RNS Final Results

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COVENTRY BUILDING SOCIETY

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COVENTRY BUILDING SOCIETY REPORTS 2019 RESULTS

Coventry Building Society has today announced its results for the year ended 31 December 2019. Highlights include:

- **Providing value to members:** Our average savings rate in 2019 was 1.49% compared with a market average of 0.84%. This represents value returned to members of £228 million[1] (2018: £227 million).
- **Delivering growth in mortgages:** Mortgage assets increased by £3.0 billion to £42.2 billion, representing growth of 8%, more than twice the rate of the market[2].
- **Delivering growth in savings:** Savings deposit balances grew by £2.9 billion to £36.2 billion, representing growth of 9%, more than twice the rate of the market[2].
- **Providing excellent service:** We work hard to sustain and improve the service we provide to members. We measure this using the common metric of Net Promoter Score[3] and in 2019 we maintained a very high score of +74 (2018: +75), representing a strong endorsement from our members.
- **Being safe and secure:** We are a low risk lender, which protects both individual borrowers and the Society. During the year, mortgage arrears fell and were only an eighth of the industry average[4].
- **Maintaining capital strength:** Common Equity Tier 1 ratio remained strong at 32% which is amongst the highest in the sector. Leverage ratio was also maintained at over 4%.
- **Spending money carefully:** Our cost to mean assets ratio of 0.48%[5] (2018: 0.50%) remains one of the lowest in the sector. During 2019 we have continued our strategic investment programmes which improve our technology infrastructure and branch network. Our operational cost to mean assets ratio, which does not include change and depreciation, was 0.31%[6] (2018: 0.32%).
- **Leading colleague engagement:** Excellent service is delivered by our colleagues, who are proud to Put Members First. We have recently been ranked second in The Sunday Times 25 Best Big Companies to Work For list.
- **Supporting local communities:** In 2019, 82% of colleagues were actively involved in volunteering, fundraising or raising awareness for local charities and community groups.

Commenting, Mark Parsons, Coventry Building Society Chief Executive said:

This is my last review before retiring as Chief Executive of the Society. I feel privileged and proud to have led an organisation that is different, and that makes a difference.

Throughout the last five years, we have maintained our mission of Putting Members First and pursued this through a consistent strategy. We have assessed our performance against that strategy through a balanced scorecard with no single component more important than another, and we have set ourselves ambitious goals.

It is against this scorecard that I am pleased to report further good results for 2019. We are a growing business, with more members joining us than leaving. In 2019, we grew well above the market as a whole again. We grew our mortgage balances by 8% (2018: 9%), compared with market growth of 3%[2], and our savings balances by 9% (2018: 7%) against market growth of 4%[2].

Growth in mortgages was achieved in a highly competitive market, with borrowers actively switching at the end of fixed rate deals. Across the market this has led to borrowers moving from higher margin deals written two or more years ago to lower rates. In addition, there continues to be a move from higher margin Standard Variable Rates (SVR). These factors result in a continuation of the squeeze in overall margin seen in recent years. We benefit from high levels of retention, reflecting our proposition which includes making all products available to all customers, high levels of borrower and broker satisfaction, and the fact that we have a low proportion of borrowers on SVR.

This mortgage margin squeeze and low base rate have seen savings providers lowering rates still further through 2019. Against this background our average savings rate was 1.49% (2018: 1.50%), significantly above the market average rate of 0.84%[1] (2018: 0.78%). As a result our savings members received £228 millon[1] (2018: £227 million) more interest than they would have received at average market rates.

Delivering superior value is only part of our commitment of Putting Members First. We believe it has to be underpinned by excellent service and simple, transparent products that deliver good outcomes for all our members.

In 2019, we continued to receive external recognition for both our mortgages and savings products, with Fairer Finance ranking us number one for savings for the fourth year running, being rated highest for transparency as part of this. We were also one of only three providers to be recognised by Which? as a Recommended Provider for Mortgages.

