

Our 2019 Annual Review

and your invitation to our Annual General Meeting



Our AGM is taking place at 12 noon on Thursday 23 April 2020 at the Ricoh Arena, Coventry. More details are on the back page of this leaflet.

Details on how to vote are on your proxy voting form.

COVENTRY
Building Society



This is our review of 2019

A year of growth and investment.

Coventry Building Society is a mutual organisation owned by you, our members. In this review, we summarise our annual results for 2019, explaining how we have run your Society.

This booklet is designed to be simple and straightforward to read, with no jargon or confusing bits. If you want to know more detail, our full Annual Report & Accounts will be available on our website at www.coventrybuildingsociety.co.uk/accounts2019 or by requesting a copy in a branch, from 31 March 2020.

We would love you to take part in our Annual General Meeting, either by coming along or voting remotely. Everything you need to know about the meeting can be found on the back page of this leaflet, with voting information on your proxy voting form.

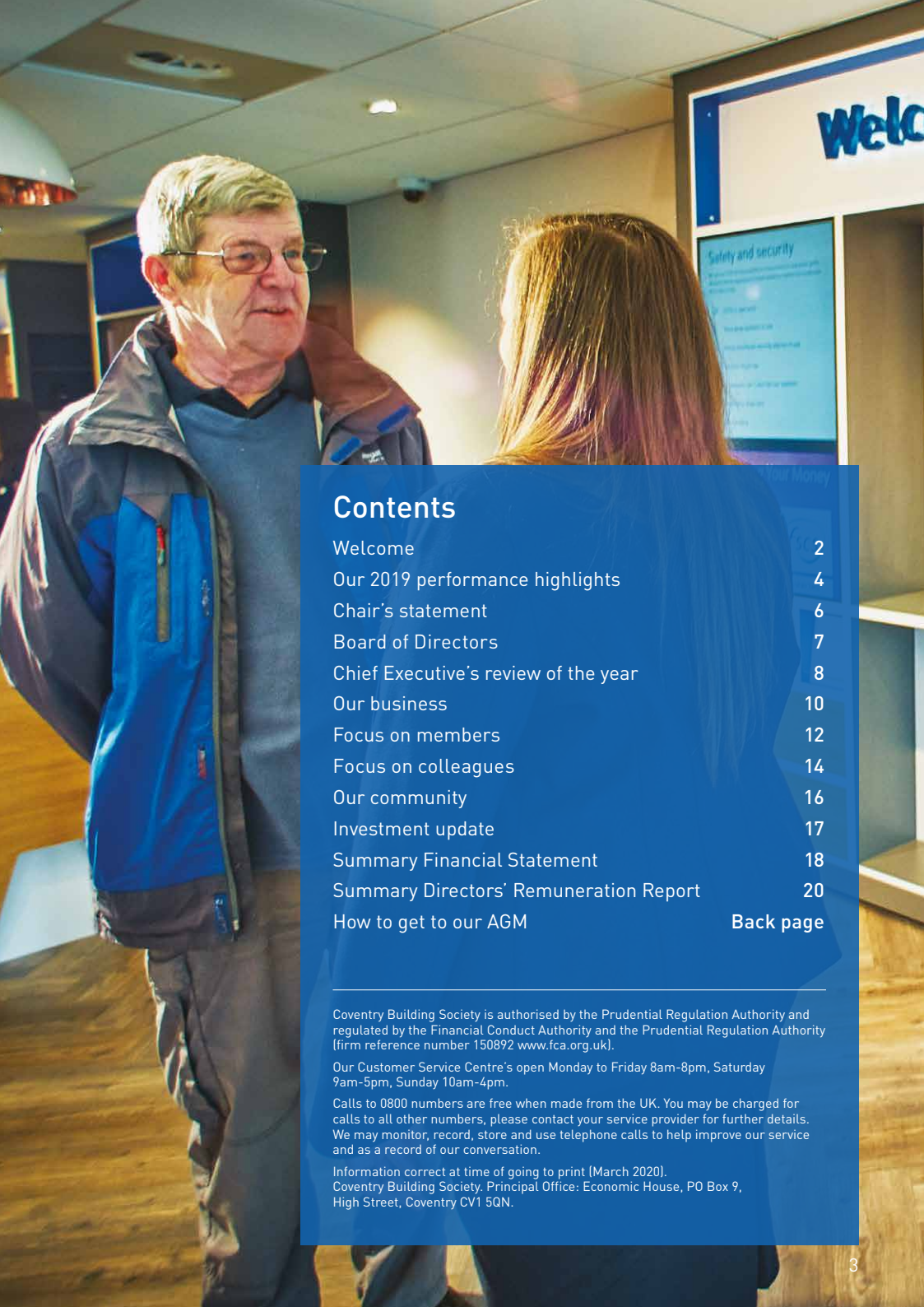
Our story is a strong one. In a year marked by Brexit uncertainty, your Society carried on doing what it has done for over 135 years, putting you, our members, first. We keep your money safe and provide great value and service. We are also growing our membership and investing for your future, looking forward not back as we must do to stay relevant in a changing world.

