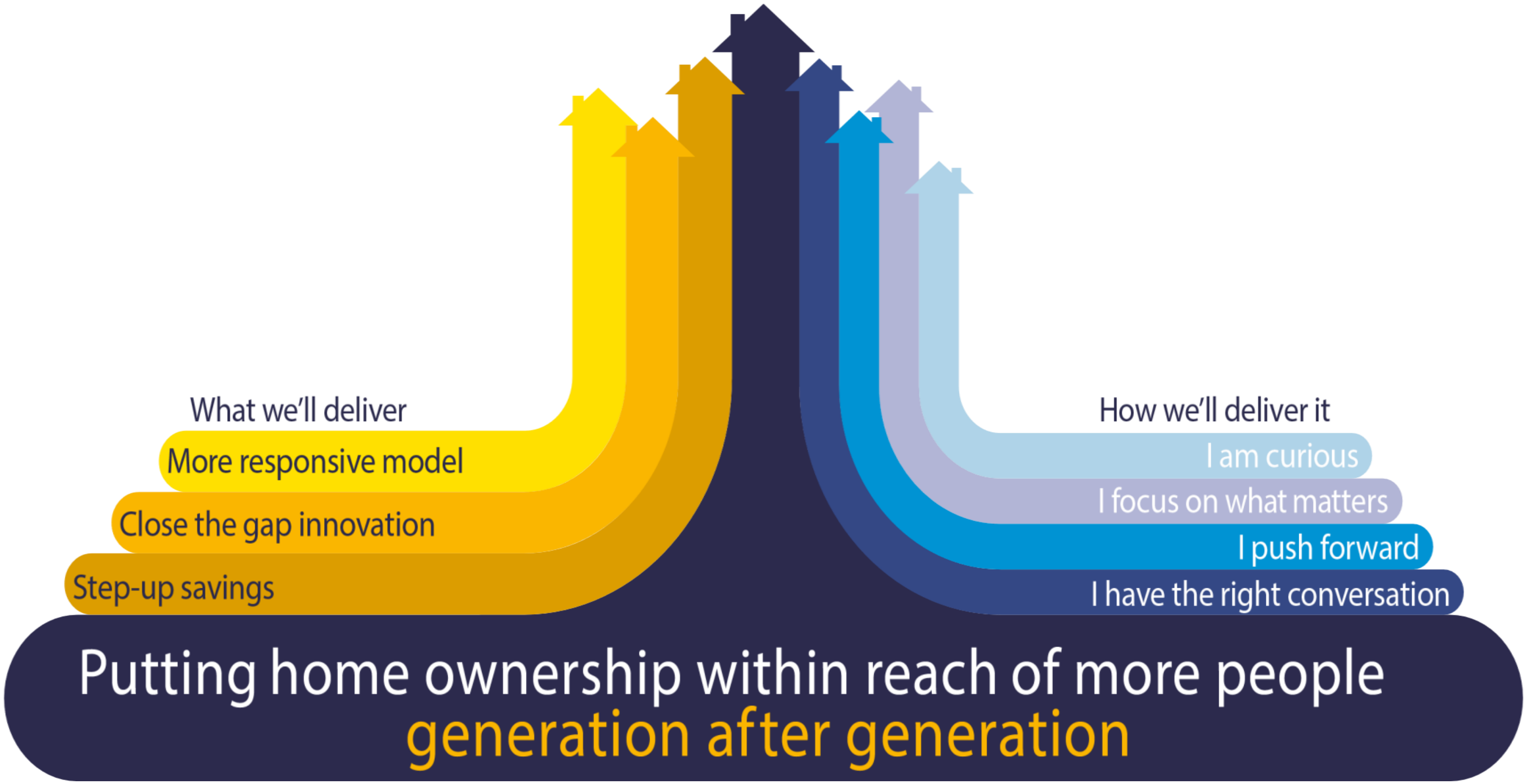
2023 Annual Results Presentation

Leeds Building Society

We're building a Society to **believe in**



Our performance **highlights**

Savings balances
£20.8bn
2022: £17.5bn

Average savings rate
3.05%
Market average 2.46%

Colleague engagement
8.3 /10
2022: 8.0

Customer Satisfaction
94%
2022: 93%

Gross lending
£4.4bn
2022: £5.0bn

Net lending
£1.5bn
2022: £2.0bn

New partnership with
Experian Boost

"Best Shared Ownership Mortgage Lender" 2023
What Mortgage Awards

PBT
£182m
2022: £221m

NIM
1.26%
2022: 1.5%

17,700
New First Time Buyers
2022: 18,000

"First time Mortgage Buyers' Choice"
Moneyfacts Consumer Awards

Cost : Income
47.3%
2022: 37.4%

Cost : Asset
0.63%
2022: 0.59%

CET1
28.2%
2022: 33.3%

UK Leverage
6.0%
2022: 6.2%

Strong trading and financial performance amidst a backdrop of economic uncertainty

Stubbornly **high inflation** persisted in H1 (above 10% in Q1 2023) maintaining cost of living pressures for our members.

Uneven falls in inflation data created volatility in markets.

Bank Base Rate increased to a 15 year high of 5.25% in 2023, with 5 rate increases moving from 3.5% in Dec-22 to 5.25% by Dec-23.

Conflict in Russia/Ukraine and the Middle East contributing to uncertainty across markets.

Greater **regulatory scrutiny of Savings rates** offered by big banks

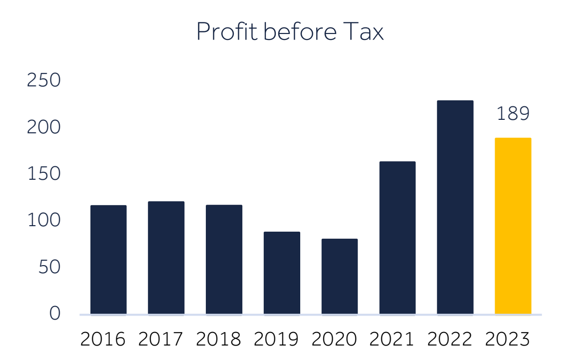
Rail, teachers and NHS **strikes** impacting consumer confidence and GDP

The **housing market has been more resilient than anticipated**, market wide anticipation was that House Prices would fall sharply in 2023 but in reality HPIs only fell between 1.7-1.8%* across the year

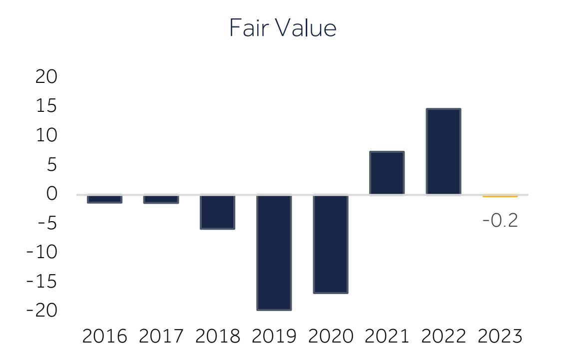
**Nationwide Index 1.8%, Halifax 1.7%*
***CACI data for 12 months to October 2023*