Our overall Experience Net Promoter Score[3] at +74 remained very high. At the same time, our Relationship Net Promoter Score, which reflects wider perception of our brand and propositions, reached its highest ever level and is among the very best of our peers. Furthermore, in 2019, fewer complaints were referred to the Financial Ombudsman Service and 97% of these cases were found in our favour, indicating that we had treated our member's complaints fairly. This position is among the very best in the sector[7].

A key part of our strategy is investing in our future to deliver the savings and mortgage products our members will need. In 2019, we saw further growth in savings on the Hargreaves Lansdown platform after launching the first easy access product on the platform.

Reflecting both member feedback and our belief in promoting a savings habit, we launched a Regular Saver product this year with account openings exceeding expectations. We took an important strategic step in simplifying our product range by streamlining our MoneyManager offering and withdrawing overdrafts and debit cards, removing the substantial cost and regulatory overhead associated with the current account market.

We have a number of significant investment programmes in place to upgrade our core technology platform, enhance our infrastructure resilience and redesign our branch network. These are complex programmes which have to be managed well to deliver them safely. I am delighted that we are successfully delivering our branch redesign programme in line with expectations, refurbishing 27% of our branch network in 2019 to excellent feedback from members and colleagues alike. We have delivered a number of upgrades that enhance our security and IT resilience and we expect to substantially complete our data centre programme next year. However, progress on this and some other IT investment initiatives has been slower than we planned and we are continuing to enhance our delivery capability, balancing speed, risk and cost.

Reflecting this investment, our total management expense ratio was 0.48%[5], slightly below the 2018 ratio of 0.50%. Our operational run cost ratio[6], which excludes both change costs and depreciation, was 0.31%, also lower than in 2018 (0.32%). These ratios demonstrate both the scale of the investment we are making in the future of the business and our commitment to spend our members' money carefully, which in turn enables us to provide the superior rates to members I described earlier.

Our financial strategy is focused on being low risk, with strong capital and low costs, while paying the best rates to members that we can afford. The average indexed loan to value[8] of our mortgages of 55% continues to be well below the market average and our mortgage arrears at 0.08% of total balances are one eighth of the industry average[4].

Our liquidity has remained strong throughout the year with a Liquidity Coverage Ratio of 214% at the 2019 year end (2018: 202%). In 2019, we delivered profit before tax of £147 million which was 27% down on 2018 (£202 million). This reflected a one-off gain on sale of some mortgage assets in 2018, the squeeze on net interest margin and the impact of volatility in the financial markets on the fair value of financial instruments used to manage interest risk exposures.

Despite this fall we have maintained our capital ratios in line with our financial strategy.

In December 2019, we announced that we needed to correct a part of our capital calculation. This was disappointing and we are taking steps to improve our internal controls and systems to prevent something like this happening again. Despite this, our core risk based capital ratio (CET 1) remains amongst the highest reported in the UK at 32.0% (2018: 33.9%)[9]. Our capital strength is a fundamental part of being safe and secure and we are one of the most highly capitalised financial institutions in the UK.

As I said at the start, this is my last review as Chief Executive and I would like to finish by reflecting on the last five years.

Over this time, the Society has repeatedly grown two to three times faster than the market, becoming the second largest building society along the way. This has happened because we have a track record of providing good pricing to members, supported by a low cost of operating which is consistently the best in the sector, and very high and increasing customer satisfaction.

This in turn has been underpinned by our principles of being simple and transparent. We have remained a low risk lender with strong risk weighted capital. This approach stands us in good stead whatever happens in our markets. Finally, we have consistently supported our wider society, with four out of five of my colleagues actively engaged with charitable and community causes. All of these have been strategically deliberate outcomes.

Critically, these outcomes have been delivered by my colleagues across the Society, who now number over 2,600. It is their passion, their commitment, their energy and their belief in Putting Members First that makes us different and makes the difference. We are a people business and I am delighted to announce we have recently been ranked second in The Sunday Times 25 Best Big Companies to Work For list. With this level of colleague engagement I know the Society is in very good hands for the future.

