

Covered Bond Investor Presentation

March 2012

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Business Overview

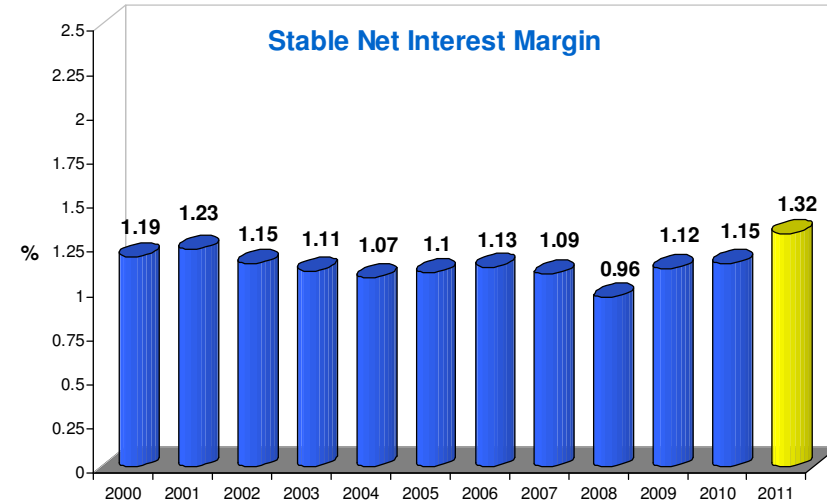
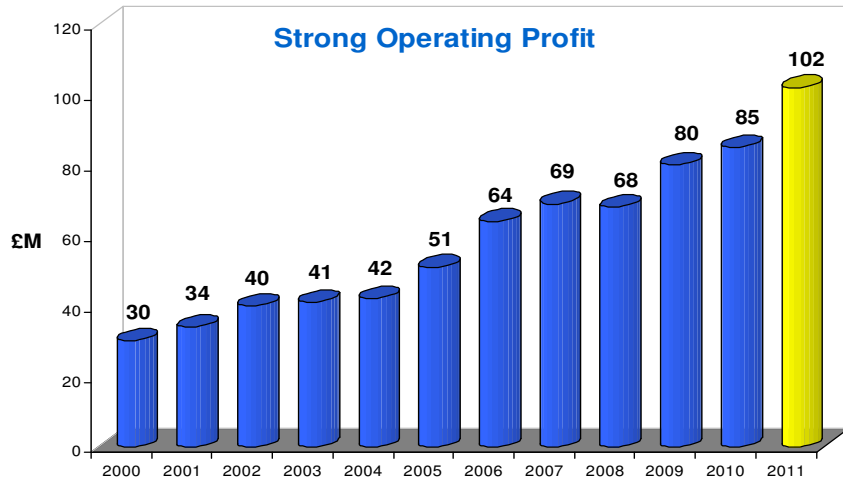
Leeds Building Society Overview

- ❑ Founded in 1875, Leeds Building Society is the 5th largest UK building society with £9.5Bn of assets (Dec 10).
- ❑ LBS has over 680,000 members and operates from 67 branches in the UK, Ireland and Gibraltar.
- ❑ Leeds offers an extensive range of mortgage and investment products.
- ❑ Mortgage lending activity is generated through the Society's branch network, a direct call-centre, the internet and financial intermediaries.
- ❑ Savings business is also directed through the Society's branches, postal applications and the internet.
- ❑ Leeds Financial Services Ltd was established in 2000 to provide investment and regulated financial products.
- ❑ LBS is committed to remaining an independent mutual building society.

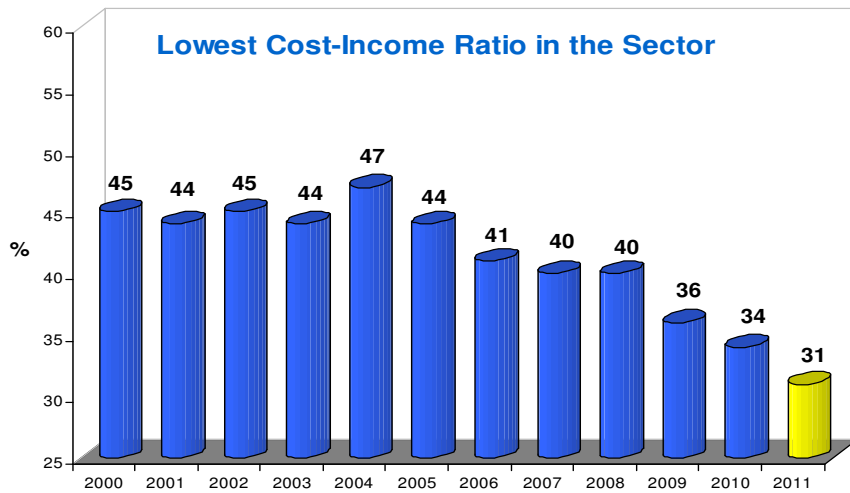
Strong Financial Performance

- ❑ Operating Profit increased by 21% to a record £102.4 (2010 - £84.5M)
- ❑ Pre-tax profit rose by 19% to £50.2M (2010 £42.2M)
- ❑ Savings balances grew by £329M, over £150M above market share
- ❑ Gross new mortgage lending of £1.23Bn (2010 £0.9Bn)
- ❑ Average LTV on new lending remaining very low at 51%
- ❑ Indexed LTV of residential mortgage book is 49%
- ❑ Net Interest margin improves to 1.32% from 1.15%.
- ❑ Further reduction in the cost income ratio to 31%, maintaining 'best in class' position.
- ❑ Liquidity at 22%: longer term and higher quality
- ❑ Further improvement in Core Tier 1 capital ratio to 13.8%