Thank you for reading.



The photography in this booklet features some of our employees and members.





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Coventry Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (firm reference number 150892 www.fca.org.uk).

Our Customer Service Centre's open Monday to Friday 8am-8pm, Saturday 9am-5pm, Sunday 10am-4pm.

Calls to 0800 numbers are free when made from the UK. You may be charged for calls to all other numbers, please contact your service provider for further details. We may monitor, record, store and use telephone calls to help improve our service and as a record of our conversation.

Information correct at time of going to print (March 2020).
Coventry Building Society, Principal Office: Economic House, PO Box 9,
High Street, Coventry CV1 5QN.

Our 2019 performance highlights

Member value

We paid

1.49%

average interest on savings against the market average savings rate¹

0.84%

£228m

value given to members by paying above market interest on savings¹
(our 2018 result: £227m)



Sustainable growth

7.6%

mortgage balance growth against market growth of 3.1%²
(our 2018 result: 9.3%)

8.9%

savings balance growth against market growth of 4.1%²
(our 2018 result: 7.2%)

8/10

customers would recommend us to others³
(our 2018 result: 8/10)

97%

complaints upheld in the Society's favour by the Financial Ombudsman⁴ against the Financial Services average of 54%
(our 2018 result: 94%)

Service



1. The Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits on the Society's mix of products. 2. Source: Bank of England. 3. Source: Average number of members scoring 9 or 10/10 across 6 surveys totalling 56,745 responses. 4. Source: Financial Ombudsman Service latest available information 1 January 2019 to 30 June 2019.



2nd in
Best Big
Companies
to Work For
listing 2020

90%

of colleagues are proud
to work for the Society
(our 2018 result: 92%)



Colleagues



82%

of colleagues engaged in
charitable or community
activities
(our 2018 result: 79%)

Safe and secure

0.08%

% of mortgage balances where
arrears are more than 2.5% of
the balance
(our 2018 result: 0.10%)

32.0%

our capital strength:
Common Equity Tier 1 ratio
(our 2018 result: 33.9%)⁷

214%

our liquidity strength:
Liquidity coverage ratio
(our 2018 result: 202%)

4.4%

UK leverage ratio⁸
(our 2018 result: 4.6%)

Spending wisely

0.48%

total costs as a percentage
of average assets⁵
(our 2018 result: 0.50%)

0.31%

operational run costs⁶
as a percentage of
average assets
(our 2018 result: 0.32%)

27%

of our branches
redesigned in 2019,
bringing our total to
date to nearly 40%



5. Administrative expenses, depreciation and amortisation/Average total assets. 6. Operational run costs exclude change cost (known as strategic investment), depreciation and amortisation. 7. Restated in December 2019, reducing 2018 CET 1 by 1.6%. 8. Leverage - a non-risk based backstop measure of capital strength - UK minimum 3.6%.

Welcome to your Chair's statement

As a 'Coventry kid' I am honoured to chair the UK's second biggest building society and proud that Putting Members First is as important today as it was 135 years ago when the Society was formed.

Many things have changed, but our CARES values continue to guide our daily decisions. As a mutually owned building society, we continue to deliver long term value and excellent service whilst investing to remain relevant in a changing world and stay one of the safest UK financial institutions.

Our strategy is simple and unchanged. We are a low risk residential mortgage lender. We manage costs carefully so we can pay superior savings rates and we recruit and support people who are passionate about delivering the excellent service you value so much.

Whilst consistency is valuable, particularly in an uncertain world, we must also adapt to stay relevant and meet your future needs and expectations. So we are investing in the services we deliver to you as well as in IT, our branches and products. As we all know, change is complex and carries risks and so the Board works hard to ensure we have controls in place to deliver these critical changes successfully.

I am confident that our strategy has the right balance of consistency and change, it delivers solid results as this

report explains and is firmly rooted in our mission of putting you, our members, first.

I introduce my Board to you on the page opposite. There are significant changes here as well. Mark Parsons is retiring in April and Steve Hughes will be joining us from Principality Building Society as our new Chief Executive. Steve is a great fit for us, passionate about the things we care about and equally committed to serving our members, empowering our colleagues and supporting the communities we serve. I know you will join me in welcoming him and Shamira Mohammed who joined the Board last year.

I will end by thanking Mark Parsons, our retiring Chief Executive, whose commitment to Putting Members First has underpinned our recent success. On behalf of everyone at the Society I wish him a healthy and fulfilling retirement.



Gary Hoffman
Chair of the Board

Introducing your Board

At the Coventry we are proud to have a Board who are passionate and committed to Putting Members First. I am delighted to introduce them to you here. You can find more details on directors standing for election or re-election at this year's AGM on the voting form and on our website:

www.coventrybuildingsociety.co.uk/meettheboard



1. **Gary Hoffman** Chair of the Board
2. **Mark Parsons** Chief Executive
3. **Iraj Amiri** Independent Non-executive Director
4. **Peter Ayliffe** Deputy Chair of the Board
5. **Andy Deeks** Executive Director
6. **Catherine Doran** Independent Non-executive Director
7. **Michele Faull** Executive Director
8. **Peter Frost** Executive Director
9. **Jo Kenrick** Senior Independent Director
10. **Shamira Mohammed** Independent Non-executive Director
11. **Martin Stewart** Independent Non-executive Director

Welcome to your

Chief Executive's review of the year

In my last review before retiring, my biggest reflection is that I feel privileged and proud to have led an organisation that is different, and that makes a difference.

