Regulatory Story

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Leeds Building Society - LBS Half-year Report
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Mortgage lending and savings balances up as Leeds reports robust 2019 H1 results

Long term investment ongoing in service improvements for current and future members

Leeds Building Society is reporting a robust financial performance for H1 2019, as it announces its first mid-year results under new Chief Executive Officer Richard Fearon.

In the first half of the year the business increased residential mortgage balances by 4.4% (£16.5bn, compared to £15.8bn 31 December 2018), supported by new lending of £1.9bn (£1.8bn June 2018), and attracted 5.2% more savings balances (£14.6bn, compared to £13.9bn 31 December 2018), taking total assets above £20bn for the first time (up 6.9% to £20.7bn from £19.4bn 31 December 2018).

During that period, the Society helped 32,000 more people to save, as well as 20,000 more to have the home they want, including 6,000 who moved into their very first home. Successfully meeting the needs of first time buyers was what led to the formation of building societies such as Leeds more than 140 years ago.

The Society has demonstrated its continued support of its members by offering competitive products and services despite economic uncertainty. Sustained pressure on mortgage pricing and high levels of refinancing has translated into lower mortgage income and, without an equivalent reduction in funding costs, has suppressed net interest income.

The underlying strength of the mortgage book remains high with a low level of arrears and continued high quality security; albeit a worsening view of forecast economic conditions has negatively impacted expectations of credit losses and resulted in increased charges for impairment loss provisions.

Notwithstanding these pressures the Society has reported a robust profit of £49.4m (£60.1m June 2018) that has added to the established financial security of the UK's fifth-largest mutual and its strong capital position.

The Society's resilience was further enhanced a year ago when the Prudential Regulation Authority granted it IRB (Internal Ratings Based) permission, empowering the business to assess its own capital requirements for credit risk using internal models.

CET1 and total capital ratios of 30.3% and 37.0% respectively are among the strongest risk-based measures of any UK bank or building society and the leverage ratio of 5.4% is well above regulatory requirements.

Ambitious investment plans are progressing well - so far in 2019 work has begun to fit out the Society's new Leeds headquarters and the phased upgrading to future-proof lending systems is underway. Both projects are major commitments to future service improvements which also will boost efficiency and save money.

Richard said the building society model of focusing on long term value for the benefit of its membership as a whole continues to be a guiding principle which enables the business to remain secure and stable, even through times of external economic upheaval.

"The Society stays true to the purpose for which it was founded, to help people save and have the home they want, and we continue to lend responsibly and grow in a prudent and carefully-managed way," said Richard.

"This is despite the challenging headwinds in the UK economy and the impact of cooling consumer confidence.

"As expected, increased competition and the effects of slowing economic growth have had an impact on our profit levels. Similarly, we knew our ongoing investment in member value and our digital capabilities would affect profits - while these have reduced this year they remain at a healthy level.

"Our cost to income and cost to mean asset ratios of 49.4% and 0.50% respectively are among the best in the sector, and we retain our keen cost focus.

"Following planned high levels of growth over several years, the Society has made a conscious choice to moderate increases in mortgage and savings balances to focus on margin.

"We'll continue to pursue our strategy of supporting borrowers who are not well-served by the wider market - such as through Shared Ownership, Interest Only and Buy to Let - as we keep looking for new ways to respond to the evolving needs of our members. Our approach was recognised when What Mortgage magazine awarded us the accolade of 'Best Shared Ownership Lender' for the fourth consecutive year. We've also built on last year's launch of our Retirement Interest Only proposition and seen rising demand in this new segment of later life lending.

"Customer satisfaction levels remain high at 92% (91% June 2018). As a mutual, we need to balance the needs of our whole membership, whether borrowers or savers, and whilst we cannot ignore the impact of continued low interest rates in the market, we work hard to keep savings rates as high as possible for as long as possible in what has been a historically low rate environment. We will carry on paying above the market average to our savers - on the latest data available, we paid 0.62% above the market average on our savings rates[1], equating to an annual benefit to our savers of over £84 million."

Fairer Finance also awarded Leeds Building Society its 'Gold Ribbon' for savings accounts based on customer happiness and trust, along with its ability to explain things clearly.

The Society is committed to being a great place to work and continues to support and develop its people. As a result colleague engagement increased to 82% (81% June 2018).

Our Chief Operating Officer, Karen Wint, has advised the Board that she plans to retire next year. Richard said: "Karen has made an outstanding contribution over many years to assuring the long term success of the Society by leading our people and diversity agenda, making Leeds Building Society an employer of choice, improving our IT and cyber resilience and initiating the move to our new Leeds headquarters. I would like to thank Karen for her tremendous care and passion for the Society."

Significant support from colleagues for our first national charity partner Samaritans means fundraising is nearing its £250,000 target, seven months ahead of schedule.

As the Society progresses towards its corporate responsibility goals, it will keep on setting stretching targets.

Last month it celebrated Fair Tax Mark accreditation for a second year, offering independent proof of our tax transparency, which is something that matters greatly to members.

Our direction is always shaped by our members - talking, and listening, to them informs how we develop our products and services, and also how we conduct ourselves as a responsible business.

All executive directors voluntarily opted to move to the existing colleague pension scheme, effective from 1 September, without any compensation for the loss in benefits thus reducing the cost to the Society.