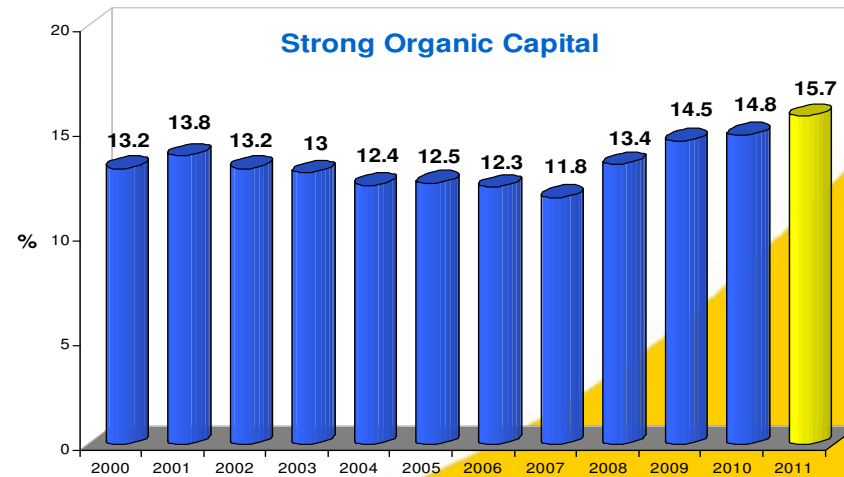
LBS Strategy – 4 cornerstones



Peer group average : 0.72% - KPMG



Peer group average : 78% - KPMG



Balance Sheet

	2007	2008	2009	2010	2011
Commercial Assets	7193.6	7479.0	7333.6	7314.4	7596.7
Liquid Assets	1885.6	2301.7	1916.4	1932.1	1979.8
Fixed & Other Assets	42.2	160.4	153.0	130.2	143.7
IFRS Adjustments	59.4	195.5	142.1	126.4	139.5
Total Assets	9180.8	10136.6	9545.1	9503.1	9859.7
Shares	6026.1	6555.0	6780.0	7025.2	7354.2
Wholesale & Other Deposits	2548.4	2671.2	1923.6	1682.1	1679.6
Other Liabilities	95.5	384.9	298.4	264.7	253.5
Capital & Reserves	510.8	525.5	543.1	531.1	572.4
Total Liabilities & Capital	9180.8	10136.6	9545.1	9503.1	9859.7
Asset Growth %	13.0%	10.4%	-5.8%	-0.4%	3.8%
Commercial Asset Growth %	13.7%	4.0%	-1.9%	-0.3%	3.8%
Liquidity % (on SDL's)	22.0%	24.9%	22.0%	22.2%	21.9%
Funding Limit % (on SDL's)	29.9%	29.0%	22.1%	19.3%	18.6%

Income Statement

	2007	2008	2009	2010	2011
Net Interest Margin	93.9	92.7	109.8	109.1	127.6
Fair Value Adjustment	(0.0)	0	(4.6)	(1.6)	0
Other Income	22.1	21.7	19.3	21.3	21.4
Total Income	115.6	114.7	124.5	128.8	149.0
Management Expenses	(46.2)	(46.1)	(44.4)	(44.3)	(46.6)
Operating Profit	69.4	68.6	80.1	84.5	102.4
Provisions	(6.2)	(38.6)	(49.7)	(41.5)	(48.8)
FSCS	-	-9.7	1.3	-0.8	-3.4
Profit Before Tax	63.2	20.3	31.7	42.2	50.2
Taxation	(19.4)	(6.0)	(9.1)	(11.3)	(13.6)
Retained Profit	43.8	14.3	22.6	30.9	36.6
Net Interest Margin %	1.09%	0.96%	1.12%	1.15%	1.32%
Cost/Income Ratio %	40.0%	40.0%	36.0%	34.0%	31.0%
Management Expenses Ratio	0.53%	0.48%	0.45%	0.47%	0.48%

Leeds Maintains Strong Credit Ratings

MOODY'S
INVESTORS SERVICE

Category	Rating
Long Term Bank Deposits	A3
Short Term Bank Deposits	P-2
Bank Financial Strength	C
Outlook	Stable

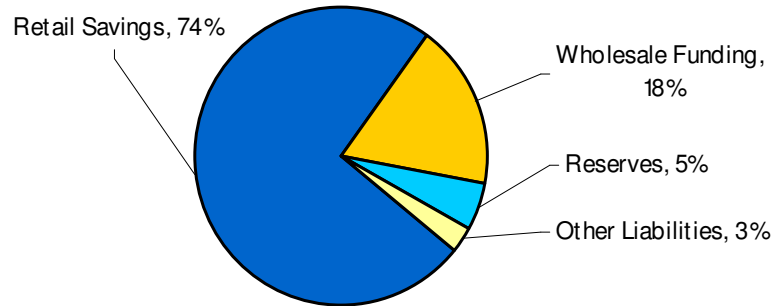
FitchRatings
KNOW YOUR RISK

Category	Rating
Long Term IDR	A-
Short Term IDR	F2
Outlook	Stable

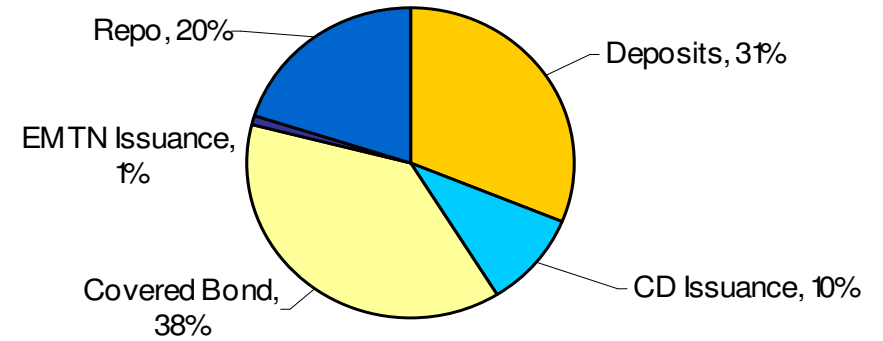
Funding and Liquidity

Funding Mix

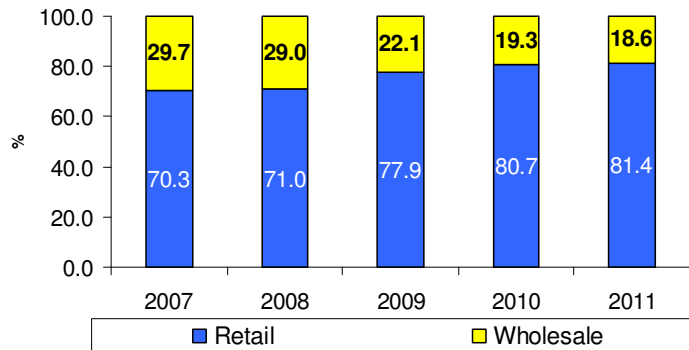
Liabilities YE 2011



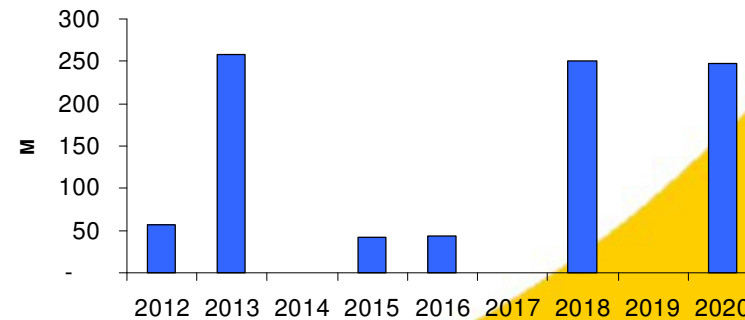
Wholesale Funding YE 2011



Retail/Wholesale Funding (%)



