Coventry Building Society – year end results 2023

Sarb
Hello and thank you for joining us for Coventry Building Society's 2023 year-end results.
My name is Sarb and I'm from our Treasury Department.
With me today I have Steve Hughes, our Chief Executive Officer.

Steve
Hello, Sarb.

Sarb
Lucy Becque, our Chief People Officer.

Lucy
Hi, Sarb.

Sarb
Lee Raybould, our Chief Financial Officer.

Lee
Hi, Sarb.

Sarb
What a great set of results. You must be proud. Can you talk us through some of your highlights, Steve?

Steve
Yes, Sarb. It's been quite a year.

One of the biggest debates we have is how do we describe our results?

And I do think balanced and strong are a fair reflection of the results. We run our business on a balanced scorecard.

I'm immensely proud of what's been delivered in the year and what our colleagues have delivered.

We've delivered significant value to members, underpinned by phenomenal service. Our profitability has been strong.

Our growth has outperformed the market.

And we've invested for the future and successfully delivered on some really sizeable transformation initiatives. And that's been underpinned by a really, really engaged colleague base. So, absolutely immensely proud of what the team have delivered. And I think it gives us a really strong footing and foundation for the future.

Sarb
You mentioned strong performance. Profit before tax was the highest reported in the Society's almost 140-year history. It's a really strong profit performance.

Steve
And clearly, we have benefitted from the tailwinds of a rising rate environment. But actually, that still requires a real focus and discipline. We repriced our mortgage range 36 times in the year. And our savings range 35 times in the year. So, I think that underpins a strong profit performance. And look, our members tell us that safety and security and resilience is important. And we do that through a strong profit performance that is added to our capital base. And look, our growth has been strong. £2.3 billion pound of mortgage growth in a subdued market. We've outperformed the market there. £5.3 billion of savings growth. That clearly demonstrates the strength and health of our franchise. And that's been underpinned by some really, really great products, great value products for our members. We've rewarded loyalty. But I do think we've balanced that with the right commercial decision-making as well. And I think that's reflected in the overall performance. Our book, whilst there's been a slight uptick in the riggers from a very low base, continues to perform well and is one of the strongest performing books in the marketplace. So, I think a financial performance that has added the capital, built resilience and created optionality for the future.

Sarb
Future success is naturally underpinned by investment in future capability. How is the Society ensuring it remains relevant both now and into the future?

Steve
It's a great question, Sarb. Our responsibility, once we're responsible for writing one, two, maybe three chapters in the organisation’s history, we're 140 years old this year.

It's really, really important that we build an organisation that is fit not just for existing members, but for the members of the future. Now, I talked about the importance of profitability and capital. And that's what gives us the headroom and the capability to invest. And we have invested, but we've also delivered.

We've had a really successful year with some really ambitious programs. Launching our first ever app in the organisation's history. Digitising our mortgage origination processes. Transforming our finance systems in the year and investing heavily in resilience.

And in our technical architecture to allow that to be fit for the future. So, immensely proud of what we've delivered. And I think it really gives us a really strong platform for the future.

Sarb
Key to the brilliant service and products we offer is our people.
Now, how do you as a CEO ensure the engagement is maintained across all levels throughout the organisation?

Steve
Look, I think one of the jobs of the CEO is to be chief encouragement officer. I think engagement is actually given from the leadership within the organisation.

There's no doubt that I have a role to play, but our brilliant engagement and trust within the organisation is delivered by our leaders, who lead the teams day in, day out.

I'm immensely proud of a trust index of 81, which clearly puts us in the best performing super large companies. And it's great to get that recognition and that accolade.

I'm a big believer in engagement and context setting for our teams. I'm a big believer that people should understand the role that they play individually and collectively in driving the performance and strategy of the organisation. I'm a big believer in leading by walking around.

And I think some of the things we've done to get leaders to sit with their teams. It's a signature action, but it's also important in terms of visibility. And I think we invest a lot as an organisation in talk back sessions, coffee mornings. We've got something called the big picture, big discussion, where we try to engage with the whole of the organisation. And let's not forget the visits to branches and to our contact centre, where really these are the colleagues that sort of work with our members and our customers day in, day out. So it's really important for us. I do believe our people are our greatest asset. And I think our engagement underpins the performance we've already discussed.

Sarb
And communities. The Society comments a new charitable partnership with Centrepoint. Can you tell us more about that, Steve?