Over the last five years, we have maintained our mission of Putting Members First and pursued this through a consistent strategy which has seen us grow to a level where we are serving over two million members. I am pleased to report that we continued to make good progress in 2019.

We grew our mortgage balances by 8% (2018: 9%), compared with market growth of 3%¹ and our savings balances by 9% (2018: 7%) against market growth of 4%¹. We achieved our mortgage growth despite a competitive market which has continued to keep mortgage pricing and margins low, leading borrowers to switch to lower rates.

This mortgage margin squeeze and the low bank base rate have seen savings providers lowering rates through 2019. Compared to this background our

average savings rate was significantly higher than the market average rate and as a result our savings members received £228 million more interest than they would have received at average market rates² (2018: £227 million).

Our low risk mortgage lending and low cost operating model is central to being able to return superior value to our members. At the end of 2019 the average loan to value of our mortgages remained low at 55%. Arrears³ fell again in 2019 and are only one eighth of the industry average³. This resulted in a continued low cost for loan impairment.

We remain focused on spending our members' money wisely and continue to have one of the very lowest cost ratios in the sector. In 2019 our overall management expense ratio was 0.48% slightly below the 2018 ratio of 0.50%.

1. Source: Bank of England. 2. The Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits on the Society's mix of products. 3. Source: Prudential Regulation Authority - latest available information at 30 September 2019. Percentage of mortgages in arrears by 2.5% or more.

The operational run cost ratio, which excludes both change costs and depreciation⁴, was also lower than 2018 at 0.31%, or 31 pence for every £100 of assets we manage. The increase in operational costs was 3% year on year compared to growth of nearly 8% in the Society's assets and reflected mainly wage and cost inflation.

A fundamental part of our commitment to our members is to be safe and secure. During a year with some economic uncertainty we deliberately carried slightly more liquidity. Our Liquidity Coverage Ratio at the end of the year was 214%, up from 202% last year and substantially above regulatory minimum levels. Similarly capital levels remained strong with our risk based CET 1 ratio at 32.0%, slightly down on 33.9%⁵ last year. We expect this to remain one of the highest reported in the UK. Our UK leverage ratio of 4.4% (2018: 4.6%) remained well above regulatory requirements.

Profits before tax were 27% down on 2018 at £147 million. This reflected the mortgage margin squeeze covered above and two other factors. 2018 profits had included a £15 million gain on the sale of a portfolio of mortgages which was not repeated this year. Also in 2019 we had an accounting loss of £17 million as volatility in market valuations impacted the financial instruments we use to manage interest rate risk. This loss will reverse in future years.

Even though profits fell, our results were fully in line with our strategy to retain only the profit we need to maintain

our capital ratios whilst investing to improve services and providing the most favourable pricing we can to members.

Delivering superior value and financial strength is only a part of Putting Members First. It has to be underpinned by excellent service and simple, transparent products that deliver good outcomes for all our members. These outcomes are only delivered through our passionate and committed colleagues. You can read more about our business and how we manage your Society on the following pages.

Looking back over my five years we have delivered growth well ahead of the market, through consistently good pricing and very high and increasing customer satisfaction. This has been underpinned by low operating costs and being a low risk lender with strong risk-weighted capital, and our principles of being simple and transparent. We have consistently supported our wider society. All of these outcomes were strategically deliberate.

Critically, they have been delivered by my colleagues across the Society. We are a people business. I am delighted that the engagement of my colleagues ranks us second in the Best Big Companies to Work For list. With this level of engagement I know the Society is in very good hands as I pass the reins to Steve Hughes. I thank each and every one of my colleagues for their continued commitment to putting you, our members, first.



Mark Parsons
Chief Executive

4. Depreciation: Includes both depreciation and amortisation of the Society's fixed assets. 5. The 2018 CET 1 ratio was restated and reduced by 1.6% to 33.9% after a correction announced by the Society in December 2019.

Our business

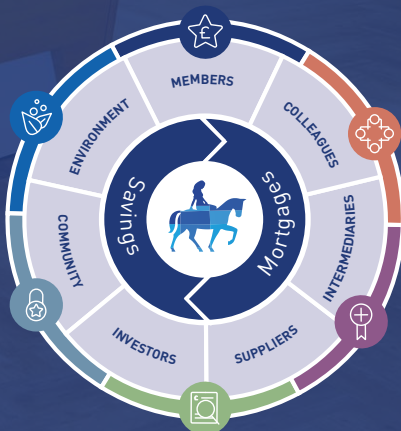
Why we do things – our purpose

Our purpose is giving people the power to be better off through life. As a mutual organisation, we exist first and foremost for our saving and borrowing members. We seek to make them better off, in the long term, by providing straightforward and transparent products that offer superior value, coupled with great service.

