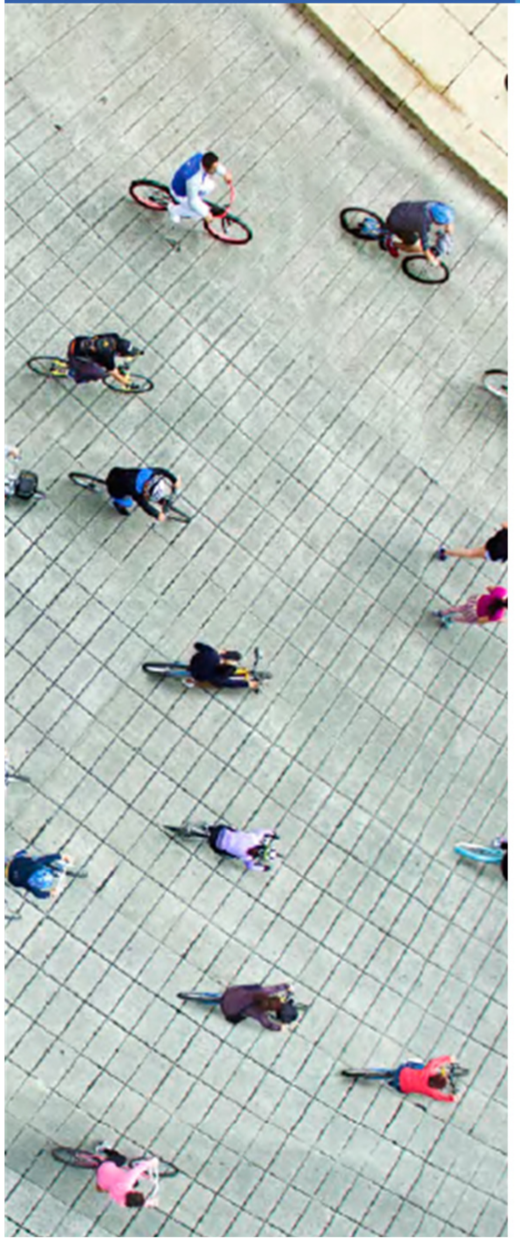

COVENTRY
Building Society

2018
Results Presentation

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COVENTRY Building Society

1. Introduction

Overview

Simple business model

- Providing simple, transparent retail savings products which offer long term value.
- Helping customers own 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.
- Underpinned by our CARES values which shapes decision making and focuses on putting members first.
- Strategically investing in the future whilst maintaining capital strength.

Financial Strength

Strong CET1 ratio highest reported by any top 20 lender.[1]	**35.5%**
Management expense ratio lowest reported by any UK building society – *including 9bps for increase in strategic spend over 2017*	**0.50%**
Leverage ratio exceeds regulatory requirements.[2]	**4.6%**

The 2nd Largest Building Society in the UK

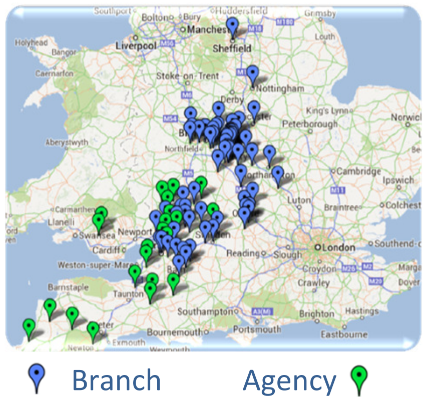
	Long term	Short term	Last credit opinion
Moody's	**A2**	**P-1**	Sept 2018
Fitch	**A-**	**F1**	Apr 2019

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.
- 25% of mortgages and 67% of savings on administered rates at 31 December 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 £227m of value back to members in 2018 through competitive savings rates[3].
- The Society still has a strong Branch network consisting of 70 branches to service our members.
- Continuing to invest in the branch network is a key part of our strategic plan.



- All figures as at 31 December 2018 unless otherwise stated
- 1. Source: CML Top 20 mortgage lenders (as published July 2018) - latest published CET 1 data As at 27/02/2019 2.Under the BoE modified calculation excluding Central bank exposure less than 3 months 3. The Society's average month end savings rate (society mix of products) compared to BoE WA rate for household interest bearing deposit (society mix of products)

2. Full Year 2018 Results

Full year 2018 results

COVENTRY Building Society

9.3%

mortgage balance growth

against market growth of 3.0%[3]

our 2017 result: 9.3%

Growth in the Business

Mortgage assets have increased by £3.4bn
Savings balances increased by £2.2bn.
The Society has continually outperformed the growth of the market.

7.2%

savings balance growth

against market growth of 2.8%[3]

our 2017 result: 10.6%

35.5%

capital strength

Common Equity Tier 1 ratio

our 2017 result: 34.9%

Capital Strength with Low Risk Mortgages

Financially safe and strong institution maintaining CET1 ratio of 35.5%, the highest reported by a top 20 lender[1] and a UK leverage ratio of 4.6%[2].

Consistently low risk business model, consistently low arrears levels falling to 10 bps in 2018.

0.10%

2018

mortgage balances were 2.5% or more in arrears

against industry average of 0.74%[4]

our 2017 result: 0.13%

0.41%

costs as a percentage of average assets excluding increase in strategic investment[5]

our 2017 result: 0.42%

Cost Efficiency whilst Investing for the Long Term

The lowest cost to mean asset ratio of any UK building society, whilst investing significantly in its technology infrastructure and branch network.

Our underlying ratio remains low, at 0.41%, excluding the increase in strategic investment compared to 2017.

0.50%

total costs as a percentage of average assets

our 2017 result: 0.42%

1. Source: CML Top 20 mortgage lenders (as published July 2018) - latest published CET 1 data As at 27/02/2019 2.Under the BoE modified calculation excluding Central bank exposure less than 3 months. 3. Source: Bank of England. 4. Source: Prudential Regulation Authority - latest available information at 30 September 2018. 5. Increase in strategic investment costs charged to the Income Statement compared to 2017.

Full year 2018 results

COVENTRY Building Society

Income statement

£m	2018	2017
Interest receivable and similar income	976.3	895.1
Interest payable and similar charges	(550.5)	(484.1)
Net interest income	425.8	411.0
Other income	(1.2)	5.1
Net gains/losses from derivatives	(0.3)	(0.3)
Total income	424.3	415.8
Management expenses	(180.7)	(167.9)
Strategic Investment Increase[1]	(41.0)	
Impairment credit/charges	0.4	(0.2)
Financial Services Compensation Scheme	1.0	(2.5)
Provisions for liabilities and charges	(1.0)	(1.0)
Charitable donation (Poppy Appeal)	(1.4)	(1.5)
Profit before tax	201.6	242.7
Taxation	(45.5)	(57.9)
Profit for the period	156.1	184.8

Net interest income rose 3.6%
Investment[1] £41m higher, Profit before tax £41m lower

Balance sheet

£m	2018	2017
Liquidity	6,401.9	6,209.5
Loans and advances to customers	39,264.6	35,930.9
Derivative financial instruments	275.4	323.7
Intangible and tangible assets	86.0	77.0
Other assets	43.0	31.4
Total assets	46,070.9	42,572.5
Shares	33,281.6	31,035.7
Wholesale	10,313.7	9,127.3
Derivative financial instruments	203.9	290.5
Other liabilities	84.2	75.9
Subordinated liabilities	25.5	25.5
PIBS	41.6	41.6
Members’ interests and equity	2,120.4	1,976.0
Total liabilities & equity	46,070.9	42,572.5

