



ANNUAL FINANCIAL REPORT

COVENTRY BUILDING SOCIETY

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Savings and mortgage growth, underpinned by exceptional customer service, drives strong Coventry Building Society results.

Our strong profit growth has increased capital strength and allowed for further investment in key capabilities including digital and the resilience of our technology and services.

Commenting on these results, Steve Hughes, Chief Executive Coventry Building Society, said:

"The impact of persistent inflation resulting in further base rate increases, created volatility in markets and a fast-moving situation for savers and borrowers alike. In this context we delivered a strong financial performance and growth ahead of market. We concentrated on great value products, outstanding service, and putting the right foundations in place to support our future success by strengthening capital and investing in our digital capability. We proactively supported borrowers and improved our savings rates relative to the market whilst investing in our communities. These are important proof points of our mutual model - value, service, resilience and making a difference in our communities - all delivered by our brilliant and highly engaged colleagues. I'm proud of what's been achieved as we continue to strengthen the Society for the benefit of current and future members."

Outperforming in mortgages and savings, underpinned by exceptional service

- **Mortgage balances grew by £2.3bn (4.7%) to £50.3bn.** Our mortgage growth has been driven by the delivery of great products and service for our mortgage customers and brokers in a challenging market, which included maintaining our two day broker pledge.
- **Savings balances grew by £5.3bn (12.5%) to £47.6bn.** We have grown savings by offering exceptional and competitive products, with a focus of rewarding loyalty. We have paid higher savings rates than the market average, increasing the premium we pay members by 49% from £230m to £342m (paying 0.81% above the market average).

Strong financial performance

- **Profit before tax increased to £474m** (2022: £371m). The rising interest rate environment supported an improved profit performance with a net interest margin of 1.26% (2022: 1.16%) even after paying better rates to savers, protecting variable rate mortgage customers from the full rises in interest rates and also supporting with cost of living challenges in local communities.
- **The leverage ratio increased to 5.4%** (2022: 5.2%). Strong profitability has strengthened our capital position and resilience as we continue to face into an uncertain economic outlook. The Common Equity Tier 1 (CET 1) ratio increased to 29.1% (2022: 27.4%) and remains well above statutory requirements.
- **Low arrears balances of 0.26% of mortgages more than three months in arrears (2022: 0.17%).** The credit quality of our book remains resilient and compares favourably to the industry average¹.

Delivering on our service promise whilst continuing to invest for the future

- **Excellent customer service** with Experience Net Promoter Score of +76 (2022: +75) and investment in operational capacity during a period of exceptional demand from members, customers and brokers.
- Invested £92m (2022: £94m) in improving our mortgage proposition**, digital capability, operational and financial resilience.

Supporting colleagues and the communities we serve

- We launched our new **corporate partnership with Centrepoint** to support its national and local programmes to end youth homelessness.
- **First building society to achieve B Corp status**, a global standard for sustainability.
- **Improved our Great Place to Work survey 'Trust Index score' from +77 to +81**, putting us amongst the best workplaces in the 'super large company' category as well as being recognised as one of the best places to work for women.

With regards to The Co-operative Bank exclusivity agreement announced in December 2023, the Society is continuing to conduct thorough and detailed due diligence and will only pursue this

transaction if we believe it is in the best interest of current and future members.

1. Industry average 0.91% based on UK Finance Q4 2023 published data.

Chief Executive review

A challenging environment

2023 was dominated by the rising interest rate environment with the Bank of England increasing UK base rate from 3.50% at the start of the year to 5.25%. Whilst inflation dropped sharply towards the end of 2023, it remains above the Bank of England target and further inflationary pressure is possible amid ongoing conflicts in the Middle East and Ukraine.

The impact of high inflation and high interest rates on people's lives and the UK economy are clear to see. The cost of living challenge continues, and we see the day-to-day results of food and fuel poverty in the community programmes we support. We know the impact of significantly higher borrowing costs is making things harder for homeowners and tenants alike. Whilst unemployment rates are relatively stable, there is ongoing economic uncertainty and both consumer and business confidence were notably lower as the year closed. In this context, our mutual business model continues to be reassuringly resilient as we plan for all eventualities.

The impact on the housing market has been significant. Transaction levels have declined and house price inflation has stalled, with price reductions being recorded in many parts of the country. Borrowers coming to the end of low fixed rate mortgages are experiencing significantly higher monthly payments. The full implications of which remain uncertain with many more homeowners coming off such deals in 2024.

