# News release

COVENTRY Building Society

7 March 2025

**Coventry Building Society posts strong results as it takes ownership of The Co-operative Bank**

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

"The Society has delivered another balanced and disciplined set of results, growing mortgages and savings ahead of the market, delivering the outstanding service and value our members expect, and continuing the strong financial performance that has underpinned the transformational acquisition of The Co-operative Bank on 1 January 2025.

We remain absolutely focused on delivering the right outcomes for our members and customers as we continue our journey of building a brilliant, purpose-led organisation that will stand out in UK financial services."

## Growing mortgages and savings in a disciplined way

- **Mortgage balances grew by £1.5bn (3.0%) to £51.8bn.** We grew balances in a low growth market by taking a focused and responsible approach to lending that reflects current market conditions and the needs of our members. Our residential balances increased by 4.8% outperforming the market with our buy to let book remaining stable despite a small contraction in the market. Gross advances of £6.7bn were slightly lower than prior year supported by higher retention levels.
- **Savings balances grew by £1.8bn (3.7%) to £49.3bn**. We have grown savings by offering competitive rates to members and incentivising savings, for key groups including those saving for a first home. We continued to pay higher rates than the market average, with the premium we pay members increasing from £342m to a record £401m.

## Strong financial performance once again

- **Statutory profit before tax of £323m** (2023: £474m). This was in line with expectations following an exceptional operating environment in 2023. Net interest margin (NIM) reduced to 1.07% (2023: 1.26%), due to the impact of mortgage and savings customers repricing onto lower margin products and base rate reductions in the year.
- Excluding acquisition and integration related costs of £25.8m, our **underlying profit before tax would be £349m.**
- **Management expenses**, excluding deal related costs and the new Bank of England levy, increased by £12m or 4%, showing continued, effective management of our cost base.
- **Low arrears balances of 0.33%** of mortgages more than three months in arrears (2023: 0.26%). The credit quality of our book remains resilient and **a third of industry average**[1].
- **The leverage ratio increased to 5.7%** (2023: 5.4%). Strong profitability further enhanced our capital position and resilience ahead of The Co-operative Bank acquisition which completed on 1 January 2025. The Common Equity Tier 1 (CET 1) ratio at 28.0% (2023: 29.1%) remains well above statutory requirements.

## Delivering on our service promise whilst driving a transformational investment for the future

- **Exceptional customer service** with Net Promoter Score improving further to +79 (2023: +76) and continued investment helping to reduce call answering time from 105 to 58 seconds.
- **Invested £91m** in technology infrastructure, digital capability with the launch of our new app and development of our mortgage origination platform and improvement in operational and financial resilience, benefitting members with the largest volume of change delivery in our history.
- **Completion of The Co-operative Bank acquisition** on 1 January 2025, resulting in a **gain of £603m**, due to the fair value of the net assets acquired exceeding the consideration paid. The acquisition will

increase both the Group's mortgage and savings presence and extend our propositions into the personal current account and business banking markets.

## Engaging our colleagues and supporting the communities we serve

- **Improved our Great Place to Work survey 'Trust Index score' from 81% to 83%**, putting us amongst the best workplaces in the 'super large company' category as well as being recognised as one of the Fortune 100 Best Companies to work for in Europe.
- Continued to **support our communities with £4.5m of investment** in 2024 (2023: £3.1m), helping local partners and building on our relationship with Centrepoint with an additional £1m donation in 2024 to support youth independent living in Manchester.

1. Based on UK Finance Q4 2024 published data.

---

## Chief Executive review

### Delivering for our members

It would be understandable to focus on the acquisition of The Co-operative Bank, which completed on 1 January 2025, and is a transformational moment in the Society's long history. However, this would be doing a disservice to every one of my colleagues who helped deliver another exceptional year's performance on behalf of our members.

In an uncertain environment, with the UK economy experiencing more persistent inflation and higher interest rates than many believed to be the case at the start of the year, the Society grew savings and mortgages balances in a disciplined and controlled way and delivered a financial performance that ranks amongst the best in the Society's history. It is the consistency of our performance, including capital accretion, over the last few years, which have seen great volatility in the external environment, that enabled us to consider and deliver The Co-operative Bank transaction.

