Regulatory Story

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Leeds Building Society - LBS Final Results
Released 07:00 26-Feb-2020

RNS Number : 1070E
Leeds Building Society
26 February 2020

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Confident future outlook as Leeds Building Society reports 2019 results

Successful year sees strong lending growth and above-average returns to savers

Leeds Building Society is looking to the future with confidence as it reports its latest 12 months' performance, with significant progress made on its future-proofing investment programme.

In the historic low interest rate environment, the Society continued to pay above the market average on savings, which equates to an annual benefit to the Society's savers of more than £88m[1].

The UK's fifth-largest mutual also delivered net mortgage lending of almost £1bn - which helped it to grow its total mortgage balances at almost twice the rate of the rest of the market[2] - despite challenging market conditions.

Profit before tax was £88.0m in 2019 (£116.9m 2018), a reduction primarily due to a fair value charge of £19.7m under international accounting rules.

Meanwhile, the Society's investment programme continues at pace, with major projects - upgrading IT systems and fitting out its new head office in central Leeds - progressing to plan and on budget.

Richard Fearon, who completed his first year as Chief Executive Officer, said both projects will bring efficiency savings to ensure the Society can keep delivering long term value and better service to its membership as a whole.

The new building will offer substantial environmental benefits, and the IT improvements include a new mortgage platform to be phased in during 2020.

This "Mortgage Hub" will simplify the application process end-to-end, saving the Society's intermediary partners time and effort, and enabling borrowers to be in their homes sooner.

"Our approach to providing long term value to our membership as a whole is illustrated by our performance in 2019," said Richard.

"Last year we carried on paying above the market average on savings and our net mortgage lending approached £1bn, in spite of fierce competition.

"However, high levels of borrower refinancing translated into lower mortgage income, without an equivalent reduction in funding costs, and has suppressed net interest income.

"In addition, under International Financial Reporting Standards (IFRS), we have booked a fair value measurement reduction of £19.7m, which includes the effect of market rate volatility on both our legacy equity release portfolio and other mortgage assets. This is an accounting adjustment which will typically unwind in future periods.

"A reduction in our profit before tax was anticipated and, while we expect profits in the short to medium term to remain at lower levels than in recent years, they'll be at the right level to support planned, sustainable growth, and add to our reserves.

"Prudent use of our profits has bolstered the Society's established financial security and strong capital position, with CET1 and total capital ratios of 33.6% and 41.0% respectively.

"These are among the strongest risk-based measures of any UK bank or building society and underpin our ongoing investment so we're fit for the future and stay relevant, responsive and secure for existing and new members, and our broker partners.

"We retain our keen cost focus and our cost to income and cost to mean asset ratios of 53.5% and 0.50% respectively are among the best in the sector.

"Our long term financial strength ensures we're well-placed to withstand economic shocks and market uncertainty, and retain a confident outlook.

"The length of our heritage is testament to how the Society has supported its members through the ups and downs of external economic cycles over many decades, remaining strong and independent throughout. In all that time, our purpose to help people to save and have the home they want has been constant.

"We may have been around for 145 years but have never stood still and are moving forward at pace to ensure we continue to meet and exceed the expectations of more than three-quarters of a million members across the UK.

"Our successful business strategy includes a focus on product innovation, particularly for customer groups not well served by the wider market, supporting borrowers such as later life homeowners and first time buyers. In 2019 we helped more than 10,000 members into their first home, and we're constantly seeking ways to deliver better service, whether that's in branch, over the phone or online."

Richard added that while "purpose-driven business" was gaining popularity in the public consciousness, that principle was business as usual for the Society and always had been, so it remains sustainable for the long term, and not just financially.

He said: "We know our values as a responsible business matter to our members as much as they do to us, so we're proud to have been accredited as a Living Wage Employer by the Living Wage Foundation[3], created our own Fair Pay Charter, and been named "Financial Services Company of the Year" in the National Centre for Diversity Grand Awards.