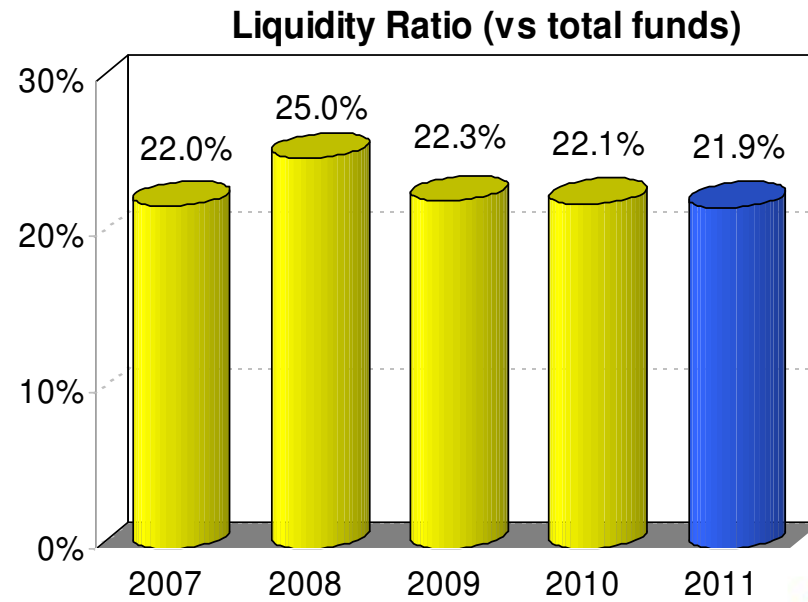
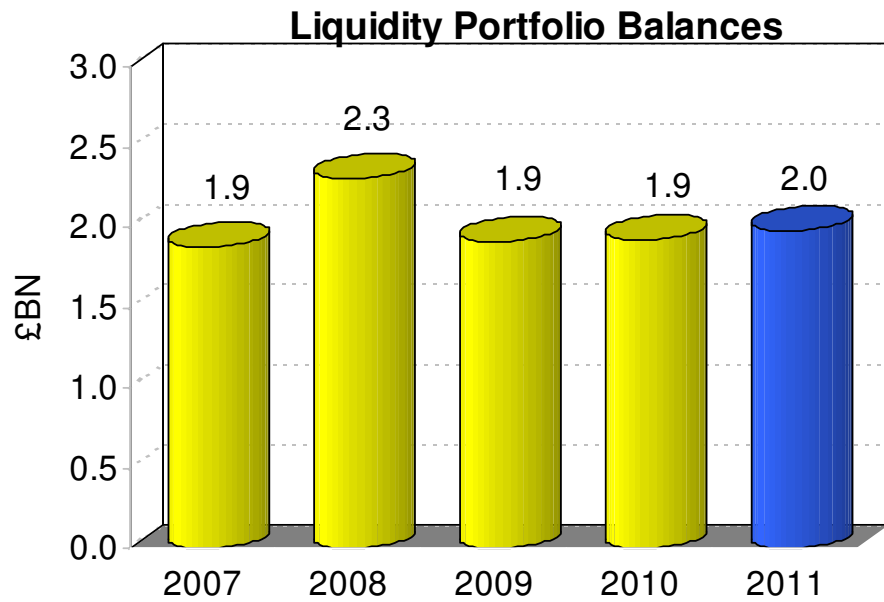
Maturity Funding Profile



Covered Bond Issuance to Date

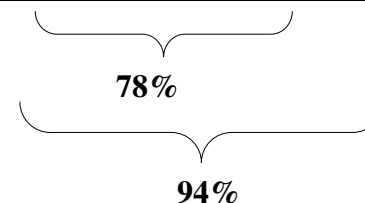
Issue Date	Maturity Date	Maturity Length	Current Size
Aug 2010	Aug 2015	5 Years	€50M
Nov 2010	Nov 2020	10 Years	£250M
Aug 2011	Aug 2016	5 Years	€50M
Jun 2011	Dec 2018	7 Years	£250M

Liquidity



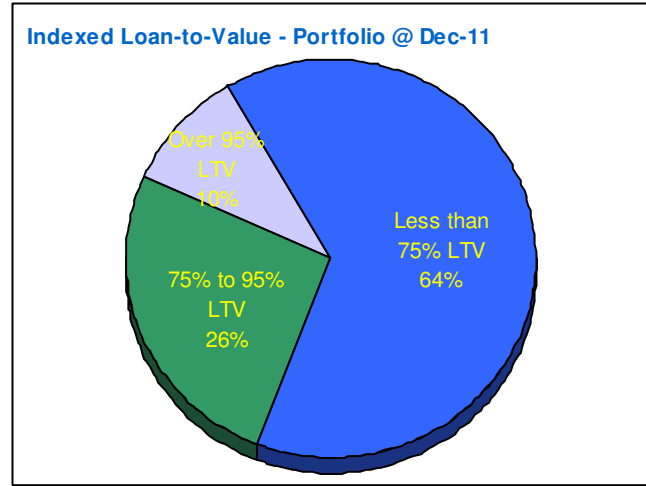
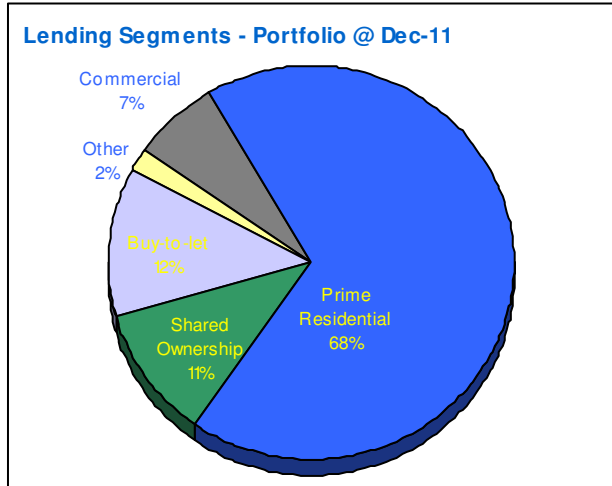
Treasury Investments