In 2024, we delivered the most extensive portfolio of successful change than in any year previously, including key enablers to achieve Society strategic objectives. We achieved outstanding levels of member and broker satisfaction, as well as increasing colleague engagement and the support we provide to local communities and national charities. I believe that this performance is built on our ability to take balanced decisions in the long-term interest of our members, which is the hallmark of our mutual business model, and which will continue to be the foundation of our future success.

### Strong mortgage performance

Despite the relatively flat market we delivered a strong mortgage performance, adjusting quickly to external events and delivering a consistently outstanding service to brokers and borrowers.

Overall mortgage balances grew by 3.0% or £1.5 billion (2023: 4.7%, £2.3 billion). This was driven by retaining more of our existing borrowers whilst also increasing the number of first homes purchased by our members to 7,100 (2023: 6,300). As we've reported previously, the impact of changes in buy to let regulations continues to bring significant developments this sector. Earlier in the year we extended the number of properties that can be held in buy to let portfolios and we will shortly be launching a service offering professional landlords the opportunity to increase their portfolio through a limited company.

The impact of our excellent retention rates should also not be underestimated. Across the year, more than 80% of borrowers stayed with us as we prioritised our maturity offers and ensured we align maturity and new business rates. Brokers know they can trust the Society to offer competitive rates and that we are transparent in our dealings with them. Our borrowing members stay with us because we treat them fairly.

They also stay with us because we offer genuinely outstanding service. We have reduced the average time to offer a mortgage from nearly 12 days in 2023, to 9 this year, with our new mortgage origination platform taking just 8 days on average. To put this in context, it was around 15 days as recently as 2022. The average wait time when calling our new lending services was just 12 seconds on more than 115,000 calls we've taken in 2024, and we completed nearly 30,000 house purchases.

It is unsurprising that our brokers and borrowers value the relationship they have with the Society so highly. This year, our broker Net Promoter Score peaked at a new record of +96 in June and averaged +88 for the year.

Central to this has been the ongoing deployment of our new mortgage origination platform, which is making a significant difference to our core efficiency and ability to manage peak levels of demand. Over 85% of eligible cases now go through the system, with the remainder

due to come onstream in 2025. It already provides a demonstrably improved service to brokers, borrowers and colleagues but will offer further service and proposition opportunities in the future.

I want to take this opportunity to thank my mortgage colleagues and those that support our franchise for doing such a fantastic job. Nowhere is this clearer than the teams helping our most vulnerable members. With interest rates remaining higher than expected, the rate shock being experienced by borrowers remortgaging from ultra-low fixed rates of recent years continues to put pressure on household finances. However, arrears levels of 0.33% continue to be amongst the lowest in the industry[1], and a third of the industry average.

I am also pleased to report that the number of members using special arrangements under the Mortgage Charter has fallen this year. There are now less than 325 customers making use of a term extension or interest only arrangement, with most who had used these arrangements now repaying capital and interest as normal. Likewise, our teams continue to receive very positive feedback from the borrowers we contact when indicators show them to be at risk of falling into arrears.

The positive approach our lending teams take with members is supported by our ongoing work on Consumer Duty. Although our purpose, culture and values inherently support the aims of this regulation we are not complacent, and this year have taken further steps to manage non-core books and make some adjustments to existing products.

## Delivering value to savers

The performance of our savings business is similar in many ways to the mortgage business I have just described. We have grown savings balances by delivering outstanding value and service to new and existing members, whilst making great progress in digitalising services and improving capacity, convenience, and capability.

Savings balances increased by 3.7% or £1.8 billion (31 December 2023: 12.5%, £5.3 billion), taking our overall savings balance to £49.3 billion. Despite interest rates coming down, which challenges income and margin, we have again increased the savings premium we pay members to £401 million (31 December 2023: £342 million)[2]. This is a record level of member premium, and our ability to do this reflects both our commitment to the benefits of mutuality and the Society's underlying strength.

