Coventry Building Society
2019 year end results

Disclaimer

COVENTRY Building Society

This presentation document and the materials and information contained therein (the "Presentation") is being made available on a confidential basis and the recipient acknowledges and agrees that it will not be reproduced or passed on to a third party.

In accessing the Presentation, you agree to be bound by the following terms and conditions, including any variation to them anytime you receive any information from us as a result of such access.

- The Presentation is the property of Coventry Building Society (the "**Society**"). The Presentation is provided strictly for information only.
- Nothing in the Presentation shall constitute an offer to sell or the solicitation of an offer to buy securities. In particular, this Presentation does not constitute or form part of a prospectus or other offering document and it does not constitute an offer or solicitation to purchase or subscribe for any securities in the United States or any other jurisdiction. Any securities which may, following the Presentation, be issued in connection with the Presentation will not be registered under the U.S. Securities Act of 1933 (as amended). No assurance whatsoever is given by any person that any securities may be so issued in future and no reliance whatsoever shall be placed by any person on any securities being offered following or in connection with the Presentation.
- The Presentation does not constitute of form part of a prospectus or other offering document for the purposes of the Directive 2003/71/EC (as amended) and/or Part VI of the Financial Services and Markets Act 2000 (the "**FSMA**"). Information contained in the Presentation is a summary only. Recipients of the Presentation who intend to subscribe for or purchase any securities are reminded that any subscription or purchase may only be made on the basis of the information contained in any final prospectus or other offering document.
- This communication is not intended for retail investors, and if made to any persons in the United Kingdom, is made to persons who (i) are "investment professionals" within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (ii) are high net worth entities falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or certified high net worth individuals within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005.
- The information in the Presentation is not intended to be relied on as advice for making investment decisions.
- The statements of fact in the Presentation have been obtained from and are based on sources the Society believes to be reliable. The Society does not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and estimates constitute the Society's judgement, as of the date of the Presentation and are subject to change without notice. The Presentation has not been independently verified.
- No representations or warranties, express or implied (including in relation to any representations or warranties implied by statute, which are expressly excluded) are given in, or in respect of, the Presentation. To the fullest extent permitted by law and in no circumstances will the Society, or its directors, officers, employees, subsidiaries, agents or any affiliates of such persons or any of the Society's affiliates or any of the Society's professional advisors be responsible or liable for any loss (including, but not limited to, direct, indirect, economic or consequential damage or loss) or loss of profit arising from the use of the Presentation, its contents, its omissions, reliance on the information contained within it, or the opinions communicated in relation thereto or otherwise arising in connection therewith. The exclusion of responsibility and liability set out in this paragraph shall arise and continue notwithstanding any document executed pursuant to or in connection with the Presentation and shall operate as a waiver of any and all claims including, but not limited to, claims in tort, equity and at common law, as well as under the laws of contract.
- Recipients should conduct their own investigation, analysis and independent assessment of the matters referred to in the Presentation.
- Certain statements in the Presentation may constitute "forward-looking statements". These statements reflect the Society's expectations and are subject to risks and uncertainties that may cause actual results to differ materially and may adversely affect the outcome and financial effects of the plans described in the Presentation. You are cautioned not to rely on such forward-looking statements. The Society disclaims any obligation to update its view of such risks and uncertainties or to publicly announce the result of any revisions to the forward-looking statements made in the Presentation except where they would be required to do so under applicable law.
- If the Presentation materials have been sent to you in an electronic form, you are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission. Consequently, neither the Society nor any of its directors, officers, employees, agents, subsidiaries nor any affiliates of any such persons nor any of the Society's affiliates nor any of the Society's professional advisors accepts any liability or responsibility whatsoever in respect of the contents.

COVENTRY Building Society

Simple business model

- Providing simple, transparent retail savings products which offer long term value.
- 2nd largest Building Society and 8th largest lender in UK.
- Helping customers own residential properties through low risk mortgage lending primarily through intermediaries.
- Delivering sustainable organic growth and having a low risk approach to safeguard the Society's future.
- Ensuring operations are cost efficient, allowing the society to pay above market interest rates to savers.
- Strategically investing in the future whilst maintaining capital strength.
- Underpinned by our CARES values which shapes decision making and focuses on putting members first.

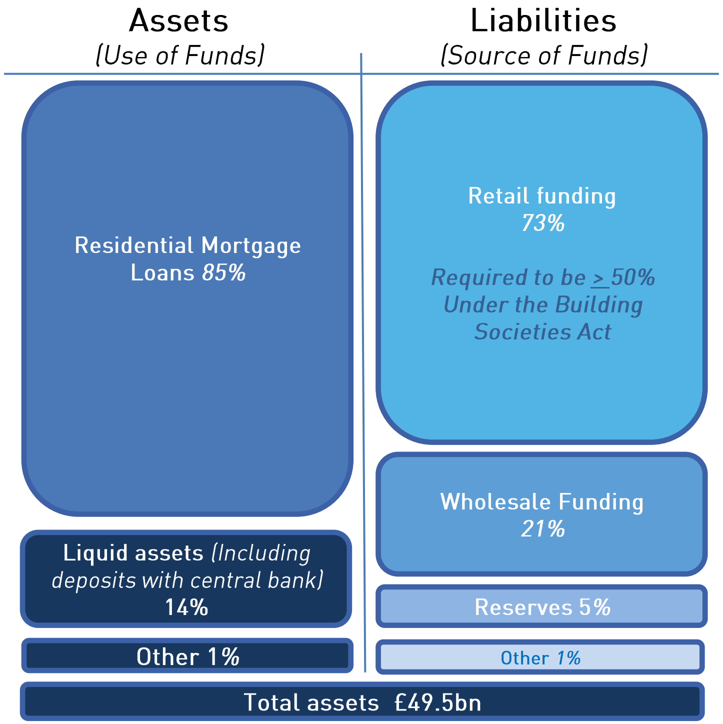
Member Focus

- The Society returned £228m of value back to members in 2019 through competitive savings rates[1].
- The Society still has a strong Branch network consisting of 69 branches to service our members.
- Continuing to invest in the branch network is a key part of our strategic plan.

Branch

Low risk

- Low LTV lending and third party distribution provides resilience to the business model if the market deteriorates.
- 23% of mortgages and 62% of savings on administered rates at 31 December 2019.
- 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.



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

Growth of the business

COVENTRY Building Society

8.9%	7.6%

8.9%

Savings balance growth against market growth of 4.1%[1]

- Over double the rate of the savings market growth
- This long-standing organic growth strategy has been maintained even through the crisis.
- Multiple origination channels, including partnership with Hargreaves Lansdown

7.6%

Mortgage balance growth against market growth of 3.1%[1]

- More than double the rate of the rest of the market
- As the 8th largest lender in the UK, originating 3% of overall lending
- Consistent product proposition and low risk lending approach
- Service levels and experience great for the members
- Supported by our pledges to intermediaries, with an advocacy rate of +85

1.Source: Bank of England.

Member value in a low risk Society

COVENTRY Building Society

We paid
1.49%
average interest on savings

Market average[1]
0.84%
interest on savings

- We paid members 65bps more than the rest of the market
- This year we paid back £228m in member value
- We aim to retain only the profit we need to maintain capital levels and invest for the future

2019

0.08%
mortgage balances were 2.5% or more in arrears against industry average of 0.67%

- Downwards trend in arrears in recent years
- 33 properties in possession out of 290,000
- Arrears > 3 months 16bps against industry average of 73bps
- Only 0.5% of loans in IFRS9 stage 3
- Average LTV of 55.4%
- 4.4 years coverage of current loss provisions

Latest data available 1 The Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits on the Society's mix of products.