	Asset	Dec 11 (£M)	AAA (%)	AA (%)	A (%)	BBB (%)	Dec 10 (£M)
Buffer Assets	Gilts / T-Bills / Supras / BoE Res	1,193	100%				875
Other Liquid Assets	GGB / Agency	27	100%				80
	CDs & Deposits	425		13%	69%	18%	493
	Floating Rate Notes	44		43%	57%		136
	RMBS & Covered Bonds	202	100%				270
	Total Liquid Assets Portfolio	1,891	75%	4%	17%	4%	1,854
Investment Portfolio	Deposits	11				100%	16
	RMBS	23	44%	34%	22%		23
	Floating Rate Notes	24				100%	31
	Total Investment Portfolio	57	18%	13%	8%	61%	70
	Total Treasury Investments	1,948	73%	5%	16%	6%	1,924

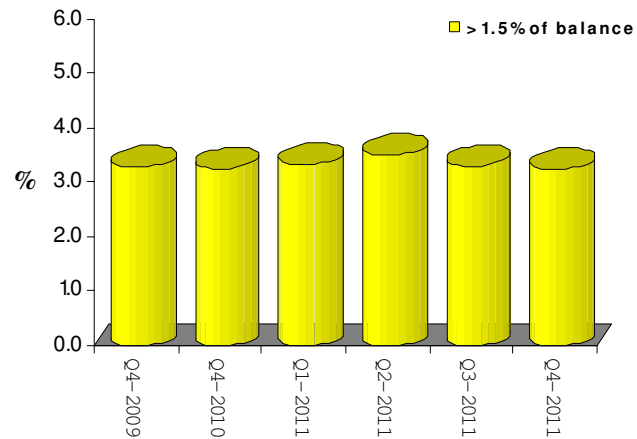


Portfolio Overview

Asset Quality

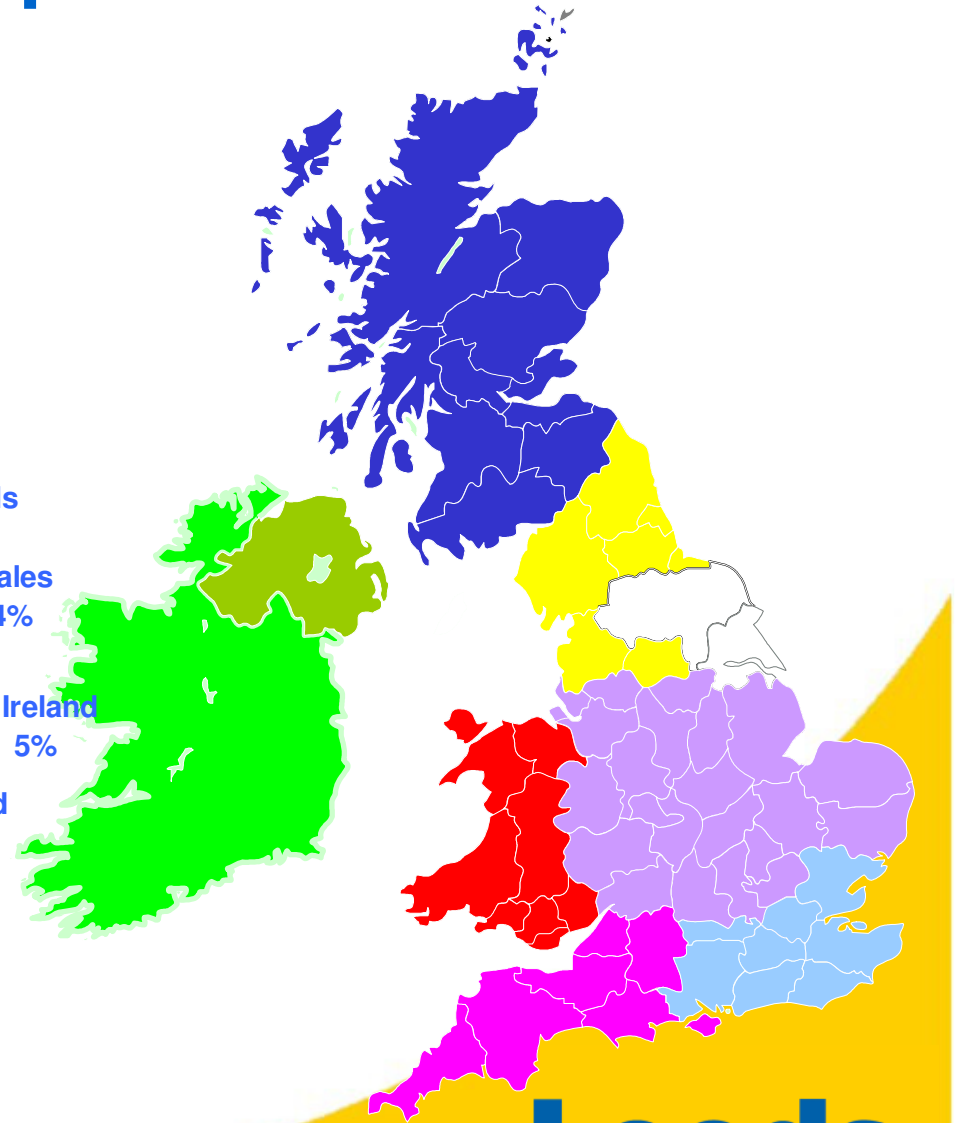
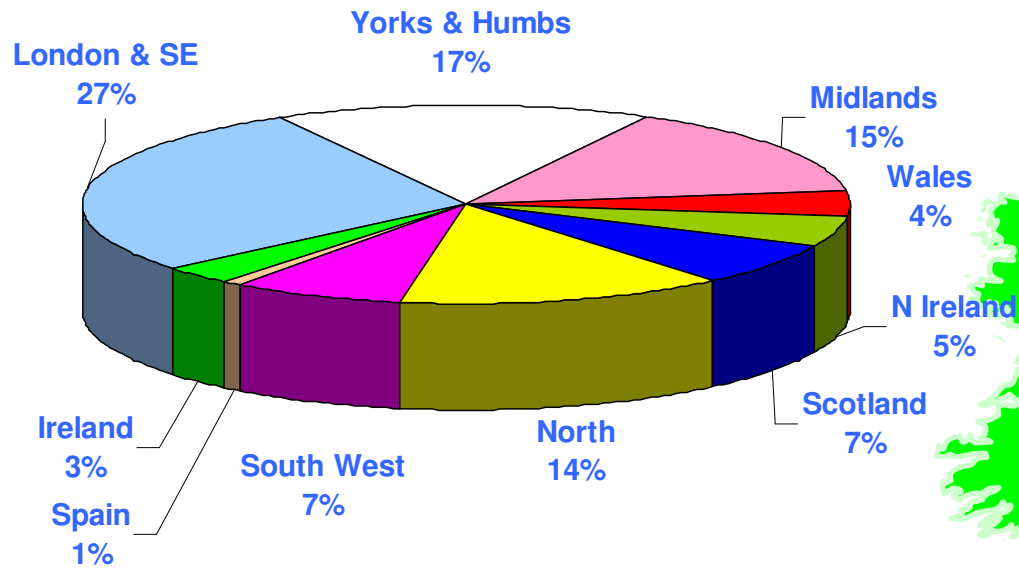


