

Leeds Building Society delivers another strong set of half year results and announces Chief Executive Officer succession

Leeds Building Society today reports a period of strong performance, financial strength and membership growth in the first half of 2018.

Total assets increased to £19.5bn, up 13% since June 2017, reflecting lending growth and higher liquidity. Membership now stands at more than 809,000 (June 2017: 778,000), the highest in our history.

The UK's 5th largest building society is also announcing that Chief Executive Officer Peter Hill will retire in February 2019. Subject to regulatory approval, Peter will handover to Richard Fearon, who is currently the Society's Chief Commercial Officer.

Highlights

- Helped over 20,000 more people have the home they want, including 5,800 first time buyers, with new residential mortgage lending of £1.8bn (£2.1bn to June 2017)
- Attracted over 42,000 new savers, increasing retail savings balances to £13.9bn (June 2017: £12.5bn)
- Paid above the market average on our savings rates, equating to an annual benefit to our savers of more than £75m
- Achieved profit before tax for the six months to June 2018 of £60.1m (£63.2m to June 2017), after a one-off charge of £6.9m resulting from our decision to dispose of our Irish mortgages
- Secured Internal Ratings Based (IRB) permission from the regulator in recognition of the quality of our risk management systems
- Raised £200m of capital as part of plan to meet Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
- These actions have further strengthened capital and reserves to £1.2bn (June 2017: £945m) and increased our total capital ratio to 36.3% and CET 1 to 29.5%

Peter said: "Our strategy to deliver sustainable growth and service improvements is focused on the long term benefits to all our members, whether borrowers or savers.

"We believe our success in attracting thousands more members is testament to this approach. In a competitive market and uncertain economic climate, they see the value in our products, services and our status as a member-owned business which is here for them for life.

Supporting the aspirations of borrowers and savers

"We were founded to help people save and have the home they want and we focus on understanding the needs of our members, particularly in under-served segments.

"Refining and enhancing our lending criteria and processes complements our product offering to attract more borrowers, which has helped drive growth in line with our strategy. Net lending in the first half of 2018 was £0.5bn (June 2017: £1bn).

"We know the market remains challenging for savers and continue to work hard to offer long term good value as we balance the needs of savers and borrowers. We paid an average of 1.29% to our savers compared to the market average of 0.68%ⁱ, which equates to an annual benefit to our savers of more than £75m.

"Our award for "Best Building Society Savings Provider" from independent comparison site Moneyfacts for the third year running demonstrates our ongoing commitment to support savers.

Continuing financial security

“We’re proud of our financial strength and independence as a building society and, in addition to delivering sustainable growth, we need to maintain appropriate levels of capital and reserves.

“Receiving IRB permission is welcome recognition of the quality of our robust approach to managing and understanding risk.

“Our borrowers and mortgage brokers have already seen benefits – working towards obtaining permission helped us to cut the time taken to process mortgage applications, so borrowers can be in their homes sooner.

“IRB is an assurance to external organisations, including ratings agencies, and we retain strong investment grade long term credit ratings from Moody’s and Fitch of A3 and A- respectively. This also means our CET 1 ratio has risen to 29.5% and total capital ratio is 36.3%.

“Our residential arrears have fallen further to 0.63% (June 2017: 0.84%).

“Selling our Irish mortgages allows us to focus on our core domestic market. While a write down on the transfer has reduced our pre-tax profits for the first half of this year, it helps us consolidate our position as one of the strongest and most progressive mid-tier mortgage lenders.

Delivering outstanding personal service

“Members tell us the way we run the Society matters to them and their feedback informs business decisions, whether that’s developing innovative products or improving how and when we communicate with customers.

“We were pleased to win the title of “Best Shared Ownership Lender” in the What Mortgage awards, for the third consecutive year, in recognition of our service in this market.

“Our award-winning robotic process automation (RPA) programme continues to improve efficiency, expand capacity and free up colleagues to carry out more customer-facing work. In the first half of 2018, RPA handled more than 610,000 pieces of work, saving 20,500 hours.

“Our member satisfaction rating remains high at 91%ⁱⁱ and our intermediary satisfaction rating is 88%ⁱⁱⁱ.

Investing in the Society

“Earlier this year we announced we’d secured a new head office building to keep us in the centre of Leeds - we’ve outgrown our current location, where we’ve been based for more than 80 years.

“Growth in our workforce, particularly in recent years, means we have 900 colleagues spread across three sites in Leeds so bringing them together on one bigger site will save money, improve efficiency and offer opportunities to reduce our environmental impact.

“While branches remain important to us, we know more and more of our members use multiple channels to contact and do business with us, including online, and we’ve made significant investment earlier this year to successfully upgrade our IT platform to support further service improvements across all channels.

“Efficiency and value are longstanding and key priorities for the business. Our key ratios have improved and we expect our cost to income and cost to mean asset ratios to stay among the best in the building society sector, 43.4% and 0.52% respectively (June 2017: 43.5% and 0.56%).

Economic outlook

“Competition in our core markets has been intensifying and we expect this to continue into next year, placing downward pressure on our net interest margin.

“The implications of the UK’s departure from the EU are still unclear, both for businesses and consumers, while political instability at home and abroad is not helping to calm ongoing economic uncertainty.

“Our strategic approach to investing in sustainable growth means we’re well-placed to withstand economic shocks and carry on looking after our members’ interests so they can share in the benefits of our security and success.”

Chief Executive Officer succession

Peter Hill, who was appointed CEO in August 2011, has advised the Board of his plan to retire in February 2019.

Subject to regulatory approval, he will be succeeded by Richard Fearon, who is currently the Society’s Chief Commercial Officer. Richard becomes Deputy CEO with immediate effect.