Mortgage growth of 9.3%
Savings growth of 7.2%

1. From 2017

3. Financial performance

Financial performance

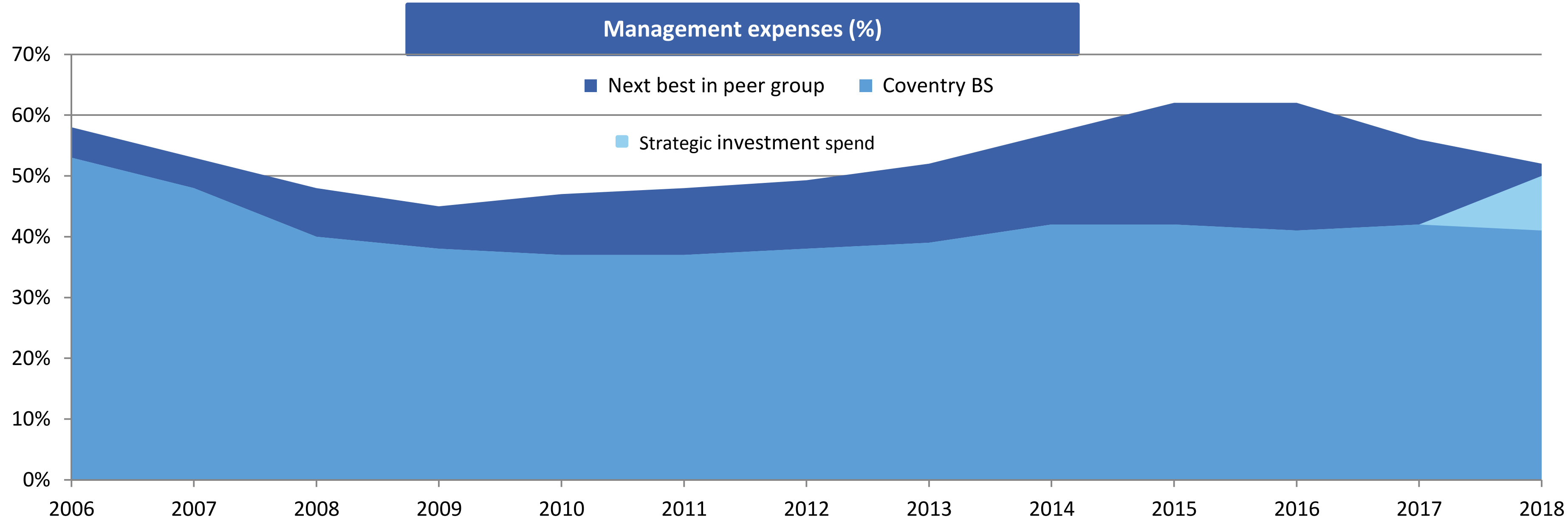
%	2014	2015	2016	2017	2018
Net interest margin / mean assets	1.15	1.11	1.06	1.02	**0.96**
Cost/ mean total assets (including Strategic Investment)	0.42	0.42	0.41	0.42	**0.50**
Cost / income ratio (including Strategic Investment)	35.7	37.2	37.9	40.4	**52.3**
Retained profit / mean assets	0.53	0.52	0.50	0.46	**0.35**
Liquidity (as percentage of SDL)	13.6	13.8	13.5	15.5	**14.7**
Wholesale funding	19.4	20.0	21.6	22.7	**23.7**
Mortgage assets growth	11.8	9.1	11.8	9.3	**9.3**
Common Equity Tier 1 ratio	25.4	29.4	32.2	34.9	**35.5**
UK Leverage Ratio[1]	4.2	4.4	4.4	4.6	**4.6**
Liquidity Coverage Ratio (LCR)	>100	141	151	208	**202**

Financial Strength

- Net interest margin reflects member focused pricing, whilst being sufficient to support growth and maintain capital ratios. NIM includes 3bps uplift due to the sale of a £350m buy-to-let mortgage portfolio during 2018.
- The Society's cost base remains low, with a cost to mean assets ratio of 0.41% excluding strategic expenditure on technology infrastructure and the branch network. This is a key advantage in an increasingly competitive mortgage market, and allows us to make strategic investment whilst costs remain the lowest in the sector.
- Wholesale has increased with issuance of inaugural 5 year SONIA covered bond and use of TFS.
- CET1 ratio the highest reported by any top 20 lender,[2] Liquidity Coverage Ratio significantly in excess of regulatory minimum.

1.Under the BoE modified calculation excluding Central bank exposure less than 3 months (2018 results) 2. Source: CML Top 20 mortgage lenders (as published July 18) - latest published CET 1 data As at 27/02/2019

Financial performance



Low Cost Base

- The Society's low cost base gives a competitive advantage.
- Cost efficiency is driven by the simple business model, efficient distribution channels and high average account balances, with growth driving economies of scale.
- The costs to mean assets ratio remains the lowest of the UK building societies,[1] and is 2bps lower than the next best in the peer group[2].
- The underlying cost base of the Society, excluding increase in strategic investment spend over 2017, remains consistently low at 0.41%.
- The Society expects cost growth to continue in 2019 as the strategic investment programmes progress. The Society is focused on spending members' money wisely and the cost to mean asset ratio is expected to remain amongst the lowest reported by any UK building society.

1. Source: CML Top 20 mortgage lenders (as published July 2018) 2. Next best in peer group HY2018 release used

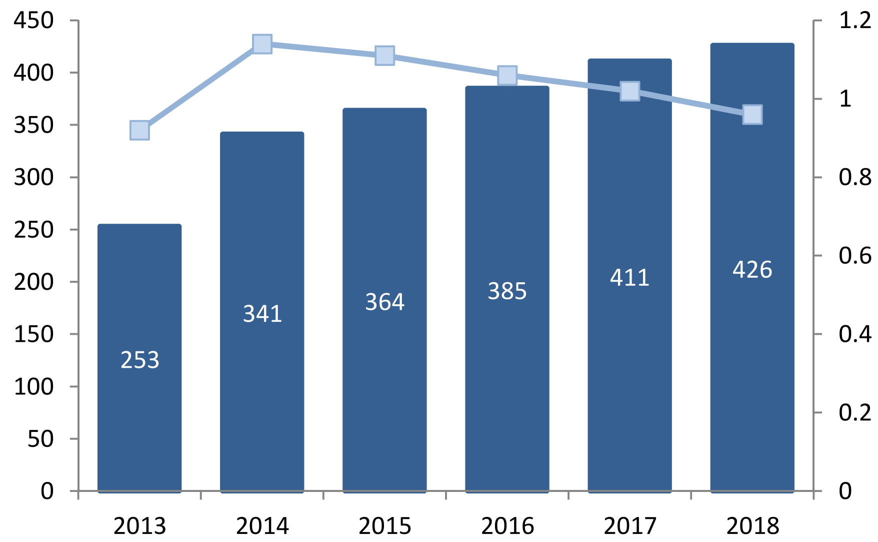
Financial performance

COVENTRY Building Society

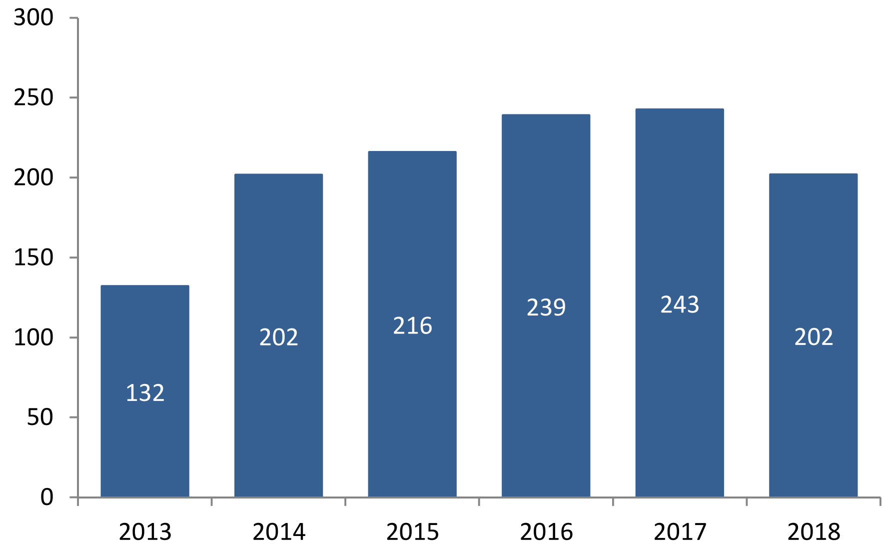
Net Interest Income 2018: £426m (£411m 2017)

- The Society delivered profit that maintains our strong capital position whilst providing superior returns to our members and investing in our future. The Society is committed to providing long-term sustainable value to members through competitively priced savings and mortgage products.
- Profit Before Tax has decreased from the previous year, as expected. With increased strategic investment spend (£41m) to update branches, enhance data infrastructure and progress detailed design and analysis to upgrade our core technology platform.
- In recent years net interest margin has benefited from the positive influence of government funding schemes for retail and wholesale funding pricing. It remains elevated from the low 70bps area seen in the early post crisis years due to lower retail savings rates. Mortgage margins have tightened, but spreads remain attractive and even if margins reduce modestly, continued growth means the Society benefits from economies of scale.

