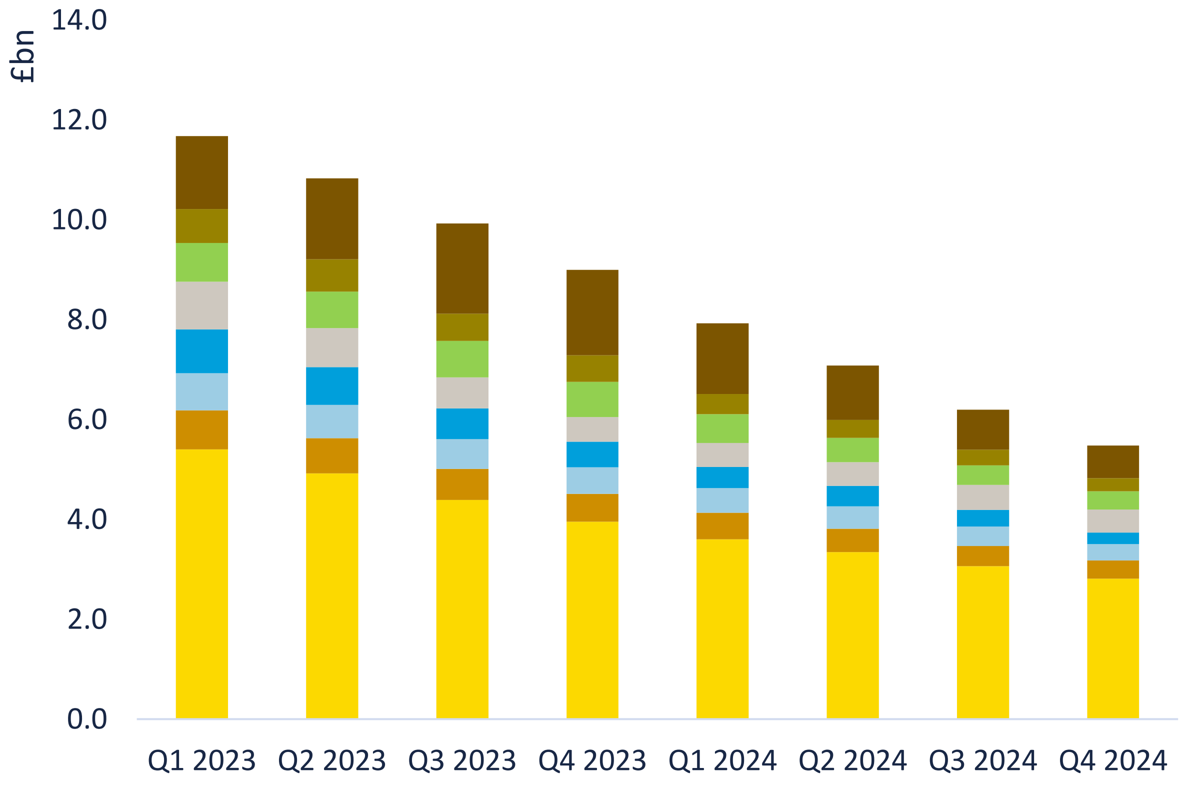
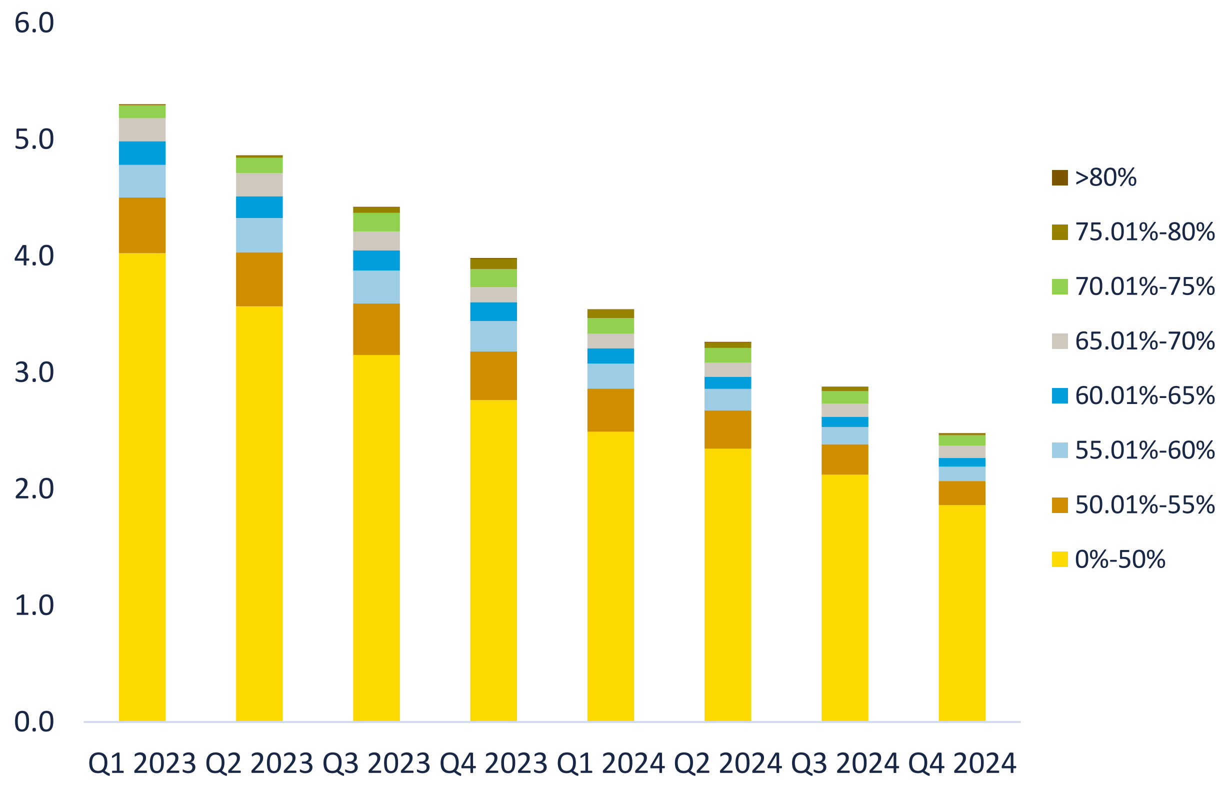
Smooth fixed rate mortgage run-off, helping balance the impact repricing