I talked at the half year point about the progress we are making in digitalising services, and in particular the launch of our mobile app. This has gone from strength to strength, and over 920,000 members are now registered to use either our online services or the app itself.

The 140,000 users of the app have enjoyed new functionality throughout the year, including the ability to open new savings products, and in 2024 135,000 savings members submitted maturity instructions digitally for the first time too. We will continue to enable members to do more for themselves at a time and in a way that suits them, with both voice activation and a new live chat channel adding choice and convenience to our service very soon.

The additional capacity that these digital services provide is key to our efficiency and growth as well as improving choice and convenience. But we continue to invest to ensure that members can speak to us when they need to. They have done so over 3.5 million times in 2024 across our branches and contact centres, and our average time to answer a call across all our operations this year was just 58 seconds. We describe this as 'digital first, human always' and I want to thank my customer-facing colleagues for their warmth and professionalism, which is testament to their skills as well as the Society's purpose and culture.

We know this is particularly valued when members are dealing with more complicated or sensitive issues like bereavement, power of attorney or financial crime. Our investment in colleagues is not simply to give them the skills they need to support members across multiple channels, although this is important in terms of managing peaks of demand and enhancing operational resilience. It is also key to providing the dedicated support members need when dealing with difficult situations and shows why our service is rated so highly. In 2024, our customer-facing Net Promoter Score[3] was +79 on average and peaked at +92 in branches.

## Investing to enhance service, resilience and security

Our investment in customer-facing channels is making a tangible improvement to our members' experience. We are also making significant progress with other aspects of technology investment, enhancing the security and resilience of our operations. The range of programmes we are delivering shows our increasing capability in driving transformational change, something that will become even more relevant with our acquisition of The Co-operative Bank.

We made further progress in the transformation of our financial systems, delivering programmes to automate elements of our regulatory reporting, and introduce a new procurement system. We implemented a new fraud engine, which enhances existing customer protection whilst enabling us to move to same-day payments with confidence. We have decommissioned or upgraded the vast majority of our Windows estate.

The focus of these programmes has been to improve agility or resilience, or both. We have also implemented new IT tools across the Society to improve collaboration between colleagues and are seeing clear benefits of enabling our people to work smarter and more effectively in a hybrid environment.

The investment we are making is significant. In 2024, our capital and revenue investment was £91 million (2023: £92 million). This investment has been a consistent feature of the Society's strategic plan in recent years, and it is extremely encouraging that this long-term thinking is already generating real benefits for members in terms of service stability and service enhancements.

## Investing in our long-term future - The Co-operative Bank

The acquisition of The Co-operative Bank is also an investment in the long-term future of the Society and, following the regulatory approvals received at the end of November, the acquisition completed on 1 January 2025. We firmly believe that this combination of organisations is the right strategic choice that will enable us to meet the expectations of our current and future customers and members over the long term.

These benefits include leveraging the Society's enhanced scale and diversified funding base to deliver greater efficiencies and investment across the combined group, and so maintain the competitive value and superior services our members and customers want, including access to a wider range of products and a large branch network.

Entry to the current account and linked savings market is particularly attractive to the overall proposition. This, together with access to the business banking market offers great potential to enhance member and customer value. We also see great potential in the complementary nature of our brands as well as the financial resilience that comes with diversification and scale.

The work to integrate our two organisations will take time, but the Board and I are excited by the opportunity it presents. Our ambition in bringing together two strongly purpose-led organisations that share a mutual and co-operative heritage is the creation of a genuine alternative to today's banking organisations.

## Supporting our communities

We continue to work closely with our charitable partner, Centrepoint, the charity dedicated to ending youth homelessness, and were delighted to make an additional £1 million donation at the end of the year to partially fund a new independent living programme in Manchester, the home of The Co-operative Bank.

This investment builds on the Society's £1 million annual donation to Centrepoint, which in 2024 saw the creation of a new Youth Hub in Coventry, bringing together youth services under one roof for the first time. Our funding is also being used to support research and deliver emergency support via the national Centrepoint helpline. With Centrepoint already working closely with The Co-operative Bank, we anticipate this partnership only growing in strength.