Net interest income (£m) / Margin %



Profit before tax



1.All figures as at 31 December 2018 unless otherwise stated

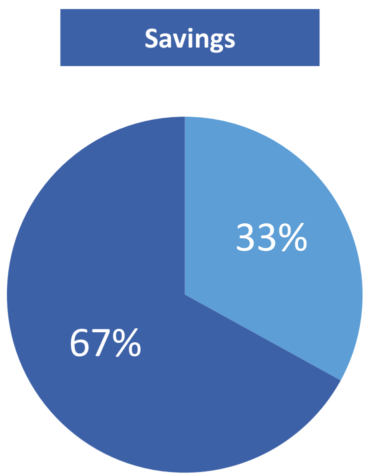
Financial performance

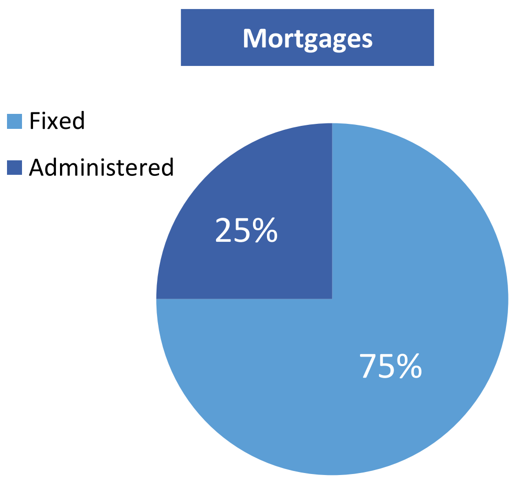
Low Risk Mortgages

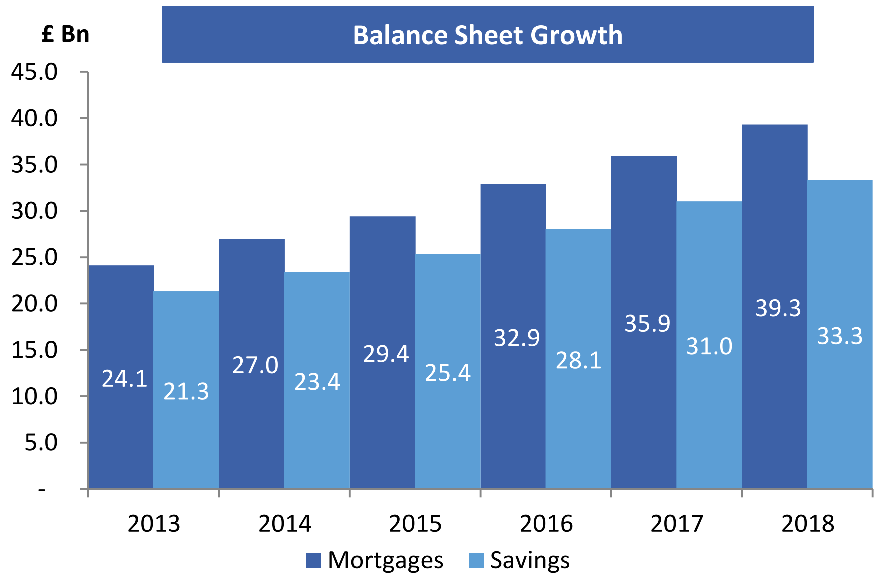
- Gross lending of £8.9 billion and net lending of £3.3 billion in 2018. The Society's mortgage balance is expected to have grown by more than three times the rate of the market in 2018.
- Mortgage assets continue to be of very high quality with the balance weighted average indexed LTV of the mortgage book at just 54.6% as at 31 December 2018.
- Competition continues within the mortgage market and we have noticed changes in customer behaviour, with the re-mortgage sector particularly active, and a move away from variable mortgages to fixed rate loans.
- We remain committed to low risk, low LTV lending.

Retail Funding Focus

- In 2018, the average savings rate we paid was 1.50%, nearly double the market average of 0.78%[1], a further increase on the premium provided over many years.
- This consistently good value has helped the Society to grow savings balances 7% in 2018. This is 2.5 times the market growth[2].
- Net Promoter Score remained exceptionally high at +75 (+72: 2017)
- Additional products offered through Hargreaves Lansdown in 2018, with the first instant access product on the platform in January 2019.







1. The Society's average month end savings rate compared with the Bank of England average rate for household interest bearing deposits on the Society's mix of products. 2. Source: Bank of England

Building for the future – Strategic Investment

COVENTRY Building Society

Investment for the Future to create competitive advantage

- To sustain the Society's great service record in the future, there is a need to invest in technology and infrastructure to meet the changing service expectations of the customers.

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 with 10% of the network already remodelled in line with plan.
- Flexible design principles will future proof our branches and better reflect the future of branch engagement.
- Great feedback from the community as we continue to roll out the design to more branches in 2019.

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.
- During 2019 we expect to complete the majority of the remaining migrations.

Upgrading Banking Platform

- During 2018 we progressed detailed design and analysis for the work to upgrade our core technology platform.
- The analysis has identified that if we want to maintain and increase the service and flexibility desired this programme is likely to be a bigger endeavour for the Society than originally indicated.
- We are now in a re-planning exercise to ensure we can meet our objectives and manage the execution, cost and related risks of the programme.
- Staying committed to doing the right thing for our members, even if that means taking more time to assess at this early stage and re-focus the project rather than proceed with the original plan.

Digital capabilities projects

- The Society increased it's technology capabilities across the business with great success in implementing print and telephony upgrades and increasing the businesses digital competences.

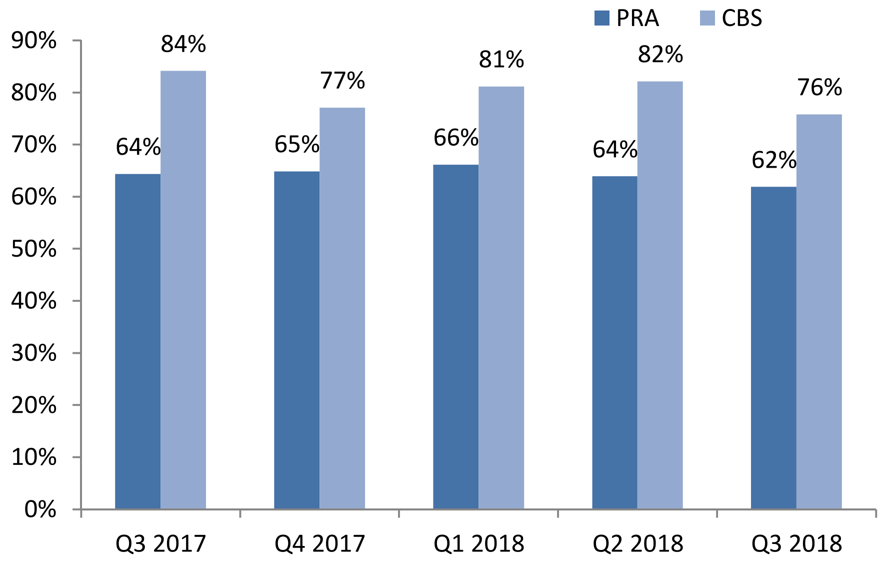
4. Asset Quality

Asset quality

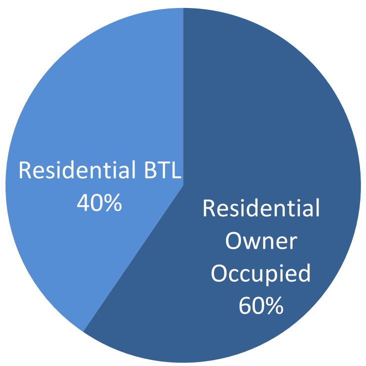
Low Risk Loan-to-Value (LTV)

- 76% of new lending in 2018 has been at LTVs of 75% or below, in comparison to the market average of 62% (to end of Q3 2018).
- Market lending above 90% in the first quarter of 2018 was 3.8%; Coventry lending above this LTV was nil.
- No sub-prime, commercial or second charge lending (legacy inherited commercial book currently £2.3m in run off).
- Negligible levels of unsecured lending (£23.9m: 2018, 31.8m: 2017).
- The balance weighted average indexed LTV of the entire mortgage book is 54.6%.
- 96% of the overall book has an indexed LTV of 85% or less.
- Two-thirds of all buy-to-let lending was originated at 65% LTV or less.

