

Media release

THE NOTTINGHAM CONTINUES ITS DIGITAL TRANSFORMATION PROGRAMME AND DEMONSTRATES ITS MUTUAL ETHOS BY SUPPORTING MEMBERS, COLLEAGUES AND COMMUNITIES THROUGHOUT THE PANDEMIC

Embargoed until 7am, Tuesday 9th March 2021 - The Nottingham today presented its financial results for 2020 which shares progress of its digital reinvention and details how the Society's mutual ethos has enabled it to support its members, colleagues and communities throughout the coronavirus pandemic.

Key summary and financial highlights of 2020:

- Gross mortgage lending up 40% to over £490 million
- Total assets of £3.8 billion
- The Society welcomed over 40,000 new customers in the year and now has over 35,000 Lifetime ISA customers
- Strong retail franchise growth – total branch savings balances of £2.5 billion, up 3% in 2020
- The benefits of mutuality shown with millions of pounds invested supporting members through the pandemic
- Arrears levels remain low at 0.21%, a quarter of the industry average of 0.83%
- Large, vibrant branch network across 48 locations and nine counties
- Achieved a customer Net Promoter Score of 76%
- Capital strength maintained with Common Equity Tier 1 at 15.0% and leverage of 5.3%

Chief Executive Officer, David Marlow, set the scene; “2020 was not the year we were expecting, but once we understood the significance of the threat of the virus, we acted quickly on our three key priorities: to ensure the wellbeing of our colleagues; to protect and serve our members; and to support our communities.

“In everything we have done in 2020, we have sought to be true to our mutual ethos. In fact, the challenges of the pandemic have enabled us to demonstrate the real benefits of mutuality to our members. Over the years, we have built up a significant capital surplus and the Board was unanimous that we should deploy some of this capital to support our members and communities in a time of crisis. At the same time, we were determined to increase the level of investment in the Society, deliver the required strategic initiatives and respond effectively to the rapidly changing world around us.

“These decisions have inevitably impacted our 2020 financial results by reducing overall income and suppressing net interest margin. Increased investment costs are also taken into consideration but these actions position us well for the future.”

Protecting and serving members

As an essential service, the Society focused its resources to maintain services for members, keeping branches open for those that need it the most. The Society acted swiftly and implemented a task team focused on the health, safety and wellbeing of its members and colleagues.

The team moved quickly to provide a Covid-secure environment and deal with the ever-changing advice and requirements. Through hard work, perseverance, and commitment, it kept branches open to members throughout the first lockdown and beyond.

For mortgage customers having difficulty making their monthly payments, the Society offered payment deferrals, effectively suspending payments for up to six months and providing some breathing space for family finances. During the year over 3,000 members used this facility.

One of the largest contributions of direct support to members, was through its decision to protect savings rates in the face of the cut to bank base rate to 0.1% in March. This commitment was to maintain branch savings rates for at least six months. The Board felt it was right to protect members at

a critical time of crisis and particularly when they were being asked to stay at home. The impact of this decision saw The Nottingham pay millions of pounds of additional interest to members during 2020.

At the end of one of the most turbulent years in the Society's 170-year history, its Net Promoter Score remained at the incredibly high level of 76%, demonstrating its members positive response to how it dealt with the challenges of 2020 and the continuation of services it offered throughout the pandemic.

Supporting the wellbeing of team members

One of the key decisions the task force implemented in the early stages was to support all team members with full pay for Covid-19 related absences due to a positive test result, a requirement to self-isolate or needing time to care for dependants due to schools' closures and other restrictions. Alongside this, a quick response to the need for Personal Protective Equipment and regular and timely communications to team members ensured the support of all parties in helping to keep everyone safe and well.

The team responded positively to the Society's approach and in its annual employee survey, undertaken in November 2020 reported that 91% of respondents felt that safety and security is taken seriously at The Nottingham. This was further demonstrated by an engagement score of 82%, a five percentage point increase on the 2019 survey and significantly above the financial services benchmark.