Summary Financial Performance

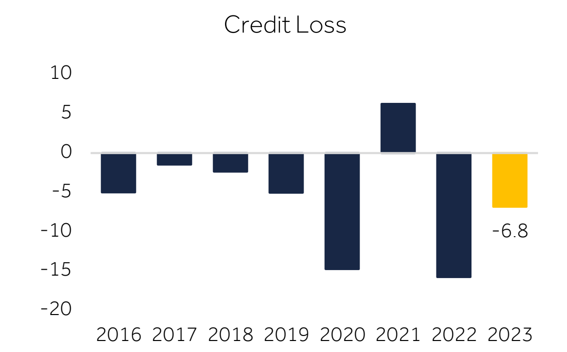
Balance sheet growth of 10% in a volatile trading environment whilst delivering robust levels of PBT despite increased investment in people and transformational projects



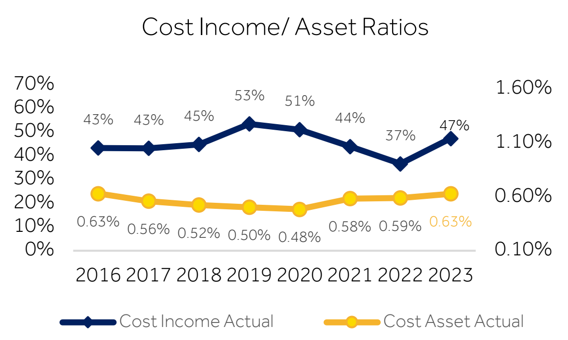
PBT of £188.5m adverse to 2022 driven by a competitive mortgage market and changes in customer behaviour following rising rates.



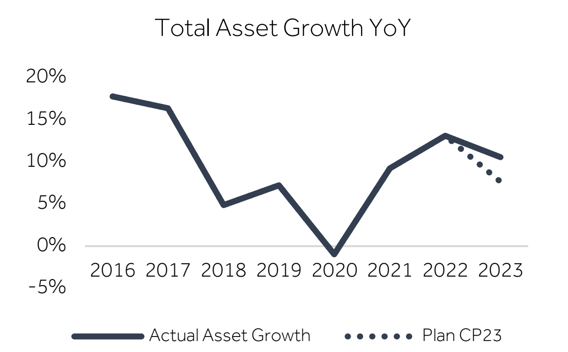
Market rate volatility and management decisions drove fair value gains, offset by the day one impact of the Tier 2 buy-back.



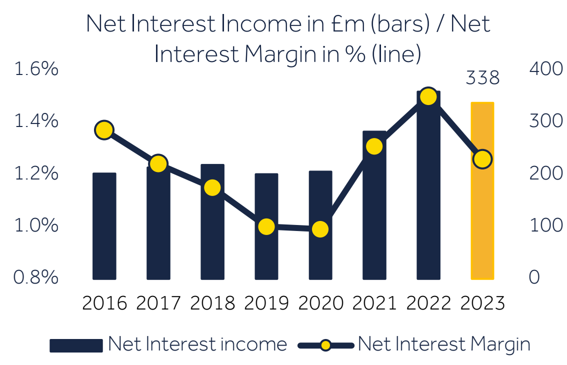
Book growth and a slight worsening of credit quality in the book (notably the Euro book) meant additional impairment charge and retention of the PMA booked in 2022.



Cost:income ratio deteriorated in 2023 to 47.3%. This is driven by increased investment in transformation and exacerbated by a decrease in income.



Asset growth of 10% was driven by strong retail inflows, albeit growth was lower than 2022 due to challenging market conditions.



NIM reduced as competition caused squeeze on margins and FRISA churn increased interest cost.

We're making good progress against our **responsible business targets**

Sustainable communities

Provide £3 million to charities and communities through grants, donations and sponsorship by 2025.

Progress: Ahead

2023 target: £2.1m by end of 2023
2023 actual: £2.5m by end of 2023

Maintain our share of UK high street branches at higher than 0.50%.[4]

Progress: Achieved

2023 target: >0.50%
2023 actual: 0.65% (as at March 2023)

Inclusion and Diversity

Achieve 45% female representation in leadership roles by 2030.

Progress: On track

2023 target: 39%
2023 actual: 39%

Achieve 10% ethnic minority representation in leadership roles by 2030.

Progress: Ahead

2023 target: 7.5%
2023 actual: 8.5%

Our inclusion and diversity colleague sentiment score is in top 25% of UK financial services by 2030.

Progress: Achieved

2023 target: Top 25% by 2030
2023 actual: 8.7
(on the cusp of top 25%)

Climate and Environment

Reduce absolute Scope 1 and 2 market-based emissions by 90% by 2030.[5]

Progress: Behind

2023 target: 20% reduction
2023 actual: 29% increase

Reduce absolute Scope 1 and 2 location-based emissions by 60% by 2030.[5]

Progress: Ahead

2023 target: 13% reduction
2023 actual: 39% reduction

Maintain carbon neutrality for Scope 1 and 2 market-based emissions and selected Scope 3 emissions, on the pathway towards net zero.[6]

Progress: Achieved[7]

2023 target: 0 tCO2e
2023 actual: 0 tCO2e

Reduce absolute Scope 3 emissions (categories 1-14) by 25% by 2030.[5]

Progress: Behind

2022 target: -2.8%
(latest data available)
2022 actual: -2.7%
(latest data available)

Ambition to reduce the intensity of our Scope 3 financed emissions (category 15) from our residential mortgage book by 45% by 2030.[5]

Progress: Behind

2022 target: -5.0%
(latest data available)
2022 actual: -0.1%
(latest data available)

Trust and Transparency

Maintain strong colleague engagement score which places us in line with the UK financial services sector benchmark.[8]

Progress: Achieved

2023 target: Top 25%
2023 actual: 8.3
(placing us in the top 25%)

Maintain high member satisfaction scores of over 90%.[1 and 9]

Progress: Achieved

2023 target: >90%
2023 actual: 94%

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.

Financials

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Robust PBT despite volatile trading environment

£m	2023	2022
Net Interest Income	337.6	359.6
Other income	26.6	2.4
Fair value gains / (losses)	(6.7)	14.7
Total income	**357.5**	**376.7**
Management expenses and Depreciation	(169.0)	(141.0)
Loan impairments & provisions	(7.0)	(15.2)
Profit before tax	**181.5**	**220.5**
Tax expense	(47.6)	(58.6)
Profit after tax	**133.9**	**161.9**

PBT of £182m – second highest in LBS history.

Down from the all time high in 2022 following a balanced approach to member support through a period of rising rates and maintaining long term financial resilience.

NII has declined as the effect of tightening mortgage margins and changes to customer behaviour reduced margins, which outweighed the benefit from balance sheet growth. In line with our mutual ethos, we passed benefit to our members through mortgage and savings rates.

Our cost ratios have increased due to investment in transformation.

Key ratios (%)		2023	2022
Net interest margin	⇩	1.26	1.51
Cost income ratio	⇧	47.3	37.4
Cost asset ratio	⇧	0.63	0.59
Cost of Risk	⇩	0.02	0.06

10% growth reflected **record savings performance**

£m	2023	2022	Δ%
Residential mortgages	21,836	20,372	7
- Owner Occupied	10,961	9,389	17
- BTL	5,455	5,828	(6)
- Shared Ownership	2,964	2,510	18
- *of which FTB*	*7,090*	*6,790*	4
Total assets	**28,146**	**25,514**	10
Member equity	1,643	1,507	9
Total liabilities & equity	**28,146**	**25,514**	10

1 in 2 of our new mortgages were to first time buyers, supporting more people into home ownership. In setting up future trajectory, 2023 was our highest year ever for lending applications.