Investing for the future

COVENTRY Building Society

0.48%

Total costs as a percentage of average assets

- Committed to being a low cost organisation.
- One of the lowest Manex ratios in the peer group.
- 0.48% including our strategic investment spend.
- Year on year operational costs grew 2% against balance sheet growth of 8%

27%

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

- Investing in the business for the future benefit of our members.
- 3 major strategic projects:

  - Operational resilience
  - Core banking Upgrade
  - Branch re-design

- Creating a more member friendly and a dynamic environment for employees

Safe and secure for our members

COVENTRY Building Society

32.0%

Capital strength
Common Equity Tier 1 ratio

4.4%

Leverage ratio [1]

- The Society has one of the highest CET1 ratios of the top 20 lenders
- Our aim is to only retain what we need to remain safe and secure
- With CET1 ratio at 32.0% and the Society TCR set at 11.2%
- Well positioned for upcoming regulatory capital changes

214%

Liquidity strength
Liquidity coverage ratio

- Strong liquidity protecting against Brexit uncertainty
- Increase of HQLA by 12.5% to £5.9bn
- Refinanced AT1 with innovative tender and re-issue
- Covered Bond and Senior unsecured issuances
- Plans to re-finance TFS as it begins to mature in 2021

1. UK Leverage ratio calculation

Margin pressure in a competitive market

COVENTRY Building Society

83bps

Net Interest Margin

- Margin pressure increased in competitive mortgage market.
- Low risk lending means lower margin.
- Current NIM supports sustainable capital, stabilising from half year.
- Flexibility through £30bn of administered rates

£147m

Profit Before Tax

- Margin key driver in competitive market
- Market volatility causing hedge accounting inefficiencies.
- Increase in strategic spend continues in the medium term
- Commitment to giving member value in the long term

Why people choose the Coventry

COVENTRY Building Society

97%

complaints upheld in the Society's favour by the Financial Ombudsman[1] against the Financial Services average of 54%

8/10

customers would recommend us to others[2]

Rated **No.1** for savings

Fairer Finance AUTUMN 2019 1st PLACE GOLD RIBBON CUSTOMER EXPERIENCE Savings accounts

Recommended Mortgage Provider

Which? Recommended Provider Mortgages September 2019

Rated **No.1** most Transparent savings provider

Fairer Finance AUTUMN 2019 1st PLACE GOLD RIBBON MOST TRANSPARENT Savings accounts

- Member driven business with exceptional customer service
- Award winning product proposition, being fair and transparent
- We really do treat members and customers fairly
- Net Promoter Score of +74 versus the average financial services of +35[3]

- Over 90% of colleagues are proud to work for the Society
- Ranked 2nd in The Sunday Times Top 25 Best Big Companies to Work For
- We provide a strong community network for our members
- Socially conscious business making a positive impact in our community and environment
- Over 4 out 5 colleagues engaged in charitable or community activities in 2019
- Branch network with 69 locations, mainly in our heartlands

90%

Of colleagues are proud to work for the Society

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2020

82%

Of colleagues engaged in charitable or community activities

1. Source: Financial Ombudsman Service latest available information 1 January 2019 to 30 June 2019. 2. Source: Average number of members scoring 9 or 10/10 across 6 surveys totalling 56,745 responses. 3. Net Promoter

Financial Year 2019

COVENTRY Building Society

£m	2019	2018
Interest receivable and similar income	1,010.5	976.3
Interest payable and similar charges	(613.8)	(550.5)
Net interest income	396.7	425.8
Other income	0.1	(1.2)
Net gains/losses from derivatives	(17.2)	(0.3)
Total income	379.6	424.3
Management expenses	(229.1)	(221.7)
Operational run costs	*(149.1)*	*(145.8)*
Change spend and depreciation	*(80.0)*	*(75.9)*
Impairment credit/charges	(2.1)	0.4
Provisions for liabilities and charges	-	-
Charitable donation (Poppy Appeal)	(1.2)	(1.4)
Profit before tax	147.2	201.6
Taxation	(25.5)	(38.6)
Profit for the period	121.7	163.0

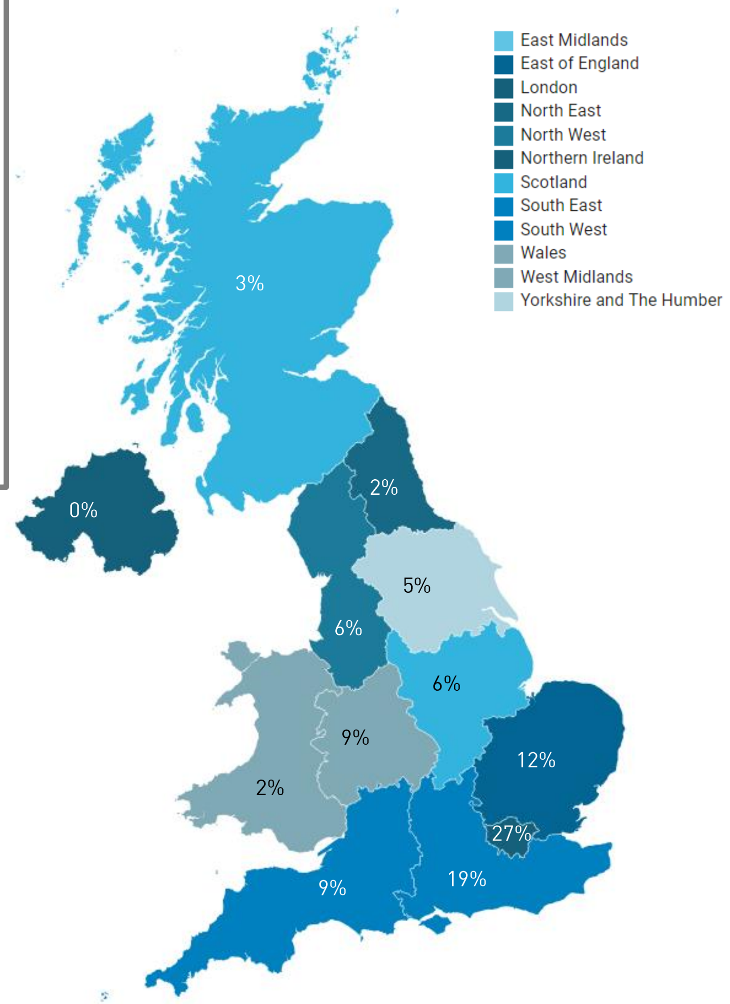
£m	2019	2018
Liquidity	6,854.7	6,401.9
Loans and advances to customers	42,234.7	39,264.6
Derivative financial instruments	287.6	275.4
Intangible and tangible assets	111.0	86.0
Other assets	42.8	43.0
Total assets	49,530.8	46,070.9
Shares	36,238.1	33,281.6
Wholesale Funding	10,605.4	10,313.7
Derivative financial instruments	325.8	203.9
Other liabilities	91.6	84.2
Subordinated liabilities	25.5	25.5
PIBS	41.6	41.6
Members' interests and equity	2,202.8	2,120.4
Total liabilities & equity	49,530.8	46,070.9

Overall mortgage portfolio

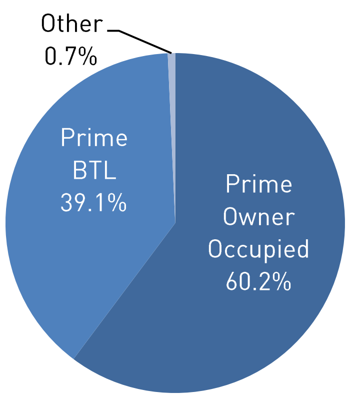
Whole book position

- The balance weighted average indexed LTV of the entire mortgage book is 55.4% as at December 2019
- No sub-prime, commercial or second charge lending (legacy inherited commercial book currently £2m in run off)
- Negligible levels of unsecured lending (£20.1m: Q4 2019, 23.8m: Q4 2018)
- 95% of the overall book has an indexed LTV of 85% or less as at Q4 2019
- Intermediaries give national coverage and support our geographic diversification of the mortgage book

