London Stock Exchange

Half-year Report

LEEDS BUILDING SOCIETY

Released 07:00:06 31 July 2020

RNS Number : 6781U
Leeds Building Society
31 July 2020

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Leeds Building Society CEO praises colleagues' dedication to members during pandemic

Says mutual remains secure and firmly focused on future as he reports H1 2020 results

Leeds Building Society has stayed true to its purpose and resolute in its support for members through the challenges posed by coronavirus as it reports mid-year results for 2020.

During the first half of the year, the UK's fifth-largest building society remained focused on safely maintaining service for members and intermediaries, preserving its financial strength and security, and progressing its planned investment programme.

Chief Executive Officer Richard Fearon said he was both "proud and humbled" by his colleagues' professional response to the pandemic and their dedication to the service of the mutual's members, such as the swift creation of mortgage payment holiday capability for borrowers facing financial difficulty, a process since automated, extended and improved, helping some 26,000 customers.

"When I reported our 2019 results in February for my first full year as CEO, none of us could have imagined how soon we would feel the personal, national and global impacts of coronavirus," said Richard.

"The response from our colleagues has made me feel both proud and humbled as they've stepped up to continue serving our members diligently and look after, and out for, each other.

"They've focused on those members most in need of our help as their lives and finances have been disrupted, and have worked hard to ensure the Society stays financially secure in the long term for our membership as a whole. We've neither laid off nor furloughed any of our workforce, a decision I'm happy we were able to make.

"In the face of their own personal challenges, colleagues have demonstrated resilience, innovation and teamwork at pace to overcome each practical and logistical test as it's arisen, from making all our premises COVID Secure to enabling a greater proportion of office-based colleagues to work from home.

"Multiple specialists worked together to swiftly create a new mortgage payment holiday process and self-service online functionality, backed by increased capacity in Robotic Process Automation (RPA).

"Meanwhile branch teams maintained essential financial services on the high street and also joined colleagues from across the business to staff up a "virtual" contact centre dealing with soaring call numbers from members worried about the effects of the pandemic."

Richard said the Society took a cautious approach to steer a steady course through the pandemic and has made appropriate provisions to reflect tougher economic conditions ahead. Having reined back levels of growth and tightened risk appetite, the Society continues to closely monitor the evolving situation.

Leeds Building Society retains its strong capital position and its cost to income and cost to mean asset ratios of 52.5% and 0.47% respectively remain among the best in the sector.

Its very strong liquidity position as 2020 began allowed the business to reduce excess liquidity while still ensuring a secure position well above regulatory requirements.

Taking into account provisions made against the deteriorating economic backdrop, efforts to protect rates for savings members, and the accounting variation associated with its legacy portfolio, the Society delivered strong profitability of £32.6m (£49.4m June 2019) and stable net interest income. It made a fair value charge of £9.3m against its legacy equity release portfolio and other mortgage assets[i] and a £9.6m increase in impairment provision charges.

Efforts in recent years to manage down legacy commercial assets have reduced these to now represent just 0.07% (£15m) of total assets (£20.5bn). Total arrears - which have stayed at a low level of 0.57% - compare favourably against industry benchmarks[ii], underlining the high quality of Society underwriting and its prudent assessment of lending risk.

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Richard said he was pleased with H1's lending performance, as the Society's financial strength enabled it to maintain support for customers in under-served markets, including first time buyers and Shared Ownership, which continued through the lockdown. Leeds Building Society was named Best Shared Ownership Mortgage Lender in the 2020 What Mortgage Awards, for a fifth consecutive year.

Although the slowdown and suspension of the housing market and wider economy caused by the pandemic had led to a "material drop in lending volumes", Richard was encouraged by the corresponding recovery in June, as consumer demand rebounded strongly and the Society enjoyed its best-ever month for Shared Ownership, with new lending higher than in June 2019[iii]. He said he remained optimistic about the resilience of the housing market and the positive impact expected to follow the Government's stamp duty announcement.