"Regardless of the fast pace of change in modern life, as a mutual we never forget our business is about people, which is twofold. One is our members, with their stake in a business run in the interests of the whole membership, and the second is our brilliant colleagues, highly engaged (82%) and essential to our continuing success."

Ends

Notes to Editors

Key information from the Society's Group Results for the year ended 31 December 2019 follows. 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 operates throughout the UK and had assets of £20.8bn at 31 December 2019 (£19.4bn at 31 December 2018). The Society is a Best Companies 2* employer and its head office is 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 2019 What Mortgage Awards, its fourth consecutive year of success in this category. It also received a Gold Ribbon from Fairer Finance for savings accounts for the second year running, based on customer happiness and trust, along with the ability to explain things clearly.

Key facts and figures from Group Results

for the year ended 31 December 2019:

Secure

- Helped over 46,000 more people save and almost 36,000 more people have the home they want, including more than 10,000 first time buyers
- We paid an average of 1.38% to our savers in 2019 compared to the rest of market average of 0.75%[1], which equates to an annual benefit to our savers of £88.5 million
- Savings balances increased by 4%, to £14.5 billion
- Delivered net mortgage lending of almost £1 billion
- Our total mortgage balances grew at almost twice the rate of the rest of the market, despite challenging market conditions[4]
- Assets broke through £20 billion for the first time in our history

- Further increased capital and reserves to £1.3 billion, well above the regulatory requirement
- Reaccredited with the Fair Tax Mark, independent acknowledgement we pay the right amount of tax in the right place at the right time, and apply gold standard tax transparency

Customer Centred

- Independent member surveys show overall customer satisfaction remained high at 91%
- Most efficient branch network in the UK[5] for Cash ISAs and achieved a 4 star Trustpilot score
- Achieved '4 Star' rating at the Financial Adviser Service Awards
- Fairer Finance 'Gold Ribbon' for savings accounts, based on customer happiness and trust, and our ability to explain things clearly
- What Mortgage magazine 'Best Shared Ownership Lender' for fourth consecutive year
- Further improved communication channels with our intermediary partners, introducing Broker Webchat and an Intermediary version of TalkingPoint, our popular online member forum

Simple

- Cost to income ratio of 53.5% and cost to mean asset ratio of 0.50% are among the best in the building society sector
- Continued to reduce our CO_2 emissions and recertified with the Carbon Trust Standard for Carbon
- Completed all structural work on our new Head Office, to bring more than 800 colleagues from three offices onto one site and keep us in the heart of Leeds city centre

Future Facing

- Streamlined mortgage processing system to improve service, support growth and create capacity to help more people who are less well-served by the wider market
- Faster payments extended to increase speed and efficiency, as well as reducing costs, cash handling and cheque processing in our branches
- Increased the use of Robotic Processing Automation (RPA) to automate highly repetitive processes and release our colleagues to carry out customer- and broker-facing activity

People

- High colleague Engagement Index of 82%, well above the Financial Services Industry benchmark
- Developed our first Fair Pay Charter demonstrating our commitment to Fair Reward for colleagues
- Extended our commitment to support lower paid contractors working on all our sites and became a Real Living Wage Employer

- Named "Large Business of the Year" and "Financial Services Company of the Year" in the National Centre for Diversity Grand Awards 2019, in recognition of our achievements in diversity and inclusion
- Colleagues gave more than 6,000 volunteering hours to support causes they care about in their communities (63% of all employees)
- Surpassed the fundraising target of £250,000 for our first charity partner, Samaritans, ahead of time

ENDS

Footnotes

[1] We paid an average of 1.38% to our savers compared to the rest of market average of 0.75%, which equates to an annual benefit to our savers of £88.5 million. CACI's CSDB, Stock, January 2019 to December 2019, latest data available.