I am delighted to be passing on the reins of this special organisation to Steve Hughes and wish him the very best. I thank our strong Board for the support they have provided me. Above all, I thank each and every one of my colleagues for their continued commitment to Putting our Members First.

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1. The Society's average month end savings rate compared with the Bank of England average rate for household interest-bearing deposits on the Society's mix of products.

2. Source: Bank of England.

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. Source: PRA - latest available information September 2019. Percentage of mortgages in arrears by 2.5% or more.

5. Administrative expenses, depreciation and amortisation/Average total assets.

6. Administrative expenses less change costs, depreciation and amortisation/Average total assets.

7. Source: Financial Ombudsman Service latest available information 1 January 2019 to 30 June 2019.

8. Indexed loan to value weighted by balance.

9. 2018 RWA numbers and CET 1 ratio have been restated. More information is in the Financial Review below.

Financial Review

We seek to retain only the profit the Society needs to maintain our capital ratios, whilst investing to improve services and providing favourable pricing for members. In 2019, we delivered on this goal, growing mortgage and savings balances ahead of the overall UK market and investing in the future of the business.

Although, profit before tax has fallen to £147 million (2018: £202 million), reflecting two one-off items[1] and a continuation of falling mortgage market prices, we have maintained a strong capital position. Despite tighter mortgage margins we returned £228 million of value to savings members[2], in line with the £227 million we returned in 2018, with average member savings rates 65 basis points above the market average.

We continued to invest in the business, spending £52 million on strategic change initiatives during the year (2018: £54 million). This kept our cost to mean assets ratio elevated at 0.48%[3] (2018: 0.50%), whilst our operational run cost ratio (excluding change, depreciation and amortisation costs) of 0.31%[4] (2018: 0.32%) demonstrates our commitment to maintaining a cost operating model amongst the lowest in the industry.

Income statement

Overview

This year, profits have fallen as a result of two one-off items[1], a reduction in margin as a result of a continued drop in mortgage market pricing, combined with our strategy of paying the best possible interest rates to members. As a result, we have seen a decline in net interest income and an increase in costs as we continued to invest to improve our services.

After taxation and costs related to refinancing and servicing our AT 1 capital instrument, we added £85 million (2018: £138 million) to the general reserve. This was sufficient to allow us to maintain our strong capital position and we expect our risk adjusted capital ratio (Common Equity Tier 1) to be one of the strongest in the industry at 32.0% (2018: 33.9%[5]).

	2019 £m	2018 £m
Interest receivable	**1,010.5**	976.3
Interest payable	**(613.8)**	(550.5)
Net interest income	**396.7**	425.8
Other income	**0.1**	(1.2)
Losses on derivatives and hedge accounting	**(17.2)**	(0.3)
Total income	**379.6**	424.3
Management expenses	**(229.1)**	(221.7)
Impairment (charge)/credit	**(2.1)**	0.4
Provisions	**-**	-
Charitable donation to Poppy Appeal	**(1.2)**	(1.4)
Profit before tax	**147.2**	201.6
Tax[1]	**(25.5)**	(38.6)
Profit for the year[1]	**121.7**	163.0

1. 2018 Tax and Profit for the year have been restated following changes to IAS 12.

Net interest income

Net interest income has decreased to £397 million (2018: £426 million). Interest received in 2018 included a one-off gain of £15 million relating to the sale of a £351 million buy to let loan portfolio. Excluding this, interest receivable on assets grew more slowly than asset balances reflecting higher margin mortgages transferring onto lower margin fixed rate deals as market pricing continues to fall and as members continue to move away from Standard Variable Rate (SVR) mortgages. The Society's exposure to future reductions in SVR income is limited as only 2.0% of its mortgage book is currently on SVR (2018: 3.0%). In addition, the liquidity book was increased to protect against Brexit uncertainty and these assets earn comparatively low levels of interest.

Interest payable increased by more than the growth in the retail and wholesale funding balances reflecting the Society's commitment to pay the highest rates it can afford together with a move in the wholesale funding mix towards more stable, but more expensive, long term funding.

