Summary Financial Statement 2016

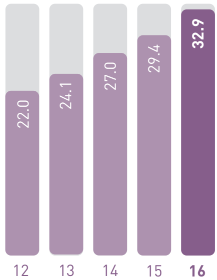
COVENTRY
Building Society

Performance highlights 2016

Consistent and well-managed growth continues to deliver a stronger Society, for the benefit of all members.

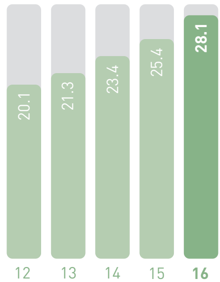
£32.9bn

Mortgages
(£bn)



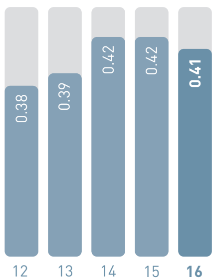
£28.1bn

Savings
(£bn)



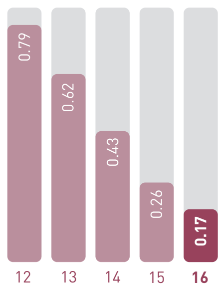
0.41%

Cost to mean assets ratio[1]
(%)



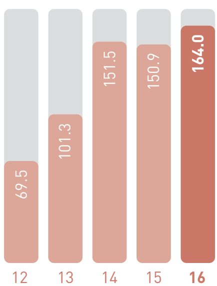
0.17%

Arrears
% mortgage balances 2.5% or more in arrears, including possessions



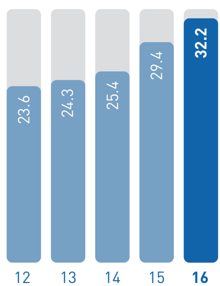
£164.0m

Added to member reserves[2]
(£m)



32.2%

Common Equity Tier 1 ratio
(%)



1. Administrative expenses, depreciation and amortisation/Average total assets.
2. Profit after tax including Additional Tier 1 capital distribution (net of tax).

Summary Financial Statement

The directors are pleased to present the Summary Financial Statement for the year ended 31 December 2016.

Prescribed Statement

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 2017. The auditor's report in relation to the full financial statements was not qualified in any respect.

Approved by the Board of directors on 23 February 2017.

Ian Pickering Chairman **Mark Parsons** Chief Executive **John Lowe** Finance Director

Summary Directors' Report

In 2016, Coventry Building Society continued to pursue its mission of Putting Members First whilst delivering strong growth and investing to enable future success.

The performance highlights were:

- **Record growth in mortgages:** Mortgage assets increased by £3.5 billion, representing growth of 12%, more than four times faster than the market[1].
- **Record savings balances:** Savings deposit balances grew by 11%, nearly twice the rate of the market[1].
- **Strong capital:** Profit before tax increased by 11% to £239 million, increasing the Common Equity Tier 1 (CET 1) ratio to 32%, the highest reported by any top 20 lender[2] and a leverage ratio of over 4%.
- **Low costs:** The Society's cost to mean asset ratio reduced to 0.41%[3], the lowest reported by any building society[4] and key to our ability to offer consistently competitive interest rates.
- **Low risk:** The Society is a low risk lender which protects individual borrowers and the Society alike. During the year, arrears greater than 2.5% of the balance due were less than a quarter of the industry average[5].
- **Low margin:** The Society aims to operate at a low net interest margin[6]. The comparatively low margin of 1.06% in 2016 is a tangible example of returning value to members, underpinned by low costs and low credit losses.
- **Competitive savings rates:** As testament to this and in an unprecedented period of low interest rates, our average savings rate in 2016 was 1.77% compared with a market average of 0.92%[7].

1. Source: Bank of England.
2. Source: Council of Mortgage Lenders – 2015 top mortgage lenders (balance outstanding) – latest published CET 1 data, as at 23 February 2017.
3. Administrative expenses, depreciation and amortisation/Average total assets.
4. As at 23 February 2017.
5. Source: Prudential Regulation Authority – Quarter 1, Quarter 2 and Quarter 3 data. Arrears greater than 2.5% of the balance due, including possessions.
6. Net interest income as a percentage of average total assets.
7. The Society's average month end savings rate (Society mix of products) compared to the Bank of England weighted average rate for household interest-bearing deposits (market mix of products).