The pandemic has not set back the Society's plans to improve its environmental sustainability and future-proof lending systems - despite inevitable disruption from the lockdown, fitting out is ongoing at the new head office in Leeds city centre in readiness for its scheduled opening next spring.

Similarly, major IT investment is proceeding to plan, with a phased launch of the new "Mortgage Hub" platform over the coming months, making the application process smoother and easier from start to finish.

Both projects will deliver significant benefits to help Leeds Building Society deliver improved service to customers and its intermediary partners, and long term value to all its members, whether borrowers or savers.

Even after Bank of England cuts totalling 0.65% took Base Rate to its lowest-ever level, the Society kept variable savings rates as high as possible for as long as possible and reductions to a minimum to protect its savers. Affected savers saw an average reduction of 0.28% and the Society's current minimum rate is 0.15%, above the Base Rate of 0.10%.

Despite the historically low rate environment, the Society has consistently paid above the average interest rate on savings and will continue to do so - using the most recent data, this equates to an annual benefit to its savers of almost £88m[iv], although over time this number is forecast to decrease given recent market conditions.

Richard said decisions would always be taken with the regard to the membership as a whole and its long term best interests.

Members and colleagues are key to the Society's support for its communities, including the choice and success of its charity partnerships - the two-year relationship with Samaritans ended in March, having smashed its £250,000 target by raising a total of £315,000.

Succeeding Samaritans is new charity partner Dementia UK, already attracting enthusiastic support, which Richard said was testament to colleagues' high engagement levels (up to 85% from 82% June 2019).

He added: "Leeds Building Society has weathered many external shocks in its long history but in terms of scale and speed the current pandemic - and the challenges it's created for individuals, businesses and our communities - has no precedent in recent times.

"Colleagues have shown the values which underpin us as a mutual, that when we work together we can succeed against what may feel overwhelming or unachievable, to ensure we carry on helping people to save and have the home they want.

"We've all been inspired and touched by our members' response to our teams' care and professionalism throughout a difficult time, with customer satisfaction scores at record highs of 93%.

"In all business, and financial services in particular, trust is an essential currency for us to function successfully. So as we all respond to the biggest global challenge for generations we're proud our members continue to put their trust in Leeds Building Society."

Ends

Notes to Editors

Key information from the Society's Group Results for the half year ended 30 June 2020 is attached.

For the Society's Interim Financial Report, follow the link:

http://www.rns-pdf.londonstockexchange.com/rns/6781U_1-2020-7-30.pdf

To arrange an interview with Leeds Building Society Chief Executive Officer Richard Fearon, please contact the press office on 07769 675330.

The Society operates throughout the UK and had assets of £20.5bn at 30 June 2020 (£20.7bn at 30 June 2019). The UK's fifth-largest mutual has its head office in the centre of Leeds, where it has been based since 1886.

The Society won the title of Best Shared Ownership Mortgage Lender in the 2020 What Mortgage Awards, its fifth consecutive year of success in this category. It also received a Gold Ribbon from Fairer Finance for savings accounts for the third year running, based on customer happiness and trust, along with the ability to explain things clearly.

[i] Under International Financial Reporting Standards (IFRS), the Society can book a fair value measurement reduction to include the effect of market rate volatility on assets. This is an accounting adjustment which will typically unwind in future periods.

[ii] The Society's arrears at 30 June 2020 for residential and buy to let were lower than the market averages (Source: UK Finance: Mortgage Arrears and Possessions Update Quarter 1 2020).

[iii] Based on a like-for-like comparison of Leeds Building Society BS internal application data

[iv] We paid an average of 1.35% to our savers compared to the rest of market average of 0.74%, which equates to an annual benefit to our savers of £87.7 million. Source: CACI's CSDB, Stock, June 2019 to May 2020, latest data available. CACI is an independent company that provides financial benchmarking data of the retail cash savings market.

