H1 2018 Results Investor Presentation

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COVENTRY Building Society

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1. Overview
2. Financial Performance
3. Asset Quality
4. Capital
5. Funding and Liquidity
6. Contact Details

Overview

Overview

COVENTRY Building Society

Simple business model

- Providing simple, transparent retail savings products which offer long term value.
- Helping customers buy residential properties through low risk mortgage lending primarily through intermediaries.
- Delivering sustainable organic growth without taking on higher levels of risk to protect existing members during periods of economic stress, and to safeguard the Society's future.
- Ensuring operations are cost efficient, allowing the society to pay above market interest rates to savers, whilst investing in the future and maintaining capital strength.
- Underpinned by our CARES values which shape decision making and focus on putting members first.

Financial Strength

Strong CET1 ratio highest reported by any top 20 lender.[1]	**35.5%**
Management expense ratio lowest reported by any top 10 UK building society.	**0.46%**
Leverage ratio exceeds regulatory requirements.[3]	**4.6%**

The 2nd Largest Building Society in the UK

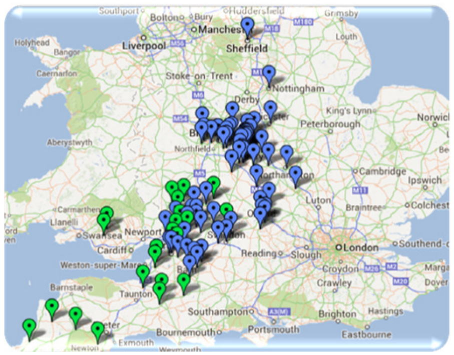
	Long term	Short term	Last credit opinion
Moody's	**A2**	**P-1**	August 2017
Fitch[2]	**A**	**F1**	May 2017

Low risk

- Low LTV lending and third party distribution provides resilience to the business model if the market deteriorates.
- Strong margin management capability, with the capacity to increase margin if needed.
- 28% of mortgages and 63% of savings on administered rates at 30 June 2018.
- Mortgage and savings rates remain competitive with pricing supported by low levels of operating costs, impairments and conduct provisions.
- Nationwide distribution of savings and mortgage avoids geographical concentration.

Member Focus

- The Society returned £117m of value back to members in H1 2018 (£210m FY 2017) through savings rates.
- The Society still has a strong Branch network consisting of 70 branches and 21 agencies to service our members.
- Currently the 7th largest mortgage lender in UK



Branch Agency

Financial Performance

Highlights from H1 2018

Financial performance

Capital	**Financially safe and strong institution with a CET1 ratio of 35.5%, the highest reported by top 20 lender[1], and a leverage ratio of 4.6%[2] , reflecting the low credit risk business model.**
Cost	**Continued focus on cost control with the costs to mean assets ratio at 0.46% (0.41% excluding strategic investments), the lowest reported by any UK building society.[1]**
Impairments	**Strong asset performance continues, with an impairment credit of £1.0m.**
Growth	**Mortgage assets have increased by £1.5bn (4.1%) in H1, without any change in risk appetite. Savings balances increased by £0.4bn (1.3%).**
NIM	**Net interest margin at 100bps, in line with expectations. The Society continues to reward members, returning £117m to them in H1 through competitive product pricing.**
Profit	**Profit before tax of £113.1m, in line with H1 2017.**

1. Source: CML Top 20 mortgage lenders (as published August 2016) - latest published CET 1 data As at 23/02/2018 2.Under the BoE modified calculation excluding Central bank exposure less than 3 months

Financial performance

COVENTRY Building Society

Income statement

£m	HY2018	HY2017
Interest receivable and similar income	480.5	430.5
Interest payable and similar charges	(266.8)	(238.2)
Net interest income	213.7	192.3
Other income	(1.0)	4.9
Net gains/losses from derivatives	(0.6)	1.1
Total income	212.1	198.3
Management expenses	(99.6)	(81.9)
Impairment charges/credit	1.0	0.1
Financial Services Compensation Scheme	1.4	(2.5)
Provisions for liabilities and charges	(1.0)	1.0
Charitable donation (Poppy Appeal)	(0.8)	(0.6)
Profit before tax	113.1	112.4
Taxation	(26.7)	(27.2)
Profit for the period	86.4	85.2

Net interest income rose 11%
Profit before tax increased 1%

Balance sheet

£bn	HY2018	HY2017
Liquidity	6.0	5.0
Loans and advances to customers	37.4	34.5
Derivative financial instruments	0.3	0.4
Intangible and tangible assets	0.1	0.1
Other assets	0.0	0.0
Total assets	43.8	40.0
Shares	31.4	29.9
Wholesale	9.9	7.7
Derivative financial instruments	0.2	0.4
Other liabilities	0.2	0.1
Subordinated liabilities	0.0	0.0
PIBS	0.0	0.0
Members' interests and equity	2.1	1.9
Total liabilities & equity	43.8	40.0

Balance sheet growth of 10%

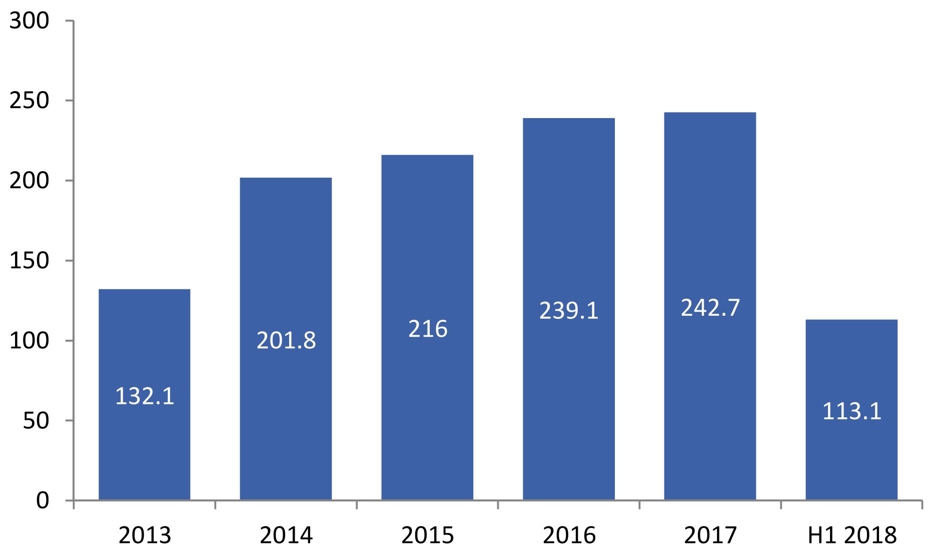
Financial performance

COVENTRY Building Society

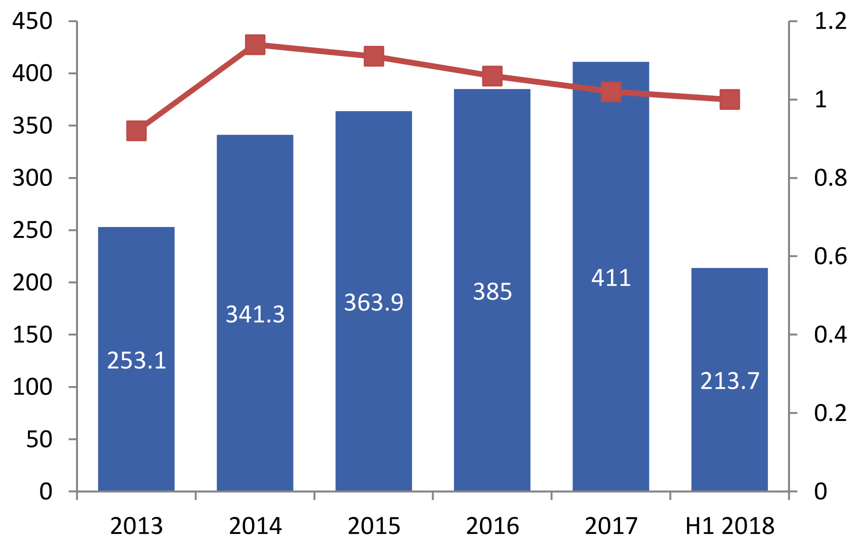
Net Interest Income 2018: £213.7m (£192.3m HY 2017)

- The Society is committed to providing long-term sustainable value to members through competitively priced saving and mortgage products. Each year we retain only sufficient profit to ensure we have the capital we need, enabling us to provide favourable pricing for members.
- Both mortgages and savings have grown ahead of market in H1, and net interest income increased whilst the low risk appetite was maintained, as evidenced by continuing low impairments.
- Substantial strategic investments have been made during the year to date, including the redesign of our branches and enhanced data centre capability, and with a programme to upgrade the Society's core technology platform being initiated.
- NIM increased by 1bp, reflecting the benefit of the profit on sale of a BTL portfolio, which added 7bps to margin.