- **Exceptional customer service:** The Society works hard to sustain and improve the service it provides to members in branches, over the phone, online and also to intermediaries. It measures this using the common metric of Net Promoter Score® and in 2016 achieved a very high score of +70[8], representing a strong endorsement from our members.
- **Highly engaged employees:** Excellent service is delivered by our people, who are proud to Put Members First. In 2016 the Society was awarded the ORC International Award for the highest employee engagement of any medium-sized company in Europe that it surveyed.
- **Supporting local communities:** In 2016 over three quarters of employees were actively involved in volunteering, fundraising or raising awareness for local charities and community groups.

These highlights demonstrate a strong performance across all aspects of the business.

Not only has this performance supported our members in the shorter term, but our financial strength supports the investment that enables us to compete and grow in the future.

This is particularly true of our investment in technology, both in terms of core infrastructure and member services. The investment we began in 2015 has started to deliver enhancements, with our new website going live in January 2017. As well as making the Society's services easy to access across different devices, it brings a level of transparency that is unusual in financial services. In addition, we are investing to stay reliable and secure, so that we are protecting our members from the ever present threat of cybercrime and maintaining their trust in the services we provide. This investment will continue.

A key thrust of our investment is the intent to keep things simple. Earlier in the year we were praised by independent savings advisers Savings Champion for the explanation we provided to new and existing members about the changes to the taxation of savings. Our new website develops this theme further, to the extent of providing members with information about competitor products to help them make the right choice.

Our ambition to deliver simple high quality services extends to our work with mortgage intermediaries, who are responsible for introducing the majority of our new mortgage business. There continues to be significant change in mortgage regulation and the introduction of new stamp duty rules in April was a test for the industry as a whole. We attracted record business during this time, and beyond, while sustaining our normal high service levels – a performance which was recognised by the Society being one of the few lenders achieving the 2016 Financial Adviser Five Stars mortgage service award in November.

We do sometimes make mistakes, but when we do, we work hard to put them right. Our record with the Financial Ombudsman Service bears this out. In comparison with an industry average of 48%[9], the overturn rate on complaints reported to the Financial Ombudsman Service about the Society was just 4%[9], reflecting our commitment to do the right thing for our members.

A consequence of our investment in people and technology is that the independent consumer champion, Fairer Finance has ranked us first for savings and first for mortgages for the second year running, based on its survey of customer happiness, trust, complaints performance and transparency.

We believe strongly that our high level of member satisfaction also reflects the investment we make in our people. We recruit on the basis of values and behaviours as much as skills and experience. We encourage internal mobility and support the personal and career aspirations of our employees to make this happen, with over 40% of vacancies in 2016 being filled by internal applicants. The result is a team of highly committed people – 91% of employees say they are proud to work for Coventry Building Society.

The high level of employees' engagement is underlined by their support for national and local causes. Our community programmes extend from our longstanding support for The Royal British Legion, with total donations to date of £13.9 million, to supporting over 70 local community partners. Much of our contribution comes through volunteering – as an example in 2016 more than 100 employees supported over 1,300 students and young adults in developing their financial literacy and employability skills.

These examples show the progress we have made across all aspects of our business in 2016. But we believe that the investment we make in delivering long-term value to our members is the most significant of all.

We are particularly proud of the growth in savings we have achieved. This clearly reflects our competitive pricing, shown by our average savings rates in 2016 being 0.85% above the market average[7]. Competitive pricing has been equally successful in attracting new mortgage business. Our low operating costs and impairment losses give us the ability to operate at low but sustainable margins. This returns real value to our members – but it is also underpinned by strong and growing capital ratios supported by our 2016 profits.

This in turn provides reassurance that we have the financial strength and flexibility to sustain the Society into the future whatever the economic conditions.