Record breaking savings performance resulted in good levels of liquidity, providing protection and flexibility in this uncertain economic environment

We maintained strong capital ratios. The slight downward movement is due to model changes (PMA increase from Hybrid IRB models) but remain well above regulatory and internal minimums.

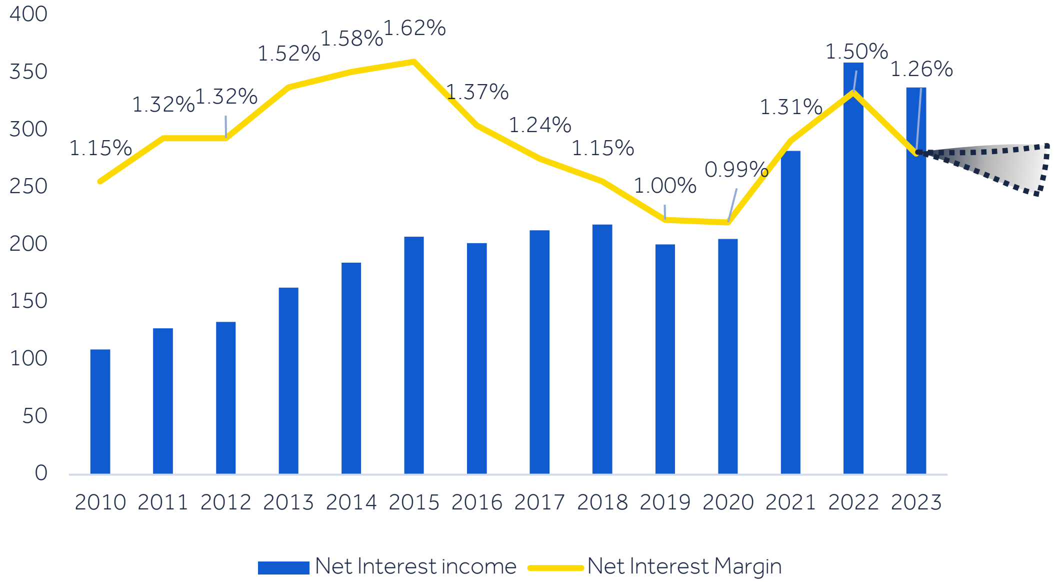
Key ratios (%)		2023	2022
Liquidity Coverage Ratio	⇔	227	230
Net Stable Funding Ratio	⇔	143.1	139.9
Wholesale Funding Ratio	⇩	18.6	22.9
CET1 Ratio	⇩	28.2	33.3
UK Leverage Ratio	⇩	6.0	6.2
MREL Ratio	⇩	35.5	47.4

NIM normalises as we continue to offer competitive rates to our members

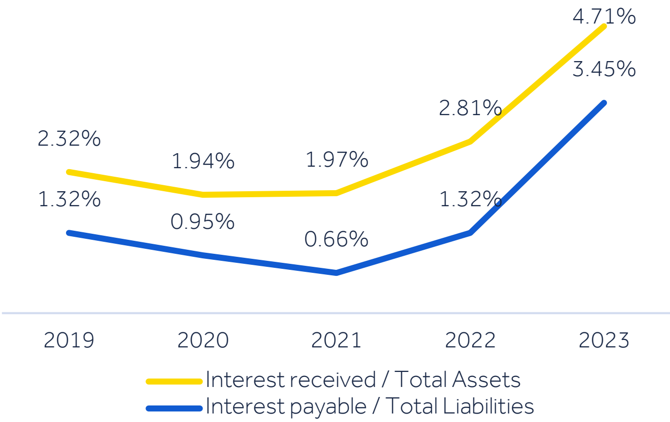
Intensified mortgage market competition and elevated funding costs resulted in 1.26% NIM (2022: 1.50%). Shorter terms for fixed rate savings meant interest rate rises flowed through to interest expense faster than gross mortgage rates. This was accelerated by changes in customer behaviour, particularly on fixed rate ISAs.

We have limited increases in mortgage rates to support our members in these challenging times. Out of 14 Bank of England rate rises since 2021, we have only responded to 8 of these increases to our standard variable mortgage rate.

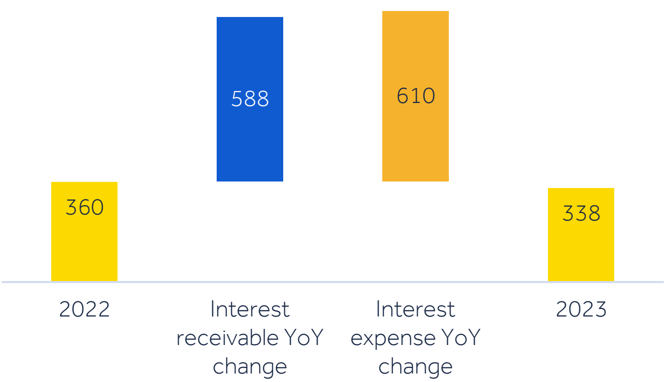
NIM and NII



Asset and liability average rates

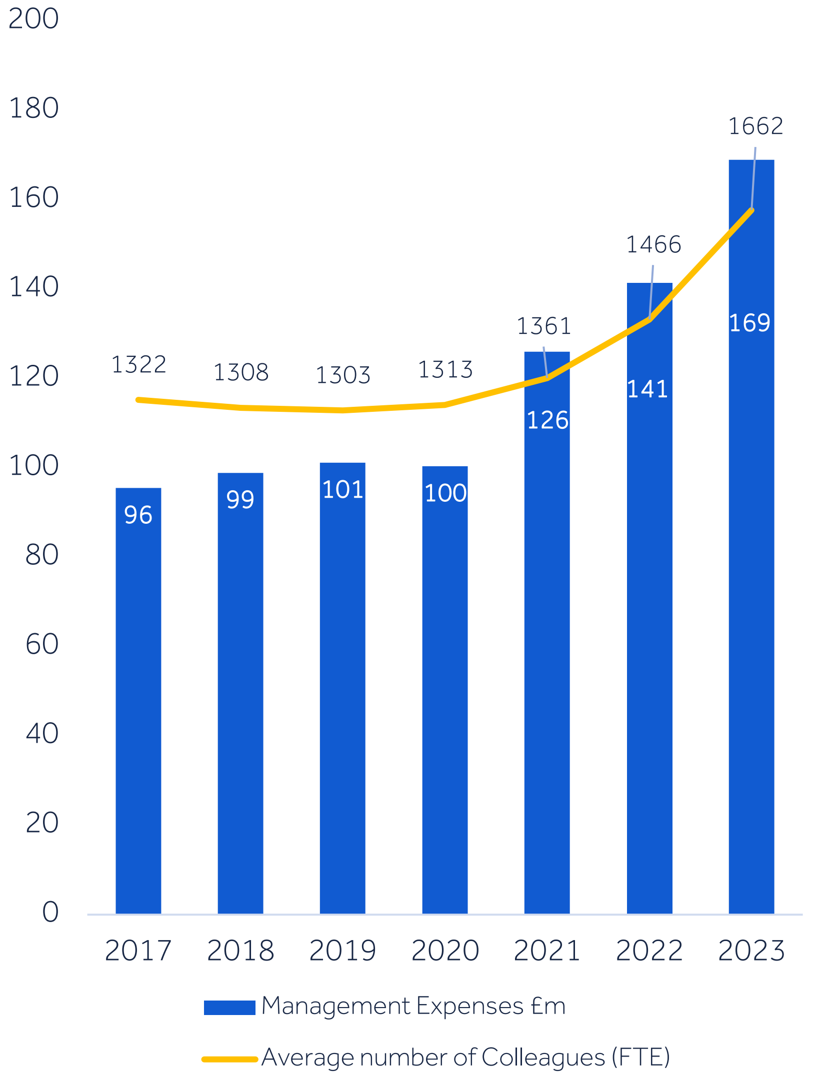


NII bridge



Strong focus on close control over our costs

Management expenses (£m) and Total Colleagues



Management expenses have increased 20% in the year as we support better service levels and continue to invest in the Society's long-term sustainability.

