# Coventry Building Society

## 2022 full year results presentation

COVENTRY
Building Society

**All together, better**

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# The Society at a glance

## Who we are
We are a mutual building society and have been providing savings and residential mortgages to our members and customers for 138 years. We lend over £48 billion and have nearly two million customers.

## What we do
We provide residential mortgages to people to enable them to buy their own home or a property as an investment. We are a low-risk lender, so our members' savings are always safe and secure. We provide savings accounts to suit the needs of our members.

## How we do it
We earn interest and fee income from mortgage loans to members buying their own homes and private sector landlords. We pay interest to savings members and wholesale investors who have placed deposits with us or bought our debt securities.

## Our purpose
Making people better off through life.

## Our values
Our values act as a key driver of employee trust, influence how we deal with members and customers, and sustain a strong culture across all areas of our business.

**Caring**

**Ambitious**

**Responsible**

**Empowering**

**Straightforward**

**138**
**Years of history**

**64**
**Branches**

**2,847**
**Colleagues**

**Nearly**
**2 million**
**Customers**

## Our products
Whether buying a first home or saving for retirement, our wide range of products help our members achieve their goals.

- Cash ISAs
- Easy Access Savings
- Buy-to-Let Mortgages
- Junior Cash ISA
- Fixed Rate Bonds
- Residential Mortgages

# Performance highlights

A focused mortgage and savings business

## Savings balances increased by 6.0% (FY 2021: 4.6%)

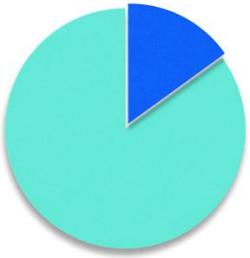
Our strong response to the rising interest rate environment was rewarded by an increase in savings balances of 6.0% or £2.4 billion (31 December 2021: £1.7 billion), with overall balances exceeding £40 billion.

We continued to prioritise paying interest rates to our savings members above the average seen in the market, with average rates increasing to 2.18% in December 2022 compared to 0.77% a year earlier.

## Mortgage growth 3.0% (FY 2021: 7.2%)

The Society moderated its growth in the first six months of the year, with mortgage balances remaining broadly stable, reflecting margin pressure on new mortgages and uncertain market conditions.

We returned to growing the mortgage book in H2 2022, with growth of 3.0% or £1.4 billion in the year (31 December 2021: £3.1 billion) compared to overall market growth of 4.1%  in the whole of 2022.

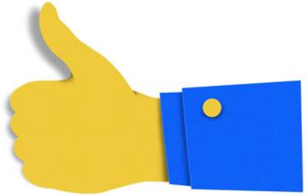


## Profit before tax £371m (FY 2021: £233m)

In 2022 we delivered a strong and balanced performance with our profit before tax of £371 million 59% higher than in 2021 (£233 million).

This has been supported by the increases in Bank of England Base Rate that have improved our margin and income performance.

We also benefited from hedge ineffectiveness due to market volatility which led to gains in fair value adjustments of £27 million.



## Value returned to members was £230m[1] (FY 2021: £201m)

On average our savings rates were 0.62% above the market average[1] (2021: 0.56% above market average).

Our low-cost operating model and strong capital position mean that we can operate effectively in a low margin environment while still returning value to our members and maintaining strong capital ratios.



[1]Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts, excluding current accounts and offset savings, for the first twelve months of 2022.

# Performance highlights

Sustainable financial performance, maintaining profitability and capital strength

## Common Equity Tier 1 ratio 27.4% Leverage ratio 5.2%

Strong profitability helped support capital ratios, whilst ongoing change in regulations were headwinds.

The reduction in our CET1 ratio to 27.4% (2021: 36.2%) reflects an increase in risk weighted assets driven by the change in industry wide regulation required from 1 January 2022.

The Society's UK Leverage Ratio increased to 5.2% (2021: 4.8%) driven by an increase in capital resources. The Society expects leverage will be its binding constraint in the future.