Steve
Look, it's really, really important for us that we're clear on our social purpose, because we do exist for more than profit. You think back 140 years to a group of savers pooling their money to help people onto the housing ladder, right? To have a home. So when we started conversations with Centrepoint, a vision and an ambition to end youth homelessness in the UK just felt something that we as an organisation could connect with. That was aligned to our mutual ethos. And maybe how we were established as a business all those years ago. And I think we've clearly seen that in the first year of the partnership. And we've got some real ambitious plans ahead. But our community investment is not limited to Centrepoint. We've done a lot of work in our local communities with food banks, with schools, with youth hubs. And that's all about Coventry Building Society doing its bit to support our communities in what has been a pretty challenging time. So, yeah, really proud again of what the organisation and my colleagues have delivered. And I think there's more to come.

Sarb
Steve, before asking you to go through the financials in more detail, I can't resist asking about the potential acquisition of The Co-operative Bank. Can you tell us where you are in the process?

Steve
I knew you'd ask me that.

Look, we've disclosed to the market, Sarb, that we're in a period of, you know, exclusivity in terms of due diligence. And that is ongoing at the moment.

And, you know, we've been clear that, you know, whilst there is no guarantee that a transaction will happen, if we were to do it, we would only do that if we felt it was in the right long-term interest of both existing and future members. And at this stage, you know, that's all I'm going to say, but, you know, due diligence is ongoing. And, look, you know, this has to be right for the membership of the organisation.

Sarb
Steve touched on the Society's strategic conditions and financial strength. Lee, perhaps you could talk us through the Society's financial performance over the last 12 months and what you're particularly proud of.

Lee
Yeah, sure. I mean, Steve's referenced already it's been a really strong year. I think that's fair to say. Profit is up considerably. It's up 28% to £474 million.

And a lot of that, I think, has been driven by income. So a net interest margin has risen to 126 basis points. Steve's referenced again the tailwinds of a rising rate environment.

And I think that's certainly very true.

I think what I'd add, though, is that we've had a very deliberate strategy through the year to ensure that we give back as much value as we can to savers. We've had some fantastic propositions out there for savers. We've really focused on loyalty in that respect.

And we worked really hard to try and protect borrowers who, through 14 consecutive increases in base rate, clearly have seen a very substantial increase in mortgage payments. So we've tried to minimise that really as much as we could.

So I think we're really, really pleased with the way the year has gone. And that profitability has really enabled us to strengthen the capital position of the Society. So we've seen leverage increase from 5.2 to 5.4%. And the CET 1 ratio is just short of 30% at 29.1%. And that makes us more resilient and provides optionality for us as we move forward.

Sarb
You mentioned resilience. How has increased profitability been reinvested back into the Society?

Lee
Yeah, I think Steve touched on this a little bit, Sarb. I mean, the strong profitability is an underpin for the level of investment that we can make into the Society. So in that context, it's really important.

I think there's been a consistency with what we've been doing. We've invested £92 million across 2023, a similar level to the previous year. But it's significant, I think. Steve's touched on where that investment has gone, a new mortgage platform, a digitisation on the savings side, an app in the hands of members, a huge moment, I think, for the Society in its history, as well as really investing in the core operational and financial resilience, which may be a bit boring. But what that gives us is a stability to the provision of services for members, which is super important, I think.

Importantly, from a CFO perspective, I think that investment now is starting to pay dividends. I mean, we've seen record levels of activity flow through the Society in 2023.

Our mortgage book over three years is up 16%. Our savings book is up 25%.

You know, we've taken about a third more calls into call centres. At the very same time, we've halved the average wait time.

You don't do that without some concerted investment in key capabilities, which is what we've been doing. I think pleasingly for me, it's continuing to allow us to grow the Society, scale the Society, while making sure that what we're doing is sustainable and resilient, and that members can have, you know, confidence and trust in the services that we're providing.

Sarb
Keeping with the theme of performance. Perhaps we could turn to mortgages and savings now.

Lee
Yeah, I mean, our trading performance, I think, has been very strong. It's underpinned our broader financial performance, I think. Steve's mentioned that we've seen mortgages grow by, you know, almost 5% at £2.3 billion in the year. We've probably seen a slightly different mix this year because the buy to let market has been quite challenged, I think, by significantly higher interest rates. So we're kind of 80-20 in terms of our lending mix across owner-occupied and buy to let. But given the market was largely flat, we're certainly really pleased with our performance, which, as I've already mentioned, I think, is underpinned by a really kind of consistent value-based proposition, which is really important as rates have gone so much higher, but also a really, really strong service performance, which I think really kind of flows through a lot of what we do across the Society, but underpins performance in my view. And then on the savings side, I think we've already touched on that.

Our savings balances have grown 12.5% in a single year, more than £5 billion.