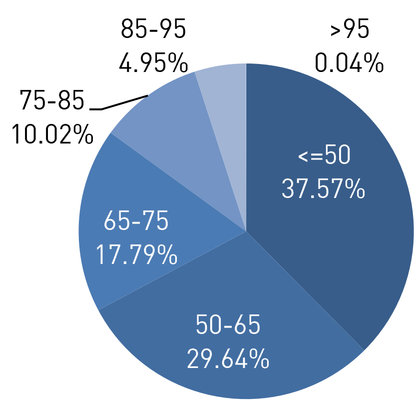
Geographical distribution by Value



Total book split by product

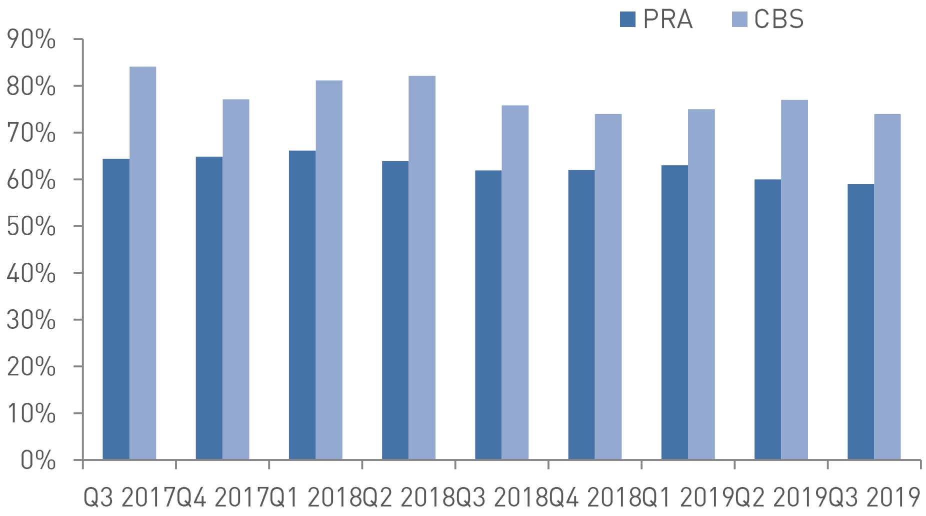


Total book split by LTV

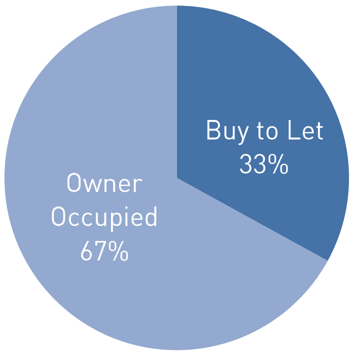


2019 Originations

Gross lending ≤ 75% LTV



2019 New lending product split



+85

average broker Advocacy (NPS)

10.5

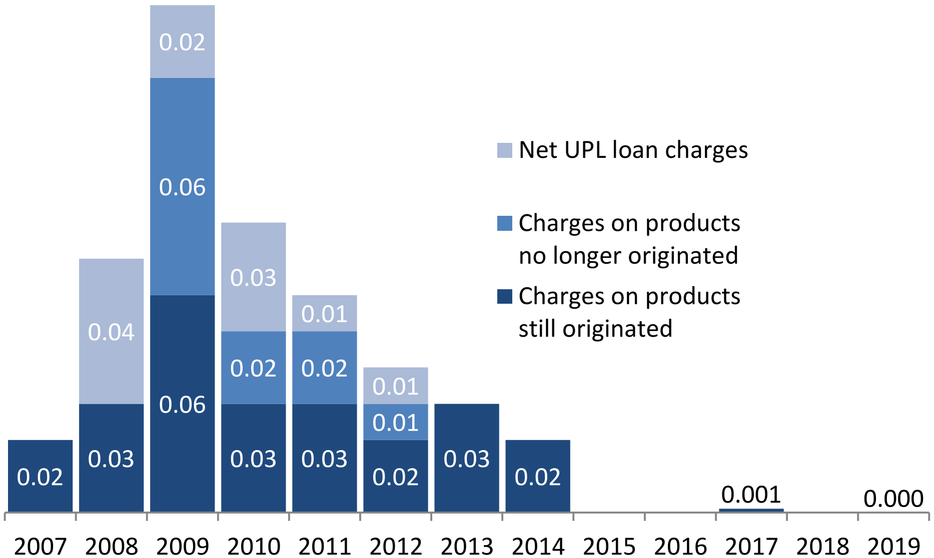
number of days it takes to produce a mortgage offer

- 75% of lending to the end of Q4 2019 has been at LTVs of 75% or below, in comparison to the market average of 61% for the first 3 quarters of 2019
- In 2019 circa 58% of all buy-to-let lending was originated at 65% LTV or less.
- The majority of the UK mortgage market is introduced via intermediaries (e.g. independent financial advisors, mortgage brokers, estate agents).
- The Society has a great relationship with broker network and combined with efficient operations means great service for customers.
- Crucially, all underwriting and servicing is performed by Coventry. There is no 'packaging'; the intermediary acts solely as an introducer.
- We are consistently in the market which allows us to manage supply more effectively.

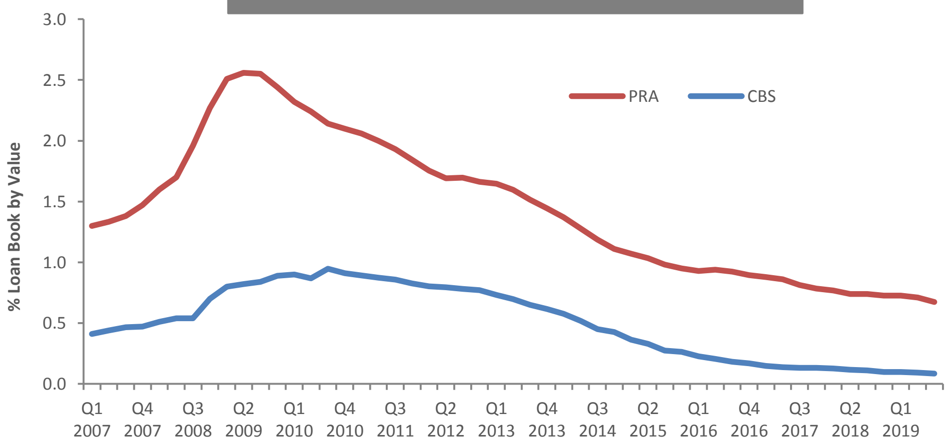
Low risk mortgage portfolio

COVENTRY Building Society

Impairment charges as % of loans



CBS vs PRA >2.5% balance in arrears

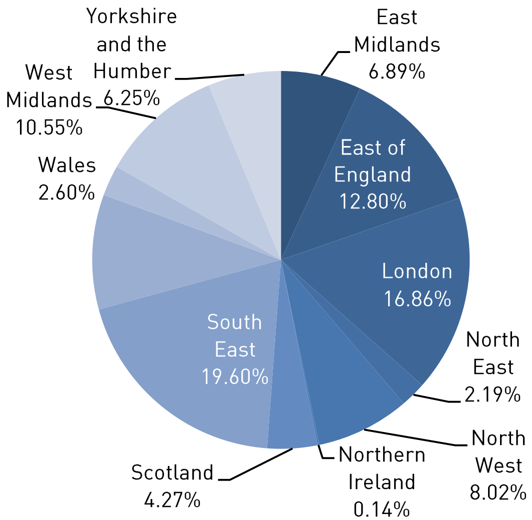


Very Low Impairments

- Arrears levels consistently below industry averages - 0.17% of accounts > three months in arrears (Industry average 0.81%).
- Arrears very rarely capitalised - only 6 cases in 2019 versus 8,289 for the industry as a whole up to the end of Q3 2019.
- Impairment charges in the between 2008 and 2012 averaged c. 8 bps per year – 55% of which were on loan products that are no longer offered e.g. unsecured personal loans.
- Impairments have been consistently falling since exiting such markets.
- 2019 £2.1m impairment charge is after a £2.8m post- model adjustment and an increase in weightings of downside economic scenarios.
- At 31 Dec 2019, only 33 properties were in possession, out of a total of c.290k mortgages:
  - 5 are legacy products,
  - 10 standard owner occupier; and
  - 18 Buy to Let.