Profit before tax



Net interest income (£m) / Margin %



Financial performance

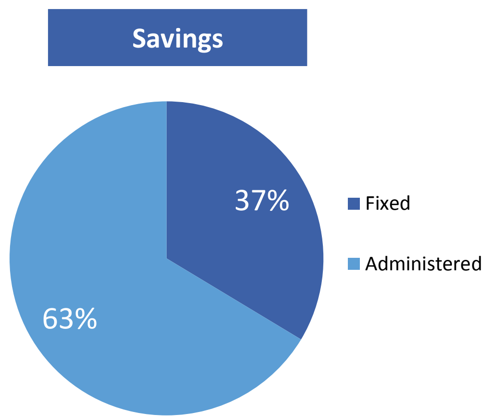
COVENTRY Building Society

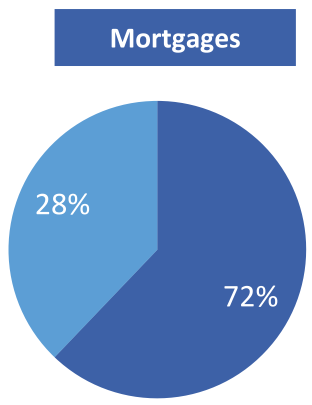
Large Proportion of Administered Rates

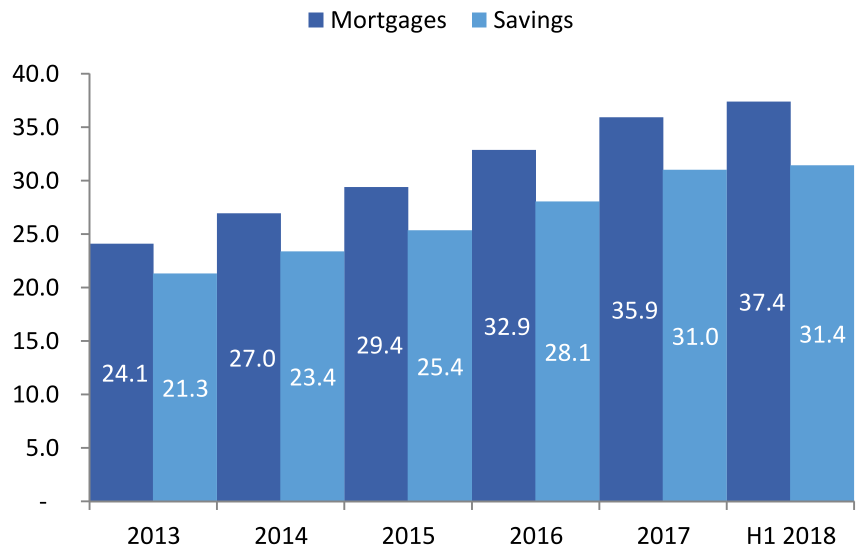
- Consistent growth in mortgage balances, growing by over 4.1% in 2018.
- Mortgage assets continue to be of very high quality with the balance weighted average indexed LTV of the mortgage book at just 53.7% as at 30 June 2018.
- The proportion of administered rate mortgage products allows commercial scope to manage margin if required, with the Society's Flexx for Term mortgage offering continuing to attract borrowers to an administered rate product.

Retail Funding led Lending Strategy

- Retail savings growth of 5% over the previous 12 months versus market growth of 2.7%.[2]
- Over 90% of mortgages are funded by retail savings or capital.
- Nearly two thirds of savings are on administered rates, supporting the commercial scope to manage margins.



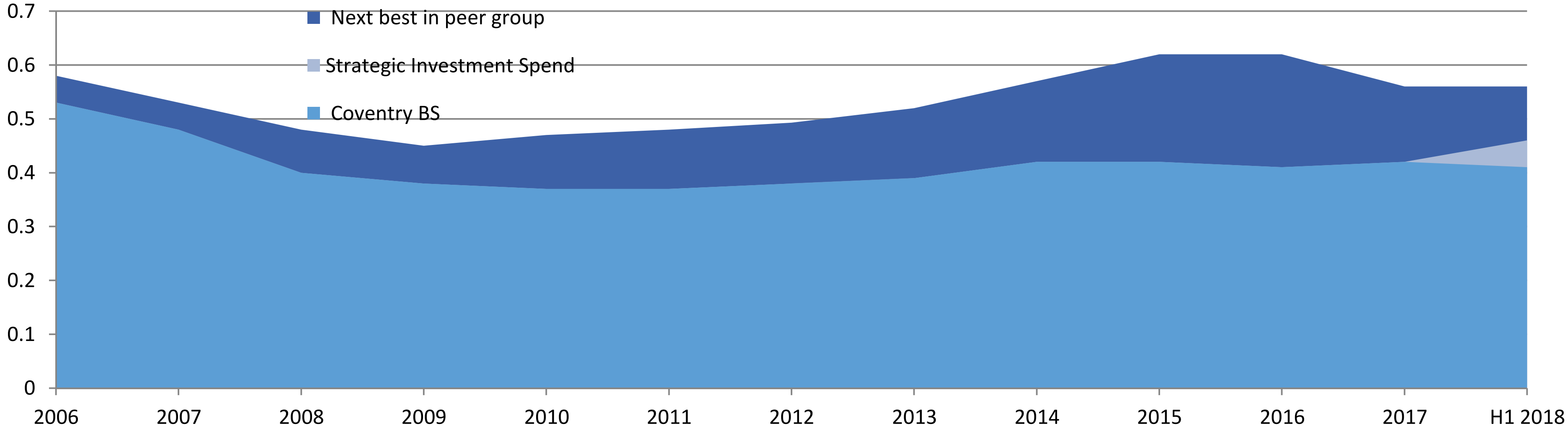




1. The Society's average month end savings rate (society mix of products) compared to BoE WA rate for household interest bearing deposit (market mix of products) 2.Source: Bank of England

Financial performance

Management expenses (%)



Low Cost Base

- Low cost base gives a competitive advantage.
- Cost efficiency is enabled by a simple business model, efficient distribution channel and high average account balances with growth driving economies of scale.
- The costs to mean assets ratio remains the lowest of the top ten UK building societies.[1]
- The difference to the next best in the peer group is 10bps.[1]
- Strategic investments in the branch network, data centre capability and in upgrading the core technology platform will lead to a rise in the management expense ratio in the short-term (H1 ratio of 46bps, 41bps excluding strategic investment spending).

1. Source: CML Top 20 mortgage lenders (as published August 2016) - latest published CET 1 data As at 23/02/2018 2. Next best in peer group HY2017 release used   Source: Annual report & accounts

Financial performance

COVENTRY Building Society

%	2014	2015	2016	2017	HY 2018
Net interest margin / mean assets	1.15	1.11	1.06	1.02	**1.00**
Cost/ mean total assets	0.42	0.42	0.41	0.42	**0.46**
Cost / income ratio	35.7	37.2	37.9	40.4	**47.0**
Retained profit / mean assets	0.53	0.52	0.50	0.46	**0.23**
Liquidity (as percentage of SDL)	13.6	13.8	13.5	15.5	**14.5**
Wholesale funding	19.4	20.0	21.6	22.7	**24.0**
Mortgage assets growth	11.8	9.1	11.8	9.3	**4.1**
Common Equity Tier 1 ratio	25.4	29.4	32.2	34.9	**35.5**
Leverage Ratio[2]	4.2	4.4	4.4	4.6	**4.6**
Liquidity Coverage Ratio (LCR)	>100	141	151	208	**177**

Financial Strength

- Growth in mortgages and savings continued in H1, with both growing ahead of the market.
- Net interest margin reflects strong member pricing, whilst being sufficient to support growth and maintain capital ratios, this includes 7bps uplift due to sale of £350m buy-to-let mortgage portfolio.
- Cost control is a key advantage in an increasingly competitive mortgage market. Increase reflects strategic investment projects.
- Wholesale funding higher due to TFS drawings.
- CET1 ratio highest reported by any top 20 lender[1]. Liquidity Ratio is significantly in excess of regulatory minimum.

1. Source: CML Top 20 mortgage lenders (as published August 2016) - latest published CET 1 data As at 23/02/2018 2.Under the BoE modified calculation excluding Central bank exposure less than 3 months (2017 results)

Building for the future – Strategic Investment

COVENTRY Building Society

Investment for the Future to create competitive advantage

- Level of IT and technology change is rising as a result of:
  - Rising customer expectations for service delivery and enhanced functionality;
  - Higher levels of cyber threat;
  - Increased expectations from regulators.
- Our capital strength, low cost base and long term view enable us to invest despite a competitive market.

Branch network re-design

- Important face of the Society with the membership which builds trust and engages the community.
- Branches account for over 30% of retail savings acquisition each year and manage around £10.5bn of the total retail book.
- 70 branches concentrated in our heartland.
- The re-design of the branch network will meet evolving needs of members and better reflect the future of branch engagement
- Flexible design principles will future proof our branches.