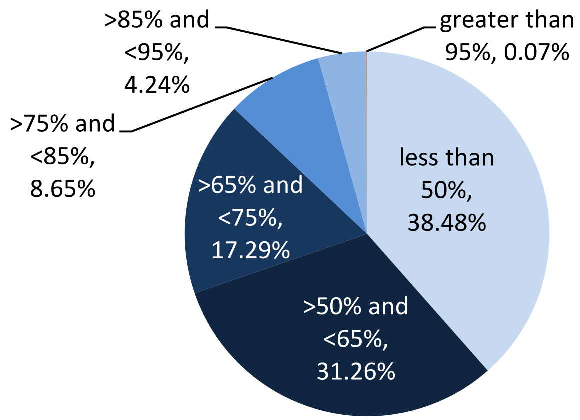
Gross lending ≤ 75% LTV



Total book split by product



Total book split by LTV



Asset quality

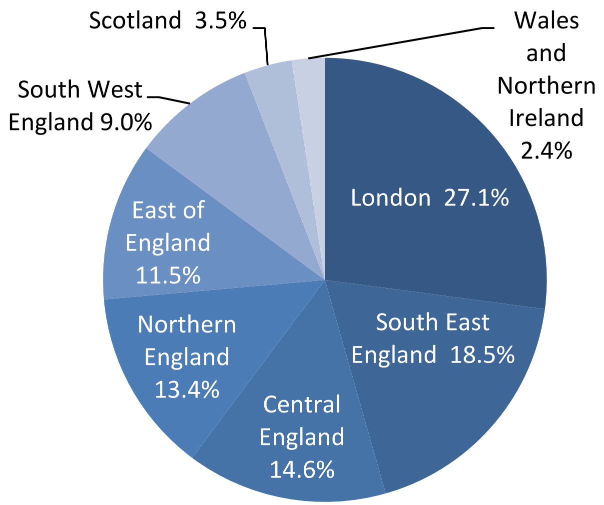
Geographic Split

- 90% 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.

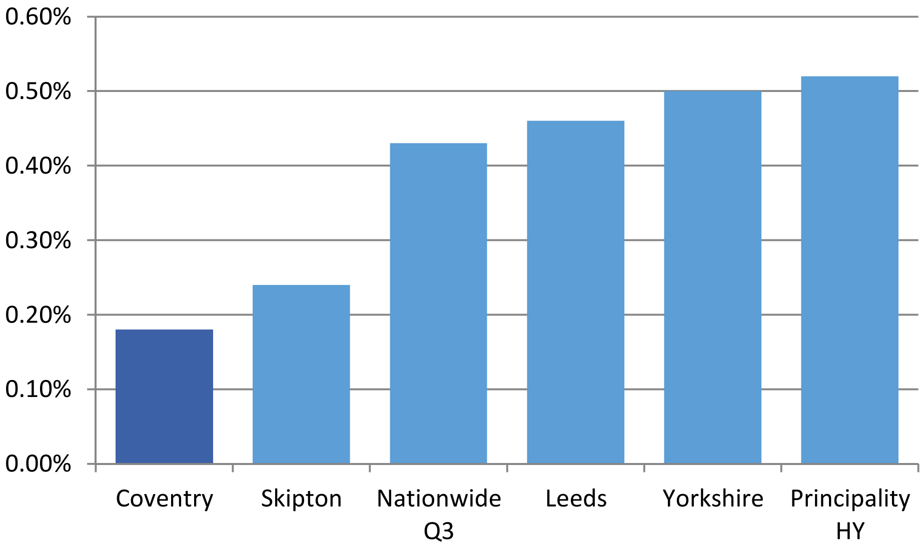
Mortgage Book Performance

- 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 Dec 2018, as a proportion of the total book, has fallen to 0.10%.
- Arrears are very rarely capitalised. There was only 2 cases in 2018 for Coventry versus 5,900 for the industry as a whole in first 9 months of 2018.
- At 31 Dec 2018, only 34 properties were in possession.
- 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 Dec 18



% of accounts >3 months in arrears[1]



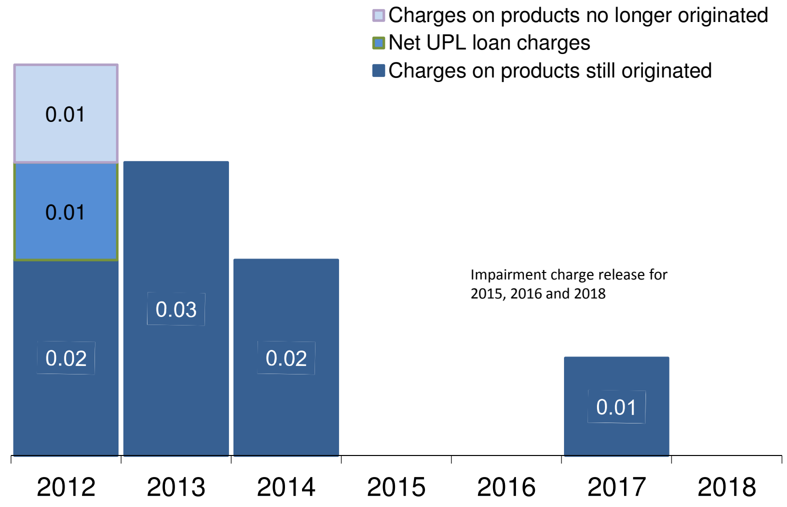
1. Source available results as at 28/02/19 for peers (Leeds using 1.5% of mortgage balance in arrears)

Asset quality

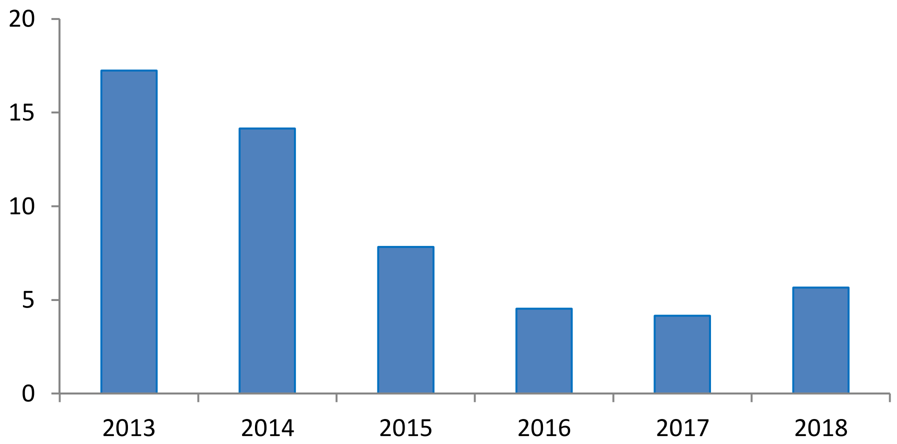
Robust Origination and Monitoring

- 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[1].
- Arrears levels are consistently below industry averages at just 0.18% of accounts being more than three months in arrears (Industry average 0.79%).[2]
- At 31 Dec 2018, only 34 properties were in possession, of which 11 are legacy products, 13 standard owner occupier and 10 Buy to Let out of a total of c.290k properties.

