27 February 2019

Lending growth delivers strong results as Leeds Building Society looks to the future

Richard Fearon succeeds retiring CEO Peter Hill

Leeds Building Society has reported another set of strong results as its retiring Chief Executive Officer Peter Hill hands over to his successor, Richard Fearon.

The UK's fifth largest building society, which has a proven track record of mortgage innovation, delivered UK net lending of £1.0bn and grew more than twice as quickly as the market[i]. As a result, mortgage balances increased by 6% to £15.8bn, while total assets rose by 5% to £19.4bn.

As a mutual, it's essential to balance the needs of all members, whether borrowers or savers, and Leeds Building Society continues to seek ways to support savers in a challenging, low interest rate environment. Paying 0.62% above the market average on savings equates to an annual benefit to the Society's savers of £81.5m[ii].

This strong performance in its core markets of mortgages and savings means the Society has an excellent platform to invest in the future to meet the changing needs of its 800,000 members.

Despite intense competition in the mortgage market, profit before tax remained robust at £116.9m compared to £120.9m a year earlier, lower primarily as a result of the one-off impact of the sale of its Irish mortgage book (£6.5m).

The buoyant 2018 performance brings to an end Peter Hill's seven and a half years as Chief Executive Officer, as he is succeeded by Richard Fearon, who joined the Society Board three years ago.

Richard said: "Our robust 2018 caps off Peter's successful tenure at the head of Leeds Building Society and I'm proud to take over from him as I look ahead to the future and the next stage of our development.

"Under Peter's leadership the Society's total assets and profits have more than doubled, giving us the platform to keep growing sustainably and focusing on what matters to our members, as we carry on striving to offer them security and value.

"Building societies, including our own, have been around a long time but have always embraced innovation and we'll continue to adapt as the pace of change in modern financial services moves ever faster.

"Investment during 2019 will be the highest in our history so we can carry on helping more members save and have the home they want, while increasing our digital capability and moving forward with pace and focus to meet and surpass their expectations.

"This is possible thanks to the fact we're financially stronger than we've ever been, because of our sustained and carefully-managed growth, supported by record profits in recent years."

Total capital rose to £1.2bn (£988m 2017), well above the regulatory minimum requirements, as the Society raised £200m of capital as part of its plans to meet Minimum Requirement for Own Funds and Eligible Liabilities (MREL), well ahead of the regulatory timeframe.

Leeds Building Society secured IRB (Internal Ratings Based) permission from the Prudential Regulation Authority last year, enabling it to assess its own capital requirements for credit risk through use of internal models.

Richard said: “IRB permission shows the Society has the correct tools in place to make the right lending decisions and underpins our future growth by supporting continued innovation to develop new mortgage products and meet customer need in segments not well served by the wider market.

“The permission reflects how we measure, manage and control risk effectively, and empowers better business decisions as well as further enhancing our capital resilience.

“We retain strong investment grade long term credit ratings, with CET1 and total capital ratios of 31.3% and 38.5% respectively.”

The Society further managed down legacy portfolios - its residential arrears reduced to 0.46% and the commercial lending portfolio now represents less than 0.2% of all loans.

In addition to mainstream home loans, it was active in segments such as Shared Ownership, one of a variety of ways it helped almost 12,000 first time buyers onto the property ladder. Other segments included Buy to Let and Interest Only and the Society was the first national high street lender to launch a Retirement Interest Only mortgage range.

Customer focus also extends to taking account of members’ views on how the business conducts itself – in 2018 the Society was the first national high street financial institution to secure the Fair Tax Mark, an independent validation of tax policies and transparency which form part of its wider responsible business commitment.

It also was the first financial services organisation to receive Leaders in Diversity accreditation from the National Centre for Diversity, demonstrating the commitment from senior leadership to diversity and inclusion.

Achieving a 2* Best Companies rating marks it out as an “employer of choice” and secured the Society a place in the 2019 Sunday Times Top 100 Best Companies to Work For.

Engaged colleagues provide great service, helping the business’s KPMG Nunwood Customer Experience Excellence ranking[iii] to jump from 107th in 2017 to the equivalent of 53rd last year, one of only two top 15 financial services brands to improve score and ranking for two consecutive years.

As a building society, profits are retained for the long term benefit of members, enabling continued investment for the future while maintaining security through the ups and downs of economic cycles.

Such financial prudence has helped Leeds Building Society to weather external economic challenges throughout its long history so it remains strong, secure and independent.