Operational Resilience

- To enhance operational resilience we are progressing a move to a co-located / cloud hybrid datacentre environment.
- Will provide dedicated and resilient point to point connectivity.
- Cloud technology adopted subject to rigorous risk assessment.
- Enable scalability of operation, and achieve economies of scale in a safe and secure way.

Investment in New Banking Platform

- Planning the upgrade of our core banking platform to provide greater flexibility in responding to changing customer needs and regulatory requirements, more quickly and cheaply.
- Enhancements will create future competitive advantage.
- Supports product and change agility and cost efficiency
- Is a better base on which to build out digital capabilities, streamline customer journeys and integrate into an Open Banking market
- Build resilience of both architecture and software

Building for the future – Strategic Investment

COVENTRY Building Society

Operational Resilience

Project to move data from own data centres to co-location and cloud services.. Delivering cost efficiency and security by using new technology.

Q2 2016	Review of data centres initiated
September 2016	Data Centre strategy presented to Board and permission to start Feasibility granted
January 2017	Board approves Start-Up (GW0) for the Infrastructure Transformation Programme.
July 2017	Analysis in Start-Up confirms the Hybrid Data Centre approach fits within Society's low risk approach.
December 2017	Selection of key partners, approved by Board
February 2018	Signed the agreement for best-of-breed co-located data centre provision with BT/Ark following a structured review of the market and subsequent procurement process. Contract with AWS for cloud has been signed
In H2 2018 we will	Complete core-located data centre infrastructure build ready to built ready to accept first applications; Amazon cloud virtual data centres built ready to accept first applications; First applications migrated into the cloud

Branch Network Re-Design

- The re-design of the branch network will meet evolving needs of members and better reflect the future of branch engagement.
- **In H1 2018** Leicester branch pilot opened (May), with positive feedback.

- **In H2 2018** we plan to complete 6/7more branch transformations

- 2018 transformations will provide insight into adapting the design to different branches ahead of a faster roll out to the full network over 2019 - 2021

Building for the future – Strategic Investment

COVENTRY Building Society

Investment in New Banking Platform

Moving to a modular, easier to update core banking platform will provide competitive advantage

- Supports product and change agility and cost efficiency
- Is a better base on which to build out digital capabilities, streamline customer journeys and integrate into an Open Banking market
- Build resilience of both architecture and software

In H1 2018 we have completed transition planning and scoping. Through H2 2018 and into Q1 2019 we will be completing detailed solution design and standing up the infrastructure.

The programme is scheduled to be completed by 2021

Progress to Date

February 2017
Board approved initial investment to get to business case stage

September 2017
Completed Core Banking Package selection process

October 2017
Defined the approach which would gives full Summit Solution

November 2017
Board ratified recommendation to proceed with MSO (IRESS) and T24 (Temenos) as preferred packages and agreed the approach to Gateway 1

TEMENOS
iress

December 2017
Selected Accenture as our preferred Delivery Partner / Systems Integrator

accenture

January 2018
Presented detailed approach and plans to Gateway One, thus commencement of Start Up (& early design) Stage

March 2018
Completion of Start Up (& early design) Stage. High level solution, E2E plan understood

April 2018
Board approval to pass through Gateway One

June 2018
Contracts signed with all Major suppliers (Accenture, Iress and Temenos)

Building for the future – Open Banking Opportunity

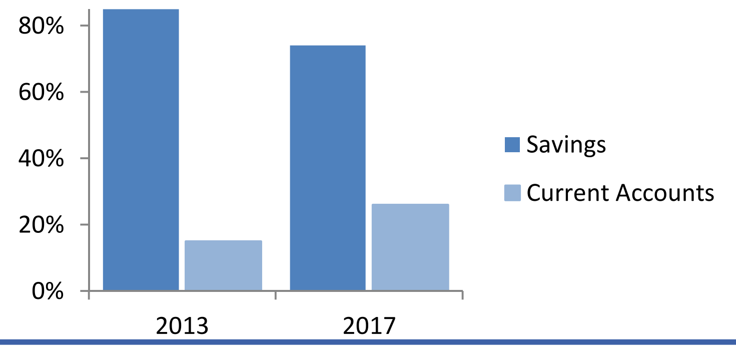
Changes in the UK savings and mortgage markets provide opportunity for the Society

- Open banking and the continued move toward intermediary distribution in the mortgage market provide opportunities for the Society to grow both aspects of its business.

Savings market opportunity

- Open banking, and the expected growth of account aggregation services, will give consumers more flexibility and choice in savings decisions.
- The increased mobility of the low paying funds held at larger competitors is an opportunity for the Society - £1 in every £4 is currently held in current accounts[1]
- The Society already has an agreement with Hargreaves Lansdown that sees Society accounts offered through their platform.
- As an active acquirer in the savings market, the Society is well placed to benefit from technological and competitive change.

Current Account and Savings Balances[1]



Increase in customer choice in mortgage market

- The UK market now sees around 70% of mortgage business generated through intermediaries.
- The Society is already ahead of this trend, with over 90% of lending through intermediaries, and with branch and phone channels sized for the low level of direct distribution.
- The FCA vision centres around customer choice and ease of switching.
- The Society expects to be a net beneficiary of this trend and is working with a number of top lenders and other parties to design an integrated technology hub to support customer choice in the mortgage process.

1. Source: CACI Benchmark services

Building for the future – Board Changes

COVENTRY Building Society

The Society's Board has been further strengthened by appointments in 2018

- Three appointments made this year have added further industry and risk management knowledge to the Board:
  - Gary Hoffman was appointed to the Board on 26 April 2018 as a Non-Executive Director and Chairman. Gary has held a number of executive and non-executive positions in the banking, insurance and payment services industry, including as Chairman of Barclaycard and Barclays UK, Chief Executive of Northern Rock after its nationalisation, and Chairman of life insurer Hastings and of Visa Inc.
  - Iraj Amiri was appointed to the Board on 6 July 2018, as a Non-Executive Director. Iraj has held a number of executive and non-executive positions with public and member organisations covering auditing, investments and pensions, including working as a partner at Deloitte, where he headed the internal audit group and enterprise risk management group.
  - Martin Stewart will join the Board as Non-Executive Director with effect from 1 September 2018. He is a leading figure in UK financial services with extensive business experience and a successful career at the UK's prudential regulator.

1. Source: CACI Benchmark services

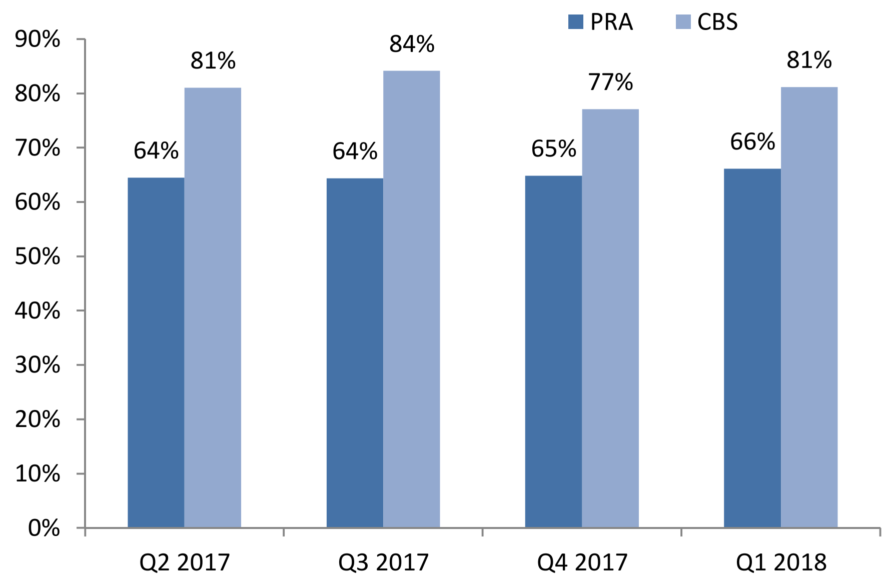
Asset Quality

Asset quality

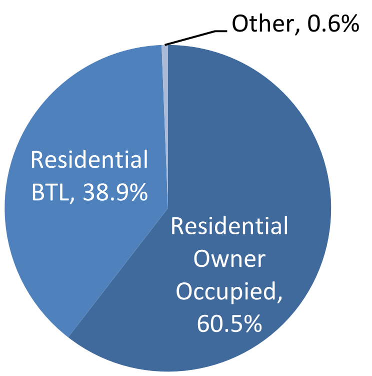
Low Risk Loan-to-Value (LTV)

- 82% of lending in 2018 has been at LTVs of 75% or below, in comparison to the market average of 66% (to end of Q1 2018).
- Market lending above 90% in the first quarter of 2018 was 3.3%; Coventry lending above this LTV was nil.
- No sub-prime, commercial or second charge lending (legacy inherited commercial book currently £2.5m in run off).
- Negligible levels of unsecured lending (£26.1m: HY 2018, 31.8m: 2017).
- The balance weighted average indexed LTV of the entire mortgage book is 53.7%.
- 97% of the overall book has an indexed LTV of 85% or less.
- Circa 70% of all buy-to-let lending was originated at 65% LTV or less.