We Put Members First by engaging with all our stakeholders including the colleagues who work at the Society and also the third parties (intermediaries, suppliers and investors) that are a critical part of delivering our services to our members.

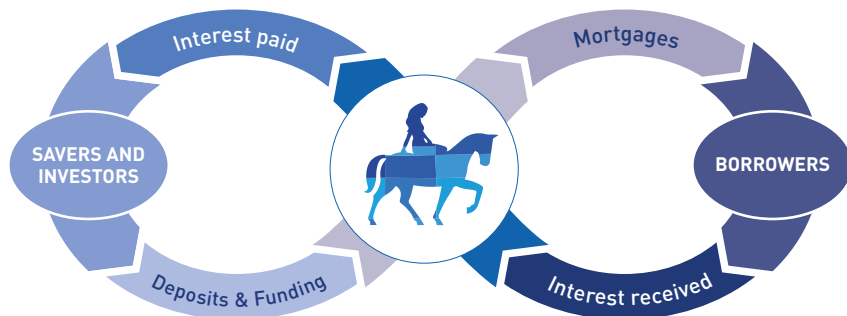
Supporting the communities we serve has been a part of our heritage which we are proud of and this, and reducing the negative impact we have on the environment, is increasingly important to both our members and our colleagues. The way we work with all our stakeholders creates a virtuous circle, supporting our mission of Putting Members First.

Our key stakeholders



Our business - what we do

Our business is simple: we take deposits from savers and lend these as mortgages. The mortgage interest received pays for the costs of operating the Society and leaves profits to maintain capital ratios and support future growth. Low operating costs and low risk lending enable us to give superior returns to savers. Wholesale funding, which reduces both funding risks and costs, increases the value we can give to members.



What is important to us - Strategic Priorities and Values

Our strategic priorities, which support our mission and purpose, are remaining an independent mutual, growing the number of members we serve and continuing to return superior value to those members. We aim to provide easy to use services which members value and meets their needs.

We prioritise managing our costs well to allow us to invest in future services whilst providing enhanced returns to our members.

We are committed to being one of the safest and most secure UK financial institutions and to working with all our stakeholders to deliver our mission of Putting Members First.

Our CARES values are at the heart of everything we do. They guide our decision making and there are countless examples of how our colleagues put these into practice every day.

Caring
Attentive
Reliable
Ethical
Straightforward

Managing the risks to our business

Whilst we have a strong and simple business we are inevitably exposed to risk and your Board considers that the principal risks which could impact us are:

- continuing political and economic uncertainty, particularly if this impacts access to wholesale funding availability;
- continued pressure on mortgage margins;
- the execution risk associated with significant change programmes; and
- the need to be able to respond effectively and in a timely way to changing customer demands.

We are satisfied that our strategies and plans appropriately mitigate these risks.



Focus on members

You are at the heart of everything we do

As the owners of the Society, it is only natural that we listen to members.

We work hard to understand how members feel about the Society and constantly seek to provide different ways to ensure your voices are heard and considered. Over 5,500 members are now registered with our online Member Panel and in 2019 we recorded over 1,000 forum comments. We also host online Talkback events, which enable panel members to air their views with senior management.

In 2019 your feedback helped us to:

- establish a Regular Saver product (see case study opposite),
- test and refine our new online authentication procedures, to meet new regulations called 'PSD2'.

In 2019, we grew our partnership with Hargreaves Lansdown to launch the first easy access product on their platform, growing the number of members who save with us.

Delivering the right products and services for our members

We are passionate about understanding what you think of our products and services. This year, you told us that 8 out of 10¹ of you would recommend us to friends and family. We are pleased that this year fewer complaints were referred to the Financial Ombudsman Service than previously and that 97% of those that were referred, concluded that we had treated complaints fairly (compared to an industry average of 54%).

In 2019, we continued to receive external recognition for the mortgages and savings products we offer. Fairer Finance ranked us number one for savings for the fourth year running and we were one of only three providers to receive the Which? Recommended Provider for Mortgages award.

Simplicity is important to us as it reduces costs and we took an important step to simplify our product range this year. By withdrawing overdraft and debit cards from our MoneyManager accounts, we removed significant cost and regulatory overhead associated with the current account market.

Case study - You asked and we acted

Feedback from our branches and Member Panel told us you wanted a regular saver account.

Through our Member Panel, we received just under 1,200 responses on this topic and it gave us some really useful insight. You wanted an account that was free to open in branch, by telephone or online. There was a strong preference for a higher maximum monthly deposit of £500, contrasting the £250 limit typically seen elsewhere, so savers could make the most of the account.

You also wanted flexibility, where payments could be altered, reduced, or even missed, without any penalty.

By listening to your feedback, we were confident that the Regular Saver product we launched would meet your needs but its success has surpassed our expectations. We launched the product in September 2019 and, by December over 20,000 accounts have been opened.

We are delighted to be helping so many of you to save regularly for something that is important to you.