David Marlow continues; "None of the achievements in 2020 would have been possible without the amazing team we have here at The Nottingham. They strive every day to help our members save, plan for and protect their financial futures.

"In a year of extraordinary challenge, they have consistently gone over and above normal expectations to find a way to support our members, whatever the circumstances."

Supporting its Communities

The Society was keen to understand how it could extend its support to local communities and quickly widened its corporate and social responsibility programme themes to include alleviation of poverty; reducing social isolation and supporting young people impacted by the pandemic.

Through various support initiatives, the Society provided funding to The Trussell Trust foodbank network, The SilverLine phone-befriending service, BookTrust and long-term charity partner Framework.

In addition to this and as an extension of its successful 2019 sponsorship of the StoryParks project in Nottingham parks, the Society evolved in 2020 with "Story Parks at Home", taking it online and digitising literacy and numeracy activity for young children, in partnership with Nottingham City Council. More than 8,000 families logged on this year, with almost 1,200 visits to its Money Academy virtual classroom. Employability support and skills sharing was too a key focus in 2020 and its newly launched Career Academy supported over 1,100 students remotely on their education to employment transition.

Total charitable donations in 2020 were more than three times the amount donated in 2019 however, these combined projects helped thousands of families with the challenges they faced and supported deserving causes who worked tirelessly to help the vulnerable at a time of great need.

Staying Relevant in the New World

Following a review of the strategic implications of the pandemic, the Society agreed a range of actions to ensure it is well placed to continue to grow membership and deliver a sustainable performance in the years ahead. The key areas of focus were its role as an estate agent; the future role of branches; and accelerating digital transformation.

Its strategic alliance with the Belvoir Group, that was announced at the end of last year, achieved its objectives of maintaining access to discounted home selling and lettings services for members and is now available nationally and utilising branch space, whilst no longer carrying the cost of running an estate agency. The Board is optimistic about the prospects of the strengthening alliance, which provides both organisations with a number of unique opportunities to work together in the future.

Although as part of the decision regarding estate agency and a review of the branch network, a small number of branches were regrettably closed at the end of 2020, the Society still has a large, vibrant branch network of 48 branches. In a demonstration of its confidence and commitment to branches, the Society completed five refurbishments at the end of the year. The roll out of a completely new and fresh branch concept is already proving popular with members with further refurbishments in key locations planned for 2021.

David Marlow commented; “Branches are the cornerstone of serving our members, and we have long been supporters of a strong branch network. This is best demonstrated by the fact that we have doubled the number of branches in the past seven years. This has proven very successful with branch savings balances increasing from £1bn in 2013 to over £2.5bn at the end of 2020 for the first time in our history. The important role of branches, we believe, will remain for many years to come.”

A universal impact of the pandemic has been a greater adoption of the use of digital channels. Whilst this trend was recognised some time ago and steps were well underway to digitise the Society’s operations, it was clear in the summer that would need to be accelerated significantly and further investment in its digital transformation was approved.

The main output of this and something team has been working hard over recent months is the relaunch of its savings brand, Beehive Money, later this year. With this comes the launch of its first savings app, this evolution provides a significant opportunity to grow membership, particularly those under 40 years of age, This is something which has been further underpinned by its recent success as a Lifetime ISA (LISA) provider, where more than 35,000 members are already saving into a LISA to buy their first home or save for their pension. The app launch will mark a new, exciting chapter for the Society as it seeks to become the tax-free savings provider of choice for a new generation of savers.

Financial performance

In trading terms, despite the turmoil in the economy and markets, The Nottingham delivered broadly in line with its plan and the Society maintains its excellent financial strength.

Following a planned contraction of the balance sheet in 2019, asset size was broadly maintained in 2020 supported by a 40% increase in new advances to £493m. Its savings franchise remained strong seeing a 3% growth in 2020.