These donations are just a part of the total £4.5 million we invested in our well-established community investment programmes[4]. There is a clear link between a colleague who cares about delivering the best possible service to members and one who wants to make a difference in the communities we serve. This is borne out by the thousands of volunteering hours that my colleagues put in each year, on both social and environmental projects, and 2024 was no exception. Whether planting trees, painting schools, befriending the vulnerable, or enhancing the life skills and work potential of students, colleagues relish going the extra mile, and our culture and business performance is the better for encouraging these behaviours.

## Engaging our colleagues

Colleague engagement is a real strength of the Society. We measure it through the annual Great Place to Work survey, and in 2024 we again achieved a huge endorsement of the policies and practices by which we attract, develop, lead and encourage colleagues who want to achieve their potential.

In our half year results I was pleased to report that following a successful survey in 2023, we had moved up two places to 11th in the Super Large category of companies that met the Great Place to Work benchmark. The results of our 2024 survey showed that we have increased our overall Trust Index score for the third year running to 83% and putting us well ahead of that Super Large benchmark. This was based on a 90% response rate, showing the level of engagement and credibility we can attach to these results. The icing on the cake was to be named as one of the Fortune 100 Best Companies to Work For in Europe.

Our overall scores are backed by awards recognising our progress and achievements in diversity and inclusion, advocating for and advancing women, our focus on wellbeing and development, and excellence in financial services. There is always more to do but I was very pleased to see continued progress for ethnic minority representation in senior manager roles this year, and we are very close to achieving our gender targets in management and senior management roles too.

I believe this success comes from giving colleagues genuine ownership on these issues whilst proactively supporting their initiatives. We now have eight colleague networks, including a black network, which won the 'best employee resource group' at the 2024 Black Talent awards. More than 200 colleagues attended 'Together Braver' workshops examining diversity and inclusion in the workplace, and we have signed up for the 'Accelerated Progress Programme' designed to improve social mobility in financial services.

Brilliant colleagues, well supported and encouraged, are the key to the brilliant service and products we offer. To achieve the engagement and trust we do in a year of great change at the Society is testament to culture and values instilled over many years, and which are the foundation for our future success.

## A strong and disciplined performance

In 2024, the Society sustained a strong and disciplined performance by delivering to our members' priorities of value, outstanding services, security and making a difference to their world.

In recent years we have increased the Society's financial strength on the back of these clear priorities and delivered the capability to make the transformational acquisition of The Co-operative Bank possible.

In a year of political and economic uncertainty, we have maintained this record and our profit before tax of £323 million (2023: £474 million) is the third highest profit in the Society's 140 year history. It is testament to the Society's ability to sustain strong profitability and capital generation over recent years. Excluding acquisition and integration related costs of £26 million, our underlying profit before tax would be £349 million.

Our leverage ratio increased to 5.7% (31 December 2023: 5.4%) and our Common Equity Tier 1 ratio of 28.0% (31 December 2023: 29.1%) remains well above regulatory requirements. Our Liquidity Coverage Ratio was 207% (31 December 2023: 227%). We will apply the same focus and priority to continue to build capital, which provides the security and reassurance our members and regulators expect, in the years following the acquisition.

## An exciting future

Looking ahead, it is difficult to forecast with any certainty the environment we will face. However, we believe that interest rates will reduce, and this should prove a welcome boost to borrowers and the broader housing market.

Our priority, as always, will be to provide the value, service and security our members and customers expect. This is particularly important as we begin the journey of building a new combined organisation. This process will rely on strong execution and balanced decision-making as we implement our plans and deliver on our commitments to all stakeholders.

I have said many times that the strength of the mutual model is the ability to take decisions in the long-term interests of our members. As we close our 140th year and stand on the threshold of a new era for the Society, this has never been more important.

I would like to thank all my colleagues for their hard work and commitment as we embark on this journey, and of course our members and customers for their continued loyalty and trust.