1. Source: Average number of members scoring 9 or 10/10 across 6 surveys totalling 56,745 responses.



Focus on colleagues

Over 2,600 colleagues focused on Putting Members First

We are a people business and are immensely proud to be ranked second in the Sunday Times Best Big Companies to Work For 2020 list. In the survey 90% of colleagues said they are proud to work at the Society. This level of engagement helps us attract and retain great people.

To foster the great service our colleagues give our members, we seek to understand and act on their views and provide a positive working environment.

Diversity and opportunity for everyone is important to us and we have made significant progress in developing new opportunities for graduates and

apprentices. We are pleased that in the boardroom one third of members are female and it's our ambition to have equal representation within five years. However, despite a policy of paying equal amounts for the same role, our gender pay gap, at 33% is higher than we would like and addressing this is a priority.

In 2019, we expanded the range of support we offer to promote physical, financial and mental wellbeing among colleagues and introduced Mental Health First Aiders and now provide paid time off for carers facing critical moments in their lives.

Listening to our colleagues is a way of life

Our employee forum, My Society, is an important two-way communication route. Peter Ayliffe, our Deputy Chair, updates the forum on issues being discussed at Board and seeks their views. During 2019, My Society members joined two Board discussions.

Executive and non-executive directors regularly visit teams and branches and participate in 'Talkback' events giving colleagues the chance to ask questions and to raise issues.

Based on feedback received:

- in 2020 we will expand our Wellbeing programme and in response to latest feedback we will focus on the importance of sleep, support through the menopause and maternity coaching,
- we are working on projects to improve the technology and tools our people have to help them collaborate and communicate well,
- we will also increase the opportunities for learning and development.

Case study – Personal growth and opportunity

Jo started with the Society in our Nuneaton branch where she loved the environment and interacting with members. She was looking for an opportunity to gain professional qualifications.



"I was looking for a change and to begin studying towards a new qualification. I saw the advertisement for a Trainee Money Market Dealer on the internal intranet and decided to visit the Treasury team to find out more about the role".

Jo - Personal Growth Award Winner

As part of our internal recruitment process, Jo was able to explore if the role was right for her, though it was a completely new career path and a steep learning curve, we helped her make the move. "In a challenging and interesting environment, the Society has given me a great opportunity to grow and learn with a really supportive team."

Three years on, Jo is now a key member of the funding team, helping us tell our story to investors and raise significant amounts of wholesale funding to support our business and its members.

Built on the support and trust of people in our community

The city of Coventry is our home and as we grow, we want to give even more back to the city that we were established to serve. We are excited about our role as a sponsor of Coventry City of Culture 2021 and what this will offer the people of Coventry.

As well as supporting our local communities, we are delighted to contribute to our national charity partners: Comic Relief, Children in Need, and The Royal British Legion.

Our people are at the heart of our community support and in 2019, more than four out of five colleagues gave their time to support local and national causes. On top of this, they raised approximately £250k for our Community Partners, all of which are individually selected by each department or branch.

Colleagues have supported too many great causes for us to list them all here but we have highlighted one to show how this benefits our communities.



Case study – Helping young minds to learn to manage money



“Coventry Building Society has provided excellent support for us as a school in a number of ways over the past few years. This has included support and fundraising for community projects, attending events to help us to raise the aspirations of our pupils and financial capabilities sessions. These sessions have been planned collaboratively and support our children in a number of areas in developing their understanding of money, how to budget and to save. For our older children, this even includes looking at community impacts, taxes and interest. These sessions give our pupils vital experiences and help them to develop key life skills. Thank you to the volunteers for regularly supporting us with sessions like these.”

Maths Lead, Henley Green Primary School.

Investing in the future of your Society

Spend on strategic programmes in 2019 was broadly maintained at £52 million (2018: £54 million) and we expect to continue with this level of investment as we invest for the Society's future.

The main areas of investment were our branch programme, IT infrastructure, and our core technology platform upgrade.

We are improving our data centres to make our services safer and our data more secure. This is a major project which needs to be delivered carefully. We expect it to finish in 2021.

Plans for upgrading our core technology platform to provide more service flexibility and remove risk have also progressed during 2019. We have now broken this work down into a series of smaller and less risky projects, which will be completed over a number of years.

Case study – Spotlight on branch refurbishment



Our branches are as important to us as they are to the members who use them. Redesigning our branches is a major investment and important to offer members a warm and welcoming environment, with accessible counters and a range of meeting places for more in-depth conversations. The programme was carefully planned and our Leicester branch was used as a pilot in 2018, to make sure we got things right.

We have refurbished a further 19 branches in 2019 and your feedback tells us that this investment has improved the levels of service we provide to you. This work has also helped us to promote our work with local communities and reduce our environmental impact - cutting energy use by up to a third in some branches and by 11% on average. Our branch staff are delighted with their new working environment and say it really helps them to serve you, our members.

Summary Financial Statement

for the year ended 31 December 2019.

The Summary Directors' Report comprises pages 4 to 11 of this booklet.