The rising interest rate environment has also presented challenges to lenders, as well as borrowers. Maintaining stable pricing and propositions has been incredibly difficult given the speed at which interest rates have risen and general levels of market volatility. However we have maintained our two day pledge to brokers in providing notice of product and pricing changes.

Higher interest rates have, of course, been helpful to savers in mitigating the impacts of high inflation, and it has been a noticeably more active market as consumers have taken action to maximise the returns available to them. In this context, we have worked hard to encourage financial awareness, whilst also providing the fair returns our members deserve. I believe this is a clear benefit of our mutual business model with its consistent focus on the needs and expectations of members. Added to this is our inherent security and resilience to external stresses which means we can take a long-term view despite the immediate challenges of a fast-changing environment. In this way, we have been able to return additional value to members and reward their loyalty, whilst continuing to grow, invest for the future and enhance our capital strength.

As I've said before, it is not for our members to make the connection between mutual ownership and long-term stability and security. Our responsibility to them is to deliver the great value, service and support that they and their families need, particularly during times when household incomes and spending are under great strain. This is how we judge our success.

Delivering value to members

Savers and borrowers have very different perspectives, particularly in a rising interest rate environment. Our responsibility is to balance their contrasting priorities and ensure we provide fair and competitive value to both over the long-term.

We demonstrate our value to savers by consistently paying above the market average and in 2023 we maintained this record by paying an additional £342 million of interest than if we'd simply matched the average rates paid in the market. This was £112 million higher than in 2022 (£230 million)¹ and £141 million higher than in 2021 (£201 million). The increase clearly shows our commitment to savers in a rising interest rate environment, and I am proud that we increased the interest paid on every variable savings product every time the Bank of England increased base rate during the year.

I have mentioned loyalty several times. I think rewarding loyalty is really important, both in demonstrating the value and difference of a mutual organisation, but also encouraging savers who trust us to do the right thing. During the year, over 145,000 loyalty product accounts were opened with us, and we know that our members appreciate being recognised and rewarded for their continued support of the Society.

Our loyalty products were just one part of a savings portfolio that focuses on the needs of members. Our ISA range continues to be extremely competitive and increasingly important as more people become liable for tax on savings interest. We introduced a new children's saving proposition and launched our relationship with Salary Finance, who work with organisations to encourage saving through payroll. We want to encourage good savings habits and greater personal financial resilience across all ages by increasing understanding and making saving as easy as possible. We have also had great success in linking savings campaigns with our new charitable partnership with Centrepoint. An idea that gets to the heart of our purpose-led strategy.

Our strong savings franchise has been recognised independently too, including by consumer champion, Fairer Finance, who have awarded us a Gold Ribbon for savings every year since 2015. We also received awards from Savings Champion ('Best Building Society'), Money.net, ('Best Building Society Savings Provider'), and The Times Money Mentor ('Best Savings Account') amongst others.

It's not surprising that our savings balances have grown considerably during the year, as we've attracted new members, and existing members have trusted us with more of their savings. Balances were up 12.5% or £5.3 billion (31 December 2022: £2.4 billion) with the overall savings held at the Society reaching £47.6 billion. It represents a significant outperformance of the savings market, which increased by 1.1%² during the year. An outperformance which has delivered value for members and contributed to our profitability in 2023.

A very successful year for savings has been matched by an equally strong mortgage performance. In a relatively flat market we grew mortgage balances by 4.7% or £2.3 billion, (31 December 2022: 3.0%, £1.4 billion). As with savings, this growth represents a significant outperformance of the overall market, which remained broadly flat² in 2023. In doing so, we increased our share of both owner-occupied and buy to let lending. Although the impact of new regulations has changed the buy to let market, it remains a priority for the Society, and we intend to protect and enhance our leading position. We also launched our Green Further Advance Product in support of our broader sustainability ambitions to help members improve the energy efficiency of their properties.

This strong lending performance was achieved in a year which has been tough for new and existing borrowers faced with significantly higher mortgage costs. In July, we signed up to the Government's Mortgage Charter initiative and fully supported the options to temporarily switch to interest-only arrangements or extend the mortgage term.