Looking forward, the Board is confident that the Society is well positioned to continue its strong, profitable, member-focused growth. There are some economic and political uncertainties at present and will be for the foreseeable future. However, this is no longer unusual and our strong track record shows that our simple business model based on Putting Members First, with low risk lending and low cost operations, can thrive even in uncertain conditions.

Ian Pickering
Chairman

Mark Parsons
Chief Executive

7. The Society's average month end savings rate (Society mix of products) compared to the Bank of England weighted average rate for household interest-bearing deposits (market mix of products).
8. Net Promoter®, Net Promoter Score®, and NPS® are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld. NPS of +70, is a calculated average from 5 surveys: branch survey of 12,732 customers, savings contact centre survey of 17,461 callers, mortgage contact centre survey of 1,910 callers, online survey amongst 4,214 users, and a survey amongst 1,976 brokers.
9. Source: Financial Ombudsman Service – latest published information: 1 January 2016 to 30 June 2016.

Summary Financial Statement

for the year ended 31 December 2016

Results for the year	Group 2016 £m	Group 2015 £m
Net interest income	385.0	363.9
Other income and charges	10.5	5.4
Net losses from derivatives and hedge accounting	(1.0)	(0.3)
Total income	**394.5**	**369.0**
Administrative expenses	(149.5)	(137.4)
Impairment credit on loans and advances to customers	1.5	1.9
Provisions for liabilities and charges	(6.1)	(15.8)
Charitable donation to Poppy Appeal	(1.3)	(1.7)
Profit before tax	**239.1**	**216.0**
Taxation	(56.7)	(44.7)
Profit for the financial year	**182.4**	**171.3**

Financial position at end of year	Group 2016 £m	Group 2015 £m
Assets		
Liquid assets	4,827.8	4,375.3
Loans and advances to customers	32,881.6	29,411.0
Hedge accounting adjustment	144.5	78.1
Derivative financial instruments	354.2	173.0
Fixed and other assets	87.8	77.0
Total assets	**38,295.9**	**34,114.4**
Liabilities		
Shares	28,054.3	25,355.8
Borrowings	7,742.0	6,336.0
Hedge accounting adjustment	158.7	121.0
Derivative financial instruments	366.7	353.5
Other liabilities	85.8	76.8
Subordinated liabilities	25.5	58.2
Subscribed capital	41.6	161.6
Total liabilities	**36,474.6**	**32,462.9**
Equity		
Reserves and other equity instruments	1,821.3	1,651.5
Total liabilities and equity	**38,295.9**	**34,114.4**

Key financial ratios

	Group 2016 %	Group 2015 %
Common Equity Tier 1 capital ratio[1]	**32.2**	**29.4**
Leverage ratio[2]	**4.1**	**4.0**
Liquid assets as a percentage of shares and borrowings[3]	**13.5**	**13.8**
Gross capital as a percentage of shares and borrowings[4]	**5.28**	**5.90**
Profit for the year as a percentage of average assets[5]	**0.50**	**0.52**
Management expenses as a percentage of average assets[6]	**0.41**	**0.42**

The percentages have been calculated from the Group 'Results for the year' and 'Financial position at end of year'. Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue. Average assets are the average of the Group's 2016 and 2015 total assets (2015: average of the Group's 2015 and 2014 total assets).