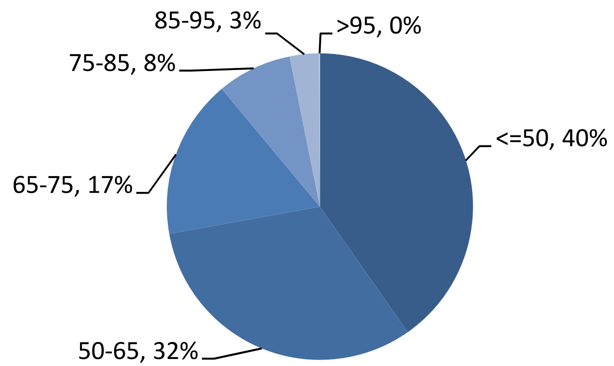
Gross lending ≤ 75% LTV



Total book split by product



Total book split by LTV



Asset quality

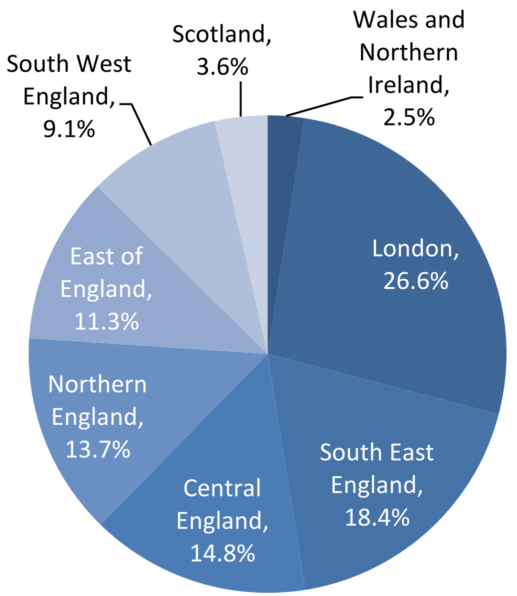
Geographic Split

- The majority of the UK mortgage market is introduced via intermediaries (e.g. independent financial advisors, mortgage brokers, estate agents).
- Intermediaries give national coverage and support the geographic diversification of the mortgage book.
- Crucially, all underwriting and servicing is performed by Coventry. There is no ‘packaging’; the intermediary acts solely as an introducer.

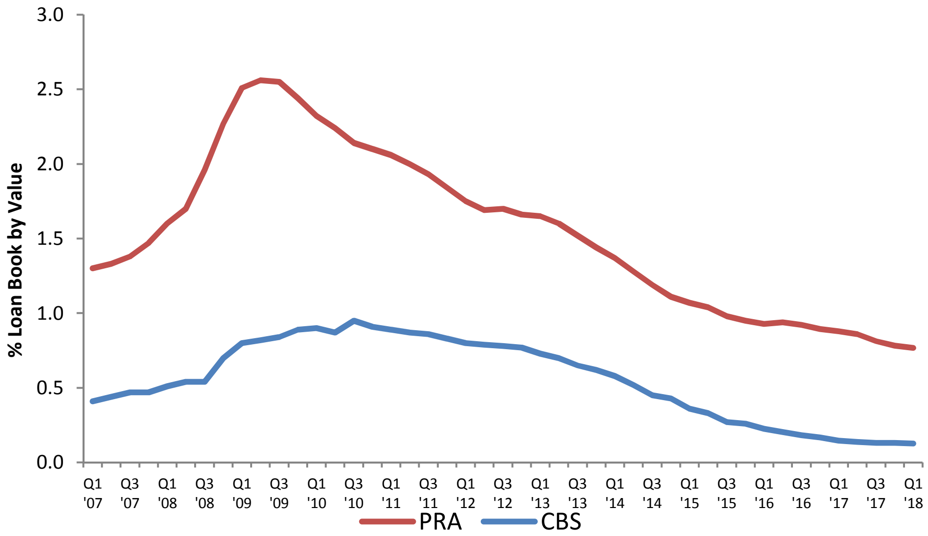
Mortgage Book Performance

- The Society’s arrears performance continues to improve and to be significantly better than the industry as a whole.
- The value of loans in arrears by ≥ 2.5% of the mortgage balance at 31 June 2018, as a proportion of the total book, has fallen to 0.13%.
- Unlike some lenders, arrears are very rarely capitalised. There was only 1 case in HY18 for Coventry versus 2,400 for the industry as a whole up to Q1.
- IFRS 9 introduced in 2018, with a small decrease of impairment for consumer loans and a negligible impact on regulatory capital.

Geographic distribution by value



Arrears ≥ 2.5% of mortgage balance (including possessions)



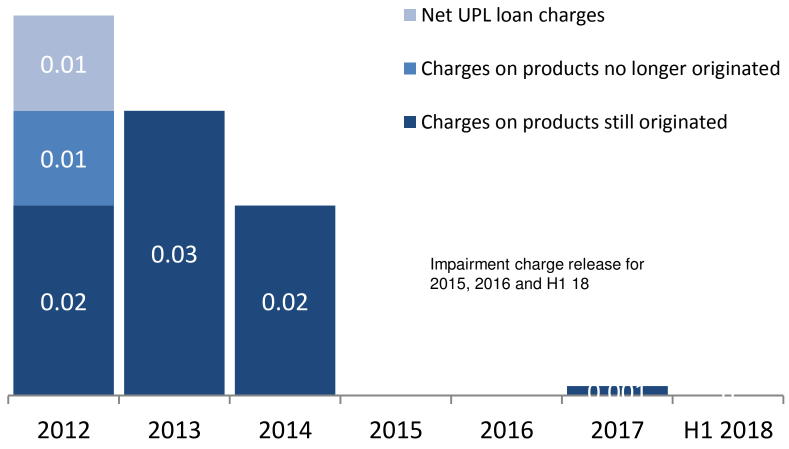
Asset quality

COVENTRY Building Society

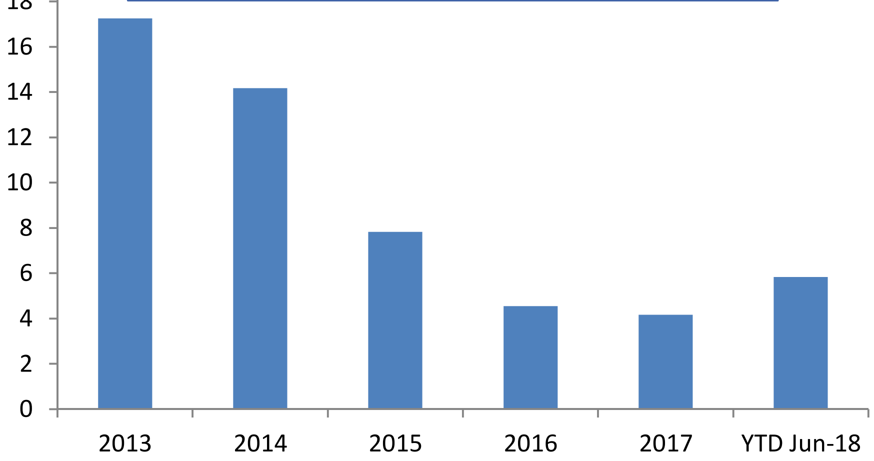
Robust Origination and Monitoring

- Coventry has strong and experienced central underwriting and collections teams, with no outsourcing.
- The Credit Risk department analyses the performance of the mortgage book and conducts quality assurance assessments.
- We consistently target low risk areas of the mortgage market, primarily low LTV owner occupier and buy-to-let.
- No lending has been advanced at more than 90% LTV since 2009.
- Arrears levels are consistently below industry averages at just 0.21% of accounts being more than three months in arrears (Industry average 0.81%).[1]
- At 30 June 2018, only 37 properties were in possession.

Impairment charges as % of loans



Average Society Possessions per month



Very Low Impairments

- Impairments are very low on a mortgage book of £37.3bn.
- Impairment charges have fallen over the recent past with releases reported in 2015 and 2016.
- Impairment charges in the last recession between 2008 and 2012 averaged c. 8 bps per year. A significant proportion (55%) of the impairment charges seen in that period were on loan products that are no longer offered e.g. unsecured personal loans. Impairments have been consistently falling since exiting such markets, with the continued focus being on high quality lending.