We have commenced our Core System Replacement Programme, which will create long-term value for the Society and its members through increased technical resilience, functionality and service.

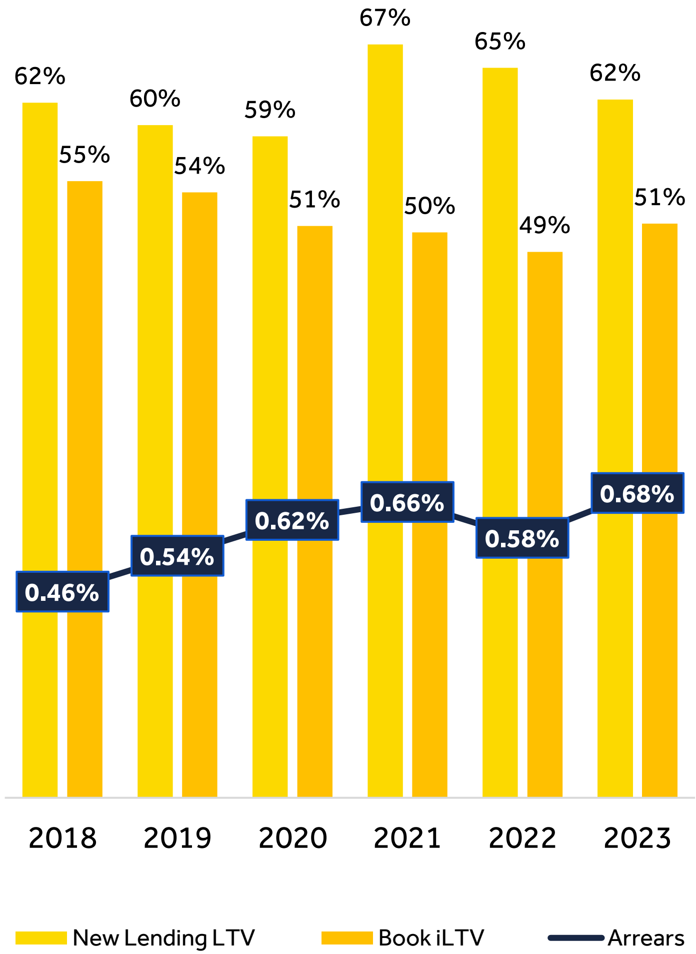
The new system will provide better agility to respond to new opportunities at pace, enabling integration with 3rd party systems and the benefits of open banking.

£m	2023	2022
Colleague costs	102.9	83.8
Other administrative expenses	53.1	46.3
Depreciation and amortisation	9.1	10.9
Total business as usual expenses	**165.1**	**141.0**
Core replacement costs	3.9	-
Total management expenses	**169.0**	**141.0**

Asset Quality

Credit quality resilient to higher interest rates

Portfolio and new lending LTV



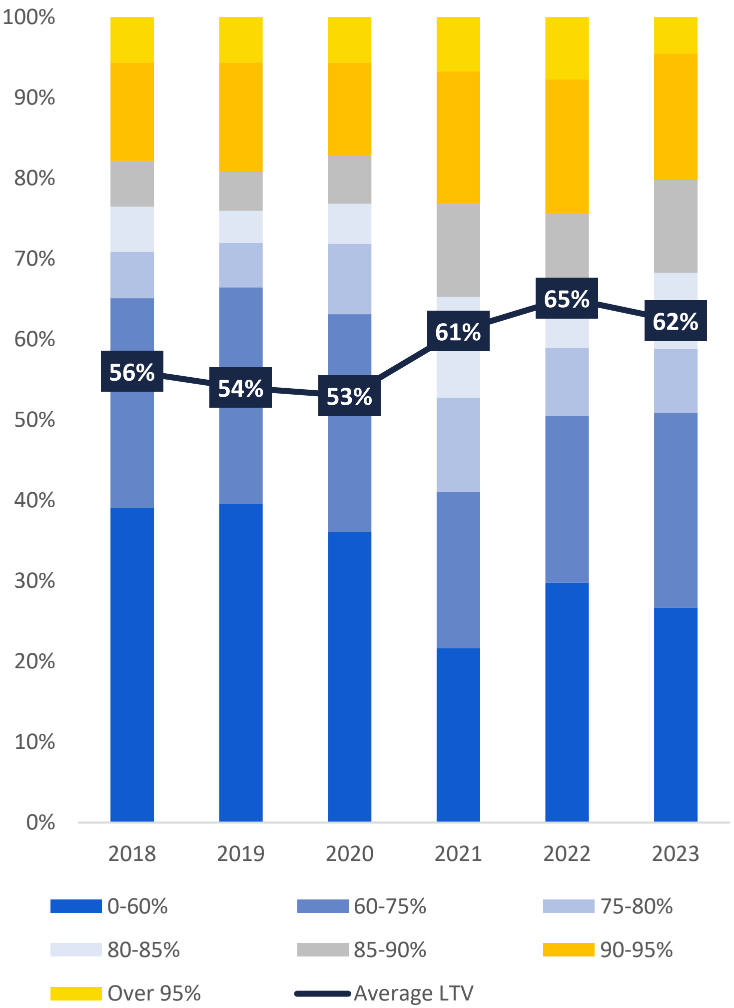
Arrears levels have increased modestly but remain low compared to the industry average – proving that our tight underwriting practices and automated decisioning engine is maintaining a very high quality lending portfolio.

The proportion of residential mortgages in arrears by 1.5% of balance or more has increased from 0.58% to 0.68%.

