Leeds Building Society

30 July 2021

Record support for housing market key in successful Leeds performance

Building Society CEO says lending strategy central to remarkable H1

Supporting first time buyers and the vibrant housing market were key to Leeds Building Society's successful performance in the first half of this year, said its Chief Executive Officer.

As he reported interim results for H1 2021, Richard Fearon said the mutual's strategy of supporting customers in under-served sectors had driven a successful six months as the housing market continued to trade strongly.

This included helping more than 8,600 first time buyers onto the housing ladder in 2021, a new record for any half year period and a record 37% share of the Society's new lending overall.

The rebound in home buying and remortgage activity since summer 2020 led to some of the biggest months for mortgage applications in Leeds Building Society's long history and in 2021 its busiest ever half year.

Gross lending was up by 97% at £2.0bn (£1.0bn 30 June 2020) which, together with an increase in Net Interest Margin[i], delivered half year profit before tax of £70.3m (£32.6m 30 June 2020).

"In responding to the ongoing challenges posed by the pandemic we've remained focused on our core purpose, to help people save and have the home they want, and kept our members at the heart of our long term business priorities," said Richard.

"We've supported the housing market at an exceptionally busy time, and supported our existing borrowers by offering mortgage payment deferrals, as well as waiving arrears fees until the end of this year.

"We've supported our savers by keeping branches open for access to essential financial services and have carried on paying 0.56% above the market average rate[ii], which equates to an extra £78.5m in our savings members' pockets.

"I'm immensely proud of my colleagues and their sustained efforts as the impact of the pandemic on our members has continued to evolve. Their professionalism and dedication served the Society well throughout 2020 and has been evident again during 2021, helping us to achieve an outstanding performance.

"Whether it's developing new products or providing great service, our people have been integral to successes such as re-entering mainstream 95% LTV lending, backing national affordable housing initiatives such as First Homes and Shared Ownership, and creating new 'green' products.

"Having been able to accelerate our planned investment in 2020, we've now completed more steps to upgrade our IT systems, including introducing Lender Connect to save our intermediary partners time and effort. We're proceeding to plan with further major improvements to future-proof operations and boost resilience, such as our new data centres.

"This investment programme will benefit our membership as a whole by enabling greater efficiencies, reducing costs and cutting our environmental impact.

"In reporting 2020's results, we set out our strategic aim to be carbon net neutral for scope 1 and 2 emissions by the end of 2022[iii] and are on target to achieve this 12 months early, as we continue to invest significant effort in progressing our responsible business strategy.

"At a time when other employers have been laying off staff or placing them on furlough, I'm pleased we've done neither and instead have been able to carry on investing in skills and created more than 80 new roles. These have been concentrated on strengthening important functions such as IT and data, as well as adding more underwriters and business development managers to improve service for our intermediary partners.

"In addition, we're increasing our minimum full time equivalent (FTE) salary to £18,200 per annum, a new base salary level for colleagues of £10 per hour, above and beyond our commitment as an accredited Living Wage Employer, and 50p per hour more than the Real Living Wage outside London.

"It's a landmark year for us in 2021 and we're using learnings from the pandemic to ensure we keep on evolving. Having completed the move into our EPC A-rated new head office in Sovereign Street, we're experimenting with the flexible space it offers to find the right balance for hybrid working, and we're really looking forward to the imminent opening of our newest, largest branch in Leeds city centre."

While the UK's fifth-largest mutual retains its focus on efficiency, increased operating costs for 2021 were anticipated to reflect the scale of investment in future-proofing the Society and its operations for years to come. Despite that, cost to income and cost to asset ratios of 44.9% and 0.56% respectively (52.5% and 0.47% 30 June 2020) remain among the best in the building society sector.

The Society maintained its cautious approach to navigating the pandemic, with tighter lending policy and criteria than pre-COVID, strong liquidity levels well above regulatory requirements and appropriate levels of provisions to reflect the fact economic conditions remain volatile and uncertain. Total arrears remain at a low level, comparing favourably against industry benchmarks[iv], and the Society continues to retain extremely strong levels of capital, with a CET 1 ratio of 37.6% (34.5% 30 June 2020).

Pleasingly, customer satisfaction and colleague engagement scores remain at record highs, at 93% and 86% respectively, and both groups have continued their enthusiastic support for the Society's national charity partner, Dementia UK. In May the partnership launched Closer to Home, to increase access to specialist dementia clinics for communities across the UK.