Impairment charges as % of loans



Average Society Possessions per month



Very Low Impairments

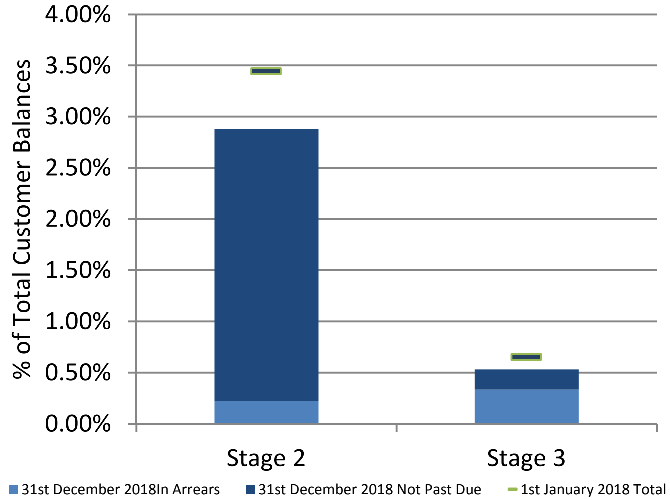
- Impairments are very low on a mortgage book of £39.2bn.
- Impairment charges have fallen over the recent past with releases reported in 2015, 2016 and 2018.
- Special provisions fell significantly in December with the release of one large case in particular (£1.3m).
- Impairment charges in the last 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.Original advance excluding any product fees 2. Source UK Finance

Provisions under IFRS 9

COVENTRY Building Society

Change in IFRS staging



IFRS 9

- Forward looking assessment of provisions given certain economic scenarios.
- Increased weighting to downside scenario to 10% (1st Jan 2018: 2%)
- 96.6% of the Society's loans and advances to customers were within Stage 1 'performing' category
- Staging informed by "Significant increase" in credit risk. This 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.
- In Stage 2, all but £86m (0.2% of loans) were paid up to date at year end.
- Only 0.05% of loans (£209m) are classified as Stage 3 'Default'. The definition of default in IFRS9 is much wider than that used in IAS39. Only £68m would have been identified impaired under IAS39.
- Provisions represent 6.4 years of gross loss coverage.

2018	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Not past due £m	Past due £m	Stage 3 'Default' £m	Not past due £m	Past due £m	Total £m
Residential mortgages								
Owner-occupier	22,530	685	630	54	130	49	80	23,344
Buy to let	15,237	374	352	23	38	14	24	15,650
Total traditional residential mortgages	**37,767**	**1,059**	**982**	**77**	**168**	**64**	**104**	**38,993**
Non-traditional mortgages								
Residential near-prime	29	18	14	3	20	5	15	66
Residential self-certified	117	53	47	6	21	9	12	191
Commercial lending	–	2	2	0	0	0	–	2
Total non-traditional mortgages	146	72	63	9	41	14	26	259
Unsecured loans	23	0	–	0	0	–	0	24
Total gross loans	**37,936**	**1,131**	**1,045**	**86.3**	**209**	**78**	**131**	**39,276**
Total gross loan %	96.6	2.9	2.7	0.2	0.5	0.2	0.3	100.0

5. Asset Quality: Buy-to-let

Asset quality – Buy-to-let

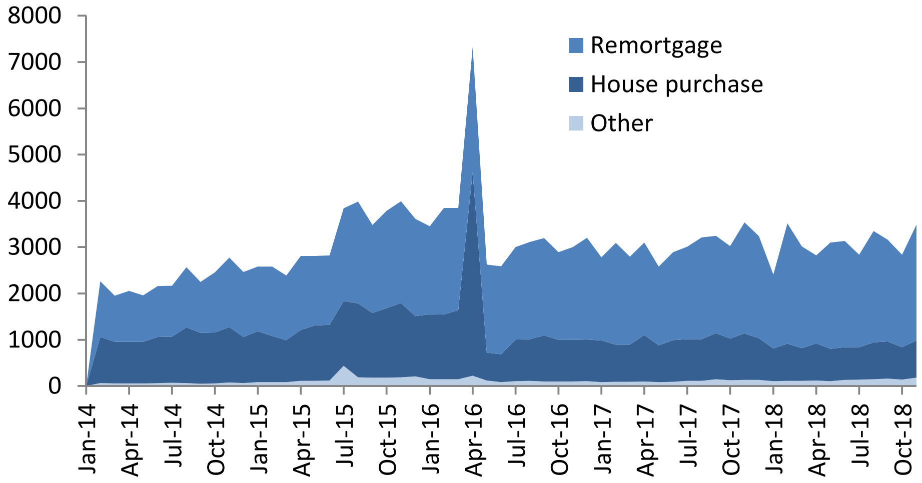
Coventry BTL Experience

- Approximately two thirds 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 £27.5bn of lending since entering the market in 2002, we have incurred total losses of £9.1m.
- The balance weighted average LTV of the buy-to-let book is only 54% as at 31 December 2018
- There have been only 4 losses on all buy-to-let lending originated in 2010 or later (total losses £49k) and only 10 buy-to-let properties in possession at FY 2018, from a book of c. 115,000 properties.

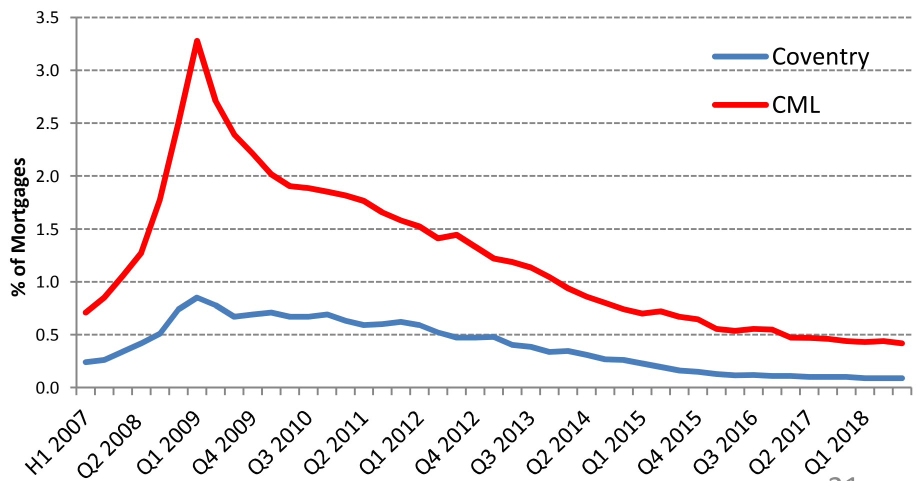
Coventry BTL Performance

- 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 31 December 2018 the number of loans >3 months in arrears (including possessions) reduced to 0.08% (0.10% Dec 17)
- 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.
- 85% of our borrowers have only one property with the Society and c. 4% have more than two with the Society (maximum 3 properties[1]).