Richard said: “Increased competition is expected to put further pressure on margin in 2019, and ongoing political and economic uncertainty linked to Britain’s exit from the EU will continue to affect consumer confidence and the housing market in unpredictable ways.

“We expect this, combined with the costs of our ongoing investment in member value and further developing our digital capability, to result in lower, though still robust, profitability in the near term.

“We’ve become the successful business we are today by evolving to meet the changing needs of our members, remaining focused on delivering the best for customers while responding to the challenges of the world around us.

“Our colleagues remain integral to our ongoing success and their commitment to delivering excellence to our members every day helps us to keep moving forward to be ready for an increasingly digital world and ensure we can be around for at least another 140 years.”

Ends

Notes to Editors

[i] YTD growth (to Dec 2018) in UK residential mortgage balances (+5.8% to £15.8bn) was higher than mortgage market growth of just 2.6**%** (Source: UK Finance: outstanding mortgage balances Dec 17 vs Nov 18).

[ii] The Society paid an average of 1.32% to its savers compared to the market average of 0.70% - CACI CSDB, Stock, January 2018 – December 2018, latest data available, CACI is an independent company that provides financial benchmarking data and covers 87% of the high street cash savings market.
[iii] KPMG Nunwood UK's overall Customer Experience Excellence Performance Top 100 – ranking score equivalent to 53rd in the Top 100, sample size slightly lower than threshold for inclusion in Top 100 table.

Key information from the Society's Group Results for the year ended 31 December 2018 is attached.

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

Leeds Building Society was named Best Building Society Savings Provider in the Moneyfacts Awards for 2018, having also won this title in 2017 and 2016.

The Society also won the title of Best Shared Ownership Mortgage Lender in the 2018 What Mortgage Awards, its third consecutive year of success in this category.

Leeds Building Society operates throughout the UK and in Gibraltar and has assets of £19.4bn at 31 December 2018 (£18.5bn at 31 December 2017). The Society's head office has been based in the centre of Leeds since 1886.

Key facts and figures from Group Results for the year ended 31 December 2018:

Supporting the aspirations of borrowers and savers

- Helped over 63,000 more people save for their future (71,000 December 2017)
- Helped nearly 44,000 more people have the home they want, including almost 12,000 first time buyers (50,000 and 13,000 respectively 2017)
- Total membership now 804,000 (791,000 2017)
- Paid an average 1.32% to our savers compared to the rest of market average of 0.70%[iv], which equates to an annual benefit to our savers of £81.5 million
- 'Best Building Society Savings Provider' award for third year running from independent comparison site Moneyfacts
- Which? 'Recommended Provider for Savings Accounts'
- What Mortgage magazine 'Best Shared Ownership Lender' for third consecutive year
- First national high street lender to offer older borrowers more choice by launching new Retirement Interest Only mortgage range
- Named 'Best Building Society' at the Your Mortgage awards

Continuing financial security

- Profit before tax of £116.9m (£120.9m 2017)
- Savings balances increased by over £800m, to £13.9bn (£13.1bn 2017)
- Net mortgage lending of £1.0bn increased total mortgage balances to £15.8bn (£14.9bn 2017)
- Gross lending of £3.8bn (£4.1bn 2017)
- Sale of our Irish mortgage book helped in reducing residential arrears[v] to 0.46% (0.70% 2017)
- Continued to manage down our commercial lending portfolio - these loans now represent less than 0.2% of all loans to customers (0.5% 2017)
- Secured Internal Ratings Based (IRB) permission from Prudential Regulation Authority (PRA), confirming the Society is able to assess its own capital requirements for credit risk and enhancing our capital resilience
- Increased our capital to £1.2 billion, well above regulatory minimum requirements (£988m 2017)
- Raised £200m of capital as part of plan to meet Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ahead of regulatory timeframe

Delivering outstanding personal service

- Independent member surveys show overall customer satisfaction remained high at 91% (91% 2017)
- Achieved our highest ever equivalent ranking[vi] score of 53rd in the KPMG Nunwood Customer Experience Excellence Top 100 – one of only two top 15 financial services brands to improve score and ranking for two consecutive years
- Achieved a 2* Best Companies rating, highlighting us as an 'employer of choice' with an outstanding commitment to making the Society a great place to work (1* 2017)
- Fairer Finance 'Gold Ribbon' for savings accounts, based on customer happiness and trust, and our ability to explain things clearly
- Enhancements to online functionality for savings members
- Improved savings account maturity process to offer more flexibility in logging advance instructions
- Reduced documentation required for mortgage processing following broker and borrower feedback