Net interest margin

Net interest margin has decreased by 13 basis points to 0.83% with three basis points of the reduction relating to the portfolio sale in 2018. The remaining reduction reflects the impacts of market pricing and holding additional liquidity ahead of Brexit uncertainty as discussed above. This margin has been sufficient to fund expenditure and support capital.

	2019 £m	2018 £m
Net interest income	**397**	426
Average total assets	**47,801**	44,322
	%	%
Net interest margin	**0.83**	0.96

Our comparatively low net interest margin demonstrates our ability to realise value from our strategy to be both low risk and low cost, whilst paying above market rates to members. We do not believe that our net interest margin will reduce significantly in 2020.

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 mortgage and savings activity and from non-sterling, fixed rate wholesale funding. During 2019, there has been considerable market volatility impacting swap valuations. Whilst the Society's derivative financial instruments have remained effective in economically hedging risks as they were designed to do, hedge accounting relief has not been fully obtained, creating accounting volatility. As a result, losses of £17 million have been recognised in the year (2018: £0.3 million loss).

These losses represent timing differences and are expected to reverse over the remaining life of the derivatives and do not reflect the economic reality of the hedge.

Management expenses

Our strategic investment programmes continued to progress during 2019 and overall management expenses have increased by £7 million or 3%, well below the 8% growth in the Society's assets, resulting in a reduction in our cost to mean assets ratio to 0.48%[3] (2018: 0.50%).

Our day to day operating cost ratio, excluding both the costs of change and depreciation, was 0.31%[4] (2018: 0.32%), demonstrating our continued focus on maintaining a low cost operating model.

Day to day operating costs increased by 2%, or £3 million, to £149 million (2018: £146 million), principally the result of salary and cost inflation and higher IT costs as change programmes deliver. £3.9 million of cost previously recognised in property costs have been reclassified as depreciation from 1 January 2019 as a result of the adoption of IFRS 16 Leases, partially offsetting cost inflation.

Spending on our strategic investment programmes continued in 2019, with costs largely in line with 2018. Investment activity has focused on four principal areas:

- Branch redesign: 19 branches, or 27% of our total estate, have been remodelled as planned during the year, bringing the total number of branches refurbished to 26 (37%). This programme will continue through 2020 and 2021.
- Enhanced technology infrastructure: this programme continues to progress, with migrations to both cloud and co-located data centres taking place. The remaining migrations are expected to complete during 2020, ahead of the project closing in 2021.
- Core technology platform upgrade: the re-plan activity reported at the end of 2018 progressed during the first half of 2019, resulting in a more modular and lower risk programme of activity which will see this programme of works continue over a number of years.
- Regulatory change: these programmes are focused on ensuring the Society continues to comply with new regulatory obligations. This includes the development of new online authentication solutions required by the Payment Services Regulations 2017.

The Society's major change programmes extend over our five year strategic planning horizon and we expect to maintain an elevated level of investment over this period. The action we have taken to ensure that change execution risks are appropriately mitigated means that activity in some areas has been rescheduled, resulting in broadly stable change costs compared to 2018.

Remaining a low cost operation is key to the Society's strategy, enabling us to provide better value to our members. For some time, we have enjoyed one of the lowest cost to mean asset ratios in the UK building society sector and the competitive advantage it provides. We expect to maintain this position despite our ongoing investment in change delivery.

Arrears and impairment charge

The strong credit performance of the Society's loan books was maintained in 2019. Impairments continued to be low and arrears reduced further from historically very low levels. This is a consequence of our low risk lending which has never included commercial or second charge lending[6], and a negligible exposure to unsecured lending (less than 0.1% of total loan book in 2019).

There was an impairment charge of £2.1 million in 2019 (2018: £0.4 million credit). This charge reflects an improvement in underlying performance offset by the impact of updated expectations of forward looking performance (required under IFRS 9) and the application of management prudence to provision levels.

As a result of continued economic and political uncertainty, and the more subdued HPI profile seen in 2019, we have increased the weighting given to our most severe economic scenario, and updated our other forward looking scenarios. We have also raised additional post model adjustments in relation to potential future losses. The impact of these overlays has increased our impairment provision by £2.8 million compared to 2018, which is included in the £2.1 million charge. In future years we will look to reflect these in models where possible.

