Leeds Building Society

26 February 2021

Leeds Building Society's financial strength and mutual values key to 2020 success

Confident CEO restates support for members and housing market as he reports results

The long-term financial strength of Leeds Building Society and its colleagues' mutual values ensured robust profits and a strong performance in 2020, despite all the challenges posed by the pandemic.

Reporting its annual results, Chief Executive Officer Richard Fearon said the Society had again delivered on its purpose to help people save and have the home they want, while achieving a resilient level of profit and completing significant stages in its future-proofing investment programme.

Business priorities during the tumultuous year were to safely maintain service for members and intermediaries, preserve financial strength and security, and keep members and colleagues closely informed throughout.

Richard welcomed the positive response from members and colleagues - with high satisfaction scores and record engagement of 93% and 86% respectively (91% and 82% 2019) - as an indicator of confidence in the Society and its people at a unique and testing time.

"If proof was needed of how colleagues live our mutual values, this remarkable global emergency has brought out the very best in them and how they serve our members," he said.

"I could not be more grateful for how our people have risen to overcome every challenge so the Society was able to deliver a strong performance in a most complex year.

"The strength and security of our business was the foundation we could build on to respond to the immediate pressures the pandemic caused, while retaining our longer term view and continuing progress towards our strategic goals."

As a mutual, Leeds Building Society aims to generate sustainable levels of profit, to invest back into the business for the long term benefit of its membership as a whole. Profit before tax of £80.7m for 2020 (£88.0m 2019) enabled the business to further increase capital and reserves to £1.35bn (£1.3bn 2019), well above the regulatory requirement.

The Society began the year with very strong liquidity and, in navigating a cautious and steady course through the pandemic, chose to reduce excess liquidity while retaining a secure position well above regulatory requirements. Having tempered levels of growth and tightened risk appetite, appropriate provision charges (£14.6m; £2.8m 2019) were made to reflect tougher economic conditions ahead.

It also booked a fair value measurement reduction of £16.8m (£19.7m 2019) against its legacy equity release portfolio and other mortgage assets, due to continued market rate volatility. The fair value charge, made under International Financial Reporting Standards (IFRS), is an accounting adjustment which will typically unwind in future periods.

The UK's fifth-largest mutual retains a keen focus on efficiency with a cost to income ratio of 51.0% and a cost to mean asset ratio of 0.48% (53.5% and 0.50% respectively, 2019), among the best in the building society sector.

A robust housing market recovery in H2, combined with low cost of funds, had a positive impact on Net Interest Margin and the Society stuck to its successful strategy to meet the needs of customers less well-served by the wider market, whether later life borrowers, affordable housing purchasers or first time buyers, 8,000 of whom it helped onto the property ladder in 2020.

Support for the housing market continued, with a sustained presence in Shared Ownership lending during 2020, including at 95% LTV (loan to value). The Society's strength in this specialist sector earned it the title of Best Shared Ownership Mortgage Lender in 2020's What Mortgage Awards, for the fifth year running.

Market savings rates continued to deteriorate in 2020, as two Bank of England cuts took Base Rate to a new historic low and external economic factors exacerbated market volatility. Leeds Building Society worked hard all year to keep its variable rates as high as possible for as long as possible and continued to pay above the market average – using the most recent data, this equates to an annual benefit to its savings members of almost £83m[1].

Like many businesses, the Society quickly switched to widespread dispersed working, while ensuring multiple specialist teams could still collaborate effectively at pace, whether creating online mortgage payment deferral capability for borrowers at risk of financial difficulty or completing major IT systems upgrades to increase online functionality.

The mortgage payment deferral process was supported by the Society's RPA (Robotic Process Automation) expertise, enabling it to be swiftly automated, scaled up and refined, benefitting members who sought this help in relation to more than 27,500 mortgages. Most borrowers returned to making monthly repayments at the end of their deferral period.

During the pandemic the Society waived arrears fees and suspended repossessions, and continues to work closely with members at risk of financial difficulty to agree a solution to best suit their circumstances. Its arrears ratio[2] rose slightly during 2020 to 0.62% (0.54% 2019).