1. Source UK Finance

Asset quality – Buy-to-let

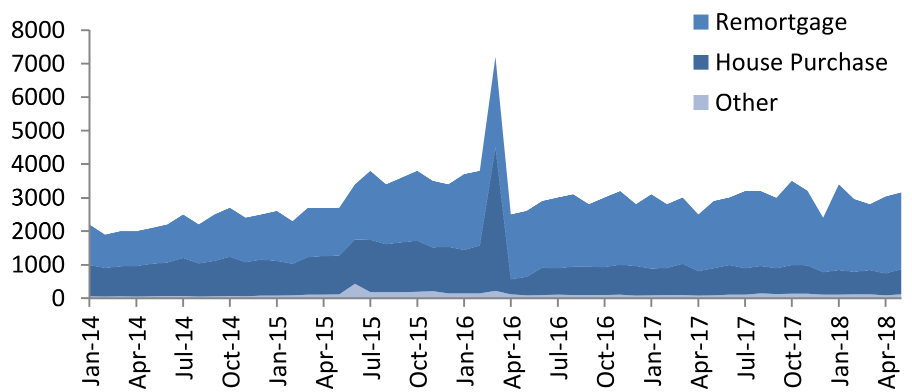
Coventry BTL Experience

- Approximately 2/3 of Coventry's buy-to-let lending is on houses, with one third on flats.
- Buy-to-let demographic is older than typical owner occupied demographic.
- Arrears and impairment levels have been very low. On over £25.7bn of lending since entering the market in 2002, we have incurred total losses of £9.2m.
- The balance weighted average LTV of the buy-to-let book is only 54% as at 30 June 2018.
- There have been only 4 losses on all buy-to-let lending originated in 2010 or later (total losses £49k) and only 11 buy-to-let properties in possession from a book of c. 106,000 properties.

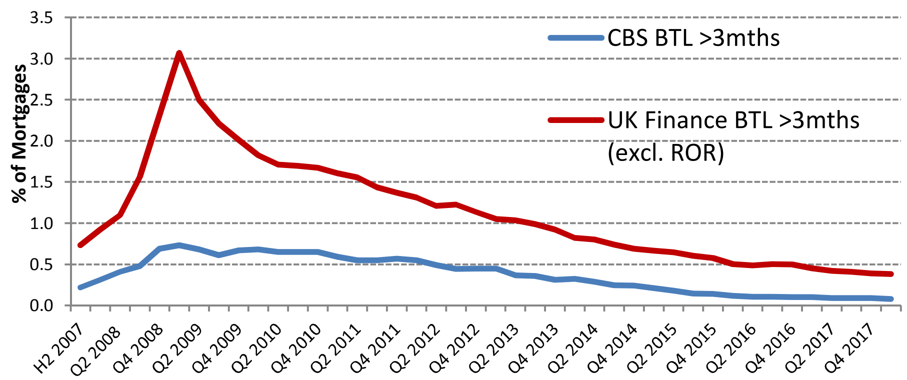
Coventry BTL Performance

- The focus on low LTV lending and on properties that are suitable for the owner occupier market has led to low levels of arrears, and as at 30 June 2018 the number of loans >3 months in arrears (including possessions) reduced to just 0.09%.
- Buy-to-let lending proved to be even more resilient than owner occupier lending during the crisis, with peak > 3 months arrears of 0.73% compared to 1.34% for the owner occupier book.
- 86% of our borrowers have only one property with the Society and c. 3% have more than two with the Society (maximum 3 properties).

New mortgages by purpose of loan, non-seasonally adjusted, UK (CML) (£m)

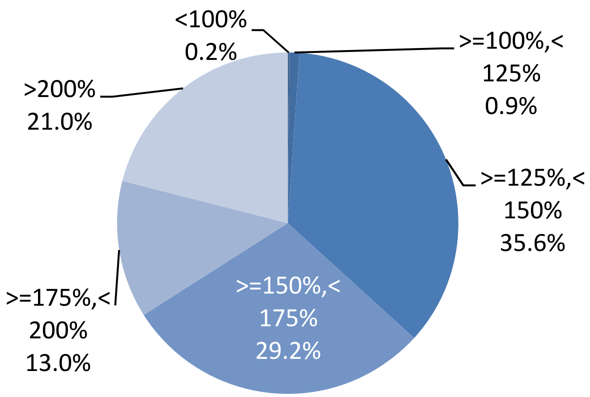


Coventry vs. CML >3mths buy-to-let arrears (incl. possessions)



Asset quality – Buy-to-let

COVENTRY Building Society



Lending Criteria

- 100% subject to physical valuations.
- Properties must be readily saleable into the owner occupier market.
- Maximum of 3 properties with the Coventry and an aggregate loan limit of £1,000,000.
- 50% maximum LTV on new build flats.
- Minimum rental coverage of 125% for basic tax payers and 140% for higher rate tax payers.
- The Society does not lend on Studio and High Rise Flats (above ten storeys)

London Market

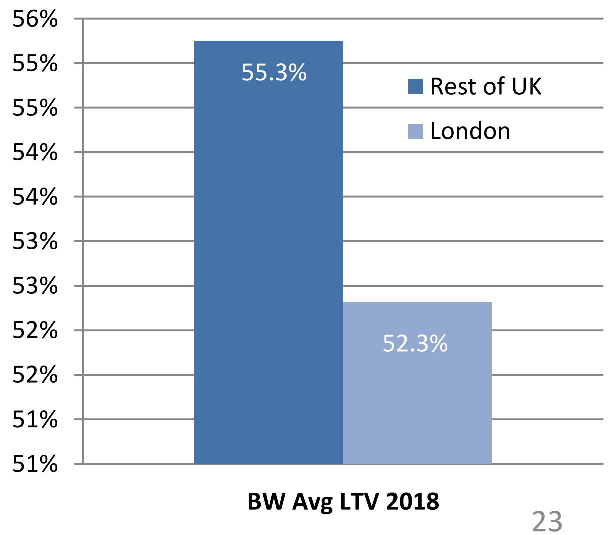
- 43% of all BTL Balances are in London compared to 27% of overall book
- Coventry lending policy ensures any loan greater than £1m to be less than 50% LTV, up to 75% LTV loan size is capped at £500k and above 75% is capped at £350k.
- Coventry does not lend on licensed HMO properties.
- Severe stress testing carried out on our London BTL book, showed strong resilience.
- Lower arrears than the rest of the country with 2bps >3 months in arrears (8bps national average).

Interest Coverage Ratio (ICR)

- For over 99% of accounts, rent provides over 100% coverage of the interest due on the loan.
- The pay rate in this calculation was floored at 5%. In actuality, the pay rate on many of these mortgages is significantly lower, and as such true interest cover is likely to be considerably higher.
- Prudent assumptions regarding rental voids, rent increases etc .are included
- Coventry's actual indexed ICR for 30 June 2018 was 176.6%.

Portfolio Landlords

- Portfolio landlord regulation introduced in 2017.
- Buy-to-let criteria maintained and additional checks by dedicated portfolio underwriters only.
- Assessment of geographical concentration and whole portfolio.
- Portfolio maximum LTV of 65% across all properties within the portfolio.
- The whole portfolio minimum ICR of 125%.
- No individual property with ICR < 100%.
- The proportion of portfolio landlords is c.23% of new business



Based on original rental at 5% stress rate - All data as at 31 December 2017

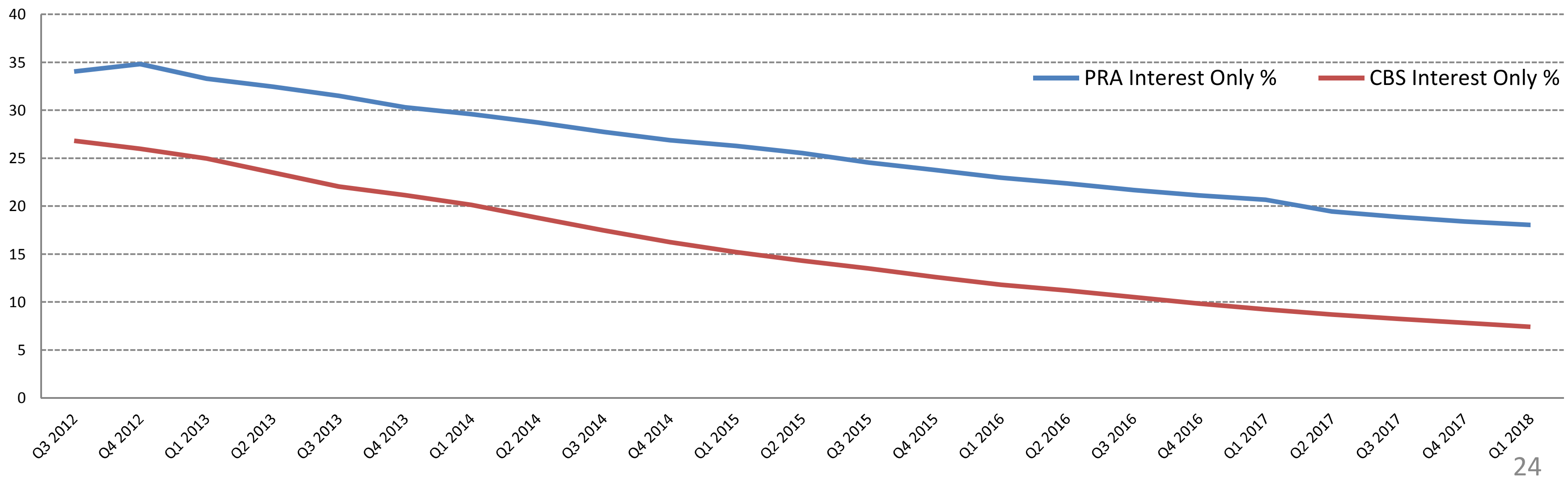
Low Risk – Interest only

COVENTRY Building Society

Owner Occupier IO Loans

- We have a small legacy owner occupied interest only book. In recent years, there has been increased focus on how borrowers will repay their interest only loans after the typical 25 years contractual term.
- As at 30 June 2018 the number of cases on an interest only basis represented 7.7% of the owner occupier book, compared to 34.8% at 31 December 2011.
- Only 17 interest only owner occupier mortgages with a LTV greater than 75% were more than 6 months beyond their scheduled term end date as at 30th June 2018.
- A dedicated team is in place to support IO customers, with first contact made a number of years before maturity. The team focus on making contact with the customer and finding a suitable solution, which may involve a move to a repayment mortgage where a suitable repayment vehicle is not in place.
- Buy-to-let mortgages, where the property is the repayment vehicle, continue to be predominantly interest only.