[2] UK Finance: outstanding mortgage balances, YTD growth to Dec 2019 in UK residential mortgage balance (+6.1% to £16.7bn) was higher than the mortgage market growth of 3.1%

[3] As part of our commitment to Fair Reward, we've paid at least the real Living Wage to all colleagues since 2014. We've extended this so our third party contracted colleagues are also paid the real Living Wage.

[4] UK Finance: outstanding mortgage balances, YTD growth to Dec 2019 in UK residential mortgage balance (+6.1% to £16.7bn) was higher than the mortgage market growth of just 3.1%

[5] eBenchmarkers Autumn 2019 Savings Report, 1 May to 31 October 2019

GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Summary Consolidated Income Statement

	2019	2018
	£M	£M
Interest receivable and similar income	465.3	457.0
Interest payable and similar charges	(264.5)	(238.9)
Net interest receivable	200.8	218.1
Fees and commissions receivable	7.2	8.6
Fees and commissions payable	(0.9)	(0.8)
Fair value losses from financial instruments	(19.7)	(5.7)
Other operating income	1.9	0.7
Total income	189.3	220.9
Administrative expenses	(93.8)	(94.9)
Depreciation and amortisation	(7.4)	(4.0)
Impairment (losses) / gains on loans and advances to customers	(2.8)	1.2
Reversal of impairment losses on property, plant and equipment	0.1	-
Provisions release	2.6	0.2
Loss on sale of financial assets	-	(6.5)
Operating profit and profit before tax	88.0	116.9
Tax expense	(21.8)	(27.7)
Profit for the financial year	66.2	89.2

Summary Statement of Financial Position

	31 December 2019 £M	31 December 2018 £M
Assets		
Liquid assets	3,323.2	2,826.8
Derivative financial instruments	182.9	273.4
Loans and advances to customers	16,998.7	16,051.4
Other assets, prepayments and accrued income	210.1	160.5
Deferred tax assets	6.1	6.4
Intangible assets	19.6	8.5
Property, plant and equipment	64.2	53.0
Retirement benefit surplus	3.0	10.1
Total assets	20,807.8	19,390.1
Liabilities and equity		
Shares	14,487.2	13,925.2
Derivative financial instruments	200.4	133.2
Deposits and securities	4,646.7	3,870.6
Current tax liabilities	9.4	12.4
Deferred tax liabilities	3.7	4.3
Provisions for liabilities, accruals and deferred income	142.2	193.7
Subscribed capital	232.1	224.2
Total equity attributable to members	1,086.1	1,026.5
Total liabilities and equity	20.807.8	19,390.1

Statement of Comprehensive Income

	2019 £M	2018 £M
Fair value gains / (losses) on investment securities	1.3	(6.1)
Actuarial (loss) / gain on retirement benefit surplus	(7.9)	8.6
Revaluation loss on properties revalued	(1.1)	(1.0)
Tax on items taken directly to equity	1.1	(3.5)
Other comprehensive income net of tax	(6.6)	(2.0)
Profit for the year	66.2	89.2
Total comprehensive income for the year	59.6	87.2

Summary Consolidated Cash Flow

	2019 £M	2018 £M
Net cash flows from operating activities	(310.3)	517.9
Net cash flows from investing activities	(494.5)	(463.0)
Net cash flows from financing activities	822.2	(408.8)
	17.4	(353.9)

Cash and cash equivalents at the beginning of the year	1,597.7	1,951.6
Cash and cash equivalents at the end of the year	1,615.1	1,597.7

Summary of key ratios

Gross capital as a percentage of shares and borrowings	6.9%	7.1%
Liquid assets as a percentage of shares and borrowings	17.3%	15.9%
Profit after tax for the financial year as a percentage of mean total assets	0.33%	0.47%
Management expenses as a percentage of mean total assets	0.50%	0.52%

Notes to the Financial Information

1. The financial information set out above, which was approved by the Board of directors on 25 February 2020, does not constitute accounts within the meaning of the Building Societies Act 1986.

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