All Leeds Building Society premises were made COVID-secure and branches remained open as far as possible for members to access essential financial services. The business took the decision no colleagues would be furloughed and redeployed resources to meet evolving demands during the year, such as rising call volumes from members concerned about financial difficulties.

Dealing with pressing priorities brought to the fore by the pandemic did not hinder the successful delivery of major future-proofing projects which will improve service, support further innovation and create longer-term efficiency savings.

The successful launch of Mortgage Hub, an online platform to simplify applications end to end, immediately boosted service levels, which faced repeated pressure as the housing market stalled during the spring lockdown, then rebounded in summer and performed strongly for the rest of 2020.

Mortgage Hub is the most visible of ongoing IT systems upgrades, while the Society's other key investment to drive efficiency – and further lessen its environmental impact – is the relocation of its head office in Leeds city centre.

The move to Sovereign Street is on schedule to start shortly, to bring together teams currently spread across three sites, offer more flexible space to support new working patterns, and reduce the Society's environmental impact. The building will be net carbon neutral in operation and is now 'A' rated for energy efficiency.

The business formalised its commitment to operating transparently and responsibly by publishing "How We Do Business" and in April Dementia UK succeeded Samaritans as the Society's national charity partner after a successful two year relationship which smashed initial targets by raising £315,000. The new partnership got off to a strong start with £150,000 raised by the end of 2020.

"When I reported our interim results last August, I spoke of being both humbled and immensely proud of how colleagues had responded in the early months of the pandemic," said Richard.

"Leeds Building Society was created by founders who believed they could achieve more by working together and 2020 proved how mutual support and co-operation truly make a difference to all of us.

"Our success in a tumultuous year means I'm looking forward with confidence to what we can deliver for our members and colleagues in 2021."

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[1] We paid an average rate of 1.19% against the rest of the market rate of 0.60%. CACI's CSDB, Stock, December 2019 to November 2020, latest data available

[2] The Society's arrears ratio is measured as those loans either in possession or in arrears of more than 1.5% of the balance

Ends

Notes to Editors

Key information from the Society's Group Results for the year ended 31 December 2020 is attached.

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 £20.6bn at 31 December 2020 (£20.8bn at 31 December 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.

Key facts and figures from Group Results for the year ended 31 December 2020:

Safely keeping the Society operating for the benefit of our members

- Continued to support the housing market with £2.5 billion of gross lending during the year
- Carried on with the successful strategy to support customers less well-served by the wider market, including later life borrowers, affordable housing purchasers, and first time buyers, helping 8,000 onto the housing ladder
- Stayed in shared ownership lending throughout 2020, including at 95% LTV (loan to value), with strength in this specialist sector earning the title of Best Shared Ownership Mortgage Lender in 2020's What Mortgage Awards, for the fifth year running
- As the housing market rebounded in H2, saw some of our biggest ever months for applications – July was best ever month for Shared Ownership and December was biggest month ever for mainstream residential purchases
- Swiftly created mortgage payment deferral process for borrowers at risk of financial difficulty, benefitting members who sought this help in relation to more than 27,500 mortgages
- Waived arrears fees and suspended repossessions during the pandemic, and continue to work closely with members at risk of financial difficulty to agree a solution to best suit their circumstances
- Mortgage Hub supported service levels which came under pressure during 2020, providing a foundation for further technology systems upgrades in 2021 and freeing up colleagues to deal with more complex cases
- Made all premises COVID-secure and kept branches open as far as possible to enable members to access essential financial services

Keeping the Society financially resilient

- Generated robust level of profit before tax of £80.7m (£88.0m 2019), despite appropriate impairment provision charges of £14.6m (£2.8m 2019) and a fair value measurement reduction of £16.8m (£19.7m 2019)
- Further increased capital and reserves to £1.35bn (£1.3bn 2019), well above the regulatory requirement
- Chose to reduce excess liquidity while retaining a secure position well above regulatory requirements
- Retained a keen focus on efficiency - our cost to income ratio of 51.0% and cost to mean asset ratio of 0.48% (53.5% and 0.50% respectively, 2019) are among the best in the building society sector
- Strong recovery in the housing market and lower cost of funds had a positive impact on net interest margin, with an upward trajectory half on half giving grounds for optimism into the future
- Progressed longer term projects to deliver future efficiency savings, including successful roll-out of Mortgage Hub and completed refurbishment of new head office, and accelerated further planned investment to future-proof Society systems