Average LTV for new lending in 2011 – 51%
Average (Indexed) LTV on portfolio – 49%



Asset Quality : Geographic

Geographic Distribution of Portfolio 2011



Leeds Building Society Mortgage Products

Leeds has two types of mortgage product:

- ❑ **Variable**
 - ▶ Standard variable rate
 - ▶ Fees assisted products available
 - ▶ Upfront reservation fee

- ❑ **Fixed**
 - ▶ Available over 1, 2, 3 and 5 year terms
 - ▶ Fees assisted products available
 - ▶ Upfront reservation fee

All our mortgages are available as:

- ❑ **Repayment**
 - ▶ The monthly payments cover both capital and interest repayments
- ❑ **Interest Only**
 - ▶ The monthly payments only cover the interest that's being charged on the mortgage
 - ▶ Capital to be repaid at the end of the term of the mortgage
 - ▶ The borrower should have a suitable repayment vehicle, such as an ISA or endowment policy
- ❑ **Part and Part**
 - ▶ A combination of repayment and interest-only mortgages
 - ▶ Maximum term is 40 years

Underwriting Criteria

□ Policy rules:

- ▶ Age – min. age 18, max. age at redemption 85
- ▶ Nationality – UK citizens and foreign nationals
- ▶ Number of applicants – max 4, income of 2
- ▶ Satisfactory identification
- ▶ Adverse Credit Review on application
- ▶ Satisfactory past payment history
- ▶ Restrictions on types and proportions of income that are acceptable
- ▶ Sources of deposit

□ Affordability Calculation takes account of:

- ▶ Annual income, net of tax
- ▶ Annualised credit commitments
- ▶ Variable income multiple (up to maximum 4.5x) depending on income and employment type
- ▶ Stressed interest rates, varied according to LTV
- ▶ Household composition
- ▶ Applied in every case

□ Basic Lending Terms:

- ▶ Maximum LTV – 90% for all borrowers

□ Assessing Security:

- ▶ Policy rules are designed to ensure that:
 - Property is readily marketable and will remain so
 - Will not require abnormal expenditure on maintenance
 - Does not have any unresolved issues
- ▶ Factors taken into consideration when assessing property type:
 - Geographical area
 - Types of flats
 - Nature of construction
 - Tenure
- ▶ Valuations:
 - Mortgage Valuation Reports (full inspection) – all purchase mortgages
 - Automated Valuation Models – remortgages only
- ▶ Insurability:
 - For the full range of standard risks
 - At affordable premiums
 - With reasonable excesses

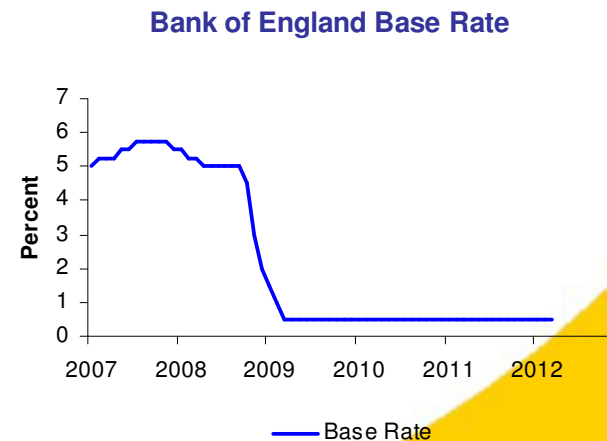
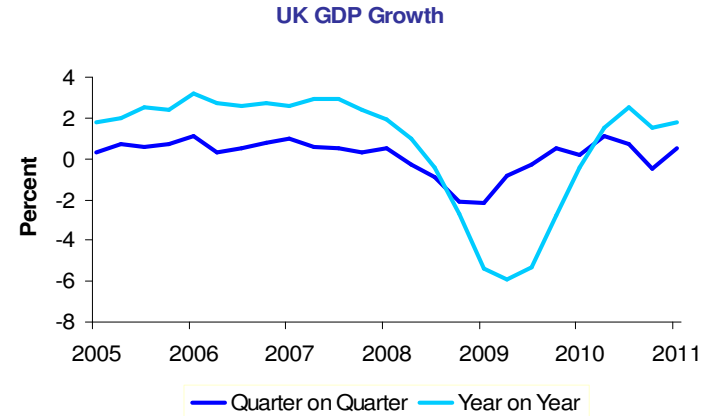
UK Housing Market

UK Housing & Mortgage Market Update

UK economic recovery remains subdued.

Fiscal tightening could potentially limit the speed of recovery.

The market expects the Bank of England base rate to remain static until Q1 2014.



UK Housing & Mortgage Market Update

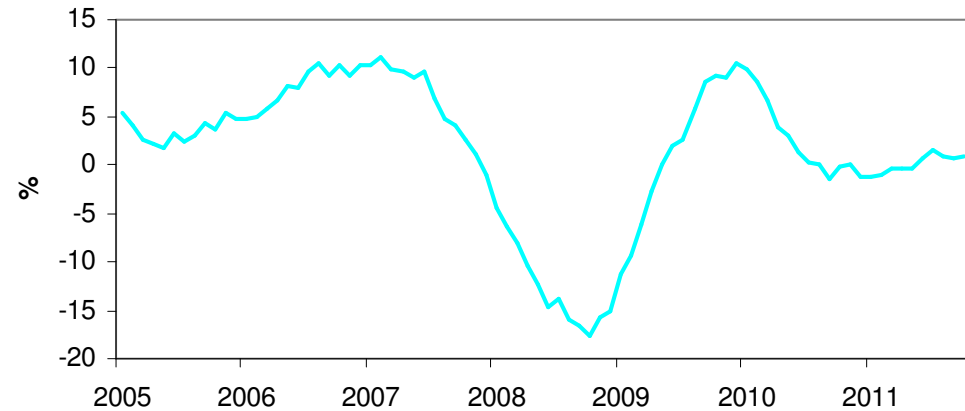
❑ House prices improved to 0.9% yoy in February from 0.6% in January.