Impairment losses before recoveries in the year were £2.7 million (2018: £2.1 million) and include an unusually large single loss of £0.4 million. As a result total impairment provisions at 31 December 2019 of £12 million represent 4.4 years' loss coverage (2018: 5.5 years) based on current year losses. Excluding the unusual loss case, impairment provisions represent 5.2 years' loss coverage.
IFRS 9 requires the loan book to be split into 'stages' which identify whether the loan quality is performing (stage 1), deteriorating (stage 2) or in default (stage 3). The split of the Society's loan book by stage has been maintained during the year, with 97% of our loans assessed as performing at 31 December 2019 (2018: 97%).

Loans which are in stage 2 are those loans which do not meet our current, very prudent, underwriting standards. 3% of the loan book was in this stage at the year end (2018: 3%), although all but £94 million were fully paid up to date.

A further 0.5% of loans were classified as in default. This includes loans which are three months or more in arrears, or have other risk factors associated with them. A total of £80 million of these loans were up to date at the year end. Provision coverage as a percentage of stage 3 loans rose to 6.1% in the year (2018: 5.6%).

Provisions

There is no charge for provisions for liabilities in line with 2018. We received an increase in PPI claims ahead of the August deadline, but have not needed to raise any additional provisions to cover PPI settlements.

Charitable donation to the Poppy Appeal

The Society donated over £1 million to The Royal British Legion's Poppy Appeal during the year, which is consistent with 2018, bringing the total donated over the Society's relationship with the Legion to almost £18 million.

Taxation

In 2019, the corporation tax charge was £26 million (2018: £39 million[7]), an effective tax rate of 17% (2018:19%).
This is below the statutory corporation tax rate of 19% (2018: 19%) due to changes to IAS 12 in respect of tax deductions for distributions to holders of the Society's AT 1 instruments of £7 million (2018: £7 million) previously shown within Members interests and equity[7]. This is partly offset by a charge of £3 million (2018: £8 million) for the 8% surcharge on the profits of banking companies.

Balance Sheet

Overview

Mortgage balances and liquidity have grown during the year by £3.0 billion and £0.5 billion respectively. Mortgage growth was funded by growth in savings balances.

A summarised Balance Sheet is set out below:

	2019 £m	2018 £m
Assets		
Loans and advances to customers	**42,234.7**	39,264.6
Liquidity	**6,854.7**	6,401.9

Other	**441.4**	404.4
Total assets	**49,530.8**	46,070.9
Liabilities		
Retail funding	**36,238.1**	33,281.6
Wholesale funding	**10,605.4**	10,313.7
Subordinated liabilities and subscribed capital	**67.1**	67.1
Other	**417.4**	288.1
Total liabilities	**47,328.0**	43,950.5
Equity		
General reserve	**1,773.3**	1,693.5
Other equity instruments	**415.0**	396.9
Other	**14.5**	30.0
Total equity	**2,202.8**	2,120.4
Total liabilities and equity	**49,530.8**	46,070.9

Loans and advances to customers

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

In 2019, we advanced £8.6 billion of mortgages (2018: £8.9 billion) and mortgage balances grew by £3.0 billion (2018: £3.4 billion) increasing our market share of stock to 2.9%[8] (2018: 2.8%). The year on year growth in mortgages of 7.6% was significantly above mortgage market growth of 3.1%[8].

New lending continued to be supported by strong remortgage levels overall. 75% of new buy to let loans (2018: 77%) and 46% of new owner occupier loans were remortgages (2018: 42%). Owner occupier loan growth increased relative to buy to let with 67% of total new lending being in the owner occupier market (2018: 57%).

