

22nd February 2011

Immediate Release

UK's 5th largest building society delivers record operating profit

Leeds Building Society today announced very strong results for 2010 and plans to increase significantly new lending this year.

2010 Business Highlights:

- Operating profit increased by 5% to a record £84.5m (£80.1m 2009).
- Pre-tax profit rose by 33% to £42.2m (£31.7m 2009).
- Savings balances grew by £245m to a record level of £7.0bn.
- New lending increased by 7% to £984m (£922m 2009).
- 52,000 new members attracted, taking total membership to a record 684,000.
- Efficiency improved even further in 2010 with cost income ratio reducing to 34% from 36% in 2009, which was the most favourable of any major building society.
- Quality of lending remains good with the average loan to value (LTV) on 2010 advances being just 53%.
- Wholesale funding ratio reduced to 20% (23% 2009).

Chief Executive, Ian Ward, said, "Leeds Building Society has again delivered a very good set of financial results despite the continuing challenges for the financial services sector. Another year of record operating profit, record savings balances and 52,000 new members demonstrates that our successful, sustainable business model continues to deliver security and value.

"Savings balances rose by £245m, which was more than twice our building society market share, to a record £7bn. Our ability to offer good value products backed up by excellent service has been key to this success.

"Our new lending increased from £922m to £984m in 2010; this represented £250m above our market share. We continue to adopt a prudent approach to lending as demonstrated by our average loan-to-value (LTV) on new mortgages in 2010 being just 53%. Furthermore, all of the Society's residential lending is funded entirely by retail savings.

"In 2011, we plan to increase our new lending by at least 25% to around £1.25bn. This will be welcomed by home buyers as we provide more capacity and choice to the UK mortgage market.

"Superior efficiency remains an integral part of our strategy and this is demonstrated by our cost income ratio. This improved further, reducing from 36% in 2009 to 34% in 2010, which is likely to be the most favourable of any major building society.

"We achieved our highest ever operating profit of £84.5m, which is £4.4m higher than last year's record of £80.1m. After impairment losses and provisions, our pre-tax profit was £42.2m, an increase of 33% compared to 2009. We believe that this represents a superior performance in the context of the overall results of UK retail financial services organisations.

"The security of our members' savings remains very strong. As at the end of 2010, our reserves had increased by £27m to £505m, with total capital and reserves of £531m (£543m 2009). This figure is after the repayment of £39m of remunerated capital in the form of subordinated debt during 2010. Our capital and reserves class as Tier 1 capital and this ratio at the end of 2010 rose to 13.9%, from 12.7% in 2009, and is significantly ahead of regulatory requirements.

“Total assets were £9.5bn, including liquid assets of £1.9bn, representing 22% of total funds.

“We continue to offer the maximum possible assistance to any mortgage customers who are experiencing difficulty as a result of the UK economic conditions impacting on their household budgets. Our residential arrears (2.5% or more of outstanding mortgage balances) improved during the year to 2.16% from 2.24% at the end of 2009. The charge for impairment losses and provisions for commercial and residential property was £8.3m lower in 2010 at £44.2m (£52.5m 2009).

“During 2010, we were able to improve the maturity profile of our wholesale funding portfolio. We successfully raised £250m of 10-year long-term funding through a Covered Bond issue. This was the first money raised by any financial institution in the UK Sterling Covered Bond market since June 2007 and the first ever to use residential mortgages as security. Also, we raised a further £250m of wholesale funding for periods of between 3 and 5 years and have now secured the vast majority of our long-term funding requirement for 2011. This, combined with our above market share retail savings performance, has reduced our requirement for wholesale funding with the ratio falling to 20% (23% 2009).

“Pleasingly, the Society has maintained its strong ‘A’ long term credit ratings from both Moody’s and Fitch. Also, Moody’s issue a bank financial strength rating and ours is the highest in the sector. They highlighted our strong management of costs, good asset quality and solid funding structure. Fitch said the affirmation of our ratings reflect our ‘resilient revenue generation, excellent cost management and strong capital position’.

“Leeds Building Society has again proven its ability to deliver higher levels of profitability, savings balances and new mortgage lending as well as an increase in members and very strong capital and reserves. This means that we are in an excellent position to increase new lending significantly in 2011 and continue to be a successful, independent building society throughout this year and beyond.”