Fixed rate prime portfolio (£bn)



**Note: Prime includes Vanilla, Interest Only and Shared Ownership*

Fixed rate BTL portfolio (£bn)



**Note: BTL includes BTL, Portfolio BTL, Ltd Co BTL, HMO and Holiday Let*

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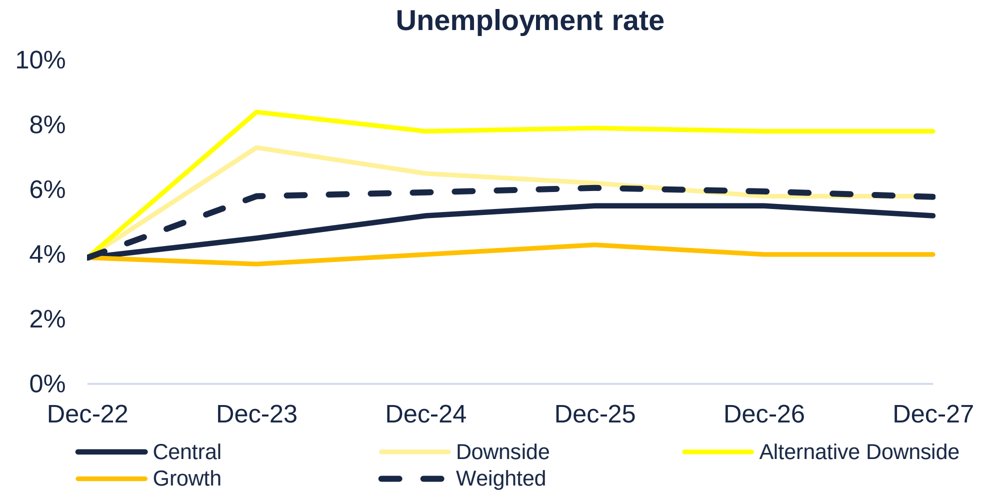
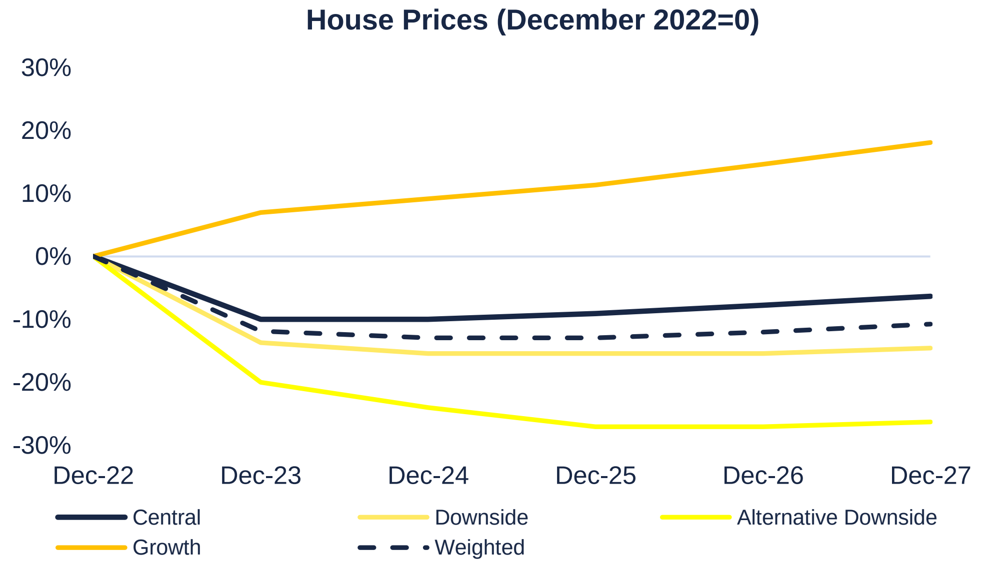
Economic downturn reflected in models, outlook uncertain