Owner Occupier Performance

OO Geographic distribution by value



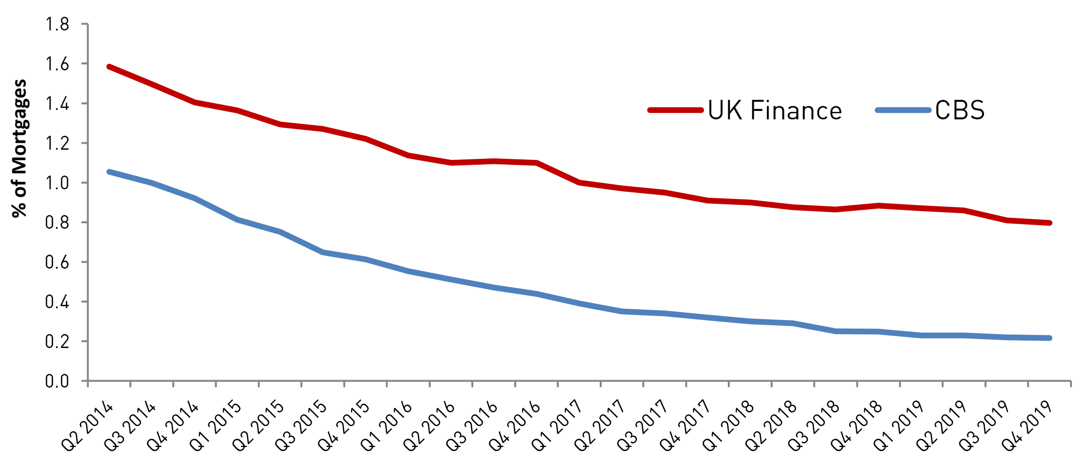
Coventry OO Prudent approach

- We focus on mass market lending to prime borrowers, with excellent credit .
- Maximum age at maturity of 75.
- No self-certified lending - <1% bool comprises legacy self-cert exposure.
- Remote valuations used for selected <=65% LTV , subject to minimum confidence levels.
- Prudent basis of including income in affordability and affordability stress rates at 7.99%,.
- Regionally diverse book reduces concentration risks

Interest Only OO loans

- Small legacy owner occupied interest only book.
- Focus on how borrowers will repay loans after the typical 25 years contractual term.
- As at 31 December 2019 the number of interest only loans was 6.2% of the OO book, down from 34.8% at 31 December 2011.
- Only 17 interest only owner occupier mortgages with a LTV greater than 75% were >6 months beyond their scheduled term end date as at 31st December 2019.

Owner Occupied Arrears >3 months[1]

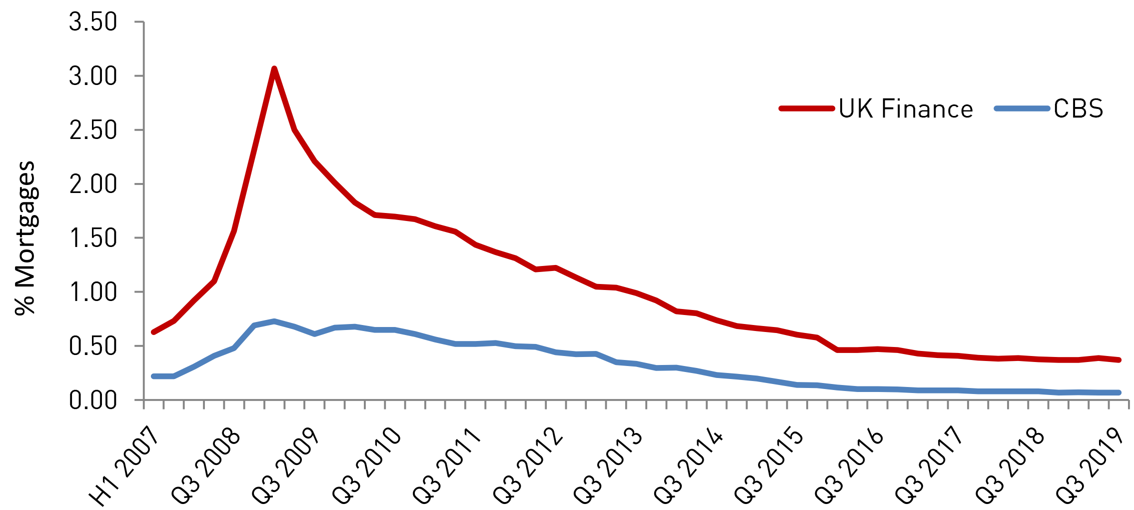


Buy to Let Performance

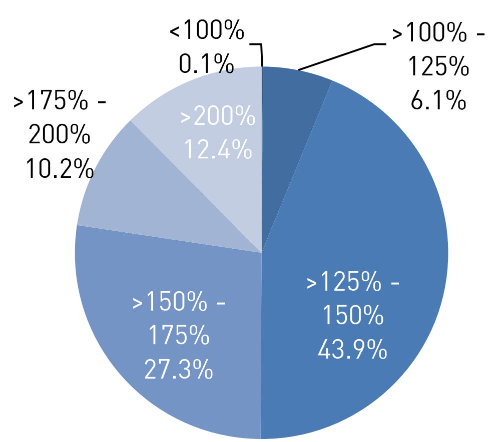
Coventry BTL Experience

- Arrears and impairment levels have been consistently very low.
- BTL lending was 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.
- 6 losses on £27bn of BTL ending originated since 2010 with total losses £74k
- Approximately two thirds of Coventry's BTL lending is on houses, with one third on flats.
- BTL demographic is older than typical owner occupied demographic.
- As at 31 December 2019 BTL experience:
    - 18 properties in possession from a book of c. 115,000 mortgages;
    - Balance weighted average LTV of the only 56%;
    - 0.08% loans >3 months in arrears (including possessions), half overall arrears level on total book;
    - Only 3.9% of borrowers have more than two BTL loans with the Society (maximum 5 properties).

Coventry vs. UKF >3mths buy-to-let arrears (incl. possessions)[1]



Interest Coverage Ratio 2019



- 99.9% of accounts, have > 100% ICR based solely on rental income.
- ICR calculation assumes minimum interest rate of 5%. – most loans significantly lower, so actual ICR likely to be considerably higher.
- Prudent assumptions regarding rental voids, rent increases etc. used
- Coventry's actual indexed ICR for 31 December 2019 was 175.6%.