ENDS

Note to Editors

A copy of the Society’s results for 2010 is attached.

The Society’s press office would be happy to arrange interviews with the Society’s Chief Executive, Ian Ward.

For further information please contact:

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GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

Summary Consolidated Income Statement	2010 £M	2009 £M
Interest receivable and similar income	294.5	333.6
Interest payable and similar charges	(185.4)	(223.8)
	<u>109.1</u>	<u>109.8</u>
Net Interest receivable		
Fees and commissions receivable	19.7	19.3
Fees and commissions payable	(0.1)	0.0
Fair value gains less losses from derivative financial instruments	(1.6)	(4.6)
Other operating income	1.7	0.0
	<u>128.8</u>	<u>124.5</u>
Total income		
Administrative expenses	(43.3)	(43.2)
Depreciation and amortisation	(1.0)	(1.2)
	<u>84.5</u>	<u>80.1</u>
Operating profit before impairment and provisions		
Impairment of loans and advances to customers	(44.2)	(52.5)
Impairment of investment securities	3.2	2.5
Provisions for liabilities and charges		
Other	(0.2)	0.3
FSCS levy	(0.8)	1.3
Impairment losses on land and buildings	(0.3)	0.0
	<u>42.2</u>	<u>31.7</u>
Operating profit and profit on ordinary activities before income tax		
Income tax expense	(11.3)	(9.1)
	<u>30.9</u>	<u>22.6</u>
Profit for the financial year		
	<u><u>30.9</u></u>	<u><u>22.6</u></u>
Summary Statement of Financial Position	31 December	31 December
	2010	2009
	£M	£M
Assets		
Liquid assets	1,932.1	1,916.4
Derivative financial instruments	126.4	142.1
Loans and advances to customers	7,314.4	7,333.6
Other investments	0.1	0.1
Property, plant and equipment	26.9	33.0
Investment properties	7.0	7.0
Deferred income tax assets	2.8	3.6
Prepayments, accrued income and other assets	93.4	109.3
Total assets	<u>9,503.1</u>	<u>9,545.1</u>
Liabilities		
Shares	7,025.2	6,780.0
Derivative financial instruments	143.9	142.2
Deposits and securities	1,682.1	1,923.6
Current income tax liabilities	4.2	4.6
Deferred income tax liabilities	2.0	3.8
Provision for liabilities, accruals and deferred income	113.9	144.8
Retirement benefit obligations	0.7	3.0
Subordinated liabilities	0.9	40.0
Subscribed capital	25.0	25.0
Revaluation reserve	13.2	16.9
General reserve	487.1	455.5
Other reserves	4.9	5.7
Total reserves and liabilities	<u>9,503.1</u>	<u>9,545.1</u>

Statement of Comprehensive Income

	<u>31 December</u> <u>2010</u>	<u>31 December</u> <u>2009</u>
	£M	£M
Property revaluation	(5.3)	0.0
Valuation gain on revaluation of available for sale investments	0.8	1.8
Loss on cash flow hedges	(1.9)	(7.7)
Actuarial gain/(loss) on retirement benefit obligations	0.9	(1.1)
Tax on items taken directly to equity	1.7	2.0
Other comprehensive income net of tax	(3.8)	(5.0)
Profit for the year	30.9	22.6
Total comprehensive income for the year	<u>27.1</u>	<u>17.6</u>

Summary Consolidated Cash Flow

	<u>31 December</u> <u>2010</u>	<u>31 December</u> <u>2009</u>
	£M	£M
Net cash flows from operating activities	59.0	(356.2)
Net cash flows from investing activities	(363.4)	661.1
Net cash flows from financing activities	(39.1)	0.0
	(343.5)	304.9
Cash and cash equivalents at the beginning of the year	<u>539.3</u>	<u>234.4</u>
Cash and cash equivalents at the end of the year	<u>195.8</u>	<u>539.3</u>

Summary of key ratios

	2010	2009
Gross capital as a percentage of shares and borrowings	6.2%	6.3%
Liquid assets as a percentage of shares and borrowings	22.2%	22.0%
Profit for the financial year as a percentage of mean total assets	0.32%	0.23%
Management expenses as a percentage of mean total assets	0.47%	0.45%

Notes to the Financial Information

1. The financial information set out above, which was approved by the Board of directors on 21 February 2011, does not constitute accounts within the meaning of the Building Societies Act 1986.