Interest only by value as proportion of book (owner occupier)

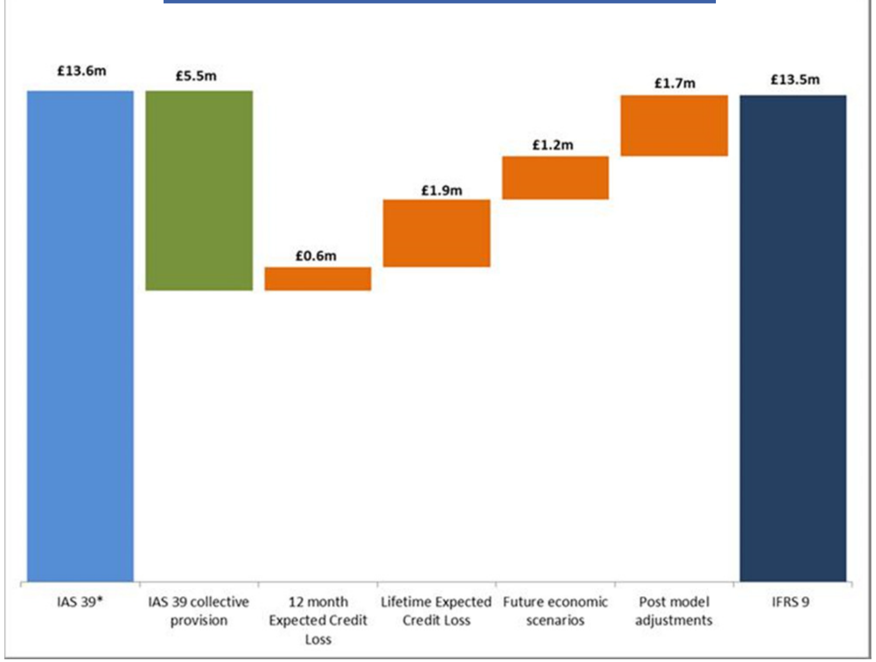


Asset quality – IFRS 9

IFRS 9 – Impact on transition

- The impact of IFRS 9 on impairment calculations is a £0.1m reduction in impairment on loans and advances to customers. The impact on capital is negligible.
- At 1 January 2018, 95% of the Society's loans were in Stage 1, 4% were in Stage 2 and 1% were in Stage 3.
- A reconciliation of the impairment charge from IAS 39 to IFRS 9 is shown below.

Bridge of impairments from IAS39 to IFRS 9



Asset quality – IFRS 9

COVENTRY Building Society

IFRS 9 – Implementation

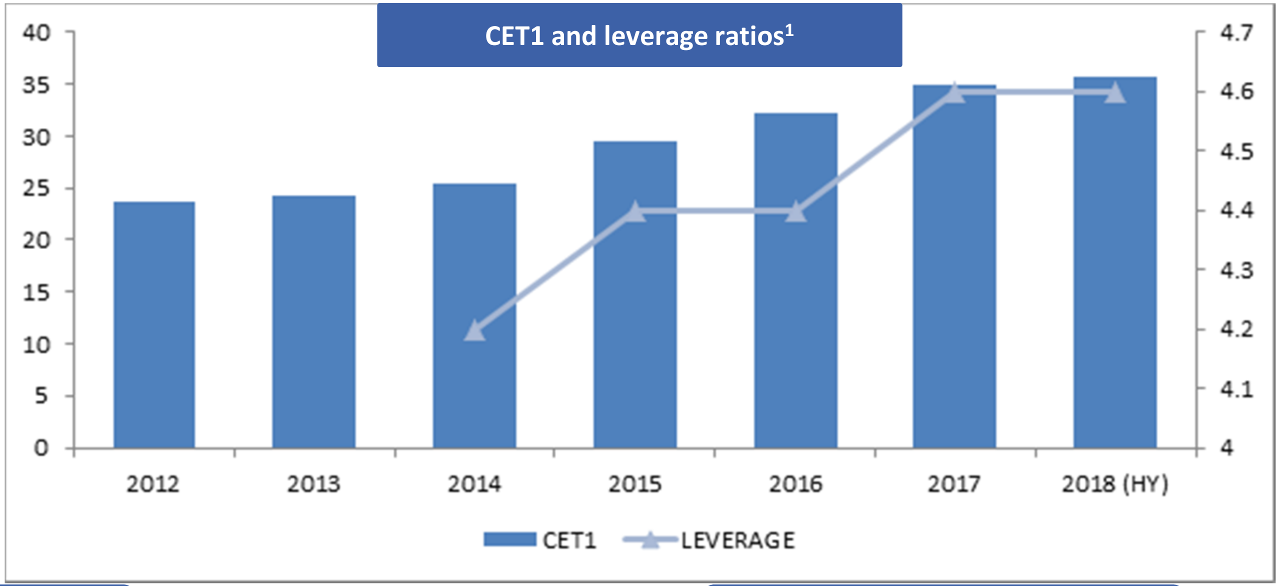
- Significant increase in credit risk is a relative measure, and there are cure periods applied to each stage, loans can be recorded as Stage 2 or 3 despite otherwise performing at the reporting period date.
- Cure periods work to delay transition of loans to a lower credit risk classification (i.e. from Stage 3 to Stage 2 or from Stage 2 to Stage 1) by requiring typically 12 months of sustained performance before a loan is reassessed.
- Of the balances in Stage 2 as at the reporting date, £1,071.2m (92%) were paid up to date as at the balance sheet date. In addition, of the £219.7m balances in Stage 3, £68.6m (37%) were paid up to date at the balance sheet date.
- Possession levels have remained low, with £6.0m of the loans in Stage 3 relating to properties which are in possession. This comprises 33 individual cases and represents 0.02% of the total mortgage book.

	2018				
As at 31 March 2018	Stage 1 'Performing'	Stage 2 'Deteriorating'	Stage 3 'Default'	Impairment	Total
Loans and advances to customers	£m	£m	£m	£m	£m
Residential mortgages					
Owner-occupier	21,582.6	700.6	142.6	(5.1)	22,420.7
Buy to let	14,286.3	373.5	36.1	(3.5)	14,692.4
Non-traditional mortgages					
Residential near-prime	31.6	18.9	20.4	(0.2)	70.7
Residential self-certified	114.7	65.4	19.7	(1.5)	198.3
Commercial lending	-	2.0	0.5	(0.8)	1.7
Unsecured	25.4	0.4	0.4	(0.6)	25.6
Pipeline	-	-	-	(0.1)	(0.1)
Total	**36,040.6**	**1,160.8**	**219.7**	**(11.8)**	**37,409.3**
Of which past due		**89.6**	**138.9**		**219.7**

Capital

Capital

COVENTRY Building Society



Capital and Reserves

- Following a Supervisory Review process in the first half of 2016 the Society has been issued with an ICG, currently 12.8% of RWAs. Retained earnings from strong profitability are Coventry's primary source of CET1 capital, currently c. £1.54bn.
- Capital levels were strengthened by the issuance of £400m of AT1 in 2014, a deal which attracted an order book in excess of £3bn.
- The whole loan sale s of non-member buy-to-let mortgages to a third party in 2015 and 2018 provide further capital management options.