But in many ways the real difference is being made by our colleagues working tirelessly to support borrowers through their proactive and caring approach. They have established ways of identifying those borrowers most in need of support and call them even before payments are missed. We have strong ties with our free debt advice partners and provided support and training to our teams to help them identify financial vulnerability as early as possible. We also took practical steps like removing all arrears related fees. This proactive approach, and the quality of our underwriting capability, kept arrears levels low at 0.26%³ (31 December 2022: 0.17%), well below the market average of 0.91%³.

Our confidence in the support we provide means we have stayed open for business, benefitting borrowers, brokers and the industry as a whole. In 2023 we helped over 14,000 people buy a home. This includes more first time buyers than in 2022, something which reflects our commitment to helping people take that first step on the property ladder.

Delivering on our service promise

In last year's report I talked about the increased demand for our services, not just because of popular products, but because people wanted more help in making the right decisions as interest rates changed. This continued in 2023 with the level of customer contact nearly 40% higher than in 2022. However, as we invested significantly in recruiting and training more

colleagues, as well as focusing on the way we do things, we have been able to provide the same brilliant service throughout the year. We have taken more than 200,000 additional calls and reduced our call waiting time in the process.

The outcome has been outstanding levels of customer satisfaction. In a year where members are contacting us more than ever, we have improved our Net Promoter⁴ Score (NPS) from +75 to +76 for the Society as a whole.

The importance of delivering the right customer outcomes has come into greater focus with the introduction of the Consumer Duty regulations. I believe that although our purpose, culture and values give us a headstart in delivering our Consumer Duty responsibilities, we will continue to work hard to meet the expectations of our members.

Investing in our future

We're aiming for a service that is 'digital first, human always'. Our investment in digitising savings and mortgage services is starting to bear fruit, with savers, borrowers and brokers increasingly enjoying the convenience of carrying out transactions at a time and place that works for them. When they need more help, they get a fantastic service from my colleagues working in the customer contact centres and branches. In a year in which we saw online services logins increase by 50% and live chat starting to make an impact, we also dealt with record numbers of calls and over 2.2 million branch transactions. It is a multi-channel approach which meets the expectations of members and supports the Society's strategic ambitions.

A key development for our savings members has been the launch of our mobile app which, at the end of December, was going through final tests with a pilot group of 1,000 members and colleagues. The feedback has been extremely positive, with savers enjoying the added convenience and ease of use of this new service and we've successfully opened it to all members in early 2024. The app will help us manage the Society's growth and scale, and is a very visible example of the technological transformation taking place as we complete the digital backbone that supports such services and applications.

The digitisation of our mortgage processes is also delivering real benefits to customers and brokers. In 2023, building on earlier implementations, we are now taking direct new business for the first time. We also made significant progress with our financial transformation programme, with a new general ledger finance system successfully in place, and are rolling out significant enhancements to the way we work through our Modern Workplace Programme.

The breadth and cadence of delivery is enhancing operational resilience, information security and data protection, as well as improving customer experience and business efficiency. Members and other stakeholders expect us to keep their data and funds safe and secure and we will continue to invest to do so.

The investment we're making is significant. In 2023 our capital and revenue investment expenditure totalled £92 million (31 December 2022: £94 million). Our cost to income ratio has improved to 39% as a result of our strong income performance, whilst our cost to mean asset ratio and total management expenses were 0.51% (31 December 2022: 0.52%) and £312 million (31 December 2022: £295 million) respectively.

Supporting our communities

A theme of this review has been the balanced nature of the Society's performance. Members expect great value and service, but they also expect us to make a positive contribution to the broader issues faced by society. We work hard to meet their expectations and I wanted to pull out a few highlights from 2023 here.

Being the first building society to gain B Corp certification is something the whole Society is proud of. It emphasises the central tenet of sustainability which is to benefit all stakeholders, not just the few. It covers our approach to savings and mortgages, how we support colleagues, suppliers, investors, and communities as well as manage our impact on the environment. We were delighted to be certified at our first attempt and I believe it will be the foundation of our progress for years to come.

We remain on track with the Climate Action Plan, as endorsed by members at the 2022 AGM. This year we've taken steps to reduce our carbon footprint through the use of solar panels and heat pumps at our head offices and expanding our support for electric vehicles. We continue to encourage and support members and colleagues through green lending products, access to energy-saving information and tools and a whole raft of initiatives from reducing power usage to tree planting.