And I would say we had two or three things in our mind because that was a very deliberate strategy on our part. We were determined to pass more value back to savers, particularly as we knew that we would see improving profitability. And our member premium is up 48% period on period and is also at the highest level ever for the Society. So we're feeling good about that. Equally, we've got some TFSME repayments to make. We've got ahead of the contractual payments for that. But importantly, we're also pre-funded pretty well for the repayments that we need to make in the period ahead. So we were thinking about the kind of core financial strategy as well in that regard. So I think that probably outlines where we are from an overall trading perspective. On the credit side, which I know people will be interested in, I think Steve's touched on this already. I mean, we continue as an institution to be very focused on low risk residential lending. That is the heritage of the Society. And that's where we continue to focus.

We've got an average LTV on the book, which has gone up very marginally. It's now at 53.8%.

Importantly, we've only got around £2 billion of lending that sits at 85% LTV or above. So from an asset coverage perspective, I think we're in a good place.

Inevitably, with 14 consecutive rises, it's unsurprising that some borrowers have found it difficult to kind of meet the rising payments. We've been very proactive in reaching out to borrowers that we thought may need some help. I think they've really appreciated that proactivity. And I think take confidence that we're willing to talk to them about that. And we're here to support them, which we are.

The reality is that not many borrowers have actually wanted additional support. But I think, as I say, they've taken comfort from the fact that we're here.

And that means that we have seen a small tick up, as Steve said, in arrears. We're up to 0.26%.

What I would say is that that is still less than a third of the industry average. So the quality of our book, I think, is being seen through this kind of more difficult period.

Now, notwithstanding that, if I just come to provisioning, because I think it's right that I comment on that, we have consistently, I think, taken quite a cautious approach to provisioning. I think that's in our DNA, if I'm really honest. So despite the fact that we've seen only a very modest tick up in arrears, we've decided to put another 7 million pounds worth of provision aside. It takes total provisions to £48 million. That's a coverage ratio of about eight basis points. And I think positions us really quite prudently into 2024 and whatever that might bring.

People will see in the disclosure, it's quite hard, given the LTV of the book, for us to make provisions.

So what you will see is that there is a movement up in stage two assets to around 15%.

What I would say, though, is that the vast, vast majority of those accounts are up to date, hence what I've already said in terms of arrears. So we feel that's the right thing to do at this point in the cycle, but think we're prudently provisioned for the period ahead.

Sarb
Lee, finally, are you able to comment on the earnings outlook for 2024?

Lee
Yeah, look, it's a good question and very much on our mind. As you well know, the earnings outlook will, at least to some degree, be dependent upon the future path of interest rate movements.

I think what I can say is that in all probability, I think our NIM has peaked. I think it peaked at the end of half one 2023.

In the second half of the year, I think we've seen the effects of mortgage and savings re-pricing. So the NIM has moved a little lower in the second half of the year. And I'd broadly expect that trajectory, I think, to continue into 2024.

And in that sense, I'd probably guide that earnings will likely be a little lower. But as I say, it really does depend upon the interest rate outlook. And I think the only other thing that I've already touched on, but probably is relevant in respect of earnings outlook, is what happens to credit.

And as I said, I think we're prudently provided for, so we'll see what 2024 brings. But I'd be surprised, I think, if there were any adverse news in terms of the kind of credit story for Coventry.

Sarb
So Lee has talked us through financial performance and capital strength. But what about why does support for our colleagues and communities we serve? One for you, Lucy.

Lucy
Yeah, no problem, Sarb.

So Steve touched a little bit on trust and engagement. There is no doubt in my mind that the success of the organisation, the growth, a really strong purpose is what underpins that engagement. And we were thrilled to see 81% this year.

We, of course, as a growing business have welcomed a number of new colleagues. That's been more than 500 during the course of the year. But actually, it's really important once people arrive with us that we build a meaningful career. One of the ambitions that we set through our alignment with the UN Sustainable Development Goals is for more than half of our senior manager and above roles to be filled internally. And we exceeded that ambition in 2023. We've worked really hard on D&I. We're very well supported by colleagues through our D&I think tank and D&I council. They help us shape the agenda. They also help us make sure that we track the progress so that we know we're achieving what we need to achieve. We've got some brilliant colleague networks around the Society. So be that black network, rainbow carers, Asian network, menopause, all sorts. They do a fabulous job in raising awareness in education. But I suppose for me, particularly in creating a sense of belonging for everybody at the Society.

We've had some brilliant success in apprenticeships. So again, as part of our UN SDG commitments, we said that we'd like 250 new apprenticeships by 2025. We're firmly on track for that.