	Scenario	2023	2024	2025	2026	2027
Central	House price inflation	-10.0%	0.0%	1.0%	1.5%	1.5%
	Unemployment rate (31 December)	4.5%	5.2%	5.5%	5.5%	5.2%
	Gross domestic product growth	-1.5%	0.0%	0.5%	1.0%	1.0%
	Base rate (31 December)	4.0%	3.0%	2.3%	2.3%	2.3%
Downside	House price inflation	-13.7%	-2.0%	0.0%	0.0%	1.0%
	Unemployment rate (31 December)	7.3%	6.5%	6.2%	5.8%	5.8%
	Gross domestic product growth	-2.0%	0.0%	1.0%	1.0%	1.0%
	Base rate (31 December)	3.3%	0.1%	0.1%	0.1%	0.1%
Alternative Downside	House price inflation	-20.0%	-5.0%	-4.0%	0.0%	1.0%
	Unemployment rate (31 December)	8.4%	7.8%	7.9%	7.6%	7.1%
	Gross domestic product growth	-0.2%	-4.2%	2.1%	1.5%	1.5%
	Base rate (31 December)	3.0%	0.0%	0.0%	0.1%	0.1%
Growth	House price inflation	7.0%	2.0%	2.0%	3.0%	3.0%
	Unemployment rate (31 December)	3.7%	4.0%	4.3%	4.0%	4.0%
	Gross domestic product growth	5.0%	2.0%	2.0%	2.5%	2.0%
	Base rate (31 December)	4.5%	3.0%	3.0%	3.0%	3.0%
Weighted	House price inflation	-11.9%	-1.3%	-0.2%	1.0%	1.4%
	Unemployment rate (31 December)	5.8%	5.9%	6.1%	5.9%	5.6%
	Gross domestic product growth	-1.0%	-0.7%	1.0%	1.2%	1.2%
	Base rate (31 December)	3.7%	1.8%	1.4%	1.4%	1.4%

The macroeconomic scenarios used for calculating impairment have been revised to reflect the current and emerging economic pressures, including high levels of inflation and the high interest rate environment.





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Scope 1, 2 & 3 emissions

We have agreed two new ambitious and stretching near term targets for Scope 1 and 2 emissions.

We intend to upgrade our offices and branches to net zero standards by 2030.

We continue to make good progress in reducing our operational Scope 1 and 2 emissions and we are on track to meet our targets.

90% By 2030 — Reduce our absolute scope 1 and 2 emissions by 90% by 2030, from a 2021 base-year using a **market-based methodology.**

60% By 2030 — Reduce our absolute scope 1 and 2 emissions by 60% by 2030, from a 2021 base-year using a **location-based methodology.**

Table 1 – 2022 SECR reporting[3,4]

	Market Based Approach			Location Based Approach		
Emissions (t/CO2e)	2022	2021 (Baseline)	Change	2022	2021 (Baseline)	Change
Scope 1						
Diesel	1	0	-	1	0	-
Gas	34	45	-25%	34	45	-25%
Fugitive emissions	20	12	56%	20	12	56%
Scope 2						
Electricity	7	18	-64%	493	906	-46%
Total scope 1 and 2	**61**	**75**	**-19%**	**547**	**963**	**-43%**
Scope 3						
Business Travel	156	103	52%	156	103	52%
Total scope 1, 2 and Scope 3 Business Travel	**217**	**178**	**22%**	**703**	**1066**	**-34%**
Purchased carbon offsets	(217)	(178)	22%	(217)	(178)	22%
Net Carbon Outturn	**0**	**0**	**0%**	**486**	**888**	**-45%**
Other Metrics						
Emissions per FTE (Scope 1 and 2)	0.04	0.06	-25%	0.37	0.71	-47%
Energy consumption (Mwh)	2,732	4,512	-39%	2,732	4,512	-39%
Energy consumption per FTE	1.86	3.32	-44%	1.86	3.32	-44%
Data Score (Scope 1 and 2)	1.89	-	-	2.00	-	-

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