1. Common Equity Tier 1 capital ratio: The Common Equity Tier 1 capital ratio measures the Group's Common Equity Tier 1 capital, which comprises the general reserve and the Available-for-sale reserve with regulatory adjustments, as a percentage of its risk weighted assets. The Group calculates its capital requirement under Basel III using the IRB approach for prime residential and buy to let mortgage exposures and the Standardised approach in calculating the capital requirements for other risk areas.
2. Leverage ratio: The leverage ratio measures the Group's Tier 1 capital, which comprises Group's Common Equity Tier 1 capital (see above) and Additional Tier 1 capital, as a percentage of total on- and off-balance sheet exposures. The leverage ratio calculations shown are in accordance with the definitions of CRD IV on an end-point basis, as amended by the European Commission delegated regulation.
3. Liquid assets as a percentage of shares and borrowings: The liquid assets ratio measures the Group's assets held in the form of cash, short-term deposits and debt securities as a percentage of the Group's shares and borrowings. Most of the Group's assets are long-term mortgages, while many of its liabilities to investors are repayable on demand. Liquid assets are required to ensure that the Group can effectively manage this situation. They are generally readily realisable, enabling the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund general business activities.
4. Gross capital as a percentage of shares and borrowings: The gross capital ratio measures the Group's capital as a percentage of shares and borrowings. The Group's capital consists of profits accumulated since its establishment in the form of reserves, Perpetual Capital Securities, subordinated liabilities and subscribed capital which cannot be repaid in priority to ordinary members. Capital provides a financial cushion against unforeseen eventualities that might arise in the Group's business and ensures that members and other creditors are properly protected.
5. Profit for the year as a percentage of average assets: The profit to average assets ratio measures the Group's profit after taxation for the year as a percentage of the average assets. The Group needs to make an adequate level of profit each year in order to maintain its capital ratios at an appropriate level to protect members and to satisfy regulatory requirements.
6. Management expenses as a percentage of average assets: The management expenses ratio measures the Group's administrative expenses (which include amortisation and depreciation), as a percentage of the average assets. Administrative expenses consist mainly of the costs of employing staff, operating systems and other office expenses. They need to be controlled so that the Group operates as efficiently as possible, whilst providing the service that members require.

Summary Directors’ Remuneration Report

We are pleased to present a summary of our Directors’ Remuneration Report, which sets out the directors’ Remuneration Policy (the Policy), and the Annual Remuneration Report for 2016 (the Report).

If you are eligible to vote at the Annual General Meeting (AGM) you will have a vote on the Policy and a vote on the Report. The Society is not required to submit the Policy to a binding vote of members but has decided, on a voluntary basis, to do so on an advisory basis every three years (or earlier if changes are made to it). The vote on the Report is also advisory and the directors’ entitlement to remuneration is not conditional on it. However, in both cases the Remuneration Committee intends to take account of members’ feedback and the Society remains committed to good corporate governance.

The full Policy and Report are on pages 79 to 91 of the 2016 Annual Report & Accounts which will be available on our website **thecoventry.co.uk/accounts2016** from 31 March 2017.

Remuneration policy – executive directors

The Society’s Policy is designed to ensure that executive directors’ remuneration rewards directors for their responsibilities, performance and experience, taking into account market data. Remuneration packages aim to aid the recruitment, retention and motivation of high calibre individuals to lead and direct the Society and deliver continuously improving performance and long-term sustainability for our members.

The Policy is aligned with the business strategy, objectives, values and long-term interests of the Society and with the Prudential Regulation Authority’s (PRA’s) Remuneration Code. The Policy is consistent with the overall financial stability of the Society, promotes sound and effective risk management and does not encourage excessive risk taking.

The main elements of remuneration for executive directors are set out below:

Element	Operation
Base salary	Reviewed annually, taking into account experience, market data, the economic environment, individual and Society performance. Executive director salary increases are assessed in line with other employees.
Benefits and pension	These include a company car or car allowance and private fuel, private medical insurance and life insurance. Executive directors may participate in the defined contribution pension plan or receive a cash alternative in lieu should contributions exceed the annual or lifetime allowance. The Chief Executive receives a pension contribution of 20% of base salary and executive directors receive 15% of base salary.
Annual Success Share bonus	This rewards performance over a single financial year and is provided to all eligible Society employees, including executive directors, to a maximum of 20% (10% for on target) of base salary.
Annual Executive Variable Pay Plan (ExVPP)	This Plan is based on a balanced business scorecard and replaces the Long Term Incentive Plan previously in place for executive directors (see opposite). The maximum award is 60% (30% for on target) of the base salary of executive directors.

Success Share and ExVPP payments to executive directors are subject to deferral (as detailed opposite). Rules are in place to enable reduction and repayment of awards, in compliance with the Remuneration Code.