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



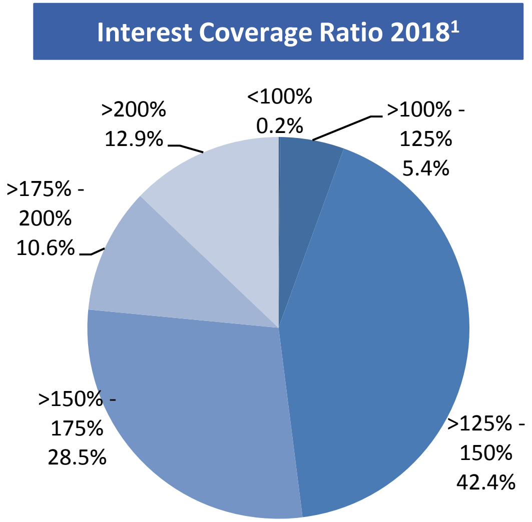
Coventry vs. CML >3mths buy-to-let arrears (incl. possessions)



1. Approval to increase to 5 properties in 2019

Asset quality – Buy-to-let

COVENTRY Building Society



Lending Criteria

- Properties must be readily saleable into the owner occupier market.
- 100% subject to physical valuations.
- Maximum of 3 properties[2] 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 145% for higher rate tax payers.
- The Society does not lend on Studio and High Rise Flats (above ten storeys)

London Market

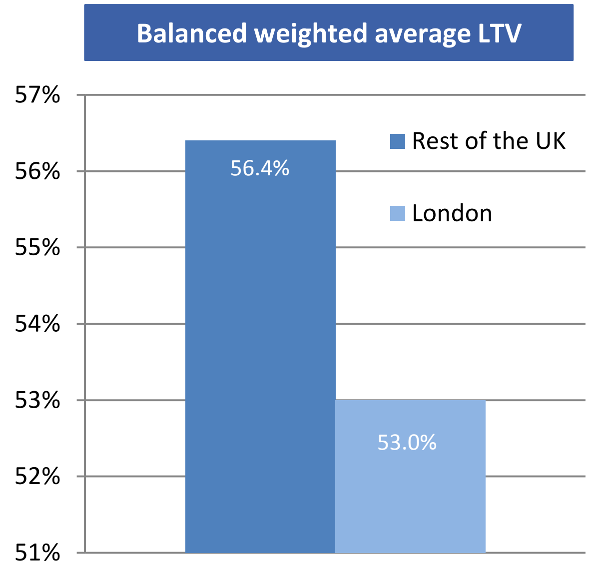
- 44% of all BTL Balances are in London compared to 27% of overall book
- Coventry lending policy ensures any loan greater than £1m to be less than 50% LTV, up to 75% LTV loan size is capped at £500k and above 75% is capped at £350k.
- Coventry does not lend on licensed HMO properties.
- Severe stress testing carried out on our London BTL book, showed strong resilience.
- Lower arrears than the rest of the country with 3bps greater than 3 months in arrears (8bps national average).

Interest Coverage Ratio (ICR)

- For over 99.8% 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 31 December 2018 was 175.7%.

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.26% of new business



1. Based on original rental at 5% stress rate - All data as at 31 December 2018 2. Approval to increase to 5 properties in 2019, increasing total loan limit to £2m

6. Funding and Liquidity

Liquidity

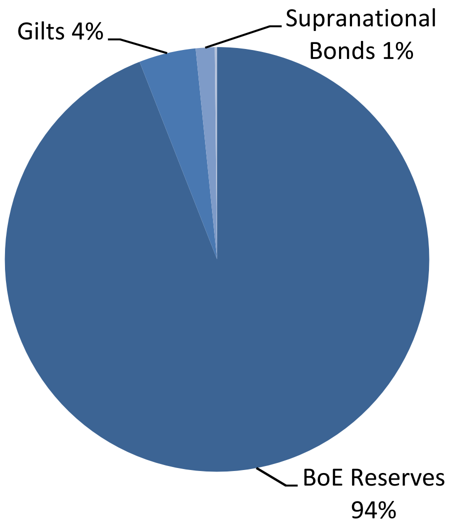
Liquidity

- The Society has its own liquidity risk appetite with a requirement to survive a severe but plausible stress, a measure which is in excess of regulatory requirements
- Over 99% of core liquidity is eligible as High Quality Liquidity Assets Buffer.
- Majority of liquid assets in UK Sovereigns with a small proportion in Supranational bonds.
- The UK authorities have placed increased emphasis on contingent liquidity, from central bank facilities via the pre-positioning of loan books.

LCR / NSFR

- The Society maintains liquidity considerably above regulatory requirements with LCR 202% as at 31st December 2018.
- The NSFR was 142% as at 31st December 2018.
- The Loan to Deposit ratio was 118% reflecting the stable funding profile of the Society.

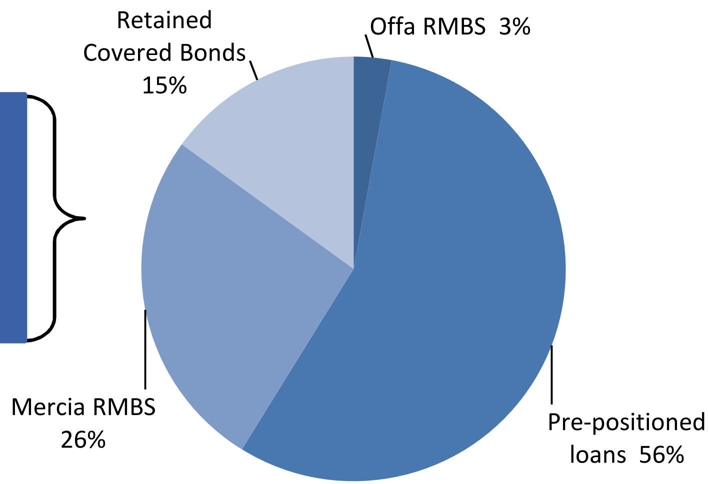
Core Liquidity[1]



£5.2bn Core Liquidity

£3.2bn Contingent Liquidity[2]

Contingent Liquidity[2]

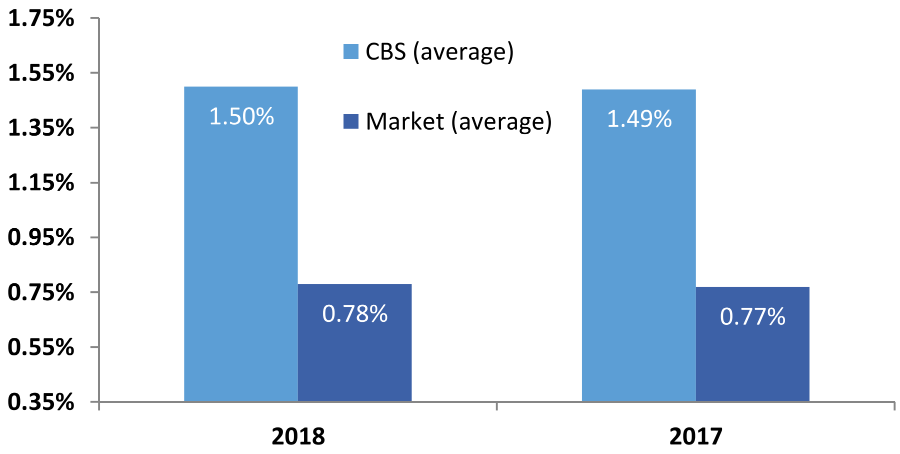


1.Showing value of unencumbered assets as at 31 December 2018 – The Society held £623m Gilts in repurchase agreements as at 31 December 2018. 2. including £1.8bn unencumbered prepositioned loans at the BoE

Retail funding

COVENTRY Building Society

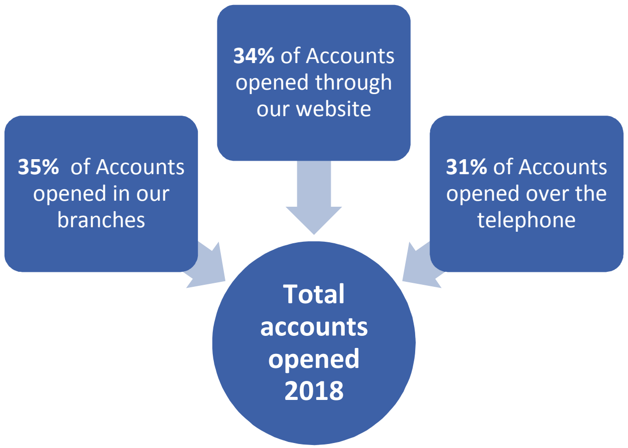
Retail Funding Prices vs. Market[1]