Key Ratios		2023	2022
Arrears Rate (> 1.5% Bal)	⇧	0.68%	0.58%
- OO	⇧	*0.80%*	*0.73%*
- BTL	⇧	*0.32%*	*0.20%*
- SO	⇧	*1.46%*	*1.31%*
LBS UK portfolio >3mths Rate	⇧	0.73%	0.70%
UK Finance >3mths Rate	⇔	0.91%	0.72%
Forbearance Balances	⇧	£117.4m	£99.4m

We have a balanced, risk managed approach to lending

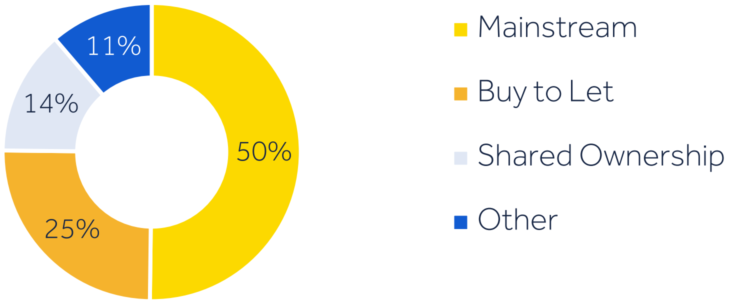
New lending by original LTV



The Society's underwriting processes use a range of tools including credit scoring models, affordability stress testing, automated decisioning and suitably qualified underwriters in assessing mortgage applications. Underwriting processes are kept under close review to ensure they reflect risks in the prevailing environment.

We have adjusted the stressed interest rate used in affordability assessments to account for the higher interest rate environment and maintain asset quality.

Mortgages by segment



Residential Mortgage Asset Quality		2023	2022
Indexed LTV[1]	⇧	51.2	48.8
LTV of new lending[2]	⇩	62.3	65.1

1 Balance-weighted average of indexed loan to value of mortgage portfolio.
2 Balance weighted average loan to value of new lending in 2023.

Provision coverage remains high in response to future economic uncertainty

UK residential provision coverage has increased slightly to 24%, high relative to peers but considered appropriate when facing into continued uncertainty.

Stage 2 balances have increased whilst stage 3 increases are less pronounced.

PMAs reflect impacts of inflationary pressures and cost of living crisis on affordability.

We have recognised an additional PMA which reflects the consideration of climate risk, specifically the physical risk associated with flooding and coastal erosion.

We retain PMAs on uncertainty over the timing of remediation of cladding issues in high rise flats.

	2023		2022		Δ
	Gross Exposure	Provision Coverage	Gross Exposure	Provision Coverage	Gross Exposure
	£m	%	£m	%	%
Stage 1	17,670	0.03	16,965	0.03	4.2
Stage 2 and <30 days past due	3,791	0.76	3,088	0.97	22.8
Stage 2 and 30+ days past due	111	2.61	97	1.65	14.4
Stage 3 and <90 days past due	125	1.68	109	1.75	14.7
Stage 3 and >90 days past due	139	10.37	113	8.14	23.0
Total Mortgages	21,836	0.24	20,372	0.22	7.2

Post Model Adjustments	£m
Economic Uncertainty/Affordability	17.2
Climate risk	0.6
Inadequate Cladding	1.9
Transaction bias	1.1
Total PMAs	£20.8m (2022: £25.1m)

Capital, Liquidity & Funding

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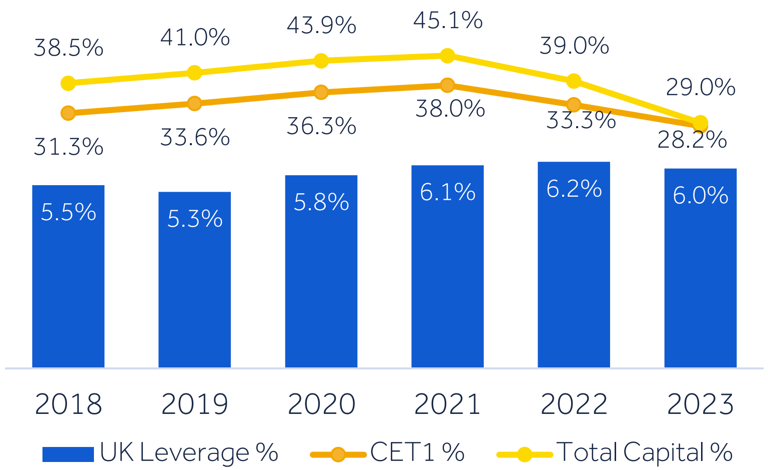
Capital remains healthy under new hybrid models

Capital ratios remain very strong

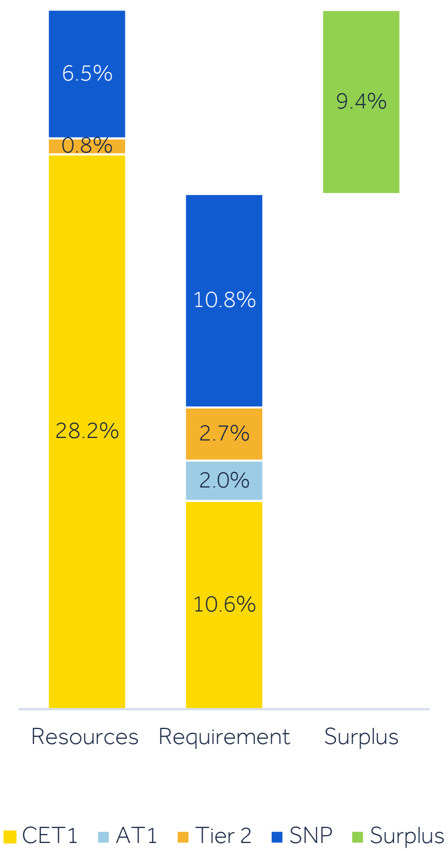


Significant profit generation has added to capital resources, although capital requirements also increased from post-model adjustments.

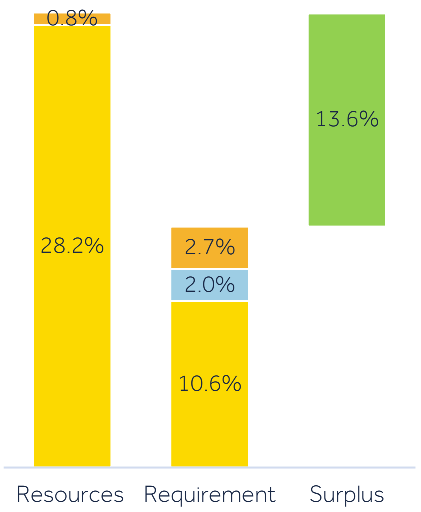
As an IRB lender, the expected impact of Basel 3.1 will be the new capital floor, expected to be phased in from July 2025 until January 2030.

We successfully repurchased £192m of Tier 2 subordinated notes as part of our capital optimisation strategy.

MREL



Risk Weighted Capital



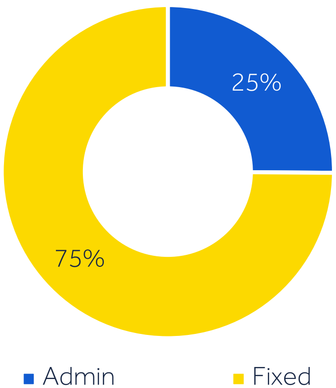
Record net savings of £2.7bn driven by our fixed rate ISA offering

We delivered over £2.7bn in record net retail savings (2022: £2.2bn) through a focus on offering competitive rates, including fixed rate ISAs.