## 3m+ Arrears including possessions of 0.18% (FY 2021: 0.18%)

The Society's mortgage book continues to perform well with low arrears balances and just 0.18% of mortgages being more than three months in arrears (2021: 0.18%).

The increase in interest rates and inflation has yet to impact the arrears materially but is reflected in our ECLs.

We are mindful of the potential impact of ongoing difficulties being experienced by our members and are monitoring this carefully.

## Liquidity Coverage Ratio 195% (FY 2021: 187%)

Liquidity assets increased to £10.0 billion (2021: £7.6 billion) due to growth in savings balances in 2022. The increase in savings helps with TFSME refinancing and funds future growth.

Our Liquidity Coverage Ratio (LCR) remains high at 195% (2021: 187%), well above the minimum regulatory requirement.

## Costs as a percentage of overall assets 0.52% (FY 2021: 0.50%)

As profitability increased in 2022, we have increased the amount and speed of investment; upgrading the IT estate and enhancing digital capabilities, IT operations and security defences.

We also helped colleagues with cost of living payments.

Our cost to income ratio has improved to 43% as a result of our strong income performance.

# All together, better

## We exist to make people better off through life

Our business is made up of a network of relationships with multiple stakeholders and we need to balance all of their interests. Delivering on our purpose will empower our customers, colleagues and others to help to create a wider society that is fair, confident and resilient. We talk about our purpose as adding up to something All together, better.

| Our purpose | guides our values | and influences our strategy | to create value for our stakeholders |
|---|---|---|---|
| Making people better off through life  | Caring<br>Ambitious<br>Responsible<br>Empowering<br>Straightforward  | A people and purpose-led mutual<br>Offering the best value products and services we can<br>Delivered in a resilient way  | Members/customers<br>Colleagues<br>Investors<br>Suppliers<br>Community groups  |

# Excellent service to members and colleagues

## Better for service, better for colleagues

The Society is proud of its service offering, and this has been recognised again with a number of awards.

Our performance has been independently recognised, with Moneynet awarding us 'Best Building Society Savings Provider', Savings Champion naming us; 'Best Building Society' and Fairer Finance awarding us its Gold Ribbon for savings for the eighth year in a row.

The Society is a mutual that maintains a fair, simple and transparent proposition to customers and intermediaries.

### Ranked Top Twenty overall in first Great Place to Work league table of super-large organisations

77% Great Places to Work Trust Index® score (2021: 73%)

### +75[1] Net Promoter Score

Our Net Promoter Score (NPS) remains high compared to the industry average.

| 2023 | 2022 | 2022 |
|---|---|---|
| **Moneynet** | **The Times Money Mentor** | **Great Place to Work** |
| Best Building Society Savings Provider | Best Mortgage | Best Workplaces |

1. A measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.

# Mortgage business in 2022

Measured mortgage growth, protecting both capital and the long-term interests of our members

As interest rate expectations moved higher over the first three-quarters of the year, mortgage rates reacted and followed the upwards trajectory.

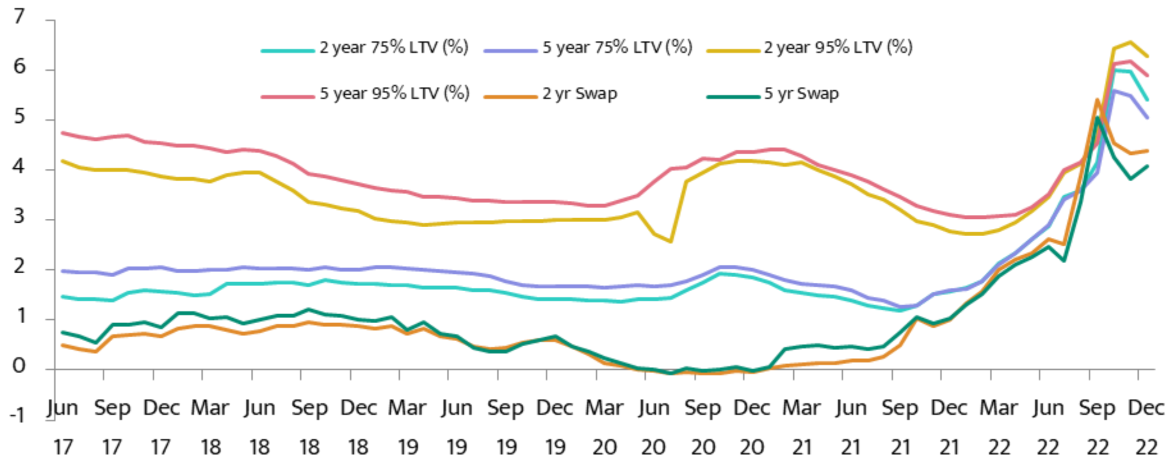
The Society managed its growth in the first half of 2022 in response to the market pricing and funding conditions.