1.UK Finance

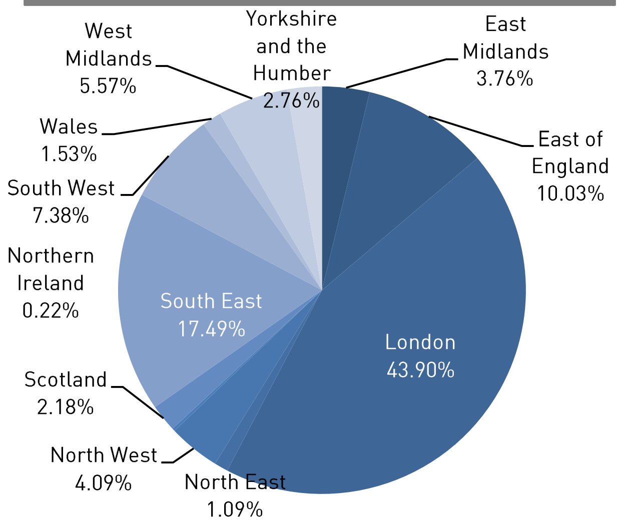
Buy to Let criteria

COVENTRY Building Society

BTL prudent criteria

- Properties must be readily saleable into the owner occupier market.
- 100% subject to physical valuations.
- Maximum of 5 properties with the Coventry and an aggregate loan limit of £2,000,000.
- 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)
- No top slicing on affordability calculations

BTL Geographic distribution by value



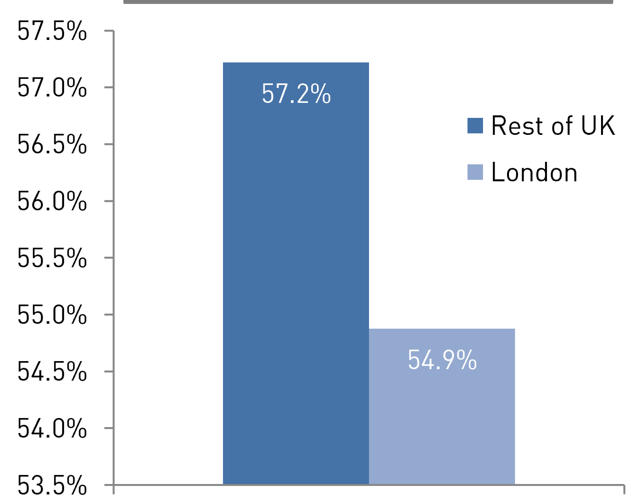
Portfolio Landlords

- Portfolio landlord regulation introduced in 2017.
- In addition to BTL criteria, extra prudence
- 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%, with no individual property with ICR <100%.
- The proportion of portfolio landlords is c.20% of new business

London experience

- Almost 44% of all BTL Balances are in London compared to 28% of overall book.
- Up to 75% LTV loan size is capped at £750k 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 only 2bps >3 months in arrears (7bps national average)

Balanced weighted average LTV



IFRS 9

- The Society transitioned to IFRS 9 in 2018, which now takes a forward looking assessment on certain weighted economic scenarios. There was an increase in the provision of £2.8m in 2019 due to reduction in specific and possession provision cases, offset by management judgement overlays.
- The Society updated its underlying economic scenarios, calibrated on historical movements of key indicators in stress
- As at 31 Dec 2019 97% of our loans were in Stage 1 performing and out of over £42bn of loans, only 2.5% are in the Society's prudent stage 2 (Loans we would no longer originate) however only 0.2% of those are past due.
- The mortgage book has a very low underlying risk of default, with 95.6% of the book having a PD of 0.5% or less compared to 91.7% last year.
- Provision coverage as a percentage of Stage 3 loans rose to 6.1% in the year (2018: 5.6%).

(Audited)	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2019	37,853.6	1.4	1,129.6	3.9	208.6	6.3	39,191.8	11.6
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(570.0)	(0.1)	570.0	1.1	–	–	–	1.0
Transfer from stage 1 to stage 3	(39.6)	–	–	–	39.6	1.1	–	1.1
Transfer from stage 2 to stage 3	–	–	(49.9)	(0.3)	49.9	0.3	–	–
Transfer from stage 3 to stage 2	–	–	38.2	0.5	(38.2)	(0.5)	–	–
Transfer from stage 3 to stage 1	11.8	–	–	–	(11.8)	(0.1)	–	(0.1)
Transfer from stage 2 to stage 1	465.2	0.1	(465.2)	(0.5)	–	–	–	(0.4)
Net movement arising from transfer of stages	(132.6)	–	93.1	0.8	39.5	0.8	–	1.6
New loans originated[1]	8,582.4	0.6	4.2	–	0.1	–	8,586.7	0.6
Remeasurement of ECL due to changes in risk parameters	–	(0.1)	–	(0.3)	–	0.6	–	0.2
Increase/(decrease) in post model adjustments	–	–	–	(0.3)	–	3.1	–	2.8
Remeasurement of ECL due to model refinements[2]	–	(0.4)	–	(0.6)	–	(0.1)	–	(1.1)
Loans derecognised in the period	(3,752.7)	(0.4)	(103.4)	(0.3)	(40.6)	(0.7)	(3,896.7)	(1.4)
Other items impacting Income Statement reversal	–	–	–	–	–	(0.3)	–	(0.3)
Net write offs directly to Income Statement	–	0.1	–	–	–	(0.4)	–	(0.3)
Income Statement (credit)/charge for the period		(0.2)		(0.7)		3.0		2.1
Repayment and charges	(1,657.3)	–	(44.9)	–	(7.9)	–	(1,710.1)	–
Net write offs and other ECL movements	(0.3)	(0.2)	–	–	(2.4)	(1.5)	(2.7)	(1.7)
At 31 December 2019	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0

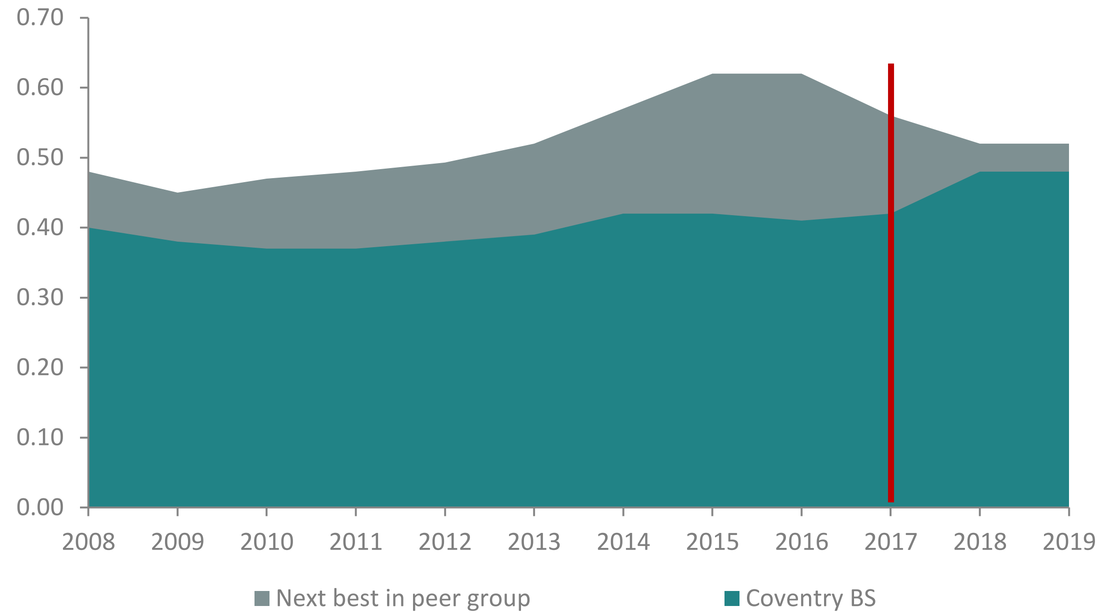
Committed to low cost business model

COVENTRY Building Society

Low cost whilst investing

- Low cost operations driven by simple business model, efficient distribution channels and high average account balances, with growth driving economies of scale.
- Since 2017 investment on strategic change programmes has increased, however we still have one of the lowest manex ratios in the industry.
- In 2019, we spent £52m on change (revenue costs).
- Long term view enables investment in future service despite margin pressure.
- 3 main strategic projects running over a 5 year horizon.

Manex ratio vs Next best in Peer group



Targeting run costs and overall costs

- From 2017 onwards shows the increase in investment on our strategic change programmes,
- For the remaining run cost, a growth of 2% totalling £4m on a balance sheet increase of 8%.

Strategic projects update

Branch network re-design

- Important face of the Society with the membership which builds trust and engages the community. Branches is a key part of our service promise to customers, The Branch Net Promoter score of +90 on average 2019 is well above average for financial institutions .
- Branches account for around 30% of retail savings acquisition each year and manage around £12bn of the total retail book.
- So far we have renovated nearly 40% branches since we started the project in 2018, with a further 18 expected to complete before the end of 2020.
- 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.