Communicating with our members and colleagues

- High customer satisfaction score of 93% (91% 2019)
- Record colleague engagement of 86% (82% 2019)
- Quickly switched to widespread dispersed working while supporting effective colleague collaboration across multiple teams, departments and functions
- Published "how we do business" to affirm commitment to continuing to do the right thing for members, colleagues and communities, illustrated by reaccreditation with the Fair Tax Mark, as well as being a Living Wage Employer and Leaders in Diversity
- Successfully concluded our first national charity partnership with Samaritans, having smashed two-year fundraising target of £250,000 with final total of £315,000
- In April launched our new four-year partnership with Dementia UK and by the end of 2020 had already raised £150,000

GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Summary Consolidated Income Statement

	2020	2019
	£M	£M
Interest receivable and similar income	402.6	465.3
Interest payable and similar charges	(197.2)	(264.5)
Net interest receivable	205.4	200.8
Fees and commissions receivable	5.6	7.2
Fees and commissions payable	(0.6)	(0.9)
Fair value losses from financial instruments	(16.8)	(19.7)
Other operating income	3.2	1.9
Total income	196.8	189.3
Administrative expenses	(92.9)	(93.8)
Depreciation and amortisation	(7.5)	(7.4)
Impairment losses on loans and advances to customers	(14.6)	(2.8)
Reversal of impairment losses on property, plant and equipment	-	0.1
Provisions (charge) / release	(1.1)	2.6
Operating profit and profit before tax	80.7	88.0
Tax expense	(18.7)	(21.8)
Profit for the financial year	62.0	66.2

Summary Statement of Financial Position

	31 December 2020	31 December 2019
	£M	£M
Assets		
Liquid assets	2,974.8	3,323.2
Derivative financial instruments	192.8	182.9
Loans and advances to customers	17,085.0	16,998.7
Other assets, prepayments and accrued income	270.4	210.1
Deferred tax assets	5.6	6.1
Intangible assets	28.8	19.6
Property, plant and equipment	81.3	64.2
Retirement benefit surplus	1.0	3.0
Total assets	20,639.7	20,807.8
Liabilities and equity		
Shares	14,149.2	14,487.2
Derivative financial instruments	237.9	200.4
Deposits and securities	4,654.7	4,646.7
Current tax liabilities	2.3	9.4
Deferred tax liabilities	4.7	3.7
Provisions for liabilities, accruals and deferred income	194.7	142.2
Subscribed capital	241.5	232.1
Total equity attributable to members	1,154.7	1,086.1
Total liabilities and equity	20,639.7	20,807.8

Statement of Comprehensive Income

	2020	2019
	£M	£M
Fair value gains on investment securities	8.6	1.3
Actuarial loss on retirement benefit surplus	(1.9)	(7.9)
Revaluation gain / (loss) on properties revalued	2.7	(1.1)
Tax on items taken directly to equity	(2.8)	1.1
Other comprehensive income net of tax	6.6	(6.6)
Profit for the year	62.0	66.2
Total comprehensive income for the year	68.6	59.6

Summary Consolidated Cash Flow	2020	2019
	£M	£M
Net cash flows from operating activities	(209.1)	(310.3)
Net cash flows from investing activities	735.3	(494.5)
Net cash flows from financing activities	(116.2)	822.2
	410.0	17.4
Cash and cash equivalents at the beginning of the year	1,615.1	1,597.7
Cash and cash equivalents at the end of the year	2,025.1	1,615.1

Summary of key ratios

Gross capital as a percentage of shares and borrowings	7.4%	6.9%
Liquid assets as a percentage of shares and borrowings	15.8%	17.3%
Profit after tax for the financial year as a percentage of mean total assets	0.30%	0.33%
Management expenses as a percentage of mean total assets	0.48%	0.50%

Notes to the Financial Information

1. The financial information set out above, which was approved by the Board of directors on 25 February 2021, does not constitute accounts within the meaning of the Building Societies Act 1986.