We returned to growing the mortgage book in H2 2022, with growth of 3.0% or £1.4 billion in the year (31 December 2021: £3.1 billion) compared to overall market growth of 4.1%.

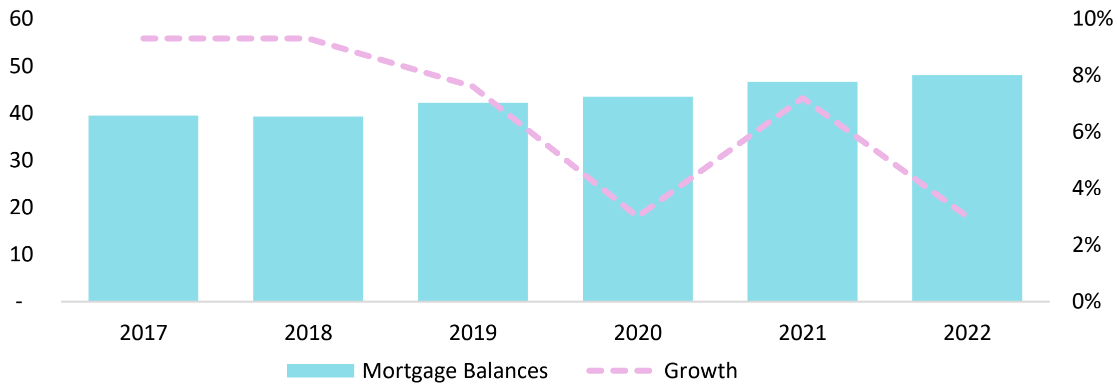
Total mortgage assets at 31 December 2022 stood at £48.0 billion (2021: £46.6 billion) which comprised £28.5 billion of owner-occupier loans (2021: £27.4 billion) and £19.5 billion buy to let loans (2021: £19.2 billion).

The balance weighted indexed LTV of the mortgage book at 31 December 2022 increased slightly to 51.0% (2021: 50.9%)

## Mortgage Rates Versus Swaps in 2022




## Mortgage Balances (£bn)



# Savings business in 2022

## Savings growth out-performing that of the market

Retail funding forms the majority of the funding base and consists of a mix of variable rate products, fixed rate bonds and ISAs. The Society has a strong record of attracting and retaining savings balances and continues to organically grow its savings book.