1. Percentage of mortgages with more than three months of arrears. Source: UK Finance.
2. 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.
3. 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.
4. Total community investment made by the Society has been determined in line with the Business for Societal Impact (B4SI) framework.

# News release

COVENTRY Building Society

## Financial review
## Income Statement
### Overview

The Society has delivered another strong financial performance in what has continued to be a very challenging year with further volatility in both the Bank of England Base Rate expectations and the subsequent market pricing for mortgages and savings products.

The following factors impacted the 2024 financial results:

- Net interest income decreased to £679 million (2023: £767 million). The reduction is due to the impact of mortgage and savings customers repricing onto lower margin products and base rate reductions in the year, offset by growth in our balance sheet.
- Loss on derivatives and hedge accounting of £12 million (2023: £30 million gain) due to the gains seen in previous years beginning to unwind and reflecting mortgage customer behaviour.
- Management expenses have increased by £21 million, driven mainly by inflation across all our activities, along with £8 million relating to the Bank of England levy. As a result of the acquisition, the Society incurred a further £26 million of deal related and preparatory integration costs in 2024.
- Despite the cumulative effect of high interest rates and cost of living pressures, the credit quality of our book remains robust. And, with an improved economic outlook, we have reduced expected credit loss provision by £18 million in the period (2023: £7 million charge).

Taking account of these factors, profit before tax for the year decreased to £323 million (2023: £474 million).

| | 2024 £m | 2023 £m |
|---|---:|---:|
| Interest receivable | **3,293.8** | 2,992.5 |
| Interest payable | **(2,614.5)** | (2,225.3) |
| **Net interest income** | **679.3** | 767.2 |
| Other income & charges | **(3.8)** | (5.2) |
| (Loss) /gain on derivative financial instruments | **(11.7)** | 30.3 |
| **Total income** | **663.8** | 792.3 |
| Management expenses | **(332.7)** | (311.9) |
| Acquisition & integration related costs | **(25.8)** | - |
| Impairment release/ (charge) | **17.6** | (6.9) |
| **Profit before tax** | **322.9** | 473.5 |
| Tax | **(76.2)** | (122.4) |
| **Profit after tax** | **246.7** | 351.1 |

### Net interest income

Net interest income decreased to £679 million (2023: £767 million). The overall decrease in net interest income of £88 million compared to prior year contributed to a reduced net interest margin of 1.07% (2023: 1.26%).

Interest receivable on mortgages and related hedging programmes increased by £280 million, predominantly as a result of higher average mortgage balances and the impact of higher average rates in comparison to the prior period.

We also benefitted from an additional £21 million of interest receivable on liquidity balances as a result of higher average Bank Rate across 2024 than 2023, which has more than offset the lower liquidity balances held.

Interest payable on retail savings increased by £402 million due to increased deposit balances and higher average rates paid on overall balances. Throughout 2024, the Society continued to pay above average savings rates, returning £401 million (2023: £342 million) in member value compared to market average rates[1], whilst continuing to invest in the Society and maintain its long-term resilience. This represents 0.88% above the market average rate.

In addition, the interest payable on our wholesale funding remained broadly stable at £471 million (2023: £484 million).

### Net interest margin

At 1.07%, our net interest margin decreased from the 1.26% reported in 2023, as a result of the movements in net interest income outlined above relative to our average total assets.

We saw a decline in net interest margin to 1.05% in the first half of this year (H1 2023: 1.34%). However, in the second half of 2024, the Society's net interest margin has increased to 1.10% as we consciously balanced our growth and managed margins according to underlying market conditions.

| | 2024 £m | 2023 £m |
|---|---|---|
| Net interest income | **679** | 767 |
| Average total assets | **63,247** | 60,665 |
| | **%** | % |
| Net interest margin | **1.07** | 1.26 |

## 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 loss for the year of £12 million (2023: £30 million gain) predominantly reflects the unwinding of previous gains, as expected due to the nature of hedge accounting.