The Summary Financial Statement is a summary of information in the audited Annual Report & Accounts, Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Coventry Building Society from 31 March 2020. The auditors' report on the full financial statements was unqualified.

Approved by the Board of Directors on 27 February 2020.

Gary Hoffman
Chair of the Board

Mark Parsons
Chief Executive

Michele Faull
Chief Financial Officer

	Group 2019 £m	Group 2018 Restated ¹ £m
Results for the year		
Net interest income	396.7	425.8
Other income and charges	0.1	(1.2)
Net losses from derivatives and hedge accounting	(17.2)	(0.3)
Total income	379.6	424.3
Administrative expenses	(229.1)	(221.7)
Impairment (charge)/credit on loans and advances to customers	(2.1)	0.4
Charitable donation to Poppy Appeal	(1.2)	(1.4)
Profit before tax	147.2	201.6
Taxation ¹	(25.5)	(38.6)
Profit for the financial year	121.7	163.0

Financial position at the end of the year

Assets		
Liquid assets	6,854.7	6,401.9
Loans and advances to customers	42,234.7	39,264.6
Hedge accounting adjustment	149.7	6.5
Derivative financial instruments	137.9	268.9
Fixed and other assets	153.8	129.0
Total assets	49,530.8	46,070.9
Liabilities		
Shares	36,238.1	33,281.6
Borrowings	10,605.4	10,313.7
Hedge accounting adjustment	44.0	36.5
Derivative financial instruments	281.8	167.4
Other liabilities	91.6	84.2
Subordinated liabilities	25.5	25.5
Subscribed capital	41.6	41.6
Total liabilities	47,328.0	43,950.5
Equity		
Reserves and other equity instruments	2,202.8	2,120.4
Total liabilities and equity	49,530.8	46,070.9

1. 2018 Taxation and Profit for the financial year have been restated due to changes in accounting standards.

Summary key financial ratios

	Group 2019 %	Group 2018 %
Gross capital as a percentage of shares and borrowings	4.84	5.02
This measures how much capital we have to protect our members and other creditors against unforeseen eventualities.		
Liquid assets as a percentage of shares and borrowings	14.6	14.7
This measures our ability to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund general business activities.		
Profit after tax for the year as a percentage of average assets	0.25	0.37¹
The Group needs to make an adequate level of profit each year in order to maintain capital at a level which protects members and satisfies regulatory requirements.		
Management expenses as a percentage of average assets	0.48	0.50
Management expenses are the costs of running the Society. This ratio measures the Society's efficiency, with a lower number indicating greater efficiency.		
These ratios are required by the Building Societies Act. We consider our performance using a broad range of measures which are shown on pages 4, 5 and 21 of this document.		

Independent auditors' statement on the Summary Financial Statement to the members of Coventry Building Society

We have examined the Summary Financial Statement of Coventry Building Society (the 'Society') set out on pages 18 to 19, which comprises the Results for the year, the Financial position as at 31 December 2019 and Summary key financial ratios.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, the Annual Business Statement and the Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made under it.

We also read the other information contained in this 'Our Annual Review' and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Summary Directors' Report, as defined in the Summary Financial Statement, and the Summary Directors' Remuneration Report.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

Our examination involved agreeing the balances in the Summary Financial Statement to the full Annual Accounts. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those Annual Accounts, the Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and the Directors' Report of Coventry Building Society for the year ended 31 December 2019 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

PricewaterhouseCoopers LLP

Birmingham
27 February 2020

Summary Directors' Remuneration Report

I am pleased to present a summary of our 2019 Directors' Remuneration Report. This is a summary of our full Directors' Remuneration Report which you can find in the Society's 2019 Annual Report & Accounts. This will be available online at www.coventrybuildingsociety.co.uk/accounts2019 from 31 March 2020.

This summary report contains information on our Remuneration policy, which sets out how we pay our directors, and the remuneration each director received for 2019.

If you are eligible to vote at the Annual General Meeting (AGM), you will have an advisory vote on both the Remuneration Policy and the 2019 Directors' Remuneration Report.

The directors' entitlement to remuneration is not conditional on the AGM vote. However, the Remuneration Committee will take account of your feedback.

Our policy for Directors' Remuneration

The Society's Remuneration policy¹ is designed to ensure remuneration rewards executive directors for their skills, knowledge, responsibilities and performance. When making any decisions about pay and benefits the Society strikes a balance between the needs of employees, the needs of members to ensure cost-efficiency and the requirements of its regulators.

The policy is aligned with the Society's mission, purpose and values, and the expectations of our members. It supports the Society's ability to recruit, motivate and engage great people and is consistent with our risk appetite. The policy is designed to support the overall financial stability of the Society and its strategic priorities, by promoting sound and effective risk management and does not encourage excessive risk taking.