Replacement of Long Term Incentive Plan (LTIP) with annual Executive Variable Pay Plan (ExVPP)

The Society's balanced scorecard contains 11 strategic measures which align to the Board-approved strategy. These measures are weighted and grouped into four quadrants: Financial (40%), Member Service (20%), Risk and Projects (20%) and People (20%). When reviewing the variable pay schemes, the Committee considers target ranges taking into account plan targets, market forecasts and maintaining long-term sustainability. The balanced scorecard approach ensures that outperformance cannot be achieved through excessive risk taking and also considers member outcomes.

The ExVPP, in contrast to the three year LTIP, enables performance measures to be set and reviewed each year, making them more relevant to the Society's strategic objectives and market conditions. The ExVPP complies with remuneration regulation.

Deferral and retention

For executive directors above the PRA's de minimis threshold of £500,000, 60% of their total variable pay (annual Success Share bonus and ExVPP) is subject to an extended deferral period of seven years. The deferred award is released in equal tranches on the third to seventh anniversaries of the assessment date after the end of the performance period. For executive directors and executive managers below de minimis, 40% of the ExVPP is deferred, and released on the second anniversary of the assessment date after the end of the performance period. For all variable pay, 50% of each annual award released is paid in March, with the remaining 50% being retained for a further six months.

Remuneration summary for executive directors

Base salary

The annual review of salaries conducted in April 2016 saw a 2% basic increase for all employees and an additional 1.5% where necessary to progress towards market levels. Executive directors received 3.5% in line with this approach.

Variable pay

The Society performed strongly in 2016, meeting key strategic objectives for the period. Further information on the Society's performance can be found in the Summary Directors' Report on pages 3 to 5. Performance against the balanced scorecard measures can be found on page 87 of the full Annual Report & Accounts.

Given the Society's performance, the Committee considered the level of variable awards which gave rise to:

- An annual Success Share bonus for all 2,323 eligible employees, including executive directors, of 14% of base salary from a potential maximum of 20%.
- ExVPP awards to executive directors of 39% of base salary from a potential maximum of 60%, and to executive managers of 19.5% of base salary from a potential maximum of 30%.
- The LTIP figure for 2016 is the amount earned in respect of the LTIP award granted in 2014 and is based on performance for the three years ended 31 December 2016. The LTIP award under the scheme is 25% of base salary for eligible executive directors and 12.5% of base salary for eligible executive managers. Base salary is set as the salary for each participant at the date of the original 2014 grant. The LTIP is a legacy arrangement which will run concurrently with the ExVPP until the historical LTIP awards conclude in 2017.

Total remuneration earned by each executive director

Audited information	Fixed remuneration: Base salary £000	Fixed remuneration: Taxable benefit £000	Fixed remuneration: Pension allowance[1] £000	Variable remuneration: Annual Success Share bonus £000	Variable remuneration: ExVPP £000	Variable remuneration: Legacy LTIP £000	Total (including legacy LTIP) £000	Total (excluding legacy LTIP) £000
2016								
Mark Parsons	493	19	99	69	194	96	970	874
John Lowe	320	12	48	45	126	75	626	551
Peter Frost	267	26	40	38	105	60	536	476
Total	1,080	57	187	152	425	231	2,132	1,901
2015								
Mark Parsons	475	19	95	57	n/a	–	646	n/a
John Lowe	309	16	43	37	n/a	104	509	n/a
Peter Frost[2]	255	79	35	31	n/a	88	488	n/a
Total	1,039	114	173	125	n/a	192	1,643	n/a

1. Pension allowance includes both contributions to the Group's defined contributory pension scheme and cash payments in lieu of contributions.
2. Peter Frost's taxable benefits include £52,000 for payments agreed under his contract of employment to enable his relocation to the Coventry area. No further relocation expenses are due.