Richard said: "The pandemic has created obstacles for all of us to overcome but for almost a century and a half the Society's strength has protected our security and independence through previous periods of economic and social upheaval.

"The trust of our members and support of our intermediary partners is all the more valued in today's testing times and the faith they have placed in us, combined with our strong performance, gives me added confidence when I look to our future."

Ends

Notes to Editors

Key information from the Society's Group Interim Results to 30 June 2021 is attached.

To arrange an interview with Leeds Building Society Chief Executive Officer Richard Fearon, please contact the press office on 07769 675330. Hi res photos are available from the press office.

The Society operates throughout the UK and had assets of £21.1bn at 30 June 2021 (£20.5bn at 30 June 2020). 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 2021 What Mortgage Awards, its sixth 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 H1 2021:

Safely keeping the Society operating for the benefit of our members

- All Society premises COVID-secure and continue to keep branches open as far as possible to enable members to access essential financial services
- Continued to pay our savings members above the market average, equating to £78.5m extra in their pockets
- Again secured a Gold Ribbon from Fairer Finance for offering a good customer experience for savers, explaining our accounts clearly and making them straightforward to operate
- Continued to support the housing market with £2 billion of gross lending
- Our busiest ever half year for mortgage applications as the housing market rebound from H2 2020 continued strongly through H1 2021
- Carried on with our successful strategy to support customers less well-served by the wider market, including later life borrowers affordable housing purchasers, and first time buyers
- Helped more than 8,600 first time buyers onto the housing ladder, a new record for any half year period in the Society's long history and a record 37% of new lending
- Continued shared ownership lending across LTV levels including 95%, with strength in this specialist sector earning the title of Best Shared Ownership Mortgage Lender in 2021's What Mortgage Awards, for the sixth year running
- Continued to support borrowers at risk of financial difficulty as the mortgage payment deferral scheme drew to a close, members having made use of this scheme in relation to more than 28,400 mortgages
- Waived arrears fees until the end of 2021 and suspended repossessions during the pandemic, as we continued to work closely with members at risk of financial difficulty to agree a solution to best suit their circumstances

Keeping the Society financially resilient

- Generated record half year profit before tax of £70.3m (£32.6m 30 June 2020)
- Capital and reserves increased to £1.4bn (£1.3bn June 2020), well above the regulatory requirement
- Retained our keen focus on efficiency - our cost to income ratio of 44.9% and cost to mean asset ratio of 0.56% remain among the best in the building society sector
- Rise in Net Interest Margin to 1.23% (0.96% June 2020)
- Proceeding to plan with longer term projects to future-proof Society systems and deliver efficiency savings, including successful additions to Mortgage Hub online platform for brokers, and moved into our environmentally friendly new head office in Sovereign Street in Leeds city centre
- As part of our commitment to a sustainable branch network where there is sufficient demand, refurbished new premises for our Leeds city centre branch in Commercial Street, opening shortly as we vacate our previous base on Albion Street

Communicating with our members and colleagues

- High customer satisfaction score of 93% (93% 31 December 2020)
- High colleague engagement of 86% (86% 31 December 2020)
- Continued to successfully operate through widespread dispersed working while supporting effective colleague collaboration across multiple teams, departments and functions
- No colleagues furloughed and no pay cuts during pandemic and 84 new roles created, concentrated on key functions including IT, data and mortgage underwriting
- Was reaccredited with the Fair Tax Mark and retained the Carbon Trust Standard for Carbon, as well as being a Living Wage Employer and Leaders in Diversity
- Celebrated first anniversary of our four-year partnership with Dementia UK with the launch of our Closer to Home project, to increase access to specialist dementia clinics for communities across the UK