The key components of remuneration for executive directors are set out below:

Element	Operation
Base salary	Salary increases are reviewed annually in line with all colleagues at the Society. Salary levels take into account experience, market data, the economic environment, individual and Society performance.
Benefits and pension	These include a company car or car allowance, private medical insurance, life assurance and permanent health insurance. Executive directors may participate in the defined contribution pension plan or receive a cash alternative should contributions exceed the annual or lifetime allowance. The Chief Executive receives 20% of base salary and other executive directors receive 15% for pension contributions. Future executive director appointees will receive 10% contribution, in line with all new employees.
Annual Success Share bonus	This rewards performance over a single financial year across a balanced scorecard of measures (see below) and is provided to all eligible Society employees, including executive directors. An award of 10% of base salary is made for on target performance, up to a maximum of 20% of base salary which can only be achieved by exceeding stretching upper targets for all measures.
Annual Executive Variable Pay Plan (ExVPP)	This plan is based on the same balanced scorecard as for the annual Success Share bonus. An award of 30% of base salary is made for on target performance, up to a maximum of 60% of base salary.

1. Our Remuneration policy and approach follows the Prudential Regulation Authority's Code on Remuneration Practices and we apply the provisions of the UK Corporate Governance code where applicable.

Our performance in 2019

The Society's balanced scorecard contains 12 measures which are aligned to the business strategy and have equal weighting. This approach has member outcomes at its heart and protects against excessive risk taking. The Society made good progress against its scorecard, given challenging market conditions in 2019. This is reflected in the performance against the targets which determine variable pay. The Society outperformed against four of the measures, performed in line with six and performed below target in two measures, as summarised below:

Performance measure	Performance target range	Performance result	Performance relative to target range
Financial			
1. Mortgage balance growth	7.5% - 8.5%	7.6%	On target
2. Savings balance growth	7.7% - 8.7%	8.9%	Ahead of target
3. Cost to mean assets ratio	0.48% - 0.50%	0.48%	On target
Capital ratios			
4. Leverage ratio	4.35% - 4.45%	4.4%	On target
5. Common Equity Tier 1 ratio	34% - 36%	32.0%	Behind target
Risks and projects			
6. Mortgage balances in arrears (%)	<0.13%	0.06%	Ahead of target
7. Liquidity Coverage Ratio	>150%	214%	Ahead of target
8. Investment programme delivery	Qualitative assessment		Behind target
Members			
9. Experience Net Promoter Score	+70 - +74	+74	On target
10. Relationship Net Promoter Score	Top 3 (+/- 1)	3rd	On target
People			
11. Employee engagement ¹	718 - 738 / 2 star	720 / 2 star	On target
12. Community involvement	77% - 80%	82%	Ahead of target

1. The Best Companies employee engagement score reflects the assessment as a mid-sized company. Two star denotes Outstanding employee engagement.

Remuneration summary for executive directors

Base salary

The annual review of salaries in April 2019 saw a 2% basic increase for all employees and an additional 1.5% discretionary pot made available to progress salaries towards market levels where appropriate. Executive directors received the basic increase awarded to all employees.

Variable pay

Given the Society's performance, the Remuneration Committee considered the level of variable pay awards and determined an annual Success Share bonus of 10% of base salary for all eligible employees, including executive directors, from a potential maximum of 20%. Having exercised some downward discretion, the Committee awarded an ExVPP bonus of 27% of base salary to executive directors from a potential maximum of 60%.

This assessment reflects the Common Equity Tier 1 (CET1) ratio and Investment Programme Delivery measures being behind target. In addition, the Committee also applied downward discretion to outstanding deferred variable payments for the CEO and another Material Risk Taker.

Total remuneration earned by each executive director

Audited information	Fixed remuneration				Variable remuneration			
	Base salary ¹ £000	Taxable benefit £000	Pension allowance ² £000	Total fixed £000	Annual Success Share bonus £000	ExVPP £000	Total variable £000	Total remuneration £000
2019								
Mark Parsons	536	18	107	661	54	146	200	861
Andy Deeks	228	10	34	272	23	62	85	357
Michele Faull	357	10	54	421	36	97	133	554
Peter Frost	292	29	44	365	29	79	108	473
Total	1,413	67	239	1,719	142	384	526	2,245
2018								
Mark Parsons	524	18	105	647	58	158	216	863
Andy Deeks	221	10	33	264	25	68	93	357
Michele Faull	350	10	53	413	39	106	145	558
Peter Frost	285	28	43	356	32	86	118	474
Total	1,380	66	234	1,680	154	418	572	2,252

1. Base salary is the actual salary earned in the year and will differ from the current salary effective from 1 April.

2. Includes both contributions to the Group's defined contributory pension scheme and cash payments in lieu of contributions.

Deferral and retention

Success Share and ExVPP payments to executive directors are made in cash and are subject to deferral rules which are in place to enable reduction and repayment of awards in compliance with the Remuneration Code.

For executive directors whose total remuneration is above the regulatory deferral threshold of £500,000 (Mark Parsons and Michele Faull), their total variable pay is paid over nine years following the performance period with 60% of this being paid in the last six years of the extended deferral period. This means the total deferred variable pay earned in relation to 2019 will not be paid until March 2028 as shown in the table below which is illustrated with reference to Mark Parsons' variable remuneration.