The cost of living challenges and concerns about the cost of housing make our new partnership with Centrepoint even more relevant. Centrepoint has the ambitious aim to end youth homelessness, and we have committed to donating £1 million per year to this cause as well as raising awareness and supporting young people in building independent lives. In addition to the financial support, we are supporting the expansion of youth services in Coventry and Warwickshire, working in partnership with local councils and other charities. This theme extends into our other community priorities that are encouraging student aspiration and achievement, and reducing isolation amongst vulnerable sections of society. I'd like to thank my colleagues for their enthusiasm and support. They're doing more volunteering and fundraising than ever and we couldn't do it without them.

The Society's financial strength brings opportunities to do more to help and, as we did last year, we donated £1 million to provide emergency funding plus support for ongoing services in our local community. I am extremely proud that the Society is making such a tangible difference both locally and nationally.

Engaging colleagues

We now have over 3,000 colleagues at the Society - another tangible impact of our success as we grow and provide new and exciting career opportunities to more people.

Ensuring that we attract and retain great talent is key to achieving our strategic ambition, and key to this is putting in place the right environment for all colleagues to thrive. We invest in getting this right through a combination of support, challenge, development and reward.

The Great Place to Work survey offers a proxy for our performance across all these elements, and I was delighted that we again increased our Trust Index score which now stands at +81 (31 December 2022: +77). This puts us amongst the best in our 'super large company' category and shows a level of engagement that differentiates us. I firmly believe that it is key to the brilliant service and products we offer, the pace of change we are delivering and the great member satisfaction I talked about earlier.

One of the most important aspects of this is to create a diverse, inclusive and collaborative environment that attracts the brightest, most capable people who are representative of the communities we serve, something I feel is more relevant than ever.

In 2023, we were recognised as one of the best workplaces for women and have won awards for the wellbeing support we offer too. Our Executive team has a 50:50 male:female split, and we're only 1% off our 40% female target for all senior leader roles.

We have achieved an initial goal for 10% of senior leadership roles being undertaken by people from ethnic minority backgrounds and although we have more to do across all leadership roles, we are making progress. I am encouraged by the high levels of engagement of colleagues from ethnic minority backgrounds and their strong representation in our talent and development programmes.

One new initiative we launched this year was the Colleague Regular Saver. Recognising that financial resilience is a key contributor to personal wellbeing, each colleague who opened an account received £100 to encourage starting a new savings habit. It also gave them an invaluable opportunity to walk in the shoes of our members. This is something I am sure will lead to new ideas and even better ways of doing things. Nearly 2,000 eligible colleagues have taken up this opportunity, which is very much in keeping with our culture and values.

A strong and balanced performance

This describes a performance which delivered great security, value and service to our members, but also an increased pace of change, brilliant colleague engagement and real progress on our sustainability agenda.

We also took decisions to ensure the Society's financial strength and stability, recognising the economic uncertainty through the year, and the likelihood of increased economic headwinds and a lower interest rate environment to come.

In 2023, our profit before tax of £474 million was higher than in 2022 (31 December 2022: £371 million.) This was supported by the increases in Bank of England Base Rate during the first part of the year, which benefitted margin and income, and strong levels of lending, notwithstanding the additional value paid to members.

As in 2022, we also took prudent decisions to protect current and future members by strengthening our capital position. Our leverage ratio increased to 5.4% (31 December 2022: 5.2%) and our Common Equity Tier ratio of 29.1% (31 December 2022: 27.4%) remains well above regulatory requirements. Our Liquidity Coverage Ratio was 227% (31 December 2022: 195%). The strength of our capital and liquidity position offers reassurance to members now, and in the future, as well as providing the foundations for future growth and investment.

Looking to the future with confidence

What will happen to the UK economy and housing market next year is difficult to forecast. Markets are predicting the Bank of England Base Rate will fall but not to the historic lows of the previous decade. It is anticipated the UK housing market will remain subdued, albeit with some recovery from the lows of 2023. It is clear profitability and earnings levels have peaked but we will continue to make balanced judgements on growth, capital and value to members.

As I have said, our mutual business model is robust and we will adapt to continue providing the security, value and service our members expect. We will also continue with our investment plans to remain relevant and resilient in the future. Our strong financial performance in 2023 and previous years, means we are well capitalised, and members and investors alike can be reassured by this.