Key facts and figures from Group Results for the year ended 31 December 2018 (continued):

Investing in the Society

- First national high-street financial institution to achieve the independent Fair Tax Mark by paying the right amount of tax in the right place at the right time, and applying gold standard tax transparency
- First financial services organisation to receive Leaders in Diversity accreditation from the National Centre for Diversity
- Opened a new branch in Edinburgh
- Relocated our Moortown branch following feedback from our members
- Having outgrown our current Head Office, secured a new office building to keep us in the heart of Leeds
- Improving digital and online capability by investing in flexible and resilient technology
- Improving mortgage processing capability
- Cost to income ratio at 44.8% and cost to mean asset ratio of 0.52% remain among the best in the building society sector (43.2% and 0.56% respectively 2017)

[iv] CACI CSDB, Stock, January 2018 – December 2018, latest data available, CACI is an independent company that provides financial benchmarking data and covers 87% of the high street cash savings market

[V] 1.5% or more of outstanding mortgage balances.

[Vi] KPMG Nunwood UK's overall Customer Experience Excellence Performance Top 100 – ranking score equivalent to 53rd in the Top 100, sample size slightly lower than threshold for inclusion in Top 100 table.

GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Summary Consolidated Income Statement

	2018 £M	2017 £M
Interest receivable and similar income	457.0	413.2
Interest payable and similar charges	(238.9)	(200.0)
Net Interest receivable	218.1	213.2
Fees and commissions receivable	8.6	8.7
Fees and commissions payable	(0.8)	(0.5)
Fair value gains less losses from financial instruments	(5.7)	(1.3)
Other operating income	0.7	0.9
Total income	220.9	221.0
Administrative expenses	(94.9)	(92.5)
Depreciation and amortisation	(4.0)	(3.0)
Impairment gains on loans and advances to customers	1.2	5.5
Impairment losses on intangible assets	-	(5.6)
Impairment losses on property, plant and equipment	-	(0.9)
Provisions release/(charge)	0.2	(3.6)
Loss on sale of financial assets	(6.5)	-
Operating profit and profit before tax	116.9	120.9
Tax expense	(27.7)	(32.9)
Profit for the financial year	89.2	88.0

Summary Statement of Financial Position

	31 December 2018 £M	31 December 2017 £M
Assets		
Liquid assets	2,826.8	2,730.3
Derivative financial instruments	273.4	258.5
Loans and advances to customers	16,051.4	15,223.0
Intangible assets	8.5	5.2
Property, plant and equipment	53.0	54.4
Deferred tax assets	6.4	1.9
Retirement benefit surplus	10.1	1.0
Prepayments, accrued income and other assets	160.5	209.7
Total assets	19,390.1	18,484.0
Liabilities and equity		
Shares	13,925.2	13,065.7
Derivative financial instruments	133.2	161.9
Deposits and securities	3,870.6	4,061.6
Current tax liabilities	12.4	15.6
Deferred tax liabilities	4.3	3.2
Provisions for liabilities, accruals and deferred income	193.7	192.0
Subscribed capital	224.2	25.0
Total equity attributable to members	1,026.5	959.0
Total liabilities and equity	19,390.1	18,484.0

Statement of Comprehensive Income

	2018	2017
	£M	£M
Fair value gains/(losses) on investment securities	(6.1)	(3.9)
Actuarial gain on retirement benefit surplus	8.6	2.0
Revaluation loss on properties revalued	(1.0)	-
Tax on items taken directly to equity	(3.5)	(1.4)
Other comprehensive income net of tax	(2.0)	(3.3)
Profit for the year	89.2	88.0
Total comprehensive income for the year	87.2	84.7

Summary Consolidated Cash Flow

	2018	2017
	£M	£M
Net cash flows from operating activities	517.9	510.3
Net cash flows from investing activities	(463.0)	(41.4)
Net cash flows from financing activities	(408.8)	356.5
	(353.9)	825.4
Cash and cash equivalents at the beginning of the year	1,951.6	1,126.2
Cash and cash equivalents at the end of the year	1,597.7	1,951.6

Summary of key ratios

Gross capital as a percentage of shares and borrowings	7.1%	5.7%
Liquid assets as a percentage of shares and borrowings	15.9%	15.9%
Profit after tax for the financial year as a percentage of mean total assets	0.47%	0.51%
Management expenses as a percentage of mean total assets	0.52%	0.56%

Notes to the Financial Information

1. The financial information set out above, which was approved by the Board of directors on 26 February 2019, does not constitute accounts within the meaning of the Building Societies Act 1986.