They do a brilliant job of helping people realise their potential. They help us create the skills and capabilities for the future, be that in cyber, in software development. They help make sure that we maintain the excellence in mortgage advice, in finance. And one of the things for me that particularly stands out, that I think is almost unique to apprenticeships, is that they have brilliant social mobility. So they fulfil that really important ambition for us as well.

You heard a little bit from Steve and then from Lee about investments. And I can promise we've put that to good use for colleagues, too, particularly thinking about well-being, whether that's through support for men's health, for menopause, for fertility, for counselling services. It really is a very long list. But one thing we did slightly differently in 2023 was to think particularly about financial resilience. And we made an investment to support colleagues through a savings habit because we know how important that is as part of financial health.

Sarb
And how about communities? What are the highlights for 2023?

Lucy
Well, back in 2022, to recognise cost of living challenges, we increased our funding into the community by £1 million.

I'm really pleased in 2023, we sustained that heightened level of funding because we recognised that a number of those challenges absolutely persist.

Steve talked about our new corporate partnership with Centrepoint. Our ambition was for £1 million pounds worth of funding to go over each year. And we've achieved that in 2023. And that is funding everything from prevention. So how do we spot the early signs of children who might be at risk of homelessness and step in? We're funding a national helpline. We're funding a brand new youth centre that will open in 2024 right here in the city of Coventry. So a real breadth of impact through Centrepoint.

We've continued to work with schools in the city to build great foundations through numeracy and literacy and to build better futures through really helping to try and build aspirations.

And I suppose linked to that, if I think about a particular standout for me, it would be our internship program. So it's a period of paid six weeks work experience, typically undertaken by 17, 18 year olds. In 2023, we saw more than half of the places on that program taken by children from the schools that we partner with. Now, those schools are in some of the most disadvantaged wards in Coventry. So actually that paid period of work experience that is paid at the same level as any entry level colleague. And what that gives them from a CV and exposure to a corporate environment is absolutely transformational. So that's a particular standout for me.
And final element is we have a real focus on building connections within our communities. And this is where the branch network absolutely come into their own. They're at the heart of their communities. And we know all too often, particularly with elderly people, there's a real isolation of vulnerability. So we're working really hard to combat that, to try and find ways through the branch network that we can identify, and we can really bring people together.

Sarb
Sounds great, Lucy. You also lead on ESG for the Society. And I've covered colleague and community perspectives. But what about the environmental aspects of ESG?

Lucy
Yeah, I'll go into the environment in more detail. Before I do that, though, I've got to at least make mention of us achieving B Corp status in 2023. That felt like such a significant milestone to be the first UK building society to do that. We know it's a leading standard. So to have assessed all of our operations through that lens and to gain the accreditation was fantastic.

Specifically in relation to the environment, look, we recognise that we play an important part of the puzzle alongside governments, energy providers, our suppliers, consumers. So how is it we fulfill our role?

We have a Net Zero transition plan. It's really important that we keep working on that because that helps us to look at our overall ambitions and track our progress. In 2023, in particular, we have made material progress in our own operations. So we've seen an 18 percent reduction in scope one and two. In 2024, we'll be aligning to a science based target for that. So committing to that publicly.

We have also worked with consumers so that they can better understand their own property. So whether that's looking at an energy calculator that sits on our website is also available to intermediaries to really understand the footprint of your own home. We've provided further advances to existing members to look at making sustainability improvements to their properties. I touched a little bit on suppliers. We've achieved ISO 2400 for procurement because we know how important it is that through our supply chain, we also think about sustainability.

And we've made really material progress in our reporting. So you'll see everything captured, the data as well as the stories that really bring it to life through our sustainability report that gets published in March.

Sarb
Great. Thanks, Lucy. Lots of exciting things to look forward to in 2024. Watch this space.

Steve, over to you to provide final thoughts for 2023, please.

Steve
Yeah, thanks. I'll probably end where I started. A strong performance, but across a breadth of areas, right, you know, in terms of £342 million of value to members, industry leading service, you know, market leading growth and a really strong financial performance that gives us sort of capital resilience and optionality for the future.

We've invested in our business, which I think builds us a platform that is more resilient, more scalable and will be more relevant to existing and future members. And all of that underpinned by a colleague base that is delivered, is engaged and, you know, has a high degree of trust in the organisation. And also makes a real difference in our community. So, yeah, immensely proud and, you know, really looking forward to 2024 and what lies ahead.

Sarb
Excellent. Well, thank you all for your time. Thank you for listening. And we hope to see some of you soon in the coming weeks. Take care.