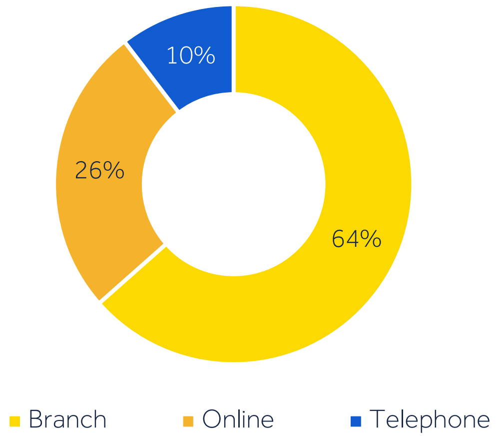
We continue to pay above average market rates to members. Our average rate for the year of 3.05% vs the market average of 2.46%. This means a benefit to our members of £110m in 2023.

91% of total deposits are protected by the FSCS guarantee scheme.

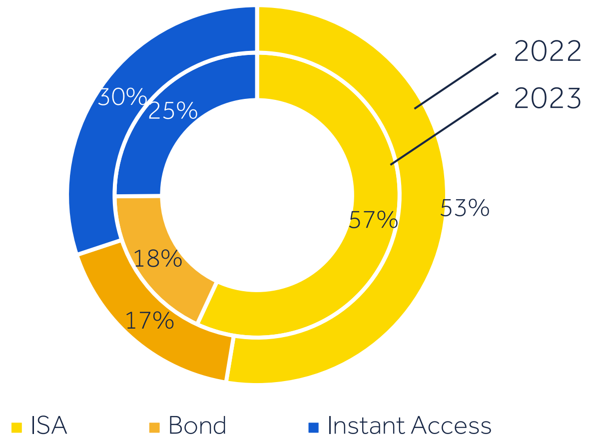
Savings by basis



Savings by channel

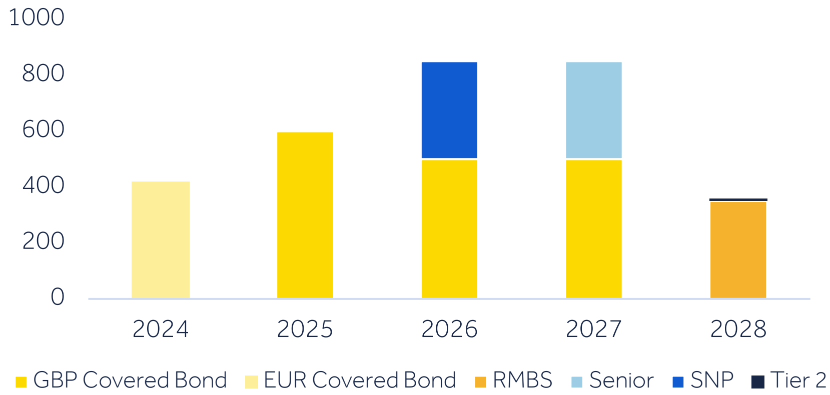


Savings by type

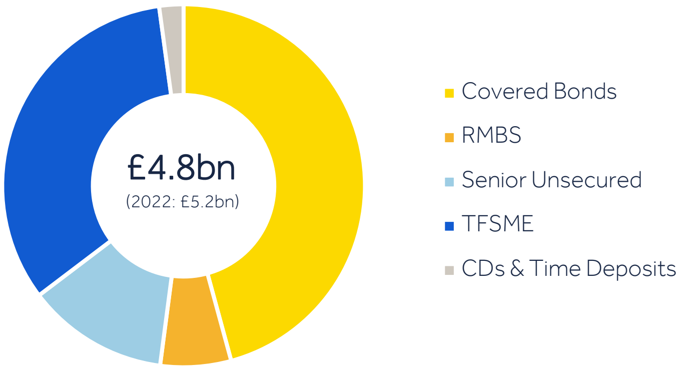


We are primarily retail funded supported by long-term wholesale funding

Smooth wholesale maturity profile

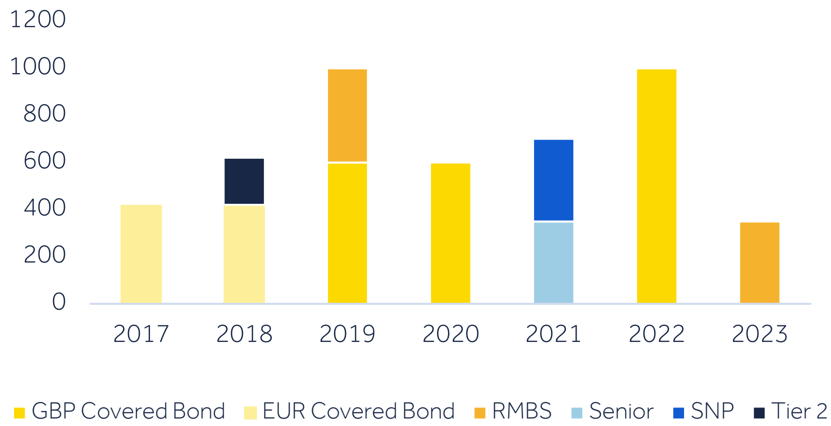


Wholesale funding by type



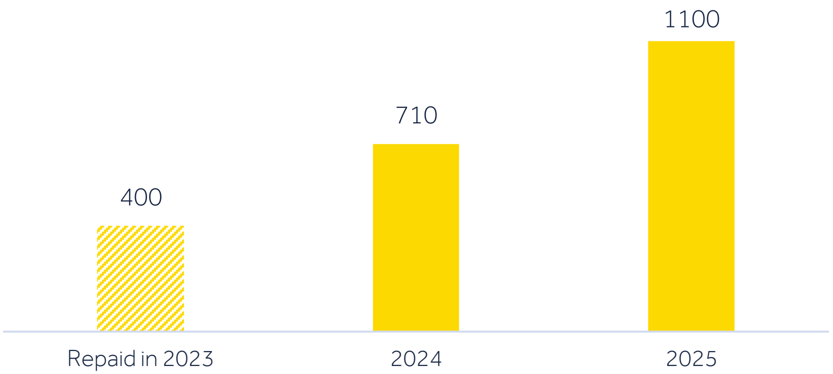
Consistent public issuance

We intend to remain active in wholesale markets to meet our funding requirements.



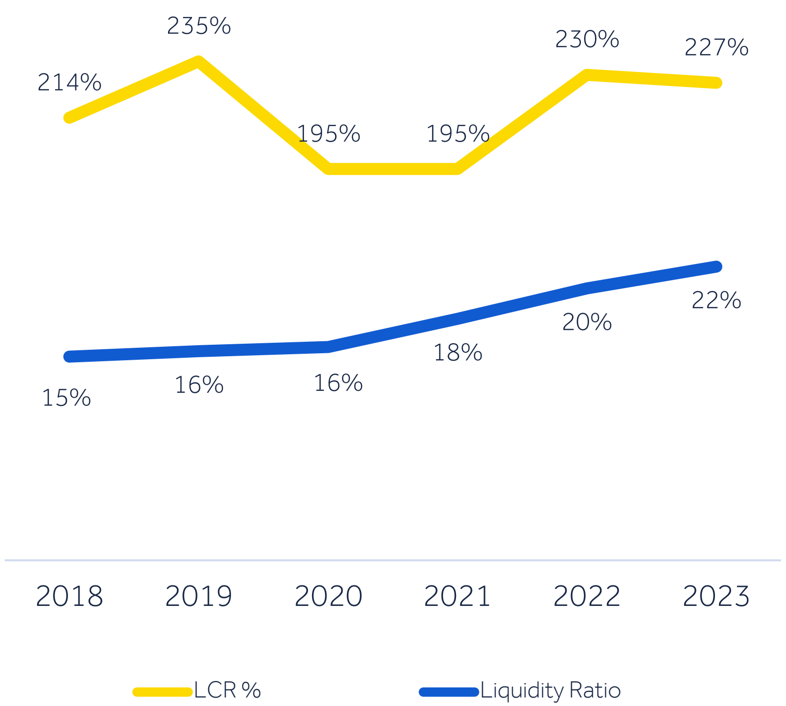
TFSME Repayment Profile

We repaid £400m of our total £2.2bn TFSME drawings leaving £1.8bn outstanding.