❑ Measures of activity in the housing market also improved. The number of housing transactions rose by 23% yoy in January.

❑ However, challenging economic background still remains.

❑ Pick up in the housing market activity may be as a result of first time buyers entering the market to take advantage of the stamp duty holiday.

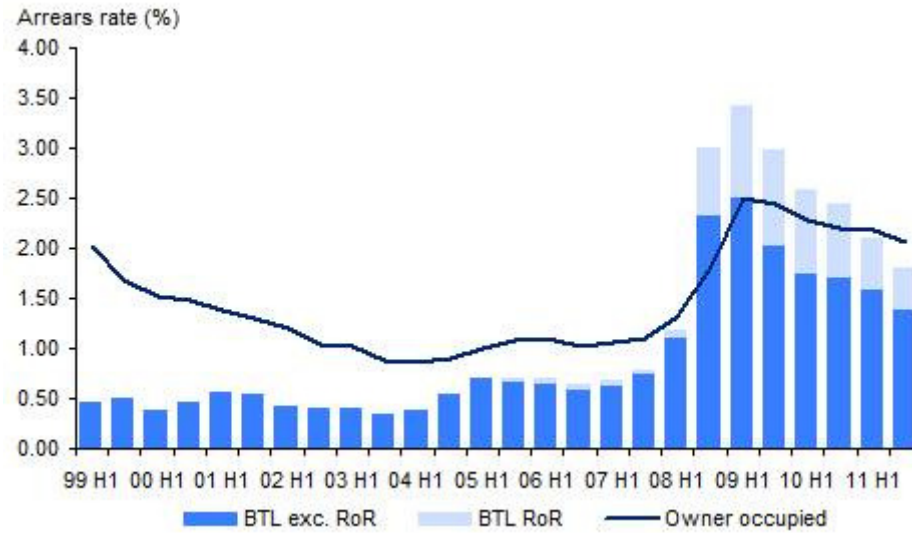
UK House Prices Year on Year



Source: Nationwide House Price Index

UK Housing & Mortgage Market Update

- ❑ UK mortgage arrears have declined in recent quarters
- ❑ Arrears level much lower than in 1990's recession
- ❑ Buy to Let arrears down since 2008/9



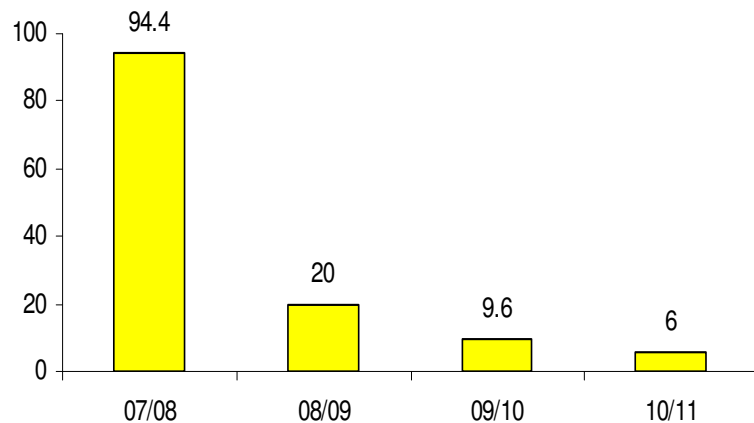
Source:CML

Source:CML

UK Housing & Mortgage Market Update

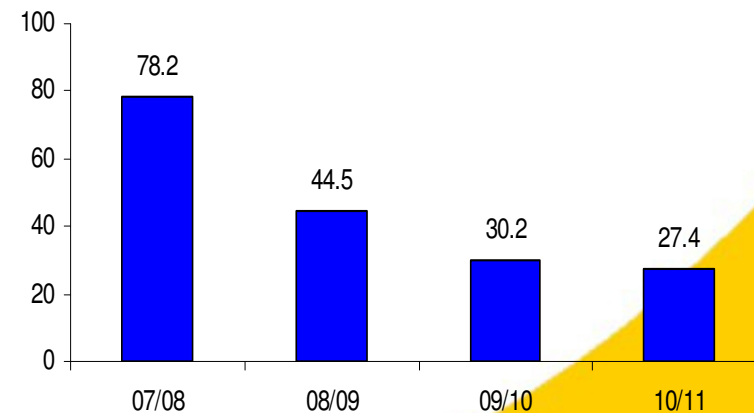
- ❑ Net mortgage lending likely to remain subdued
- ❑ Savings market highly competitive given low interest rate environment
- ❑ Growth in savings balances in excess of net mortgage lending

Mortgage Net Lending (£bn)



Source: Bank of England, Nationwide

Savings Change in Balance (£bn)



Source: Bank of England, Nationwide

Covered Bonds

Summary Covered Bond Features

Issuer/Seller	Leeds Building Society
FSA Regulated	Leeds Building Society was approved to the FSA Regulated Covered Bond register on 1st May 2009
Programme Size	€7.0 Billion
Ratings	AAA/Aaa (Fitch & Moody's)
Currency	Multi Currency
Covered Bond Guarantor	Leeds Building Society LLP (the "LLP"), a single purpose bankruptcy remote vehicle
Listing	London
Collateral	UK first lein prime residential mortgages
Maximum LTV	75%
Law	English

Summary Pool Characteristics

Total Size	£1.35bn
Mortgage Types	Prime Residential
Number of Loans	15,479
Average Balance	£87,246
Weighted Average LTV	65.0%
Weighted Average Indexed LTV	72.0%
Weighted Average Seasoning	49.1 months
BTL %	14.4%

Structural Highlights

Prime Originator

LBS is a player in the prime UK retail mortgage market

Robust Structure

Full recourse to LBS and security over a portfolio of prime UK residential mortgages

Security

Sale by equitable assignment of residential mortgages to the LLP ensures a secured priority over the portfolio

Over-Collateralisation

The supporting portfolio of residential mortgages is sized to meet the requirements of the Asset Coverage Test (ACT) which is performed monthly