The balance weighted indexed loan to value of the mortgage book at 31 December 2019 increased marginally to 55.4% (2018: 54.6%). Arrears continued to improve, remaining significantly better than the industry as a whole. As at 31 December 2019, 0.08% of mortgage balances were 2.5% or more in arrears (2018: 0.10%) compared with the latest available industry average of 0.67%[9]. Possessions and forbearance both remained low with 33 cases in possession at the year end (2018: 34) and forbearance levels down by 18% year on year in value terms and 20% in number of cases.

In 2019 we continued our strategy of sustainable growth without extending our very low risk lending profile, and this delivered a robust performance despite the competitive mortgage market throughout the year.

Liquidity

On-balance sheet liquid assets have increased to £6.9 billion (2018: £6.4 billion) as we maintained a prudent buffer given the uncertain economic backdrop. The Liquidity Coverage Ratio (LCR) continued to be very strong at 214% (2018: 202%), considerably above the minimum regulatory requirement.

Liquid assets are principally held in deposits at the Bank of England and UK Government investment securities. This means that asset quality remains very high with 96% of the portfolio rated Aaa-Aa3 (2018: 95%). 99% of liquid assets are held in UK sovereign or UK financial institutions (2018: 98%).

Included in liquid assets are £1.3 billion of assets held at fair value through other comprehensive income (FVOCI). As at 31 December 2019, the balance on the FVOCI reserve was a £4 million gain, net of tax (2018: £6 million gain, net of tax).

Retail funding

Retail savings increased in the year by £2.9 billion to £36.2 billion (2018: £33.3 billion), representing growth of 8.9%, compared with market growth of 4.1%[2]. The Society's savings market share increased to 2.6%[8] (2018: 2.5%).

The Society has continued to support the cash ISA market increasing our share of this market to 6.3%[8] (2018: 5.4%).

In 2019 we supported our growth in savings by partnering with Hargreaves Lansdown to be the first provider of an easy access savings account on its Active Savings platform and increased our own savings product range to include a regular saver product.

We opened over 330,000 new savings accounts in the year (2018: 176,000), with over 86% of mortgage loans now funded by retail savings (2018: 84%).

The growth in savings reflects the quality of our products and service and the superior interest rates we pay compared with the market average. We are focused on providing superior returns to savers for as long as we can despite market back book rates remaining suppressed. In 2019, this meant that we returned £228[2] million of value to savings members compared with market average rates, broadly in line with 2018 (£227 million), the equivalent of 0.48% of net interest margin returned to members
(2018: 0.51%).

Wholesale funding

We use wholesale funding to make our funding more diverse. This reduces risk and lowers the overall cost of funding, both of which benefit members.

In 2019, we issued total wholesale funding of £1.65 billion including a €500 million covered bond, £525 million bilateral funding arrangements and a £400 million unsecured funding which, net of maturities and a reduction in short term funding, resulted in an increase in wholesale funding of £0.3 billion to £10.6 billion (2018: £10.3 billion). Included in wholesale funding balances is
£4.25 billion of funding under the Term Funding Scheme (2018: £4.25 billion). These funds are repayable over 2021 and 2022 and our plans to refinance these amounts are well advanced and include further diversification of funding sources and instruments.

Equity

It is important to increase equity in order to provide the capital we need to support future investment and growth.

The Society's equity is predominantly made up of its general reserve and AT 1 capital. The Society's total equity increased by £0.1 billion to £2.2 billion, reflecting retained profits generated during the year and a modest increase in AT 1 capital.

In March, the tender for the 2014 AT 1 resulted in the repurchase of £385 million of the £400 million AT 1 capital instruments. At the same time, we issued a further £415 million of new instruments, with a first call date of 2024, and in November, the remaining £15 million of the 2014 AT 1 was called bringing total AT 1 to £415 million (2018: £397 million).

Pension fund

In 2019 we took steps to transfer the defined benefit pension fund to a Master Trust operated by TPT Retirement Solutions. This secures ongoing professional trustees and provides the fund with access to enhanced buying power and investment management capability. The Society's aim for the pension fund is for it to reach self sufficiency in the medium term which benefits members of the pension fund whilst reducing risk for the Society and improving capital efficiency.