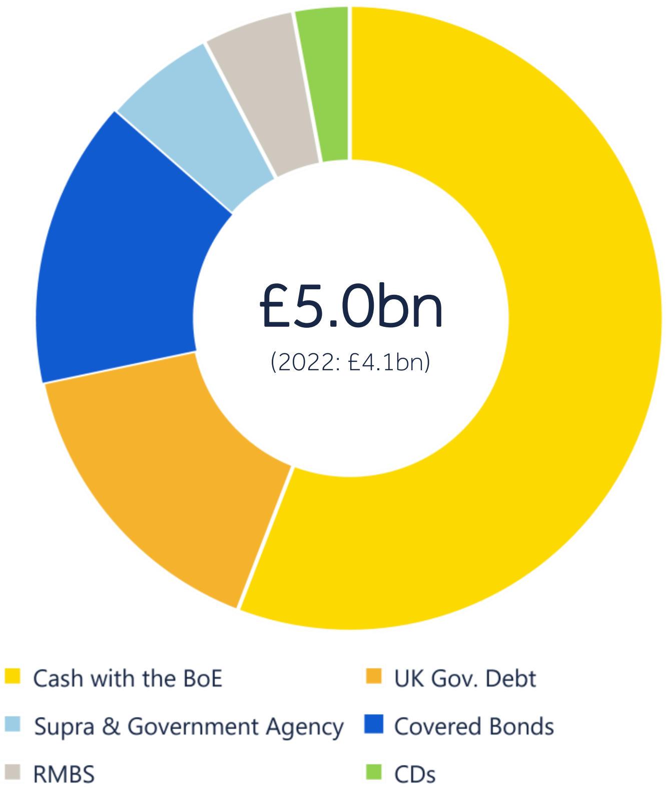


Record savings volumes provides strong liquidity

Liquidity ratios remain strong



High quality liquidity portfolio



Got a question? **Just Ask.**

Investor relations website	https://www.leedsbuildingsociety.co.uk/treasury/
Investor relations mailbox	investorrelations@leedsbuildingsociety.co.uk
Andrew Conroy Chief Financial Officer	aconroy@leedsbuildingsociety.co.uk
Paul Riley Director of Treasury	priley@leedsbuildingsociety.co.uk
Richard Wood Treasury Front Office Lead	rwood@leedsbuildingsociety.co.uk
Charlotte Newton Wholesale Funding Manager	cnewton@leedsbuildingsociety.co.uk

Appendices

Good progress made on Scope 1 and 2 emissions

Scope 1 and 2 targets
As part of our strategic aim to support the orderly transition to net-zero by 2050 or sooner, we have set two ambitious near-term targets to reduce our scope 1 and 2 emissions while we maintain carbon neutrality:

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.**

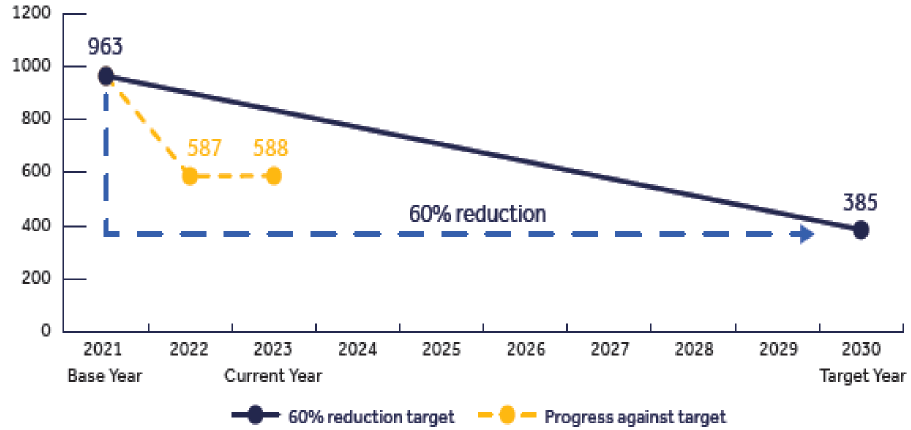
60% by 2030 — Reduce our absolute scope 1 and 2 emissions by 60% by 2030, from a 2021 base-year using a **location-based methodology.**

Carbon Neutral
Maintain carbon neutrality for our Scope 1, 2 market-based emissions and selected scope 3 emissions, on the pathway towards net zero.

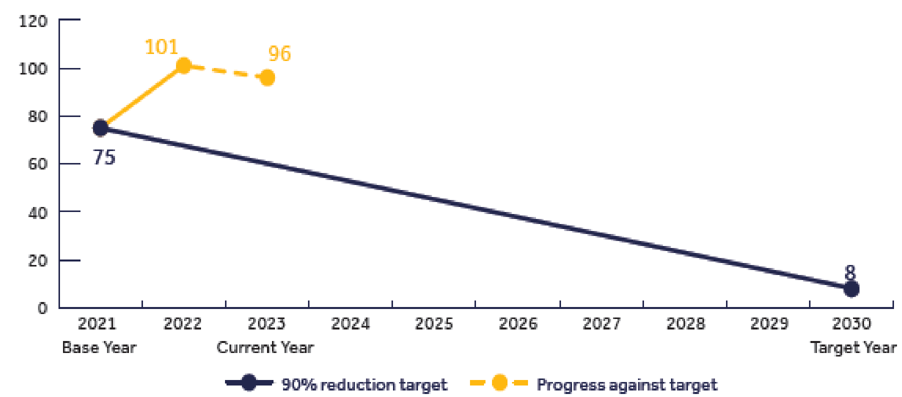
We are currently ahead of our 60% location-based reduction target, having reduced our overall energy consumption following the opening of our A rated Head Office building in 2022.

As a result of two unexpected leakages of fugitive gas from the air conditioning system at one of our offices, we exceeded our market-based reduction target in both 2022 and 2023. We have taken practical action and expect our emissions to trend back down in line with the target pathway in future years as we implement our emissions reduction plans.