Leverage Ratio Framework

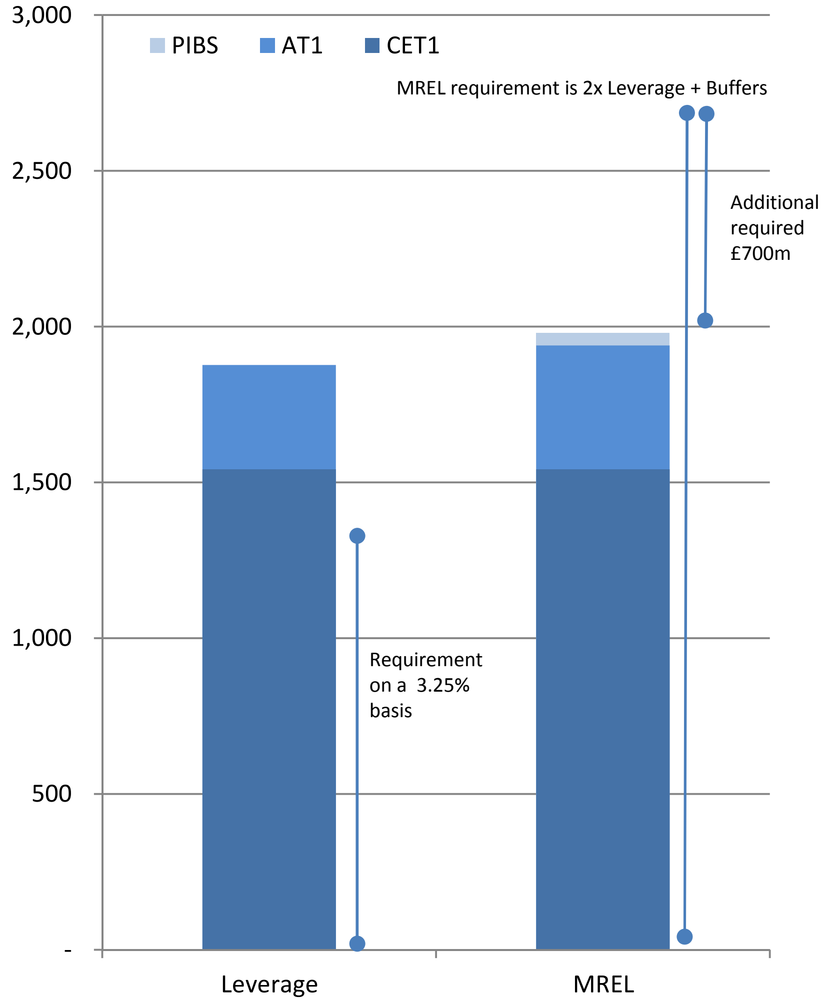
- A binding UK leverage ratio applies to firms with retail deposits of £50bn or more. All firms are expected to be in scope under the EU rules from 2019.
- The components of the UK leverage ratio framework are a minimum ratio of 3.25% (excluding Central Bank exposures below 3 months to maturity). The CCyB is set by the FPC and is currently 1% not enforced until November 2018. [2]
- The modified leverage ratio on a PRA basis at 30 June 2018 is 4.6% (4.1% when Bank of England reserve account is included), comfortably above the 3.25% minimum level (3.6% including the CCyB).

1.The BoE modified calculation excluding Central bank exposure less than 3 months 2.For Leverage Counter cyclical leverage buffer (CCLB) is calculated as 35% of 1% CCyB

Capital and Accounting Future

MREL

- Under the rules the Society is required to meet an interim MREL requirement of 18% of risk weighted assets by 1 January 2020. The indicative end-state MREL requirement for all firms will be twice the binding capital requirement, for the Society this is currently two times Pillar 1 and Pillar 2a or 25.6% of risk weighted assets. The Society currently exceeds this constraint. If leverage becomes the binding constraint for the Society, this will result in the need to raise MREL eligible debt.
- As at H1 2018, an additional requirement of £700m of MREL would be required to meet 2x leverage constraint
- This requirement will be expected to grow in the years leading up to 2022, as the balance sheet grows, however, this equates to a manageable 3 to 4 MREL transactions



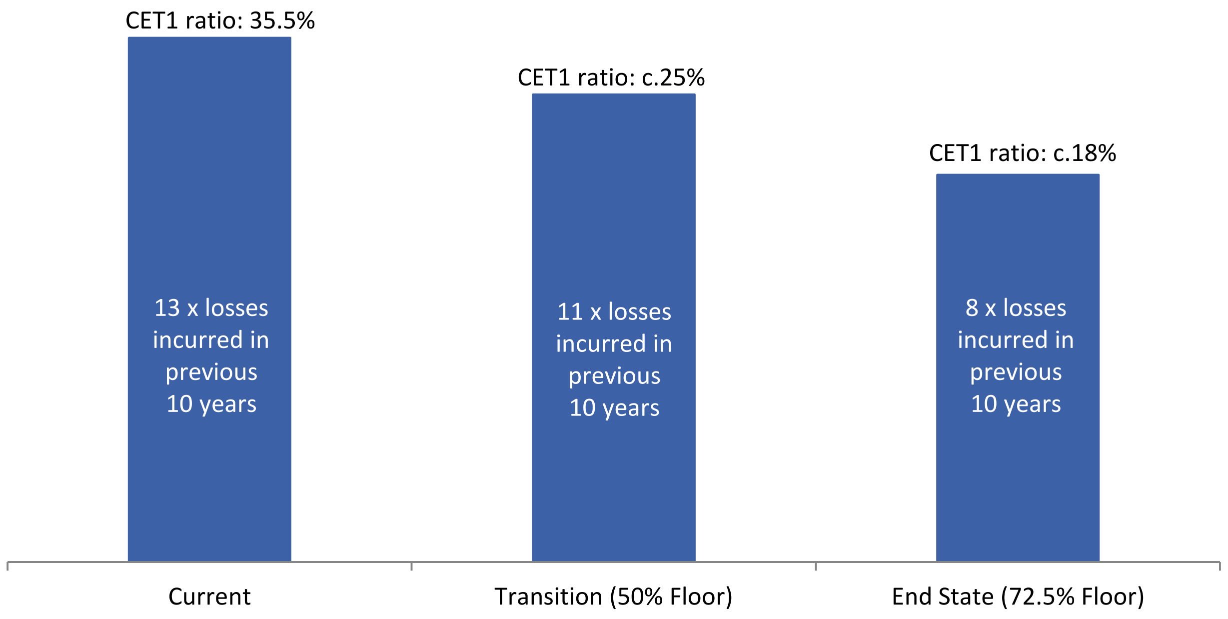
Basel IV Capital implications

COVENTRY Building Society

Basel IV

- BCBS Paper released in December 2017 outlining Standardised Risk Weights and output floors that seek to remove variability in internal models (IRB).
- Regulation and implications still need finalising and have national discretion (especially in the treatment of differing mortgage types).
- Output floor phased in from 50% in 2022 to 72.5% in 2027.
- Assuming the implementation of 50% output floor, the CET1 ratio reduces materially but remains above 22% reflecting the impacts of the flooring on a low risk business model.
- Surplus to regulatory minima remains considerable, equal to over 8 times the actual credit losses experienced in the last 10 years.

Surplus over Basel IV Requirement[1]



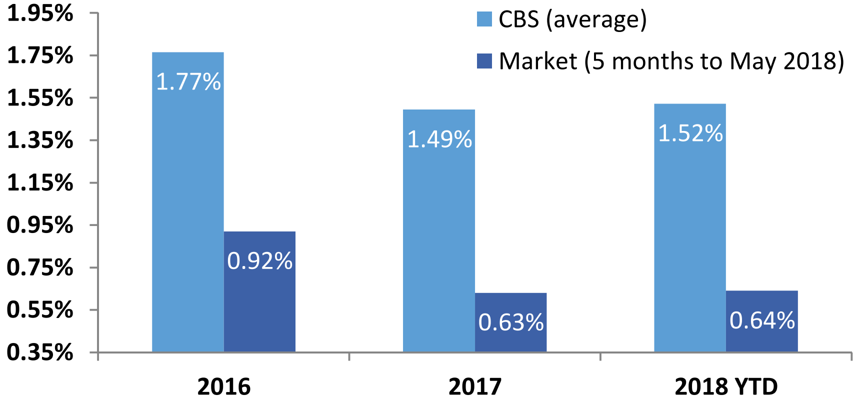
1. Based on Portfolio Landlords (landlords with 4 or more properties) risk weighted as real estate exposures with repayment materially dependant on cash flows generated by property

Funding and Liquidity

Retail funding

COVENTRY Building Society

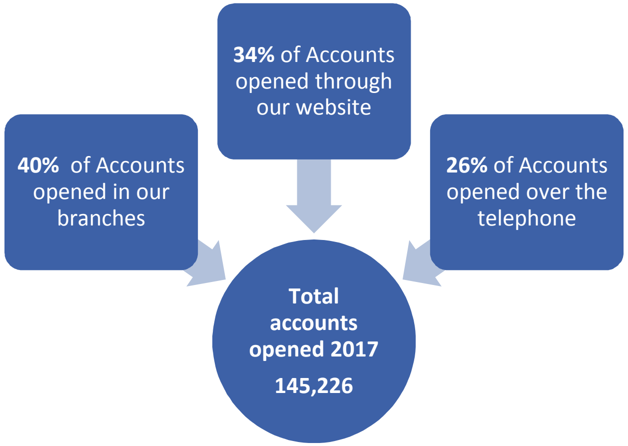
Retail Funding Prices vs. Market[1]