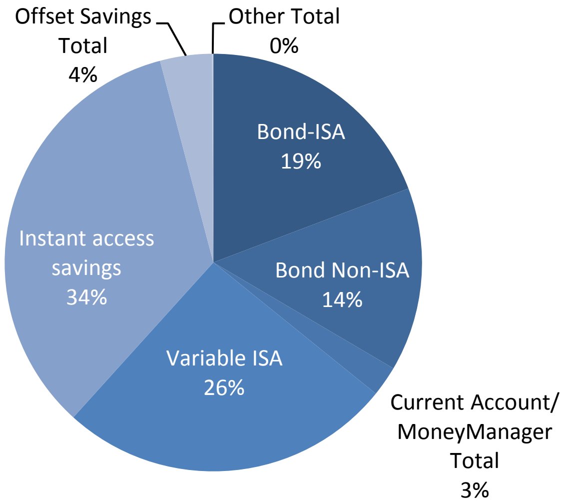
Retail Savings Focus

- Lending is primarily funded through retail deposits.
- Coventry has a proven track record in acquiring and retaining retail balances.
- Savings book growth 7.2% in 2018.
- Savings well diversified over distribution channels; Branch, Internet and Telephone.
- Coventry market share increased to 2.5% in 2018, with over 176,000 new accounts opened in the year.
- The Society pays above market rates on savings, in line with our continued strategy of returning value to members.
- New partnership with Hargreaves Lansdown offering Society products on the platform to acquire new funding, initially with an exclusive agreement to offer the only instant access product.

Funding Channels as at December 31 2018



Retail Product Breakdown as at 31 December 2018



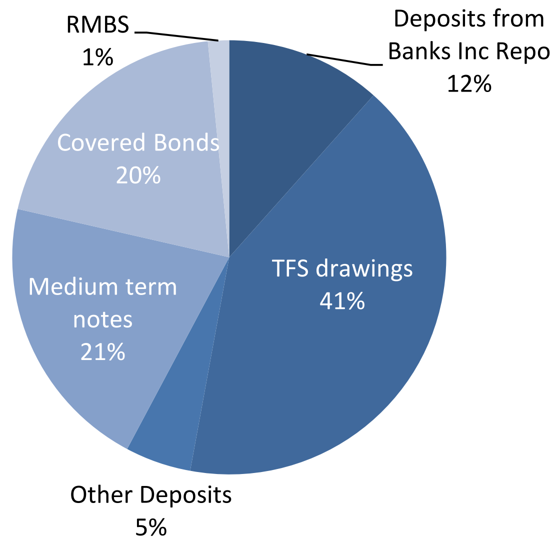
1. The Society's average month end savings rate (society mix of products) compared to BoE WA rate for household interest bearing deposit (society mix of products)

Wholesale funding

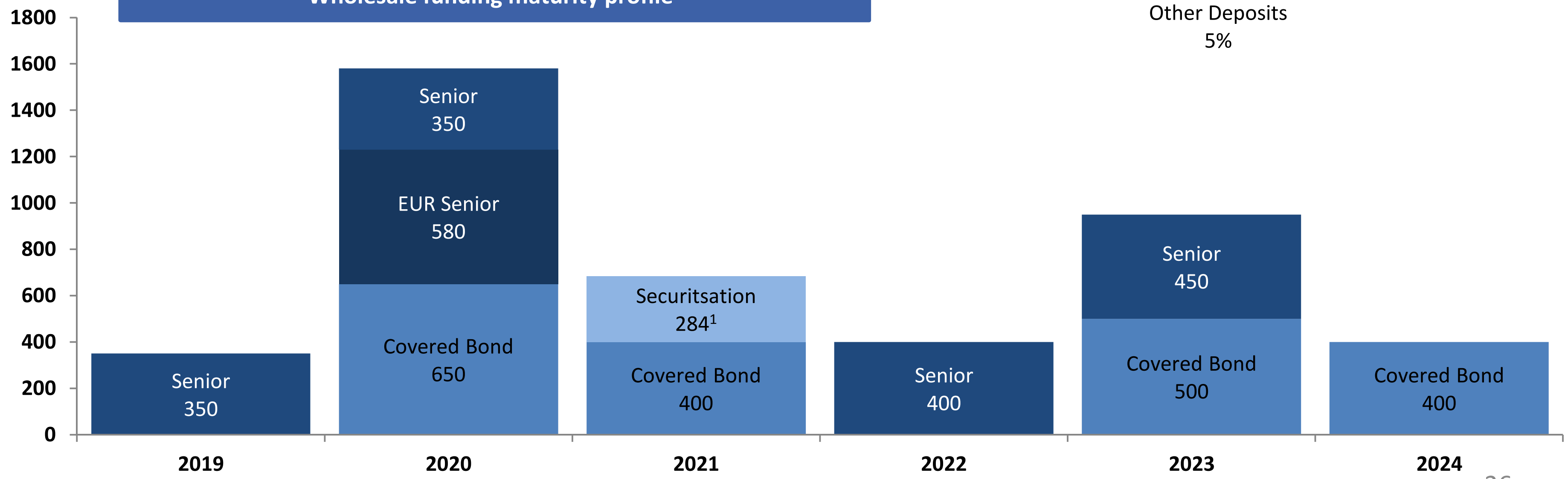
Funding Strategy

- Retail deposits are supplemented by a number of wholesale funding options.
- Wholesale market access provides competitive advantage and diversification of funding
    - MTNs.
    - Covered Bonds.
    - Securitisation.
- Continued move towards longer dated wholesale deals providing reliable long term funding.
- Wholesale funding ratio 23.7% as at 31 December 2018.
- TFS drawings of £4.25bn as at 31 December 2018, No FLS remaining.
- The Society sold £351m mortgage book to 24AM and issued £500m 5 year SONIA-linked Covered Bond, showing the capability to diversify funding channels using prime residential mortgage assets.

Wholesale Funding as at 31 December 2018



Wholesale funding maturity profile[2]



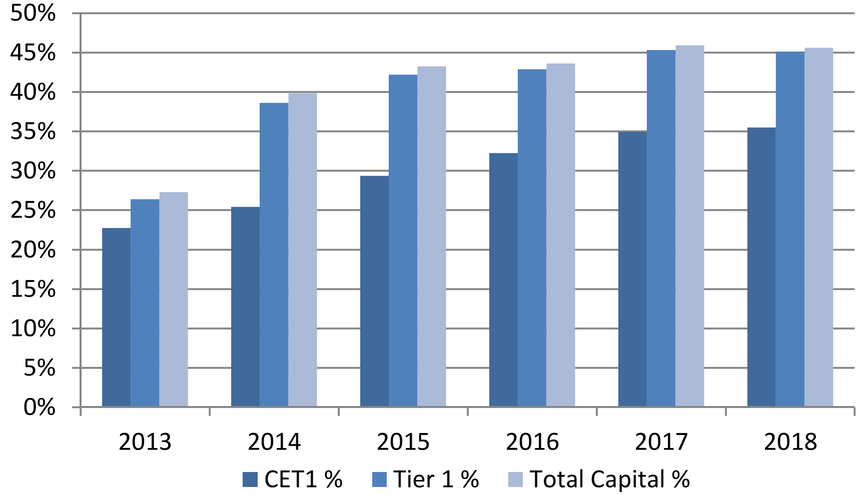
1. Current value after amortisation as at 31 December 2018 2. In GBP, excluding TFS