Summary Condensed Consolidated Income Statement

	Six months to 30 June 2020 (Unaudited)	Six months to 30 June 2019 (Unaudited)	Year to 31 December 2019 (Audited)
	£M	£M	£M
Interest receivable and similar income	219.1	227.6	465.3
Interest payable and similar charges	(119.4)	(129.6)	(264.5)
Net interest receivable	99.7	98.0	200.8
Fees and commissions receivable	2.8	3.5	7.2
Fees and commissions payable	(0.2)	(0.6)	(0.9)
Fair value losses from financial instruments	(9.3)	(0.6)	(19.7)
Other operating income	0.3	0.7	1.9
Total income	93.3	101.0	189.3
Administrative expenses	(45.5)	(46.2)	(93.8)
Depreciation and amortisation	(3.5)	(3.7)	(7.4)
Impairment losses on loans and advances to customers	(11.7)	(2.1)	(2.8)
Reversal of impairment losses on property, plant and equipment	-	-	0.1
Provisions release	-	0.4	2.6
Operating profit and profit before tax	32.6	49.4	88.0
Tax expense	(5.8)	(12.5)	(21.8)
Profit for the period	26.8	36.9	66.2

Summary Condensed Statement of Financial Position

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)	31 December 2019 (Audited)
	£M	£M	£M
Assets			
Liquid assets	2,997.4	3,323.3	3,323.2
Derivative financial instruments	235.3	278.5	182.9
Loans and advances to customers	16,834.3	16,718.8	16,974.8
Fair value adjustment for hedged risk on loans and advances to customers	113.8	73.9	23.9
Intangible assets	23.6	9.0	19.6
Property, plant and equipment	69.4	67.7	64.2
Retirement benefit surplus	4.5	8.5	3.0
Deferred tax assets	6.6	6.3	6.1
Prepayments, accrued income and other assets	247.3	234.1	210.1
Total assets	20,532.2	20,720.1	20,807.8
Liabilities			
Shares	14,201.7	14,637.6	14,517.5
Fair value adjustment for hedged risk on shares	(18.9)	6.0	(30.3)
Derivative financial instruments	278.4	200.8	200.4
Deposits and securities	4,502.6	4,359.7	4,646.7
Current tax liabilities	1.5	11.2	9.4
Deferred tax liabilities	6.1	4.3	3.7
Provision for liabilities, other liabilities and accruals	196.0	205.6	142.2
Subscribed capital	242.0	231.1	232.1
Total equity attributable to members	1,122.8	1,063.8	1,086.1
Total liabilities and equity	20,532.2	20,720.1	20,807.8

Condensed Statement of Comprehensive Income	Six months to 30 June 2020 (Unaudited)	Six months to 30 June 2019 (Unaudited)	Year to 31 December 2019 (Audited)
	£M	£M	£M
Fair value gains on investment securities	11.8	2.8	1.3
Actuarial gain / (loss) on retirement benefit surplus	1.4	(2.3)	(7.9)
Revaluation loss on properties revalued	-	-	(1.1)
Tax on items	(3.3)	(0.1)	1.1
Other comprehensive income net of tax	9.9	0.4	(6.6)
Profit for the period	26.8	36.9	66.2
Total comprehensive income for the period	36.7	37.3	59.6

Total comprehensive income for the period	36.7	37.3	59.6

Summary Condensed Consolidated Cash Flow	Six months to 30 June	Six months to 30 June	Year to 31 December
	2020 (Unaudited) £M	2019 (Unaudited) £M	2019 (Audited) £M
Net cash flows from operating activities	(462.2)	(60.3)	(310.3)
Net cash flows from investing activities	262.6	(30.9)	(494.5)
Net cash flows from financing activities	137.1	560.8	822.2
	(62.5)	469.6	17.4
Cash and cash equivalents at the beginning of the period	1,615.1	1,597.7	1,597.7
Cash and cash equivalents at the end of the period	1,552.6	2,067.3	1,615.1

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