Asset Monitor

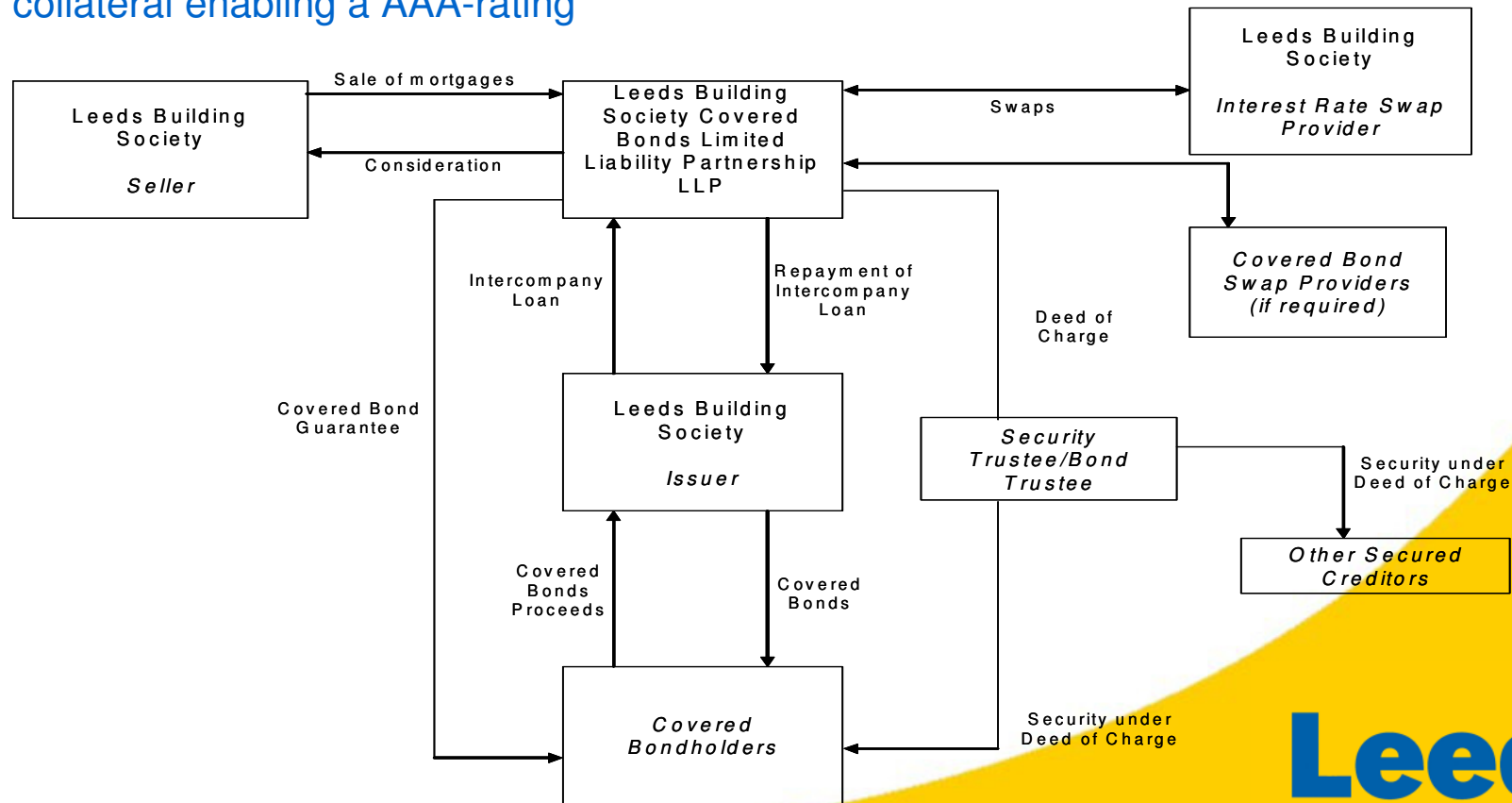
The Asset Monitor (Deloitte) confirms compliance with the ACT on an annual basis

Amortisation Test

The Amortisation Test is designed to confirm that the asset pool is sufficient to meet the obligations of the LLP in an event of an Issuer Event of Default and the service of a Notice to Pay on the LLP

Structural Overview

- Leeds Building Society Covered Bonds LLP (“LLP”) is a consolidated subsidiary of Leeds Building Society (“LBS”)
- The LLP is a bankruptcy remote SPV into which the collateral pool is transferred. The guarantee offered by the LLP is supported by mortgage collateral enabling a AAA-rating



Appendix I

Covered Bond Programme Structure

Programme Terms - Structural Features

□ Interest Rate Hedging

- ▶ The interest rate swap, together with the yield on the mortgages, provides a minimum yield on the portfolio and converts various residential mortgages into Libor-based flows
- ▶ Leeds is the interest rate swap provider – it will post collateral and / or be replaced with an alternative counterparty if short term ratings fall below P-1 / F1

□ Currency Hedging

- ▶ The currency swaps hedge certain risks in relation to sterling amounts received on the mortgages in relation to other currency obligations under the Covered Bond Guarantee
- ▶ A variety of highly rated third party Covered Bond swap counterparties provide this currency hedging. Should any of these fall below the requisite P-1 / F1 ratings, they will be required to post collateral and / or be replaced with a suitably rated alternative counterpart

□ Liquidity Support

- ▶ Monthly net settlement under the Covered Bond swap ensures that funds to pay interest on the Covered Bonds will be held with an P-1 / F1 rated third party swap provider

□ Reserve Fund

- ▶ Unless Leeds' short term ratings are at least P-1 / F1+ the LLP is required to maintain a Reserve Fund sized to ensure that sufficient funds are available to cover one month's senior costs and interest / payment under the Covered Bond swap

□ Bank Accounts

- ▶ Leeds operates the GIC and transaction accounts
- ▶ If Leeds' ratings fall below the requisite P-1 / F1 ratings, the accounts will be moved to an appropriately rated provider

□ Servicing

- ▶ Leeds will service the portfolio on behalf of the LLP
- ▶ If the servicer's long-term ratings fall below Baa3 / BBB- , Leeds will undertake to put in place alternative servicing obligations

Asset Coverage Test

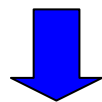
- The Asset Coverage Test (ACT) calculates the amount of over collateralisation needed to support the AAA ratings
- The ACT is passed when the Adjusted Aggregate Loan Amount (AALA) is greater than or equal to the sum of the principal amount of outstanding Covered Bonds
- The AALA is the sum of the following:

A (the lower of)			B, D, E		Y, Z
(i)	The Adjusted True Balance for each loan in the pool adjusted for arrears and LTV <i>minus</i> Loans which are subject to a breach of representation and warranty		Cash in GIC Account represented by principal receipts from portfolio		Set-off
(ii)	The Arrears Adjusted True Balance <i>minus</i> Loans which are subject to a breach of representation and warranty	x	Cash capital contributions by Leeds and unutilised proceeds of term advances		Negative Carry
			Substitution Assets		
			Asset Percentage: 75.6% (ensuring a minimum over collateralisation)		

Programme Terms – Issuer Events of Default

□ Issuer Event of Default Implications

- ▶ An issuer acceleration notice will be issued to the issuer
- ▶ A notice to pay will be issued to the LLP
- ▶ Issuer events of default can be categorised in 4 main sections - Failure to pay, Bankruptcy of issuer, cessation of funding business and failure of the ACT
- ▶ All cash received from the LLP's assets are collected in a GIC account for the benefit of the investors
 - Cash generated by the mortgages
 - Proceeds from the monetisation of the portfolio
 - Proceeds from the liquidation of the Issuer, if any
- ▶ No more Covered Bonds can be issued and interest and principal from the portfolio are used exclusively to meet Covered Bond payments
- ▶ The Amortisation Test is designed to ensure that the cover pool is at least equal to the principal amount outstanding of the Covered Bonds



□ Payments under the Covered Bond Guarantee

- ▶ Covered Bonds remain due and payable as scheduled
 - Investors receive payments of interest and principal under the Covered Bond Guarantee as and when they would otherwise have been paid had no Issuer Event of Default occurred
- ▶ In the case of extendible maturities, to the extent that the Covered Bond Guarantor has insufficient funds to repay in full the Covered Bonds on the final maturity date, the unpaid amount will automatically be deferred and shall be due and payable one year later

Programme Terms – Events of Default

□ **LLP Events of Default Triggers**

- ▶ Non payment or performance by the LLP of its obligations under the guarantee
- ▶ Bankruptcy or liquidation of the LLP
- ▶ The LLP ceases to carry out its primary business
- ▶ Failure to comply with the requirements of the Amortisation Test following an Issuer Event of Default



□ **Enforcement of Security Interest**

- ▶ Covered Bonds before due and payable against the LLP
- ▶ Investors (via the Security Trustee) enforce their security against the LLP
- ▶ The LLP's assets are liquidated by the Security Trustee (or appointed receiver) for the benefit of investors



□ **Disbursements to Investors**

- ▶ Proceeds from the liquidation of the LLP's assets are disbursed to investors on a pro-rata basis with all the Covered Bonds ranking pari passu
- ▶ Investors maintain an unsecured claim against the Issuer for any unpaid amounts under the Covered Bonds

Comparison of UK Covered Bonds

	Leeds	Abbey	Coventry	HBOS	Lloyds	Nationwide	Yorkshire
Ratings (F/M/S)	AAA/Aaa	AAA/Aaa/AAA	AAA/Aaa	AAA/Aaa/AAA	AAA/Aaa/-	AAA/Aaa/AAA	AAA/Aa1
Programme Size	€7bn	€25bn	€7bn	€60bn	€15bn	€45bn	€7.5bn
Collateral	Residential Mortgages	Residential Mortgages	Residential Mortgages	Residential Mortgages	Residential Mortgages	Residential Mortgages	Residential Mortgages
Maximum LTV of loans which the ACT gives credit to	75%	75%	75%	60%	75%	75%	75%
Minimum Over-collateralisation	107%	109.9%	111.0%	108.1%	108.1%	107.5%	107%
Interest Rate Swap Provider	Leeds Building Society	Abbey National Treasury Services Plc	Coventry Building Society	Bank of Scotland Plc	Lloyds TSB Bank Plc	Nationwide Building Society	Yorkshire Building Society
Covered Bond Swap Provider	Third Party Provider rated P-1/F1	Third Party Provider rated A-1+/P-1/F1	Third Party Provider rated P-1/F1	Bank of Scotland Plc	Lloyds TSB Bank Plc	Third Party Provider rated A-1+/P-1/F1	Third Party Provider rated P-1/F1
Hard Bullet Option?	No	Yes (Pre maturity test)	No	Yes (Pre maturity test)	Yes (Pre maturity test)	Yes (Pre maturity test)	No
Soft Bullet Option?	Yes (12 Month extendable maturity)	Yes (12 Month extendable maturity)	Yes (12 Month extendable maturity)	No	Yes (12 Month extendable maturity)	Yes (12 Month extendable maturity)	Yes (12 Month extendable maturity)

Appendix II

UK Covered Bond Regulation

UK Covered Bond Regulation

- **UK covered bond legislation implemented March 2008**
- **UK market comprises both Regulated (RCB) and Structured (unregulated) covered bond programmes**
- **RCBs:**
 - ▶ Higher prudential investment limits under UCITS
 - ▶ Higher investment thresholds for insurers
 - ▶ Lower risk weights under the Banking Consolidation Directive
- **FSA conducts rigorous independent review of issuer and programme applying for regulated status. Assessment of:**
 - ▶ Appropriateness of issuer's oversight and governance framework
 - ▶ Appropriateness of systems, controls, policies and procedures
 - ▶ Proficiency of cash management and servicing functions
 - ▶ Quality of eligible assets in cover pool
 - ▶ Ability of assets in cover pool to mitigate defined risks
 - ▶ Assets on issuer's balance sheet available to be substituted in
 - ▶ Ability of programme to make timely payment on bonds
 - ▶ Legal structure's compliance with UK RCB Regulations
 - ▶ Procedures for identification and rectification of potential breaches
 - ▶ Independent legal and audit opinion of the issuer and programme

Source: FSA Factsheet "UK Regulated Covered Bonds: Assuring and monitoring quality and confidence"

UK Covered Bond Regulation

- **Regulated Covered Bonds continue to be monitored by the FSA's RCB Team and FSA Risk Specialists**
 - ▶ Ensuring sufficient assets in cover pool to mitigate risk of non-timely bond payments
 - ▶ Providing independent assurance in advance of further issuance
 - ▶ Monitoring impact of significant changes in asset-liability profiles
 - ▶ Analysing line by line and pool performance data
 - ▶ Reviewing any proposed material changes to the programme's contractual terms
 - ▶ Maintaining a public register of regulated programmes

- **If an RCB issuer or RCB programme breaches UK RCB Regulations the FSA may direct correction of the breach, impose financial penalties, de-register or wind-up the programme**

Source: FSA Factsheet "UK Regulated Covered Bonds: Assuring and monitoring quality and confidence"

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