With regards our interest in acquiring The Co-operative Bank, there is little I can add, other than to say thorough and detailed due diligence is being undertaken and we will only pursue this if we believe it is in the best interest of current and future members.

It has been a strong year for the Society. I would like to thank my colleagues for their hard work and dedication, and our members for their loyalty and trust.

1. Based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for

the 12 months of the year.

2. Source: Bank of England.

3. Percentage of mortgages with more than three months of arrears. Source: UK Finance.

4. Net Promoter Score (NPS) is a measure of customer advocacy that ranges between -100 and +100, which represents how likely a customer is to recommend our products and services.

Financial review

Income Statement

Overview

In 2023, the Society delivered a very strong financial performance during what has been a challenging year with further increases in Bank of England Base Rate and significant market volatility. The following factors impacted the 2023 financial results:

- Net interest income increased by £110 million, driven by the rising base rate environment with mortgage interest receivable rising more quickly than interest payable on retail deposits in the first half of the year. With the base rate stabilising in the second half of 2023, we have seen a reduction in net interest income predominately due to competitive pressure in the mortgage market and the impact on mortgage and fixed rate saving repricing.
- Gains on derivatives and hedge accounting of £30 million (2022: £27 million gain) due to market volatility and changes to customer behaviour.
- Management expenses have increased by £17 million, driven in the main by inflation across all our activities, increased service and strategic investment and IT run costs.
- We have further increased our provisions for future expected credit losses (ECLs) in light of the continued uncertainty surrounding the economic outlook and the evolving cost of living crisis. As a result, £7 million of ECL provisions were charged in 2023, in addition to the £17 million charge in 2022.

Taking account of these factors, profit before tax for the year increased to £474 million (2022: £371 million).

	2023	2022
	£m	£m
Interest receivable	2,992.5	1,421.1
Interest payable	(2,225.3)	(763.8)
Net interest income	767.2	657.3
Other income & charges	(5.2)	(1.6)
Gain on derivative financial instruments	30.3	26.8
Total income	792.3	682.5
Management expenses	(311.9)	(294.8)
Impairment charge	(6.9)	(16.6)
Charitable donation to Poppy Appeal	-	(0.6)
Profit before tax	473.5	370.5
Tax	(122.4)	(84.3)
Profit after tax	351.1	286.2

Net interest income

Net interest income increased to £767 million (2022: £657 million).

The Bank of England Base Rate increased five times during the year, increasing from 3.50% at 31 December 2022 to 5.25% at 31 December 2023.

Interest receivable on mortgages and related hedging programmes increased by £1,167 million, predominantly as a result of the impact of base rate increases on our mortgage book and growth in balances. The Society consciously improved the

competitiveness of the standard variable rate (SVR) product to protect these customers from the impact of rising rates.

We also benefitted from an additional £405 million of interest receivable as a result of increased liquidity balances within a higher interest rate environment.

Interest payable on retail savings increased by £1,177 million following the five base rate increases during 2023 and the full year impact of the base rate increases in 2022. For each base rate change during 2023, we have passed through on average 65% to our savings members. Throughout 2023, the Society continued to pay above average savings rates, returning £342 million (2022: £230 million) in member value compared to market average rates¹, whilst continuing to invest in the Society and maintain its long-term resilience. This represents 0.81% above the market average rate.

In addition, we paid an incremental £285 million of interest on our wholesale funding.

Net interest margin

At 1.26%, our net interest margin increased from the 1.16% reported in 2022, as a result of the movements in net interest income outlined above relative to our average total assets. The net interest margin peaked at the end of the first half of 2023, off the back of 14 consecutive increases in the base rate before reducing in the second half of the year as the base rate stabilised and assets and liabilities repriced.

	2023	2022
	£m	£m
Net interest income	767	657
Average total assets	60,665	56,698
	%	%
Net interest margin	1.26	1.16

Derivatives and hedge accounting

The Society uses derivative financial instruments solely for risk management purposes to manage interest rate and currency risk arising from its fixed mortgage and savings activity and from non-sterling and fixed rate wholesale funding.

The Society applies hedge accounting where possible and its approach continued to be effective throughout the period. The gain for the year of £30 million (2022: £27 million gain) predominantly reflects two factors.

Firstly, we have updated our assumptions on mortgage prepayments to reflect customer behaviour more accurately. This has had the effect of crystallising fair value gains on mortgage interest rate swaps and resulted in a gain of £81 million.