## Management expenses and acquisition costs

Overall management expenses, including acquisition and integration related costs, depreciation and amortisation, increased by £47 million. The increase in costs was driven by the following factors:

- Deal related and preparatory integration costs of £26 million have been included in respect of the acquisition of The Co-operative Bank.
- £8 million costs in relation to the new Bank of England levy.
- Increase in salary related costs of £7 million (4%) due to a small increase in headcount and wage inflation.
- Increased community spend of £1 million and additional marketing spend.

Our strong financial performance has allowed the Society to continue with its significant investment programme. The total spend on investment, including capital expenditure, of £91 million (2023: £92 million) has been focused on activity to modernise our services, with great progress on our digital roadmap and completion of our new mortgage sales platform. In addition, we continue to make improvements to operational resilience and have further achieved some significant milestones in our finance transformation programme.

The cost to income ratio[2] has increased to 54.0% (2023: 39.4%), reflecting the expected reduction in income relative to our cost base in the year and the impact of one-off acquisition costs. Excluding the acquisition related costs, our underlying cost to income ratio would be 50.1%. We continue to demonstrate effective management of our operating cost base with just a £12 million (4%) increase when excluding the acquisition and integration related costs and the new Bank of England levy.

The underlying cost to mean assets ratio of 0.53% has also increased in 2024 (2023: 0.51%) but it is expected to remain among the lowest in the building society sector. Maintaining our cost efficiency advantage is a key part of the Society's strategy.

## Expected credit losses

The performance of our mortgage book has remained resilient despite interest rates remaining high, ongoing cost of living pressures and the material increases in mortgage costs for borrowers as they refinance from the very low historic rates to market rates.

The Society has updated its economic scenarios reflecting our expectation of lower interest rates and higher house price inflation and the impact on Expected Credit Losses (ECLs) are recognised in the year.

Whilst a deliberately cautious approach to estimating ECLs continues to be applied, the cost of living post model adjustment, introduced in June 2022, has been reduced by £16 million, reflecting resilient credit quality and only a modest increase in arrears levels. The prolonged period of consumer pressures not resulting in the expected levels of borrowers requiring extra help over the period has led to a reduction in the ECL provision of £18 million (2023: increase of £7 million) being recognised.

At the year end, total provisions were £24 million (2023: £43 million), of which £6 million (2023: £24 million) related to post model adjustments (PMAs).

£18 million (2023: £18 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 inflation, 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 that may lead to future difficulties (£2 million). This adjustment has reduced by £16 million in 2024, mainly due to improved economic conditions and a more resilient performance than previously expected. In addition, our ECL models have been enhanced to more accurately predict the impact of cost of living affordability pressures on our customers, resulting in a reduction on this PMA.
- 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 that 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 2024, stage 2 accounts decreased to 10.1% (2023: 14.5%), principally due to the impacts of the cost of living pressures dissipating. 96% of these stage 2 accounts remain up to date with their mortgage payments. 89.2% of the book remains in stage 1 (2023: 85.0%).

As a result of these changes, the ECL provision now equates to 0.05% of the overall mortgage book (2023: 0.08%).

### Taxation

In 2024, the corporation tax charge was £76 million (2023: £122 million), reflecting an effective tax rate of 23.6% (2023: 25.9%). The effective tax rate is lower than the UK statutory corporation tax rate of 25%, due to a higher tax credit in relation to the additional distributions made to holders following the repurchase and new issuance of the Group's AT 1 instrument. The surcharge on banking profits is offset against this credit.

## Balance Sheet

### Overview

Our core trading performance for both mortgages and savings remains strong with a more balanced period of growth across both portfolios in 2024. The Society took a conscious decision to moderate growth during the year as a result of continued economic uncertainty, pressure on mortgage margins and in anticipation of the acquisition of The Co-operative Bank. 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:

| | 2024<br>£m | 2023<br>£m |
|---|---|---|
| **Assets** | | |
| Loans and advances to customers | **51,801.3** | 50,276.1 |
| Liquidity | **10,723.9** | 10,924.3 |
| Other | **1,506.1** | 1,262.3 |
| **Total assets** | **64,031.3** | 62,462.7 |
| | | |
| **Liabilities** | | |
| Retail funding | **49,343.3** | 47,582.3 |
| Wholesale funding | **10,555.9** | 10,845.5 |
| Subordinated liabilities and subscribed capital | **57.0** | 57.0 |
| Other | **447.1** | 738.3 |
| **Total liabilities** | **60,403.3** | 59,223.1 |
| | | |
| **Equity** | | |
| General reserve | **2,754.2** | 2,573.2 |
| Other equity instruments | **665.0** | 415.0 |
| Other | **208.8** | 251.4 |
| **Total equity** | **3,628.0** | 3,239.6 |
| **Total liabilities and equity** | **64,031.3** | 62,462.7 |

## Loans and advances to customers

The Society's 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 2024, we advanced £6.7 billion of mortgages (2023: £7.9 billion) and mortgage balances grew by £1.5 billion (2023: £2.3 billion). Despite our balanced approach to lending in 2024, we outperformed the UK mortgage market with year on year growth in mortgages of 3.0% and our market share remained stable at 3.1%[3] (2023: 3.1%). Our residential balances increased by 4.8%, with our buy to let book remaining stable despite a small market contraction. This growth was complemented by lower levels of redemptions as a result of uncertainty on future base rate reductions.

New lending on owner-occupier homes accounted for 76% of total new lending in 2024 (2023: 81%) at an average LTV of 68.1% (2023: 67.0%). The Society continues to support first time buyers and increased the number of loans advanced in 2024 to 7,100 (2023: 6,300).

Total mortgage assets at 31 December 2024 stood at £51.8 billion (2023: £50.3 billion), which comprised £32.4 billion of owner-occupier loans (2023: £30.9 billion) and £19.4 billion buy to let loans (2023: £19.4 billion). The balance weighted indexed LTV of the mortgage book at 31 December 2024 reduced slightly to 53.5%[4] (2023: 53.8%) when compared to prior year as a result of house price growth.

Possessions and forbearance remained low, with 36 cases in possession at the year end (2023: 25) and forbearance levels having decreased by 4% year on year in value terms and 10% in number of cases.

Whilst the impact of the cost of living challenges is less than previously expected, around a third of mortgage customers are still likely to be impacted by a future rate shock as they mature onto higher rate products. The Society continues to focus on supporting its members and remains cautious in estimating expected credit losses.

At 31 December 2024, only 0.33% 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 2023: 0.26%), the low actual number of cases more than three months in arrears of 1,045 (31 December 2023: 843) 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 similar increase in arrears but from a very low base.

## Liquidity

Liquid assets has remained broadly stable at £10.7 billion (2023: £10.9 billion) as we maintained a prudent liquidity buffer, demonstrated by our Liquidity Coverage Ratio (LCR) remaining strong at 207% (2023: 227%), 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 96% of the portfolio rated Aaa–Aa3 (2023: 94%). 99% of liquid assets are held in UK sovereign or UK financial institutions (2023: 96%).

Included in liquid assets are £0.5 billion of assets held at fair value through other comprehensive income (FVOCI). As at 31 December 2024, the balance on the FVOCI reserve was a £0.7 million loss, net of tax (2023: £1.3 million gain, net of tax).

Liquid assets reduced due to the transfer of funds (into other assets) to independent paying agents in readiness for the Bank purchase completion on 1 January 2025.

## Retail funding

The Society continues to be predominately funded by retail savings, with balances increasing in the year by £1.8 billion to £49.3 billion (2023: £47.6 billion), representing growth of 3.7%, compared with market growth of 5.8%. The Society’s overall savings market share is 2.7%[3] (2023: 2.7%).

The Society continued to support the cash ISA market, with our market share of 6.1%[3] broadly unchanged from prior year (2023: 6.5%). 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.

## 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 has remained broadly stable at £10.6 billion (2023: £10.8 billion). The Society successfully completed five issuances during the year, comprising a £500 million senior non-preferred in March, £500 million residential mortgage backed securities (RMBS) issued in July, €500 million covered bond and €500 million senior unsecured in October, and a £250 million repo in November.