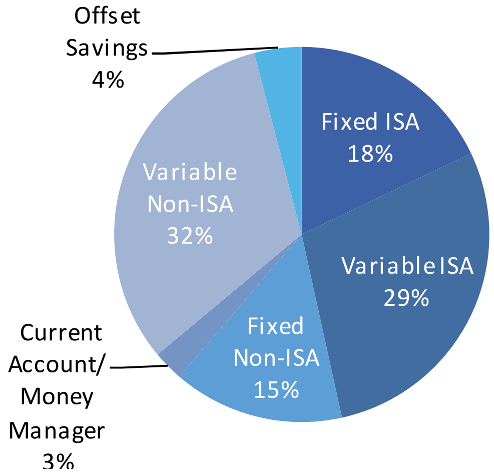
Retail Savings Focus

- Lending is primarily funded through retail deposits.
- Coventry has a proven track record in acquiring and retaining retail balances.
- Savings book growth 5% over the 12 months to H1 2018.
- Savings well diversified over distribution channels; Branch, Internet and Telephone.
- Coventry market share increased to 2.4% in 2017, with over 145,000 new accounts opened in the year.

Funding Channels



Retail Product Breakdown



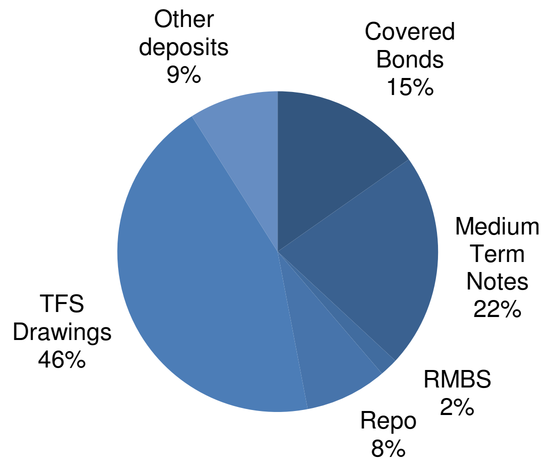
1. The Society's average month end savings rate (society mix of products) compared to BoE WA rate for household interest bearing deposit (market mix of products)

Wholesale funding

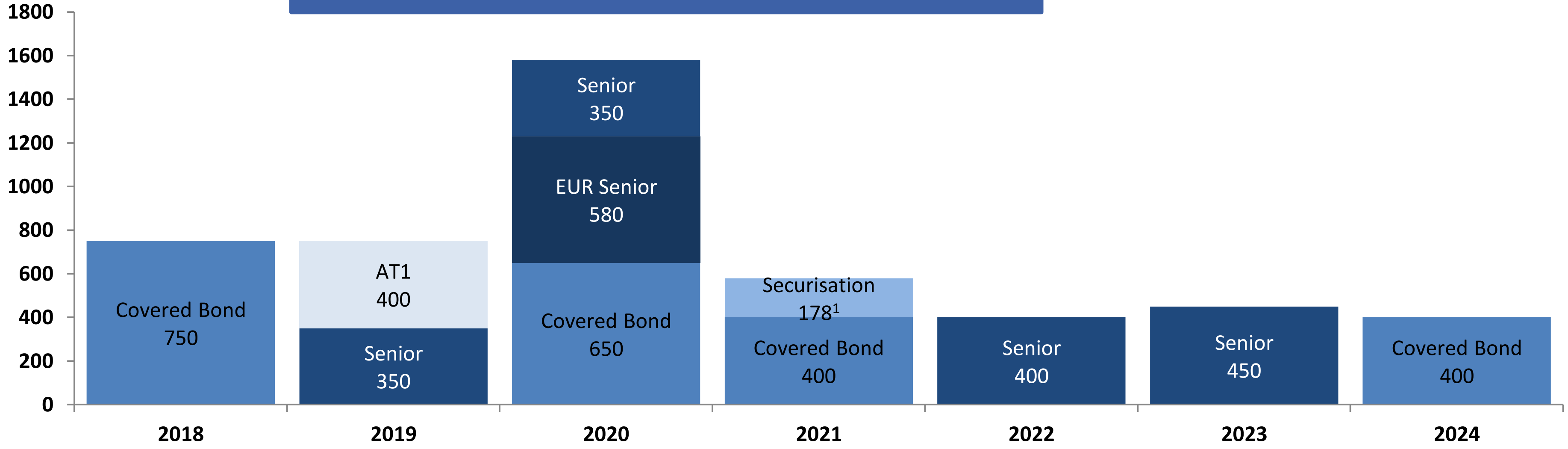
Funding Strategy

- Retail deposits are supplemented by a number of wholesale funding options.
- Wholesale market access provides competitive advantage and diversification of funding via:
    - MTNs.
    - Covered Bonds.
    - Securitisation.
- Continued move towards longer dated wholesale deals providing reliable long term funding.
- Wholesale funding ratio 23.9% as at 30 June 2018.
- TFS drawings of £4.25bn as at 30 June 2018, No FLS remaining.

Wholesale Funding as at 30 June 2018



Wholesale funding maturity profile[2]



1. Current value after amortisation 2. In GBP, excluding TFS

Liquidity

COVENTRY Building Society

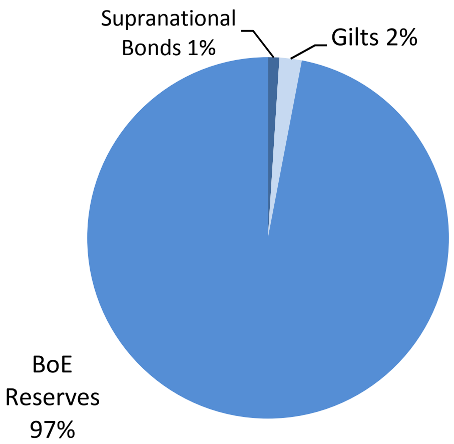
Liquidity

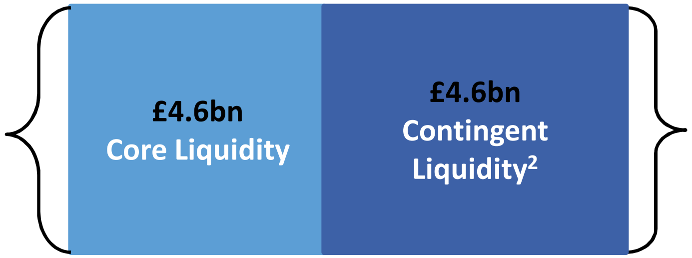
- Over 99% of core liquidity is eligible as High Quality Liquidity Assets Buffer and consists of UK Government or Bank of England assets.
- Core liquidity holdings are solely UK exposure, the Society has no direct exposure to peripheral Eurozone countries.
- The UK authorities have placed increased emphasis on contingent liquidity, from central bank facilities via the pre-positioning of loan books, retained bonds and other assets. The Society prepositioned additional mortgage assets in January 2018 as part of its ongoing liquidity management strategy.

LCR / NSFR

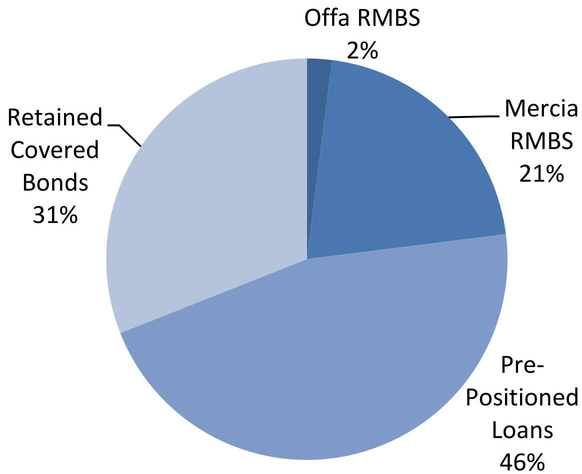
- The Society maintains liquidity considerably above regulatory requirements with LCR 177% as at 30th June 2018.
- The NSFR was 144% as at 30 June 2018, which is consistent with the year-end position (145%).
- The Loan to Deposit ratio was 116% reflecting the stable funding profile of the Society

Core Liquidity[1]





Contingent Liquidity[2]



1.Showing value of unencumbered assets as at 30 June 2018 – The Society held £750m Gilts in repurchase agreements as at 30 June 2018. 2. including £2.1bn unencumbered prepositioned loans at the BoE

Contacts

Contact details

COVENTRY Building Society

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Useful links

- **Main website** http://www.coventrybuildingsociety.co.uk/
- **Financial results** http://www.coventrybuildingsociety.co.uk/your-society/financial-results.aspx