Secondly, with such a significant increase in interest rates, we have seen members choosing to pay penalty interest to exit their fixed rate ISA products early. This has been offset by a loss of £63 million due to the impact of this customer behaviour on our derivatives portfolio.

The residual net gain represents hedge ineffectiveness and fair value movements on derivatives where hedge accounting was not obtained.

Management expenses

Overall management expenses increased by £17 million. The increase in costs was driven by salary and cost inflation, investment in service capability, a further increase of £3 million in spending related to the Society's strategic investment programme, and the impact of higher variable pay in recognition of the strong performance against our targets.

IT costs have increased by £9 million as a result of increased licensing costs, as we continue to invest in business growth, resilience and inflationary pressures. This has been offset by a reduction in depreciation. We also maintained our contribution to community and charitable activities.

Ensuring that we spend our members' money wisely and maintain our cost efficiency advantage is a key part of the Society's strategy. The cost to income ratio improved to 39.4%² (2022: 43.2%), predominately due to our strong income performance.

Expected credit losses

The performance of our mortgage book has remained strong despite the persistent level of inflation, increases in mortgage payments and decline in House Price Index (HPI) during the year.

The Society has updated its economic scenarios to account for the continued expected uncertainty in the economic outlook, including the latest expectations for inflation, the slightly more favourable house price index (HPI) forecast, and in turn, the impact on expected credit losses (ECLs).

That said, with the full impact of the higher interest payments not yet seen, due to the volume of five year mortgages yet to mature, we have continued to refine our cost of living post model adjustment (PMA) to reflect the potential risk associated from the continuing increase in the cost of living and higher mortgage payments for our borrowers.

Consistent with previous years, we have taken a deliberately cautious approach to estimating ECLs, given the structural challenges facing our members as outlined above. This has resulted in an increase to our provision for ECLs, and a charge of £7 million (2022: charge of £17 million) being recognised.

At the year end, total provisions were £43 million (2022: £36 million), of which £24 million (2022: £19 million) related to PMAs.

£18 million (2022: £16 million) of ECL provision relates to the core modelled losses, including the impact of alternative economic scenarios. The alternative scenarios reflect a range of possible outcomes as the economy continues to see further periods of uncertainty related to cost of living affordability pressures and house price movement.

The post model adjustments cover the following risk areas:

- Risk relating to the impact of the cost of living on our members where we have identified behavioural characteristics which may lead to future difficulties (£18 million).
- A more granular assessment of house price information which provides a more accurate view of indexed loan to values (LTVs) and risks associated with pockets of negative equity.
- Risks which cannot easily be modelled such as for fraud or cladding remediation within the portfolio.

IFRS 9 requires loans to be assessed as 'stage 2' where there has been a significant increase in credit risk. Loans are held in stage 2 until such a time when they are considered to have 'cured' by performing for a sustained period of time, typically 12 months from the stage 2 trigger event. In 2023, stage 2 accounts increased to 14.5% (2022: 9.3%) principally due to the cautious cost of living PMA recognition criteria. 98% of these stage 2 accounts remain up to date with their mortgage payments. 85.0% of the book remains in stage 1 (2022: 90.3%).

As a result of these changes, the ECL provision now equates to 0.08% of the overall mortgage book (2022: 0.07%).

Taxation

In 2023, the corporation tax charge was £122 million (2022: £84 million), reflecting an effective tax rate of 25.9% (2022: 22.8%). During the year, the standard rate of UK corporation tax has increased from 19% to 25%, with the incremental charge in the effective tax rate mainly related to the banking surcharge.

Balance Sheet

Overview

Our core trading performance for both mortgage and savings was strong in the year. We took the conscious decision to grow savings balances at more than twice the rate of mortgages which has both supported earnings in the year and also helped to pre-fund Term Funding Schemes (TFSME) repayments in the period ahead. The strong earnings in the year have further increased general reserves and capital, improving the financial resilience of the Society.