As a result of our wholesale issuances and growth in retail deposits the Society has reduced the outstanding central bank Term Funding (TFSME) balance to £2.0 billion at 31 December 2024 (2023: £3.5 billion).

## Equity

The Society's equity is predominantly made up of 140 years of retained profits in the general reserve and Additional Tier 1 (AT 1) capital.

In June 2024, the Society completed a highly successful and oversubscribed £665 million issuance of AT 1 capital. This instrument has a first call date in 2029. At the same time, a tender for the existing 2019 AT 1 instrument was made, resulting in the repurchase of the £415 million existing AT 1 capital balance.

The Society made post-tax profits of £247 million in the year and total equity increased by £388 million to £3.6 billion, inclusive of a £51 million distribution to AT 1 capital holders and a £41 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 deficit of £5 million at the end of 2024 (2023: £4 million surplus). These assets and liabilities are impacted by market movements and the change in the year has been driven by fluctuations in the UK corporate bond market. 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 table below provides a summary of the Society's capital resources and CRD V ratios on an end-point basis (i.e. assuming all CRD V requirements were in force in full with no transitional provisions permitted).

### Leverage

We are not currently bound by regulatory leverage ratios, which measure Tier 1 capital against total exposures, including off-balance sheet items. The UK leverage ratio framework is expected to apply to the Society at the point retail deposits exceed £50 billion at its annual reporting date.

The Society's UK leverage ratio increased to 5.7% (2023: 5.4%) due to the increase in retained profits and the additional AT 1 issuance in June 2024, and remains above the current regulatory expectation of 3.25% minima.

### Capital

The capital ratios include additional risk weighted assets (RWAs) held for regulatory changes that are currently not reflected in the IRB models, as previously disclosed within the 2023 Annual Report & Accounts. The Society has submitted updated models to the PRA but has yet to receive approval for changes to its calculation of RWAs. When approval is granted, the final model output may vary from those calculated, impacting the capital ratios, effectively bringing forward some of the effect of increasing RWAs envisaged in Basel 3.1.

The increase in capital as a result of retained profits in the period has been offset by an increase of RWAs of 9.9%, resulting in a reduced CET 1 ratio of 28.0% at 31 December 2024. The reduction in CET 1 is due to an increase in balances, slightly higher loan to value lending, as well as an additional £725 million being held with independent paying agents in readiness for the Bank acquisition of The Co-operative Bank. Our CET 1 ratio remains significantly ahead of the Total Capital Requirement for the Society, which was 10.6% of RWAs at 31 December 2024.

The PRA have delayed the Basel 3.1 implementation until 1 January 2027. A reduced, three year transition period for the RWA output floor will commence, retaining full implementation by 1 January 2030. The phasing in of the floors will reduce the Group's reported CET 1 ratio, as they do not give full credit for the Group's very low risk mortgage book.

Applying the Basel 3.1 RWA provisions to the 31 December 2024 figures on a full transition basis would result in a CET 1 ratio of approximately 24.5%, however given the phase in we do not expect a material short term impact. The long-term projected reduction in reported CET 1 measures has been included within the Group's financial plans, ensuring we remain safe and secure. The capital disclosures are on a Group basis, including all subsidiary entities.

| | **End-point 31 Dec 2024 £m** | End-point 31 Dec 2023 £m |
|---|---|---|
| **Capital resources:** | | |
| Common Equity Tier 1 (CET 1) capital | **2,615.5** | 2,475.5 |
| Total Tier 1 capital | **3,280.5** | 2,890.5 |
| Total capital | **3,320.5** | 2,890.5 |
| Risk weighted assets | **9,340.4** | 8,499.1 |
| | | |
| **Capital and leverage ratios:** | **%** | % |
| Common Equity Tier 1 (CET 1) ratio | **28.0** | 29.1 |
| Leverage ratio including central bank reserves and full AT1 capital amount | **5.2** | 4.6 |
| UK leverage ratio[6] | **5.7** | 5.4 |

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.