Before joining the Society, Richard spent 10 years with Lloyds Banking Group, where he held a number of senior roles in both the mortgage and savings businesses. He started his career at management consultants Oliver Wyman & Company.

Leeds Building Society Chairman, Robin Ashton, said: “Peter has provided outstanding vision and leadership over the past seven years, during which time the Society’s total assets and profits have more than doubled.

“I would like to thank Peter for his huge contribution to our success and wish him well for the next stage in his life.

“Richard has been Chief Commercial Officer for two and half years. He was recruited with succession in mind and has proved to be an extremely able Executive Director.

“I know Richard will lead the business and our colleagues to future success, particularly as we continue to develop a Society capable of thriving in the digital age.”

Peter said: “It has been a great privilege to be the custodian of the Society as only the seventh CEO in over 140 years.

“As I prepare to retire from the Society, it is stronger than it’s ever been, with £1.2bn of capital to support future growth, and a skilled and forward-looking leadership team.

“I’m delighted Richard was chosen by the Board as my successor – he has really demonstrated his value to the Society since joining the Executive team and has the experience and capability to lead the business through the next stage of its development.”

Ends

Notes to Editors

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

Peter Hill is a board member of UK Finance, having previously served as Chairman of the Council of Mortgage Lenders.

Leeds Building Society operates throughout the UK, Gibraltar and Ireland and has assets of £19.5bn at 30 June (£17.3bn at 30 June 2017). The Society’s head office has been based in the centre of Leeds since 1886.

ⁱ CACI's CSDB, Stock, May 2017 - April 2018. CACI is an independent company that provides financial services benchmarking data and covers 86% of the high street cash savings market.

ⁱⁱ Survey of 3,415 customers, January to June 2018

ⁱⁱⁱ Survey of 565 intermediaries, January to June 2018

GROUP RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Summary Condensed Consolidated Income Statement

	Six months to 30 June 2018 (Unaudited)	Six months to 30 June 2017 (Unaudited)	Year to 31 December 2017 (Audited)
	£M	£M	£M
Interest receivable and similar income	224.0	199.7	413.2
Interest payable and similar charges	(114.4)	(96.9)	(200.0)
Net Interest receivable	109.6	102.8	213.2
Fees and commissions receivable	4.0	4.2	8.7
Fees and commissions payable	(0.4)	(0.3)	(0.5)
Fair value gains less losses from derivative financial instruments	(0.3)	(0.5)	(1.3)
Other operating income	(0.1)	0.6	0.9
Total income	112.8	106.8	221.0
Administrative expenses	(47.1)	(45.0)	(92.5)
Depreciation and amortisation	(1.8)	(1.5)	(3.0)
Impairment of loans and advances to customers	2.5	4.0	5.5
Impairment losses on intangible assets	0.0	0.0	(5.6)
Impairment losses on property, plant and equipment	0.0	0.0	(0.9)
Provisions credit / (charge)	0.6	(1.1)	(3.6)
Loss on reclassification of financial assets	(6.9)	0.0	0.0
Operating profit and profit before tax	60.1	63.2	120.9
Tax expense	(15.1)	(16.1)	(32.9)
Profit for the period	45.0	47.1	88.0

Summary Condensed Statement of Financial Position

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)	31 December 2017 (Audited)
	£M	£M	£M
Assets			
Liquid assets	3,289.8	2,250.0	2,730.3
Derivative financial instruments	259.1	271.1	258.5
Loans and advances to customers	15,581.2	14,495.1	15,223.0
Assets held for sale: loans and advances to customers	133.2	0.0	0.0
Intangible assets	6.0	5.6	5.2
Property, plant and equipment	54.0	31.4	54.4
Retirement benefit surplus	6.2	0.0	1.0
Deferred income tax assets	6.4	2.1	1.9
Prepayments, accrued income and other assets	159.6	229.6	209.7
Total assets	19,495.5	17,284.9	18,484.0
Liabilities			
Shares	13,889.1	12,457.7	13,065.7
Derivative financial instruments	127.3	184.5	161.9
Deposits and securities	4,063.8	3,503.7	4,061.6
Current income tax liabilities	15.1	15.9	15.6
Deferred income tax liabilities	2.9	1.7	3.2
Provision for liabilities, accruals and deferred income	190.3	175.1	192.0
Retirement benefit obligations	0.0	1.2	0.0
Subscribed capital	222.9	25.0	25.0
Total equity attributable to members	984.1	920.1	959.0
Total liabilities and equity	19,495.5	17,284.9	18,484.0

Condensed Statement of Comprehensive Income	Six months to 30 June 2018 (Unaudited)	Six months to 30 June 2017 (Unaudited)	Year to 31 December 2017 (Audited)
	£M	£M	£M
Available for sale investment securities gain/(loss)	(2.9)	(2.1)	(3.9)
Actuarial (loss)/gain on retirement benefit obligations	4.3	0.5	2.0
Revaluation loss on properties revalued	0.0	0.0	0.0
Tax on items taken directly to equity	(0.8)	0.3	(1.4)
Other comprehensive income net of tax	0.6	(1.3)	(3.3)
Profit for the period	45.0	47.1	88.0
Total comprehensive income for the period	45.6	45.8	84.7

Summary Condensed Consolidated Cash Flow	Six months to 30 June 2018 (Unaudited)	Six months to 30 June 2017 (Unaudited)	Year to 31 December 2017 (Audited)
	£M	£M	£M
Net cash flows from operating activities	696.1	342.8	508.3
Net cash flows from investing activities	(529.7)	(80.8)	(39.4)
Net cash flows from financing activities	(132.2)	10.3	356.5
	34.2	272.3	825.4
Cash and cash equivalents at the beginning of the period	1,951.6	1,126.2	1,126.2
Cash and cash equivalents at the end of the period	1,985.8	1,398.5	1,951.6