Operational Resilience

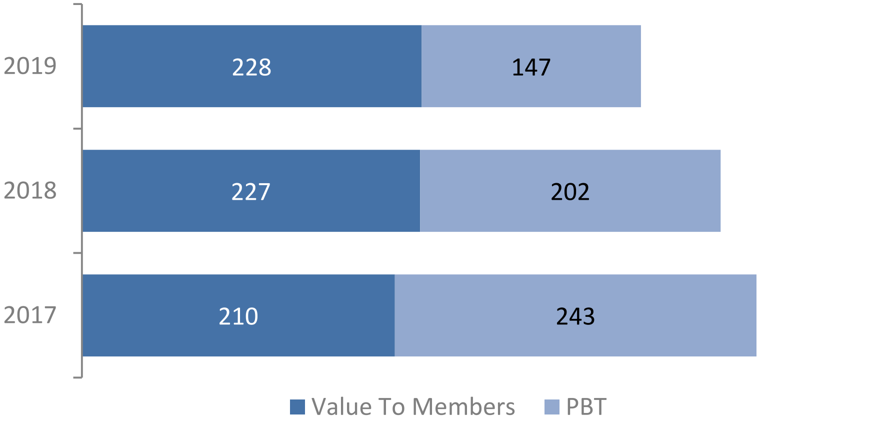
- To enhance operational resilience we are progressing a move to a co-located/ cloud hybrid datacentre environment.
- Will provide dedicated and resilient point to point connectivity.
- Cloud technology adopted on around 20% of estate subject to rigorous risk assessment and majority of cloud migrations completed successfully at the end of 2019.
- Remaining migrations will complete before 2020. ahead of the project closing in 2021.

Upgrading Banking Platform

- In 2019, the Society completed re-planning of the upgrade to its core technology platform and is now starting to implement key elements of this as separate modules. Whilst this approach has extended the final delivery date, it has reduced execution risks in the programme.
- We expect to start a number of these initiatives in the second half of the year including a multi-year programme to implement new Mortgage Origination tools to improve our service to Intermediaries and borrowing members.
- The roadmap extends across the Strategic Planning period and as a result, we expect costs to remain elevated for a number of years. We are not planning to progress the replacement of our Core Banking Platform within our planning horizon.

Stable retail funding acquisition

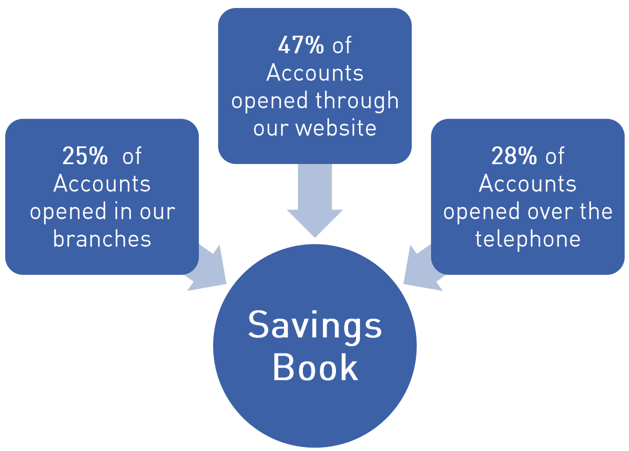
Total value to members



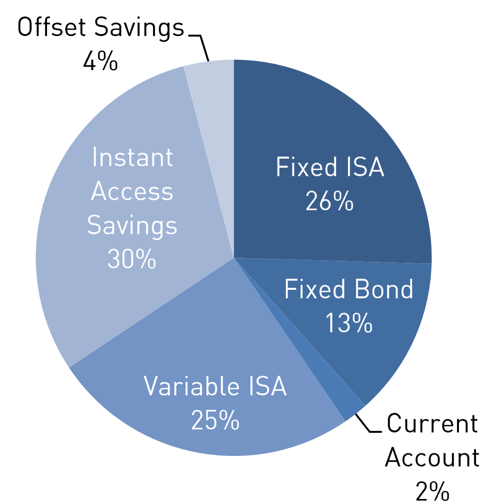
Retail Savings Focus

- Lending is primarily funded through retail deposits.
- Coventry market share remained at 2.6% in 2019, with over 330,000 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.
- Further products offered through Hargreaves Lansdown platform
- Regular Saver product developed and offered.

Savings book origination as at December 2019



Retail Product Breakdown as at December 2019



Prudent approach to liquidity

COVENTRY Building Society

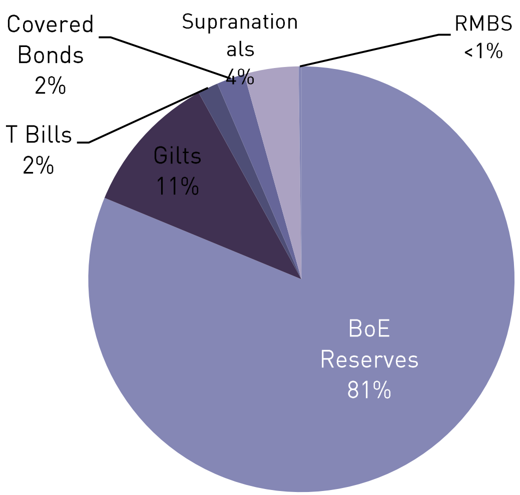
Liquidity

- 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.
- Year on year core liquidity has increased with the increased uncertainty related to Brexit
- Over 90% 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, more recently the Society has invested in UK covered bonds and RMBS.

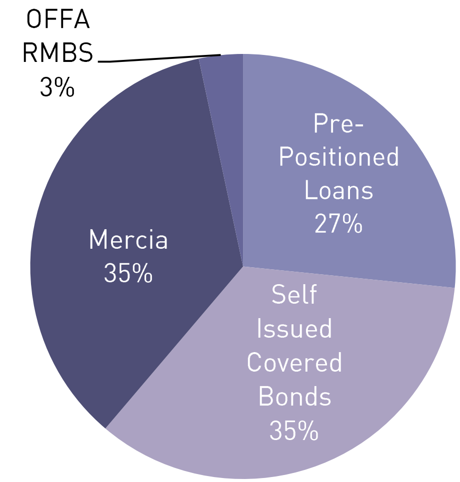
LCR / NSFR

- The Society maintains liquidity considerably above the regulatory requirement. With an LCR of 214% at year end 2019.
- The NSFR was 141% as at 31 December 2019.
- The Loan to Deposit ratio was 117% reflecting the stable funding profile of the Society.
- Contingent liquidity was lower than last year end due to prepayment of pre-positioned mortgage collateral, this has been increased by £1bn in January 2020