The Society summarises the key drivers of its financial results;

- A reduction in net interest income and net interest margin compression as a consequence of its conscious decision not to reduce savings rates for branch customers for at least six months in the ultra-low interest rate environment.
- Fall in fee income driven by very low levels of activity in the first half of the year and its decision to exit estate agency in the summer.
- Higher depreciation, amortisation and strategic investment costs driven associated with the Society’s reinvention.
- Whilst its lending portfolio continues to be low risk and high credit quality with less than 50 accounts three months or more in arrears, the Society believes it is appropriate to remain cautious in this area and expect to see some increases in arrears activity over the next year or so as economic uncertainty created by the third national lockdown and the planned cessation of government intervention start to bite. As a result, it has recorded an increased impairment charge of £2.9m.
- Finally, a hedge accounting charge of £2.7m during the year was recorded. Reflecting the consequences of rate changes and market expectations that rates are likely to remain low or even negative for a considerable period.

Overall, these factors led to a significant reduction in underlying profit before tax to £0.4m for the year and a statutory loss after tax of £7.2m.

David Marlow summarised the year and laid out 2021 ambitions; “We believe that the actions we have taken, achieved without taking government subsidy, have been the right thing to do and in the best interests of our members. 2020 was a unique opportunity for us to demonstrate the benefits of being a member of a mutual organisation and we trust that this is appreciated by all our members.

“As we enter 2021, great uncertainties remain. Against this backdrop, we expect to steer a steady course but continue to reinvent the Society for the post-Covid era. Our investments and decisions taken in 2020 should enable us to grow membership and our balance sheet, supported by the relaunch of Beehive Money in the summer and the ongoing success of our branch network. We also plan to invest in our mortgage capability to ensure we are a more relevant and efficient lender. With interest rates set to remain low and potentially even go negative, we expect margins to remain compressed, but we nonetheless expect to stabilise our margin in 2021, striking the right balance between historically low lending rates and offering our savers a fair return.

“Despite the significant challenges of the past year, we remain on track to prepare the Society for a new world of financial services. We expect to end 2021 as a very different Society to the one that ended 2019 - one that is growing its membership base and delivering a sustainable financial performance despite the challenging economic conditions.

“We remain confident that the Society is well placed to continue to fulfil its purpose and help a growing membership to save, plan for and protect their financial futures. In this year’s results we feel we have delivered and demonstrated the true benefits of mutuality to our members, colleagues and communities, against a backdrop of one of the most challenging periods in our history.”

Consolidated Income Statement	2020	2019
Total Group Basis	£m	£m
Net interest income	40.6	46.1
Net fees & commissions receivable	3.7	5.1
Net underlying income	44.3	51.2
Management expenses	(41.1)	(40.8)
Impairment charge – loans & advances	(2.9)	(0.4)
Profit of disposal of property, plant & equipment	0.1	-
Underlying profit before tax	0.4	10.0
Losses from derivative financial instruments	(2.7)	(0.6)
Net strategic investment costs	(4.5)	(1.1)
Change in accounting estimate	(1.6)	(12.3)
Impairment - goodwill	-	(4.0)
Reported loss before tax	(8.4)	(8.0)
Tax credit	1.2	0.8
Reported loss after tax	(7.2)	(7.2)
Represents:		
Loss after tax – continuing operations	(6.8)	(6.5)
Loss after tax – discontinued operations	(0.4)	(0.7)

The Board allocated resources and managed the business on a total Group basis during 2020. The estate agency business generated a £0.4m loss after tax in the year.

Summary ratios

	2020	2019
	%	%
Common Equity Tier 1 ratio	15.0	15.1
Liquid assets as a percentage of shares and borrowings	17.02	17.32

Group (loss)/ profit for the year as a percentage of mean total assets	(0.19)	(0.18)
Total Group management expenses as a percentage of mean total assets	1.25	1.07
Group continuing management expenses as a percentage of mean total assets	1.21	0.99
Society management expenses as a percentage of mean total assets	1.15	0.94
Society interest margin as a percentage of mean assets	1.07	1.17

Notes

- The financial information set out above, which was approved by the Board of Directors on 8 March 2021, does not constitute accounts within the meaning of the Building Societies Act 1986.
- The financial information for the years ended 31 December 2020 and 31 December 2019 has been extracted from the Accounts for those years and on which the auditors have given an unqualified opinion.