7. Capital

Capital

COVENTRY Building Society

CET1 and Total Capital Ratios



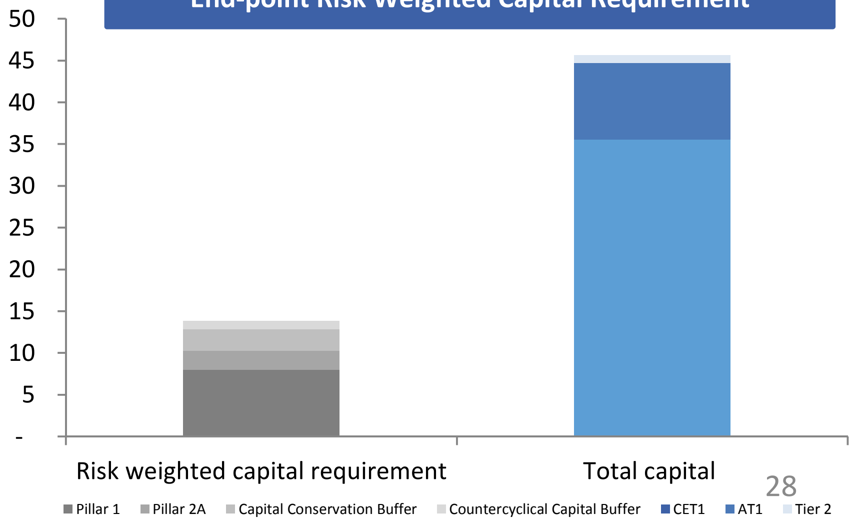
Regulatory Capital

- The Society was issued with Total Capital Requirement (TCR) of 11.2% or £511m comprising Pillar 1 and Pillar 2A
- Regulatory capital buffers must be met in addition to TCR and on an end-point basis are as follows:
  - Capital Conservation Buffer – 2.5%
  - Countercyclical Buffer – 1.0%
- Coventry's total capital ratio is 45.5% compared to an RWA-based capital requirement of 14.7% (TCR + Capital Conservation Buffer + Countercyclical Buffer)
- The differential represents a significant 29.3% buffer over and above total capital requirements on an RWA basis

Capital and Reserves

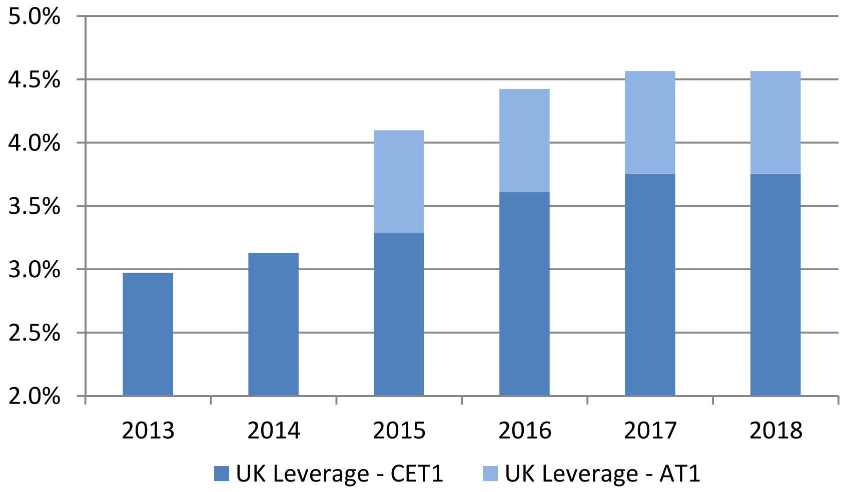
- The Society has been issued with a TCR by the regulator of 11.2% of RWAs, which is comfortably exceeded. This was a reduction of the previous ICG of 12.8%
- Retained earnings from strong profitability are Coventry's primary source of CET1 capital, currently c. £1.61bn.
- Internally generated capital is augmented by £400m of AT1 issuance, providing 81bps uplift in leverage ratio.
- The whole loan sale of non-member buy-to-let mortgages to a third party in 2015 and 2018 provide further capital management options.

End-point Risk Weighted Capital Requirement



Leverage & MREL

Leverage Ratio[1]



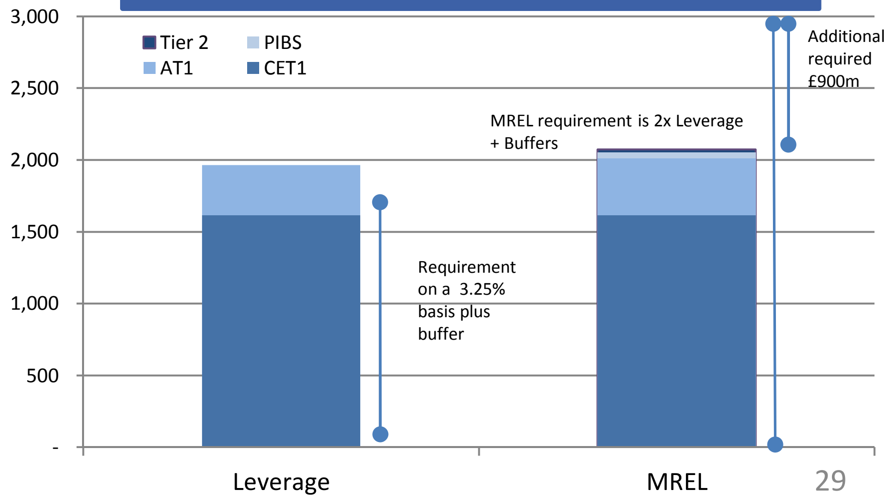
Leverage Ratio Framework

- A binding UK leverage ratio applies to firms with retail deposits of £50bn or more. This is not expected to be binding until at least 2020.
- 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%. [2]
- The modified leverage ratio on a UK basis at 31 December 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).

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 22.4% 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 end of 2018, an additional requirement of £900m 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

MREL



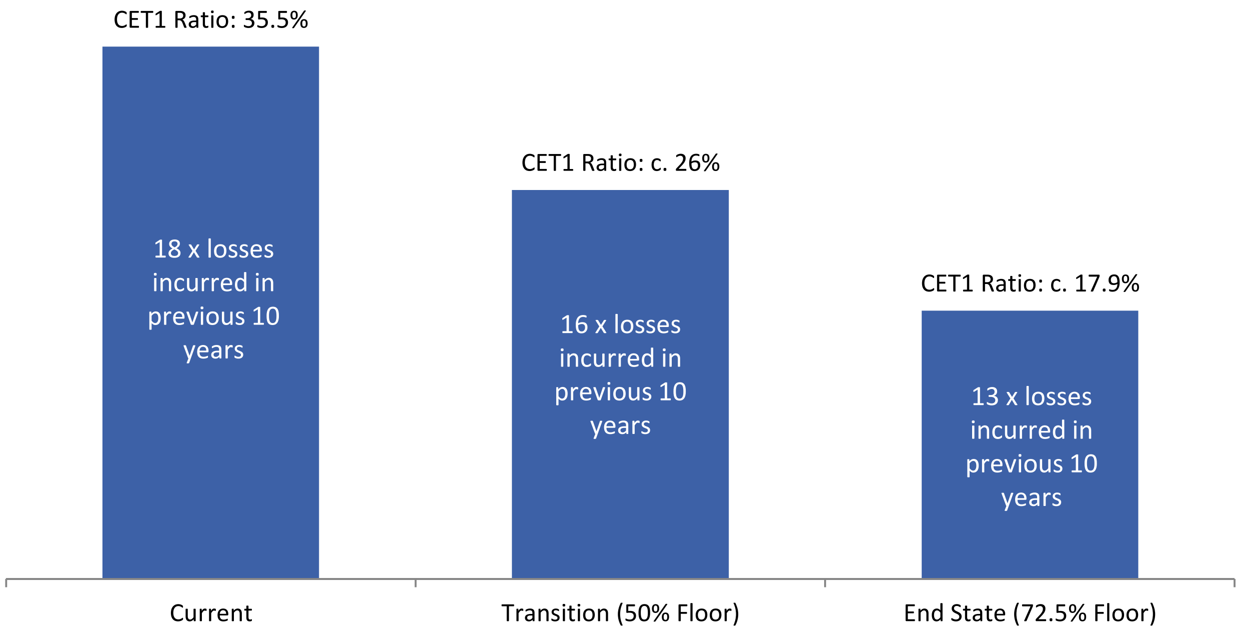
1.The BoE modified calculation excluding Central bank exposure less than 3 months 2.For Leverage Counter cyclical leverage buffer (CCLB) is calculated as 35% of 1% CCyB

Basel IV Capital implications

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 25%, reflecting the impacts of the flooring on a low risk business model.
- Surplus to regulatory minima remains considerable, equal to over 13 times the actual credit losses experienced in the last 10 years, even after transition.

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

8. Contacts

Contact details

Contacts

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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