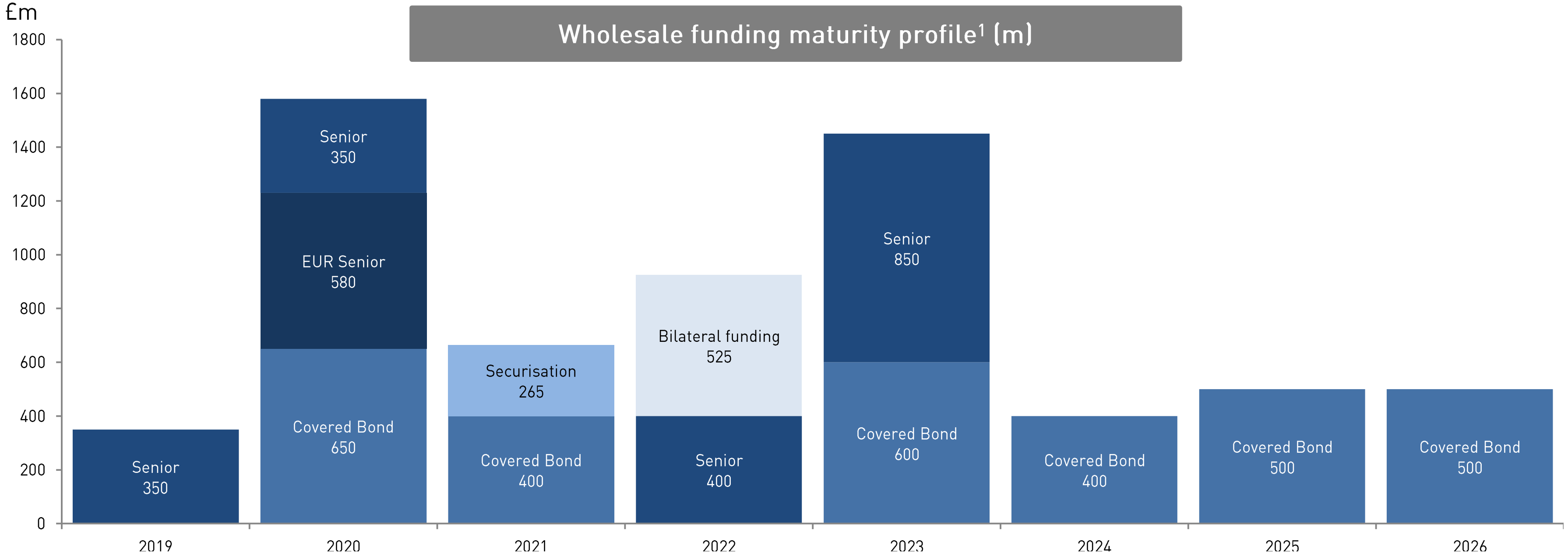
Core Liquidity



Contingent Liquidity



Wholesale funding franchise



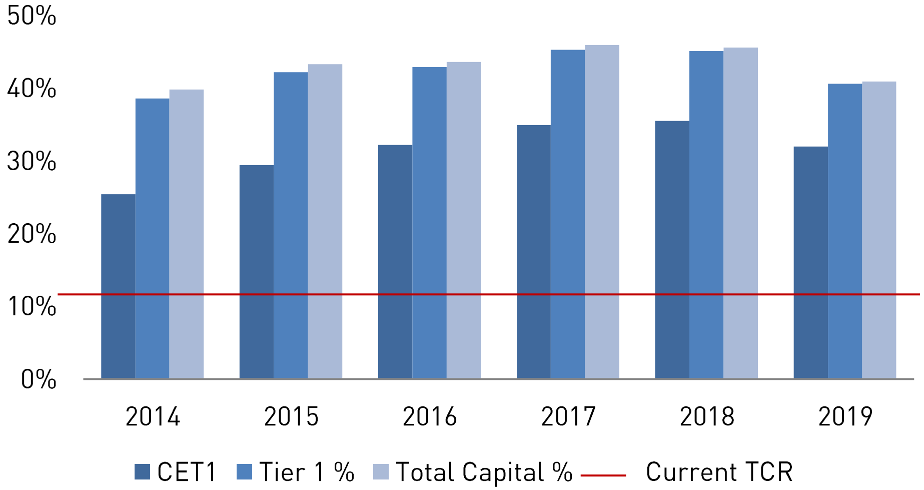
Funding Strategy

- Retail deposits are supplemented by a number of wholesale funding options, with a wholesale funding ratio 21.4% as at Dec 2019
- Managing the maturity profile to minimise concentration, with £4.25bn of Term Funding Scheme maturing across 2021 and 2022
- The Society continues to has a number of wholesale funding programmes, and within 2019 completed the following transactions: £415m Additional Tier 1, £525m Bi-lateral funding arrangements, €500 and £100m Covered Bonds and £400m Senior unsecured. This has been supplemented with a £500m 5 year SONIA covered bond in January 2020
- The Society is working to ensure we have a even more diverse set of funding tools as the business grows

1. excluding TFS

Capital

CET1 and Total Capital Ratios



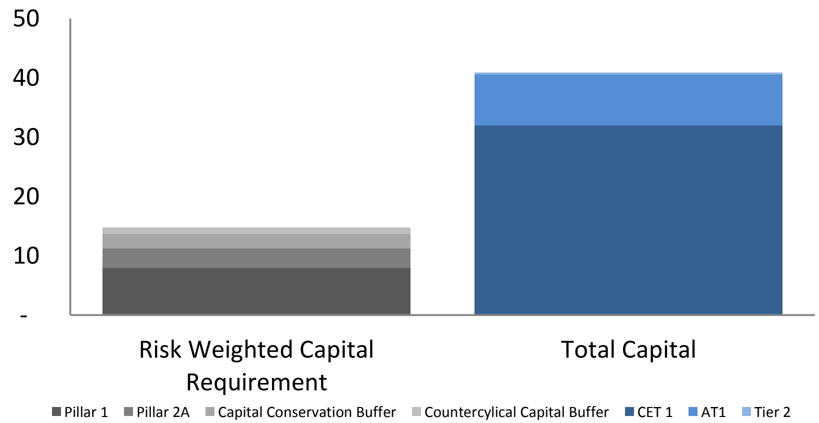
Regulatory Capital

- Coventry's total capital ratio is 39.8%[2] compared to an RWA-based capital requirement of 14.7% (TCR + Capital Conservation Buffer 2.5% + Countercyclical Buffer 1%[1]) 25.1% buffer over TCR on RWA basis.
- The Society uses IRB models that are being updated to reflect the upcoming regulation and expects that on adopting the new models, its Risk Weighted Assets (RWAs) will increase modestly and its CET 1 ratio will fall by between 1% and 3%. This arises because the Society's incumbent models already assess risk 'through the cycle' rather than solely on a 'point in time' basis.
- The Society reported in December 2019 an omission of the 6% uplift within its RWA calculation, this has been corrected and all RWA calculations shown include this uplift.

Capital and Reserves

- The Society's CET1 ratio fell to 32.0% as at Dec-19, remaining comfortably above requirements.
- The Society was issued with Total Capital Requirement (TCR) of 11.2% or £590m comprising Pillar 1 and Pillar 2A.
- Retained earnings from strong profitability (currently c. £1.78bn) are Coventry's primary source of CET1 capital.
- Internally generated capital is augmented by £415m 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.

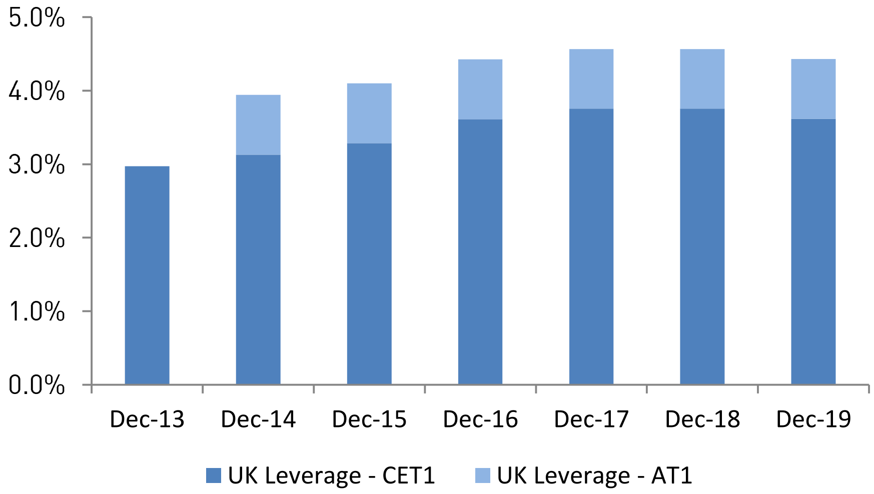
End-point Risk Weighted Capital Requirement