GROUP RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

Condensed Consolidated Income Statement

	Six months to 30 June 2021 (Unaudited)	Six months to 30 June 2020 (Unaudited)	Year to 31 December 2020 (Audited)
	£M	£M	£M
Interest receivable and similar income	201.6	219.1	402.6
Interest payable and similar charges	(73.9)	(119.4)	(197.2)
Net interest receivable	127.7	99.7	205.4
Fees and commissions receivable	3.1	2.8	5.6
Fees and commissions payable	(0.2)	(0.2)	(0.6)
Fair value losses from financial instruments	(1.2)	(9.3)	(16.8)
Other operating (expense) / income	(1.2)	0.3	3.2
Total income	128.2	93.3	196.8
Administrative expenses	(52.9)	(45.5)	(92.9)
Depreciation and amortisation	(4.6)	(3.5)	(7.5)
Impairment gains / (losses) on loans and advances to customers	0.7	(11.7)	(14.6)
Provisions charge	(1.1)	-	(1.1)
Operating profit and profit before tax	70.3	32.6	80.7
Tax expense	(18.0)	(5.8)	(18.7)
Profit for the period	52.3	26.8	62.0

Summary Condensed Statement of Financial Position

	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)	31 December 2020 (Audited)
	£M	£M	£M
Assets			
Liquid assets	3,063.0	2,997.4	2,974.8
Derivative financial instruments	133.0	235.3	192.8
Loans and advances to customers	17,549.0	16,834.3	16,988.9
Fair value adjustment for hedged risk on loans and advances to customers	(23.1)	113.8	96.1
Intangible assets	27.2	23.6	28.8
Property, plant and equipment	84.0	69.4	81.3
Retirement benefit surplus	2.1	4.5	1.0
Deferred tax assets	6.8	6.6	5.6
Prepayments, accrued income and other assets	245.9	247.3	270.4
Total assets	21,087.9	20,532.2	20,639.7
Liabilities			
Shares	14,470.8	14,201.7	14,162.7
Fair value adjustment for hedged risk on shares	(51.7)	(18.9)	(13.5)
Derivative financial instruments	162.2	278.4	237.9
Deposits and securities	4,597.9	4,502.6	4,654.7
Current tax liabilities	3.1	1.5	2.3
Deferred tax liabilities	4.9	6.1	4.7
Provision for liabilities, other liabilities and accruals	113.6	196.0	194.7
Subordinated liabilities	347.6	-	-
Subscribed capital	233.4	242.0	241.5
Total equity attributable to members	1,206.1	1,122.8	1,154.7
Total liabilities and equity	21,087.9	20,532.2	20,639.7

Condensed Statement of Comprehensive Income	Six months to 30 June 2021 (Unaudited)	Six months to 30 June 2020 (Unaudited)	Year to 31 December 2020 (Audited)
	£M	£M	£M
Fair value (losses) / gains on investment securities	(1.9)	11.8	8.6
Actuarial gain / (loss) on retirement benefit surplus	1.1	1.4	(1.9)
Revaluation gain on properties revalued	-	-	2.7
Tax on items	(0.1)	(3.3)	(2.8)
Other comprehensive income net of tax	(0.9)	9.9	6.6
Profit for the period	52.3	26.8	62.0
Total comprehensive income for the period	51.4	36.7	68.6

Summary Condensed Statement of Cash Flows	Six months to 30 June 2021 (Unaudited)	Six months to 30 June 2020 (Unaudited)	Year to 31 December 2020 (Audited)
	£M	£M	£M
Net cash flows from operating activities	275.0	(462.2)	(209.1)
Net cash flows from investing activities	62.2	262.6	735.3
Net cash flows from financing activities	(178.3)	137.1	(116.2)
	158.9	(62.5)	410.0
Cash and cash equivalents at the beginning of the period	2,025.1	1,615.1	1,615.1
Cash and cash equivalents at the end of the period	2,184.0	1,552.6	2,025.1

[i] NIM increased to 1.23% for the six months to 30 June 2021 compared to 0.99% for the year to 31 December 2020

[ii] Leeds Building Society paid an average rate of 0.97% to its savers, compared to the rest of market average rate of 0.41%. CACI's CSDB, Stock, June 2020 to May 2021, latest data available

[iii] Part of our Climate Change Framework, based on four pillars (Risk Management and Scenario Analysis, Reporting and Disclosure, Carbon Footprint and Products), designed to meet the requirements of TCFD on a proportionate basis.
Scope 1 covers direct emissions from owned or controlled sources; Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company; and Scope 3 includes all other indirect emissions that occur in a company's value chain.

[iv] The Society's total arrears greater than 2.5% of balance at 30 June 2021 were lower than the market average (Source: UK Finance: Mortgage Arrears and Possessions Update Quarter 1 2021).