Location based target



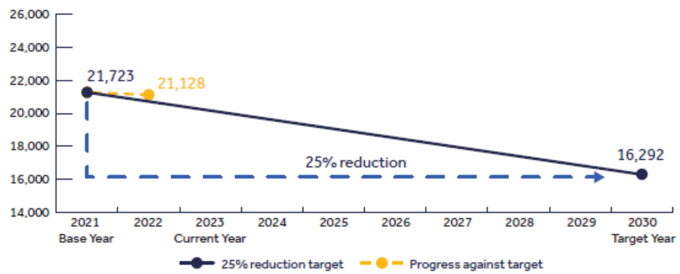
Market based target



We are increasing our commitment to tackling Scope 3 emissions

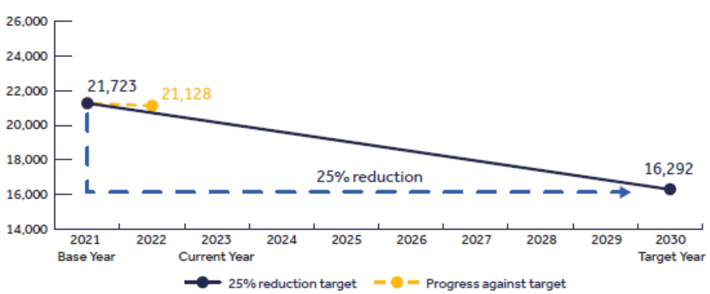
25%
by 2030

Reduce our absolute scope 3 operational emissions (categories 1-14) by 25% by 2030, from a 2021 base-year.



45%
by 2030

Ambition to reduce the intensity of our scope 3 financed emissions (category 15) from our residential mortgage book 45% by 2030 from a 2021 base year



We have set a new target to reduce our category 1-14 scope 3 emissions by **25% by 2030**, in line with the requirements of the Science-Based Targets initiative (SBTi) and the Paris Agreement, as well a new ambition for our scope 3 mortgaged emissions.

In 2022, our operational emissions reduced 3% vs our 2021 base year to 21,128 tCo2e, which is in line with the required c3% p.a. SBTi reduction pathway.

During 2023 we have set a new target to reduce our absolute scope 3 operational emissions by 25% by 2030 from a 2021 base-year, which aligns with principles of the SBTi and a well below 2oC temperature pathway.

In 2022, our financed emissions from residential mortgages reduced 0.1% versus our 2021 base year to 20.24 kgCO2e/m2/ year, predominantly driven by lower average LTV of lending in 2022 and an improvement in the proportion of more energy efficient properties on the book (52.8% with an EPC rating of A-C versus 52.3% in 2021).

Mortgage book stratifications

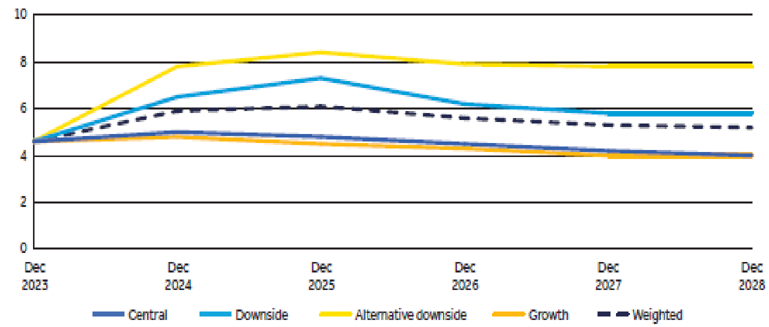
New Business 2023 H1 (Completed Applications)							
	Non-BTL		BTL		Total		
	£bn	% of Total	£bn	% of Total		£bn	% of Total
0-60%	0.9	21.6	0.3	77.6	0-60%	1.2	26.7
60-75%	1.0	24.8	0.1	18.7	60-75%	1.1	24.2
75-80%	0.3	8.3	0.0	3.6	75-80%	0.3	7.9
80-85%	0.4	10.4			80-85%	0.4	9.5
85-90%	0.5	12.6			85-90%	0.5	11.5
90-95%	0.7	17.3			90-95%	0.7	15.7
Over 95%	0.2	5.0			Over 95%	0.2	4.5
Total	**4.0**		**0.4**		Total	**4.4**	
Average LTV	62.3%		45.6%				

Loan Book Balances							
	Non-BTL		BTL		Total		
	£bn	% of Total	£bn	% of Total	Indexed LTV	£bn	% of Total
0-50%	7.4	45.0	3.6	67.9	0-50%	11.0	50.6
50-60%	2.3	13.8	1.1	21.4	50-60%	3.4	15.7
60-70%	2.5	15.3	0.4	8.1	60-70%	2.9	13.5
70-80%	2.0	12.2	0.1	2.5	70-80%	2.1	9.8
80-90%	1.8	11.1	0.0	0.0	80-90%	1.8	8.4
90-100%	0.4	2.7	0.0	0.0	90-100%	0.4	2.0
Over 100%	0.0	0.0	0.0	0.0	Over 100%	0.0	0.0
Total	**16.4**		**5.4**		Total	**21.8**	

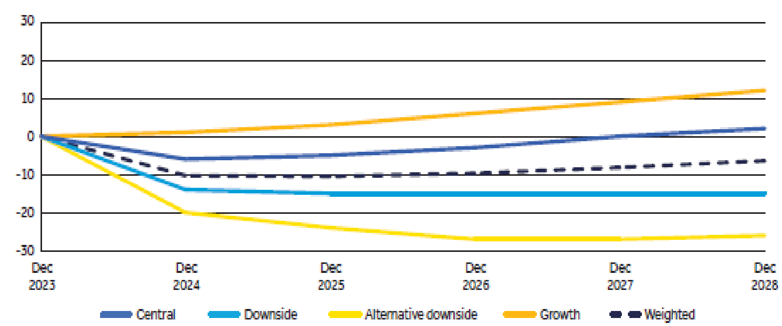
Economic downturn reflected in models, outlook uncertain

Scenario		2024	2025	2026	2027	2028
Central	House price inflation	(6.5%)	1.50%	2.50%	2.50%	2.50%
	Unemployment rate (31 December)	5.00%	4.75%	4.50%	4.20%	4.20%
	Gross domestic product growth	(0.25%)	0.75%	1.00%	1.50%	1.5%
	Base rate (31 December)	4.75%	4.25%	4.25%	4.00%	4.00%
Downside	House price inflation	(13.70%)	(2.00%)	0.00%	0.00%	1.00%
	Unemployment rate (31 December)	6.50%	7.30%	6.20%	5.80%	5.80%
	Gross domestic product growth	(0.70%)	(1.30%)	1.00%	1.00%	1.00%
	Base rate (31 December)	6.00%	3.00%	0.75%	0.25%	0.25%
Alternative Downside	House price inflation	(20.00%)	(5.00%)	(4.00%)	0.00%	1.00%
	Unemployment rate (31 December)	7.80%	8.40%	7.90%	7.80%	7.80%
	Gross domestic product growth	(0.20%)	(4.20%)	2.10%	1.50%	1.50%
	Base rate (31 December)	6.50%	4.50%	1.00%	0.10%	0.10%
Growth	House price inflation	1.00%	2.00%	2.70%	2.70%	2.70%
	Unemployment rate (31 December)	4.80%	4.50%	4.30%	4.00%	4.00%
	Gross domestic product growth	0.50%	1.10%	1.60%	2.10%	2.10%
	Base rate (31 December)	5.00%	4.50%	4.00%	3.25%	3.25%

Unemployment Rate (%)



House Prices (December 2023=0)



The macroeconomic scenarios used for calculating impairment have been revised to reflect ongoing economic volatility.

The central scenario reflects external economic volatility. The scenario anticipates that a combination of high inflation and high interest rates will drive reduced consumer spending in the earlier years of the forecast. The scenario shows a rise in unemployment as a decrease in gross domestic product during 2024 reduces demand for labour.

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