A summarised Balance Sheet is set out below:

	2023	2022
	£m	£m
Assets		
Loans and advances to customers	50,276.1	48,014.3
Liquidity	10,924.3	10,009.8
Other	1,262.3	843.0
Total assets	62,462.7	58,867.1
Liabilities		
Retail savings	47,582.3	42,288.7
Wholesale funding	10,845.5	13,207.2
Subordinated liabilities and subscribed capital	57.0	57.0
Other	738.3	366.5
Total liabilities	59,223.1	55,919.4
Equity		
General reserve	2,573.2	2,250.7
Other equity instruments	415.0	415.0
Other	251.4	282.0
Total equity	3,239.6	2,947.7
Total liabilities and equity	62,462.7	58,867.1

Loans and advances to customers

Our lending strategy remains primarily focused on high quality, low loan to value (LTV) mortgages within the prime residential market. These loans are mainly distributed through third-party intermediaries, giving the Society a regionally diverse mortgage portfolio in a cost-effective way.

The Society manages its growth according to the economic conditions, market pricing and funding conditions. In 2023, we advanced £7.9 billion of mortgages (2022: £8.7 billion) and mortgage balances grew by £2.3 billion (2022: £1.4 billion). The year on year growth in mortgages of 4.7% compares with a broadly flat UK mortgage market and our market share remained at 3%³ (2022: 3%).

This growth was complemented by lower levels of redemptions following the Bank of England Base Rate rises in the first half of the year.

New lending on owner-occupier homes accounted for 81% of total new lending in 2023 (2022: 67%) at an average LTV of 67.0% (2022: 65.3%). The Society continues to support first time buyers and increased the number of loans advanced in 2023 to 6,300 (2022: 5,400).

Total mortgage assets at 31 December 2023 stood at £50.3 billion (2022: £48.0 billion) which comprised £30.9 billion of owner-occupier loans (2022: £28.5 billion) and £19.4 billion buy to let loans (2022: £19.5 billion). The balance weighted indexed LTV of the mortgage book at 31 December 2023 increased slightly to 53.8%⁴ (2022: 51.0%) when compared to prior year as a result of reductions in house prices.

Possessions and forbearance remained low, with 25 cases in possession at the year end (2022: 27) and forbearance levels having increased by 5% year on year in value terms and 2% in number of cases. With the impact of the cost of living pressures expected to evolve further in 2024, the Society continues to focus on supporting its members and has been cautious in estimating expected credit losses. At 31 December 2023, only 0.26% of mortgages were more than three months in arrears, which remains a very low number both historically and when compared with the latest available industry average of 0.91%⁵. Whilst this represents an increase in the year (31 December 2022: 0.17%), the low actual number of cases more than three months in arrears of 929 (31 December 2022: 564) demonstrates the resilience of the portfolio despite challenging economic conditions. The vast majority of these accounts have an LTV below 75%. The buy to let book saw a proportionately larger increase in arrears but from a very low base.

Liquidity

Liquid assets increased to £10.9 billion (2022: £10.0 billion) as we maintained a prudent liquidity buffer, demonstrated by our Liquidity Coverage Ratio (LCR) remaining strong at 227% (2022: 195%), significantly above the minimum regulatory requirement.

Liquid assets are principally held in deposits at the Bank of England and in UK Government investment securities. This means that asset quality remains very high, with 94% of the portfolio rated Aaa-Aa3 (2022: 93%). 96% of liquid assets are held in UK sovereign or UK financial institutions (2022: 98%).

Included in liquid assets are £1.6 billion of assets held at fair value through other comprehensive income (FVOCI). As at 31 December 2023, the balance on the FVOCI reserve was a £1 million gain, net of tax (2022: £5 million gain, net of tax).

Retail funding

Retail savings increased in the year by £5.3 billion to £47.6 billion (2022: £42.3 billion), representing growth of 12.5%, compared with market growth of 1.1%. The Society's overall savings market share is 2.7%³ (2022: 2.4%).

The Society continued to support the cash ISA market, with our market share of 6.5%³ broadly unchanged from prior year (2022: 6.7%). Our increase in overall savings market share reflects the strength of our proposition and our desire to increase the value we distribute to members whilst de-risking our future funding plan.

Our mortgage book continues to be predominantly funded by retail savings, with 95% of mortgage loans funded in this way (2022: 88%).

Wholesale funding

We use wholesale funding to diversify our sources of funding, enabling growth and lowering risk, which then benefits both mortgage and savings members through better rates.

Wholesale funding reduced by £2.4 billion in the year to £10.8 billion (2022: £13.2 billion) driven by our strong savings performance, which supported the repayment of £1.8 billion of TFSME.