Performance period	Variable pay received	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
2019	%	-	20%	20%	-	6%	12%	12%	12%	12%	6%
	£000	-	40	40	-	12	24	24	24	24	12
2018	%	20%	20%	-	6%	12%	12%	12%	12%	6%	-
	£000	43	39	-	12	24	24	24	24	12	-

For executive directors below the regulatory threshold (Andy Deeks and Peter Frost), 40% of the ExVPP is paid two years after the performance period i.e. March 2022.

For each of these annual payments, half of the awards are made in cash. The Remuneration Code requires that the other half is retained for a further period (12 months for those above the deferral threshold and 6 months for those below) and is made in shares or, in the case of a non-listed business like the Society, an equivalent share-like instrument. The Society's share-like instrument only provides for downward adjustment linked to capital strength and profit.

CEO pay ratio

The CEO pay ratio compares the Chief Executive's pay to the employee population. It is calculated using the 'single total remuneration methodology'¹ which includes salary, variable pay, pension and taxable benefits (shown opposite). It is calculated by identifying the median total remuneration as well as the total remuneration at the 25th and 75th percentiles. For 31 December 2019, these are set out below:

		25th percentile £	Median £	75th percentile £
2019	Total pay and benefits	24,415	31,627	45,291
	Salary	20,967	26,694	39,897
	CEO pay ratio	35:1	27:1	19:1
2018	CEO pay ratio	36:1	27:1	19:1

1. Calculated in accordance with the Companies (Miscellaneous Reporting) Regulations 2018.

Remuneration earned by non-executive directors

Non-executive directors receive fees which depend on their individual roles including whether they chair any committees, or hold positions such as Senior Independent Director or Deputy Chair. They are reimbursed for reasonable expenses but do not participate in any Society pension or bonus arrangements. Fees are reviewed annually, considering market data, annual pay increases awarded to all employees and the Society's performance.

Details of the non-executive directors' remuneration

	Base fees	Committee Chair and other fees	Expense payments	Total fees and expense payments	Base fees	Committee Chair and other fees	Expense payments	Total fees and expense payments
Audited information	2019 £000	2019 £000	2019 £000	2019 £000	2018 £000	2018 £000	2018 £000	2018 £000
Non-executive directors								
Gary Hoffman ¹	178	-	-	178	119	-	-	119
Peter Ayliffe ²	52	7	3	62	83	4	3	90
Iraj Amiri ³	52	14	7	73	26	5	5	36
Roger Burnell ⁴	17	3	-	20	50	25	-	75
Catherine Doran ⁵	52	-	3	55	50	-	4	54
Ian Geden ⁶	-	-	-	-	24	6	-	30
Jo Kenrick ⁷	52	16	3	71	50	8	3	61
Shamira Mohammed ⁸	35	-	1	36	-	-	-	-
Martin Stewart ⁹	52	14	14	80	17	5	6	28
Total	490	54	31	575	419	53	21	493

On behalf of the Board

Jo Kenrick

**Chair of the
Remuneration Committee**

27 February 2020

1. Chair of the Board from 26.04.18. 2. Deputy Chair of the Board from 27.04.18, Chair of the Board to 26.04.18. 3. From 28.06.18, Chair of the Board Audit Committee from 18.09.18. 4. Resigned from the Board on 24.04.19. Senior Independent Director until 24.04.19, Chair of the Board Risk Committee to 25.09.18, Chair of the Board Audit Committee to 18.09.18. 5. From 01.08.16. 6. Chair of the Remuneration Committee to 25.04.18, Deputy Chair of the Board to 26.04.18. 7. Senior Independent Director from 24.04.19, Chair of the Remuneration Committee from 26.04.18. 8. From 01.05.19. 9. From 01.09.18, Chair of the Board Risk Committee from 25.09.18.



Our Annual General Meeting

Thursday 23 April 2020
at 12 noon, at the Ricoh Arena,
Coventry

Registration

From 11am, with tea and coffee available.

Meeting

12 noon, followed by a light lunch.

Remember to bring either the front page of your voting form or some evidence of membership, such as a passbook or annual statement.



How to get there by car

The address for your satnav is: Phoenix Way, Foleshill, Coventry CV6 6GE.
Parking is free.



By courtesy coach

As usual, we're providing courtesy coaches from Coventry city centre to the Ricoh Arena. These will leave from Coventry railway station forecourt and Fairfax Street (next to Gala Bingo), at both 11am and 11.15am. When the AGM is over, the coaches will leave the Ricoh Arena and return to both departure points.



How to get there by public transport

By bus: there are regular buses from Coventry town centre to Arena Shopping Park and it's a short walk from there to the Ricoh Arena.

Check times on www.nxbus.co.uk

By rail: Coventry Arena railway station is next to the Ricoh Arena and runs every hour. For times, check the National Rail Enquiries website.

By taxi: Taxis are available from both the railway and bus stations in Coventry town centre. It'll cost approximately £15 to get to the Ricoh Arena.



This leaflet is also available in large print, Braille and audio, contact us on 0800 121 8899, we'll be happy to help.



When you have finished with this booklet please recycle it