The remuneration for Mark Parsons and John Lowe is above the de minimis threshold of £500,000 in respect of deferral and retention of the annual Success Share bonus and ExVPP. Consequently, Mark Parsons will receive a payment of £105,000 (40%) in 2017 with the remaining £158,000 (60%) being paid in tranches from 2020 onwards as per the arrangements detailed on pages 81 and 82 of the 2016 Annual Report. John Lowe will receive a payment of £68,000 (40%) in 2017 but will forfeit any future deferrals after leaving the Society. The remuneration for Peter Frost is below the threshold and consequently will receive 100% of the annual Success Share bonus (£38,000) and 60% of the ExVPP, totalling £63,000 in 2017 with the remaining £42,000 payable in 2019. As the LTIP is a legacy scheme, it is outside the scope of deferral and retention rules, and does not contribute to the £500,000 threshold.

Remuneration policy – non-executive directors

The basis of non-executive directors' remuneration is set out below:

Element	Operation
Non-executive director fees	Non-executive directors receive a base fee with an additional fee for chairmanship of a committee and/or holding the position of Senior Independent Director or Deputy Chairman. They are reimbursed for reasonable expenses, paid in accordance with the Society's Rules. The non-executive directors do not participate in any Society pension or bonus arrangements. Fees are reviewed annually, taking into account market data, annual pay increases awarded to executive directors and other employees, the economic environment and the Society's performance.

Total remuneration earned by each non-executive director

Audited information	Base fees		Committee Chair fees		Taxable benefits		Total fees and taxable benefits	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Non-executive directors:								
Ian Pickering (Chairman)	141	136	–	–	6	6	147	142
Janet Ashdown	48	46	–	–	4	2	52	48
Peter Ayliffe (Deputy Chairman – from 29.04.16)	48	46	4	–	3	3	55	49
Bridget Blow (retired 28.04.16)	16	46	2	17	–	–	18	63
Roger Burnell (Chairman of the Board Risk Committee, Chairman of the Board Audit Committee – from 01.10.16, and Senior Independent Director – from 01.01.16)	48	46	22	13	–	–	70	59
Catherine Doran (appointed on 01.08.16)	20	n/a	–	n/a	1	n/a	21	n/a
Ian Geden (Chairman of the Remuneration Committee – from 01.01.16)	48	46	11	–	3	2	62	48
Alasdair Lenman (appointed on 01.11.16)	8	n/a	–	n/a	–	n/a	8	n/a
Glyn Smith (Chairman of the Board Audit Committee and Models and Ratings Committee – resigned 30.09.16)	36	46	18	23	5	5	59	74
Total	413	412	57	53	22	18	492	483

On behalf of the Board

Ian Geden
Chairman of the Remuneration Committee
23 February 2017

Statement of the Auditor to the Members and Depositors of Coventry Building Society

We have examined the Summary Financial Statement of Coventry Building Society for the year ended 31 December 2016 which comprises the Summary Directors' Report, 'Results for the year', 'Financial position at end of year' and 'Key financial ratios', comprising pages 6 and 7 and the directors' emoluments disclosures on pages 10 and 11.

This statement is made solely to the Society's members and depositors of Coventry Building Society, as a body, in accordance with Section 76 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members and depositors as a body, for our audit work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor
The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986, which includes information extracted from the Annual Report & Accounts and the audited part of the Directors' Remuneration Report of Coventry Building Society for the year ended 31 December 2016.

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

Basis of opinion
Our examination involved agreeing the balances and disclosures in the Summary Financial Statement to the Annual Report & Accounts, and the directors' emoluments to the Directors' Remuneration Report. Our audit report on the Society's Annual Report & Accounts and the audited part of the Directors' Remuneration Report describes the basis of our opinion on those financial statements and the auditable part of that report.

Opinion
In our opinion the Summary Financial Statement is consistent with the full Annual Report & Accounts, and the directors' emoluments are consistent with the Directors' Remuneration Report of Coventry Building Society for the year ended 31 December 2016 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made thereunder.

Ernst & Young LLP
Registered Auditor
Leeds
23 February 2017

Contact us

At a branch

For details of our opening hours, visit **thecoventry.co.uk**

Online

thecoventry.co.uk

By phone

0800 121 8899

By post

Economic House, PO Box 9, High Street, Coventry CV1 5QN

Our Customer Service Centre is 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 2017).

Coventry Building Society.
Principal Office: Economic House, PO Box 9, High Street, Coventry CV1 5QN.

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