Wholesale issuances during the year, comprised of a £500 million covered bond in March 2023 and a total of £750 million residential mortgage backed securities (RMBS) issued in January and November 2023. There was £3.45 billion of central bank Term Funding (TFSME) outstanding as at 31 December 2023 (2022: £5.25 billion).

Equity

The Society's equity is predominantly made up of 139 years of retained profits in the general reserve and Additional Tier 1 (AT 1) capital. The Society made post-tax profits of £351 million in the year and total equity increased by £0.3 billion to £3.2 billion, inclusive of a £29 million distribution to AT 1 capital holders and a £27 million movement in the cash flow hedge reserve.

Pension fund

The pension scheme assets and liabilities are recorded in the Society's financial statements and the overall position was a surplus of £4 million at the end of 2023 (2022: £3 million). These assets and liabilities are impacted by market movements. The movements in the year were driven by the updated valuation of the pension scheme assets along with changes in the UK corporate bond market and latest triennial valuation assumptions impacting the scheme liabilities position. The Society continues to monitor the pension scheme to ensure that there is no scheme deficit over the medium-term.

Regulatory capital

We hold capital to protect members against unexpected future losses. As we grow our mortgage book, the amount of capital we need to hold to meet the UK Capital Requirements Directive (CRD) V increases.

The Society's CRD V capital position as at 31 December 2023 is summarised below. During the year, the capital resources increased to £2,891 million, primarily through the increase in Common Equity Tier 1 (CET 1) driven by profit after tax of £351 million.

We are not currently bound by regulatory leverage ratios, which measure Tier 1 capital against total exposures, including off-balance sheet items. The PRA confirmed in policy statement PS21/21 that the UK leverage ratio framework only applies to banks and building societies with either retail deposits of £50 billion or more, or non-UK assets equal to or greater than £10 billion; neither of these measures currently applies to the Society. The UK leverage ratio increased slightly to 5.4% (2022: 5.2%) driven by the increase in capital resources in the year. The Society expects leverage will be its binding constraint in the future once we pass £50 billion in retail deposits.

The increase in risk weighted assets (RWAs) in 2023 was driven in the main by an update to the IRB modelling approach and the mortgage book growth seen in the year. This has been offset by strong profitability contributing to increased capital resources. The Society's CET 1 and Total Capital ratios consequently improved to 29.1% (2022: 27.4%) and 34.0% (2022: 32.7%) respectively.

The Society continues to work towards meeting regulatory changes for IRB models that are impacting firms across the industry. Updated models have been submitted to the PRA for approval in the first half of 2023 and we are awaiting feedback.

Until the updated models are fully approved, and in common with many other IRB institutions, the Society has agreed to hold additional risk weighted assets (RWAs) that represent its best view of the change in capital requirements that will result from the new models once they are implemented.

The final model output may vary from this initial assessment, which may further lower the CET 1 ratio, effectively bringing forward changes of increasing RWAs envisaged in Basel 3.1. The Society expects that from 2025, Basel 3.1 changes to capital requirements will be phased in and, as transition develops, this will reduce the Society's reported CET 1 ratio. Applying the Basel 3.1 RWA floors to the year end figures on a full transition basis would result in a CET 1 ratio of approximately 21.7%.

The Society's Total Capital Requirement (TCR) at December 2023 was £905 million, equating to 10.7% of RWAs (2022: £846 million; 10.7%). We exceed this requirement using CET 1 capital alone.

	End-point 31 Dec 2023	End-point 31 Dec 2022
	£m	£m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	2,475.5	2,169.0
Total Tier 1 capital	2,890.5	2,584.0
Total capital	2,890.5	2,584.0
Risk weighted assets	8,499.1	7,911.7
Capital and leverage ratios:		
	%	%
Common Equity Tier 1 (CET 1) ratio	29.1	27.4
Leverage ratio including central bank reserves and full AT1 capital amount	4.6	4.5
UK leverage ratio ⁶	5.4	5.2

1. Based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year.

2. Administrative expenses, depreciation and amortisation/Total income.

3. Source: Bank of England.

4. LTV is calculated using the Nationwide Building Society quarterly regional house price index (HPI).

5. Source: UK Finance.

6. The UK leverage ratio includes a restriction on the amount of Additional Tier 1 capital and excludes central bank reserves from the calculation of leverage exposures.

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