1. The CCyB will go up to 2% on 16th December 2020 2.Reported on a end state.

Leverage & MREL

Leverage Ratio[1]



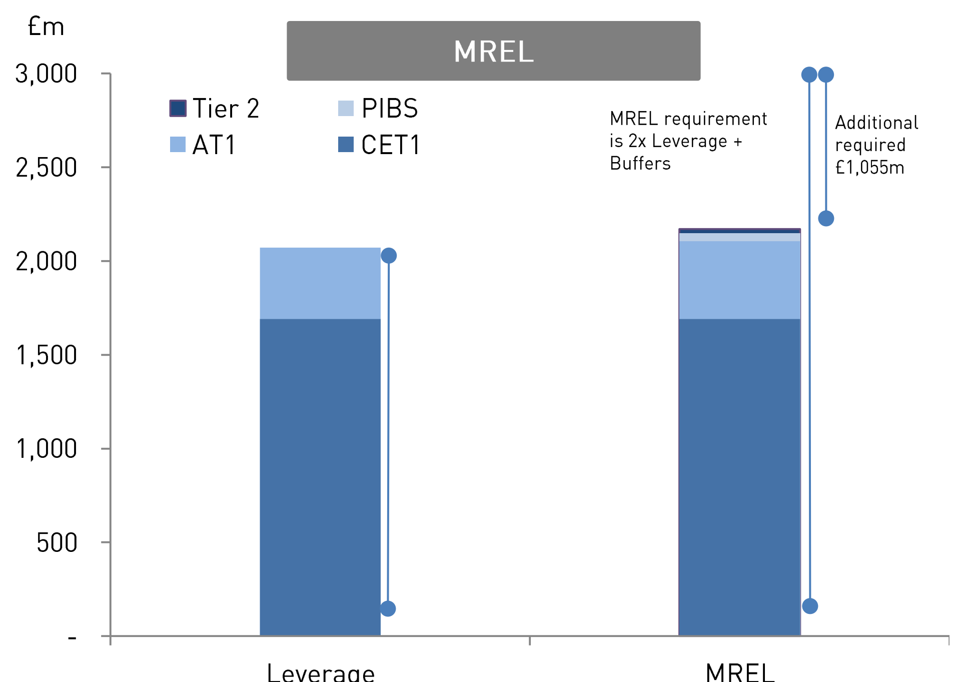
Leverage Ratio Framework

- The leverage ratio will become binding on all firms from June 2021 after CRR2 was enshrined in EU Law.
- 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%, rising to 2% in December.
- The modified leverage ratio on a UK basis at 31 December 2019 is 4.4% (4.1[2]% based on CRR leverage), comfortably above the 3.25% minimum level (3.65% 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 plus buffers, or 25.8% of risk weighted assets. The Society currently exceeds this constraint.
- If this changes to a leverage binding constraint before 2022 the society will be required to raise just over £1bn in MREL transactions.

MREL



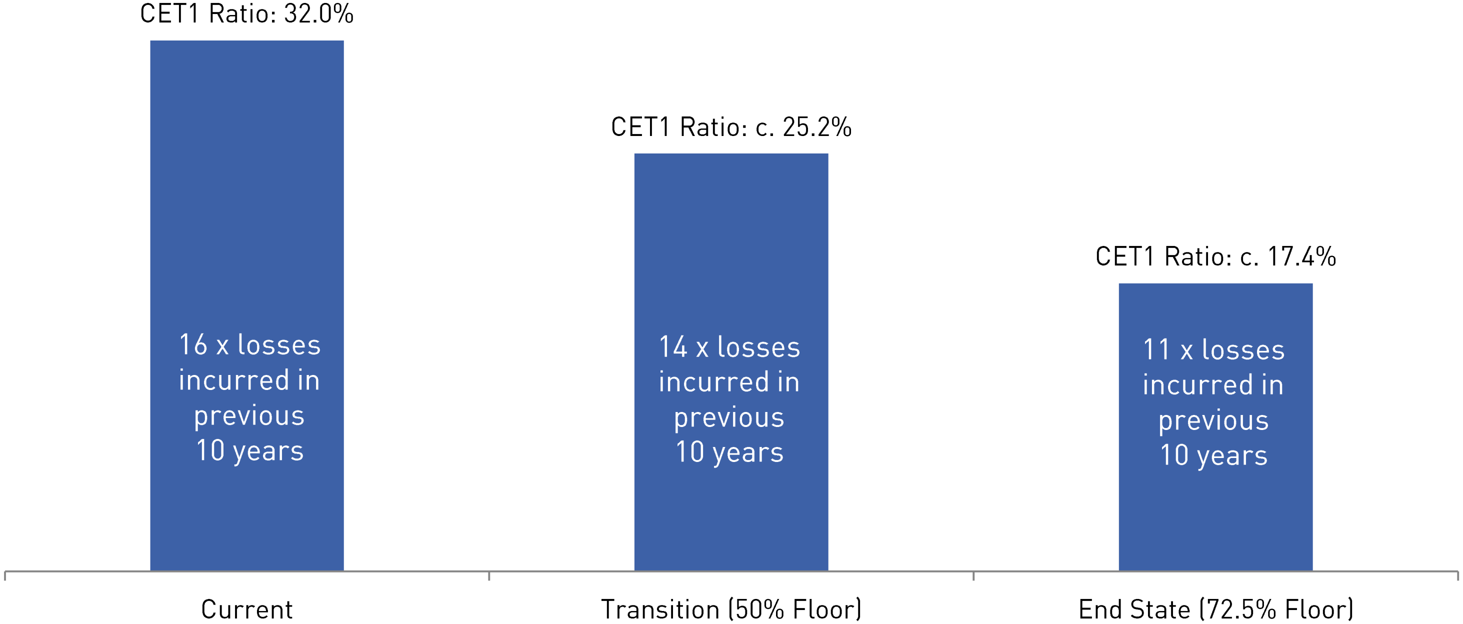
1.The BoE modified calculation excluding Central bank exposure less than 3 months 2. Reported on a transitional basis

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 11 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

Impact on Society and local community

Environmental impact

- All printed material we produce comes from recycled paper sources or sustainable forests, with the overall goal to reduce the amount of printed material
- We have removed single use plastic cutlery and cups internally and issuing colleagues with sustainable alternatives.
- Representatives from around the Society make up the new Environmental Sustainability Working Group, to oversee further environmental plans and drive change.
- In 2019 our print centre has been Forest Stewardship Council accredited.
- All electricity supplied to branches and head office buildings is from renewable sources
- Staff are also encouraged to support the environment, whether it be from taking public transport and making use of the bus service between head office and the train station, or from utilising the electric vehicle charging points located at head office.
- The Society's overall objective is to achieve the Carbon Trust Triple Standard.

Volunteering and Fundraising

- The Society's total community investment totalled £1.9m in 2019.
- For the first half of the year, staff have supported 161 charities and 73 schools, with a total of 2,549 children being supported by taking part in staff-led and organised volunteering sessions.
- The Society donated over £1 million to The Royal British Legion's Poppy Appeal during the year, which is consistent with 2018, bringing the total donated over the Society's relationship with the Legion to almost £18 million.

11.2%
average reduction in energy in refurbished branches

82%
Staff engagement in community activity

18.5%
reduction in carbon footprint

£1.9m
Total Community Investment

Contact us

COVENTRY Building Society

Contacts

Michele Faull
CFO
Michele.Faull@thecoventry.co.uk
02475 180311

Lyndon Horwell
Treasurer
lyndon.horwell@thecoventry.co.uk
02475 181333

Joanne Gaskin
Treasury Dealer
Joanne.gaskin@thecoventry.co.uk
02475 181332

Philip Hemsley
Head of Capital Markets
Philip.hemsley@thecoventry.co.uk
02475 181327

Useful links

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

	Long term	Short term	Last credit opinion
Moody's	A2	P-1	January 2020
Fitch	A-	F1	January 2020