Regulatory capital

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

The Society's CRD IV capital position[10] as at 31 December 2019 is summarised below. During the year capital available for CET 1 or 'capital resources' increased by £76 million, primarily driven by profit after tax of £122 million.

In December the Society announced a correction to its calculation of risk weighted assets (RWAs) caused by the 6% scalar not being applied to the core IRB model outputs. This resulted in a £212 million increase in risk weighted assets and a corresponding reduction in the CET 1 ratio of 1.6% to 33.9% as at 31 December 2018. We have presented the 2018 CET 1 ratio and RWAs at the corrected amount throughout this review.

During 2019, the underlying RWAs increased by 11% which was driven by mortgage growth of 8% and a marginal increase in the loan to value of mortgages.

The net impact of this is that our CET 1 ratio reduced slightly to 32.0% (2018: 33.9%). We expect this to continue to be among the highest reported in the UK.

We are not currently bound by regulatory leverage ratios but we monitor leverage ratios on both a CRR[11]and UK basis. The UK ratio differs from the CRR basis in that it includes a restriction on the amount of AT 1 capital that can be included in leverage capital and excludes central bank claims with a maturity less than three months from leverage exposure.

Both the CRR and UK leverage ratios have been broadly maintained at 4.1% and 4.4% respectively (2018: 4.2% and 4.6% respectively). This is because the increase in available capital was matched by the increase in leverage ratio exposures (non-risk based) largely driven by growth in the mortgage book.

	End-point 31 Dec 2019 £m	End-point 31 Dec 2018 £m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	**1,691.0**	1,614.8
Total Tier 1 capital	**2,106.0**	2,011.7
Total capital	**2,106.0**	2,011.7
Risk weighted assets[1]	**5,283.6**	4,760.7
Capital and leverage ratios:	**%**	%
Common Equity Tier 1 (CET 1) ratio[1]	**32.0**	33.9
CRR leverage ratio[2]	**4.1**	4.2
UK leverage ratio[3]	**4.4**	4.6

1. CET 1 ratio in 2018 is restated following a correction to the risk weighted asset calculation during 2019.
2. The CRR leverage ratio is calculated in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation.
3. 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.

The Prudential Regulation Authority (PRA) provides the Society with a Total Capital Requirement (TCR). In 2019, the Society's TCR equated to 11.2% of RWAs, or £590 million. This sets the minimum capital which the Society must hold under Pillar 1 and Pillar 2A requirements and is driven by both Balance Sheet growth and risk factors determined by the PRA. The Society comfortably meets this requirement using CET 1 capital alone.

We are in the process of updating our IRB models used to calculate RWAs following regulatory changes. Once the Society has received permission from the PRA these models will be used to assess RWAs and therefore the CET 1 ratio. We expect the impact of their adoption to be a very modest decrease in the CET 1 ratio as our current model is already a hybrid model which reflects a degree of 'through the cycle' assessment.

In addition, from 2022, Basel IV RWA floors are being phased in and will reduce the Society's reported CET 1 ratio further, as they do not give full credit for our very low risk mortgage book. We currently expect the end point CET 1 ratio on full transition in 2027 to be approximately 17%.

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1. One off items were a £15 million gain on sale of a mortgage portfolio in 2018 and significant hedge accounting volatility (£17.2 million) in 2019.
2. The Society's average month end savings rate compared with the Bank of England average rate for household interest bearing deposits on the Society's mix of products.
3. Administrative expenses, depreciation and amortisation/Average total assets.
4. Administrative expenses less change costs, depreciation and amortisation/Average total assets.
5. CET 1 ratio in 2018 is restated following a correction to the risk weighted asset calculation during 2019.
6. Other than as a result of small books acquired as part of the merger with Stroud & Swindon Building Society in 2010.
7. 2018 corporation tax charge has been restated following amendments to IAS 12 changing the location of recognition of tax credits from Equity to Income Statement.
8. Source: Bank of England, household sector.
9. Source: Prudential Regulation Authority - latest available information at 30 September 2019.
10. Excluding any IFRS 9 transitional provisions which were negligible.
11. Capital Requirements Regulation.

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