Richard said doing the right thing - for colleagues, members and communities - would continue to shape business strategy and practice, as it had done throughout the Society's long history, adding:

"Our commitment to long term stability for the benefit of our membership as a whole means we are well-placed to withstand economic shocks and market uncertainty."

Ends

[1] The Society paid an average of 1.35% to its savers compared to the market average of 0.73% - CACI's CSDB, Stock, June 2018 - May 2019, latest data available. CACI is an independent company that provides financial services benchmarking data and covers 87% of the high street cash savings market.

Notes to Editors

Key information from the Society's Group Results for the half year ended 30 June 2019 is attached.

To arrange an interview with Leeds Building Society Chief Executive Officer Richard Fearon, please contact the press office on 0113 225 7606.

The Society also was named Best Lender for Later Life Lending in the Legal & General Mortgage Club Awards 2019 and is a Best Companies 2* employer.

Leeds Building Society had assets of £20.7bn at 30 June 2019 (£19.4bn at 30 June 2018). The Society operates throughout the UK and its head office has been based in the centre of Leeds since 1886.

GROUP RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

Summary Condensed Consolidated Income Statement

	Six months to 30 June 2019 (Unaudited)	Six months to 30 June 2018 (Unaudited)	Year to 31 December 2018 (Audited)
	£M	£M	£M
Interest receivable and similar income	227.6	224.0	457.0
Interest payable and similar charges	(129.6)	(114.4)	(238.9)
Net interest receivable	98.0	109.6	218.1
Fees and commissions receivable	3.5	4.0	8.6
Fees and commissions payable	(0.6)	(0.4)	(0.8)
Fair value gains less losses from financial instruments	(0.6)	(0.3)	(5.7)
Other operating income	0.7	(0.1)	0.7
Total income	101.0	112.8	220.9
Administrative expenses	(46.2)	(47.1)	(94.9)
Depreciation and amortisation	(3.7)	(1.8)	(4.0)
Impairment (losses) / gains on loans and advances to customers	(2.1)	2.5	1.2
Provisions release	0.4	0.6	0.2
Loss on sale of financial assets	-	(6.9)	(6.5)
Operating profit and profit before tax	49.4	60.1	116.9
Tax expense	(12.5)	(15.1)	(27.7)
Profit for the period	36.9	45.0	89.2

Summary Condensed Statement of Financial Position

	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)	31 December 2019 (Audited)
	£M	£M	£M

Assets			
Liquid assets	3,323.3	3,289.8	2,826.8
Derivative financial instruments	278.5	259.1	273.4
Loans and advances to customers	16,718.8	15,552.4	16,033.4
Fair value adjustment for hedged risk on loans and advances to customers	73.9	28.8	18.0
Assets held for sale: loans and advances to customers	-	133.2	-
Intangible assets	9.0	6.0	8.5
Property, plant and equipment	67.7	54.0	53.0
Retirement benefit surplus	8.5	6.2	10.1
Deferred tax assets	6.3	6.4	6.4
Prepayments, accrued income and other assets	234.1	159.6	160.5
Total assets	20,720.1	19,495.5	19,390.1
Liabilities			
Shares	14,637.6	13,854.4	13,909.5
Fair value adjustment for hedged risk on shares	6.0	34.7	15.7
Derivative financial instruments	200.8	127.3	133.2
Deposits and securities	4,359.7	4,063.8	3,870.6
Current tax liabilities	11.2	15.1	12.4
Deferred tax liabilities	4.3	2.1	4.3
Provision for liabilities, accruals and deferred income	205.6	190.3	193.7
Subscribed capital	231.1	222.9	224.2
Total equity attributable to members	1,063.8	984.9	1,026.5
Total liabilities and equity	20,720.1	19,495.5	19,390.1

Condensed Statement of Comprehensive Income	Six months to 30 June 2019 (Unaudited)	Six months to 30 June 2018 (Unaudited)	Year to 31 December 2018 (Audited)
	£M	£M	£M
Fair value gains / (losses) on investment securities	2.8	(2.9)	(6.1)
Actuarial (loss) /gain on retirement benefit surplus	(2.3)	4.3	8.6
Revaluation loss on properties revalued	-	-	(1.0)
Tax on items taken directly to equity	(0.1)	(0.8)	(3.5)
Other comprehensive income net of tax	0.4	0.6	(2.0)
Profit for the period	36.9	45.0	89.2
Total comprehensive income for the period	37.3	45.6	87.2

Summary Condensed Consolidated Cash Flow	Six months to 30 June 2019 (Unaudited)	Six months to 30 June 2018 (Unaudited)	Year to 31 December 2018 (Audited)
	£M	£M	£M
Net cash flows from operating activities	(60.3)	694.2	517.9
Net cash flows from investing activities	(30.9)	(527.8)	(463.0)
Net cash flows from financing activities	560.8	(132.2)	(408.8)
	469.6	34.2	(353.9)
Cash and cash equivalents at the beginning of the period	1,597.7	1,951.6	1,951.6
Cash and cash equivalents at the end of the period	2,067.3	1,985.8	1,597.7

For Leeds Building Society's H1 results, follow the link below:

http://www.rns-pdf.londonstockexchange.com/rns/6425H_1-2019-8-1.pdf

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