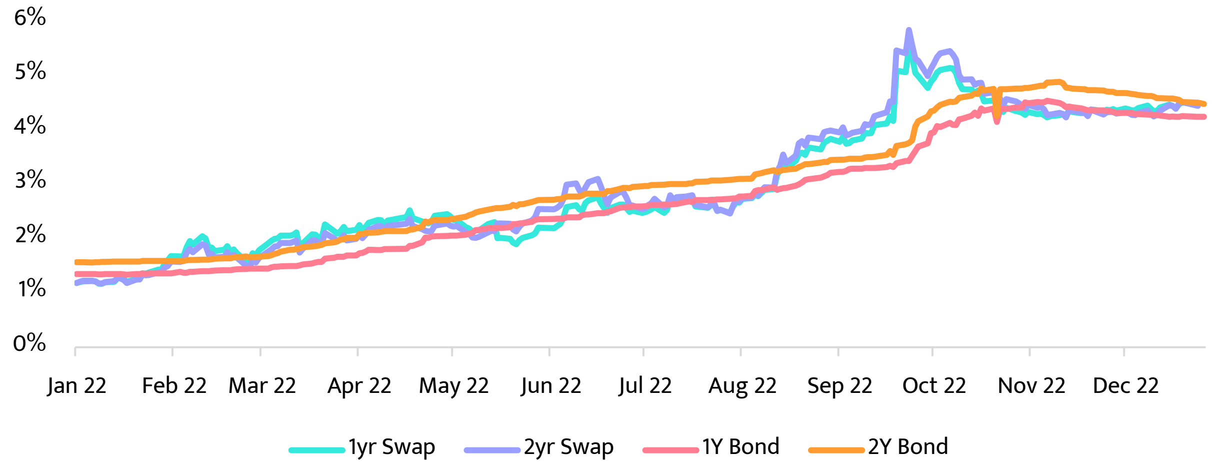
Savings rates changed very little in the first quarter lagging mortgage rate movements. From March, there was a step change as competition increased and interest rates showed little sign of slowing their upward trend, providing competitive and margin opportunities. Fixed term savings rates peaked in November, slightly behind the interest rate peak, and steadily reduced for the remainder of the year. Variable rate savings rates continued a steady upwards trend overall across the year, slowing over the final quarter.

Retail savings increased in the year by £2.4 billion to £42.3 billion (2021: £39.9 billion), representing growth of 6.0%, compared with market growth of 4.1%. The Society's overall savings market share is 2.4% (2021: 2.4%).

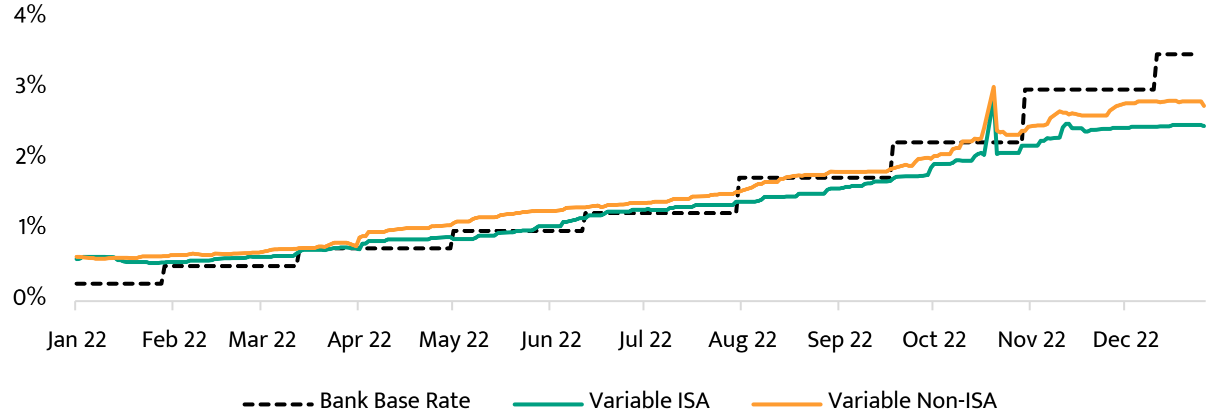
We continued to prioritise paying interest rates to our savings members above the average seen in the market, with rates increasing to 2.18% in December 2022 compared to 0.77% a year earlier.

The Society continued to support the cash ISA market, increasing our market share to 6.7% (2021: 6.5%). Our increase in market share reflects a more active savings market in 2022 and our competitive product offers, particularly towards the end of the year.

### Fixed Products Versus Swaps in 2022[1]




### Variable Products Versus Swaps in 2022[1]




1. Product rates are the average of the market top 10 products.

# Financial Strength

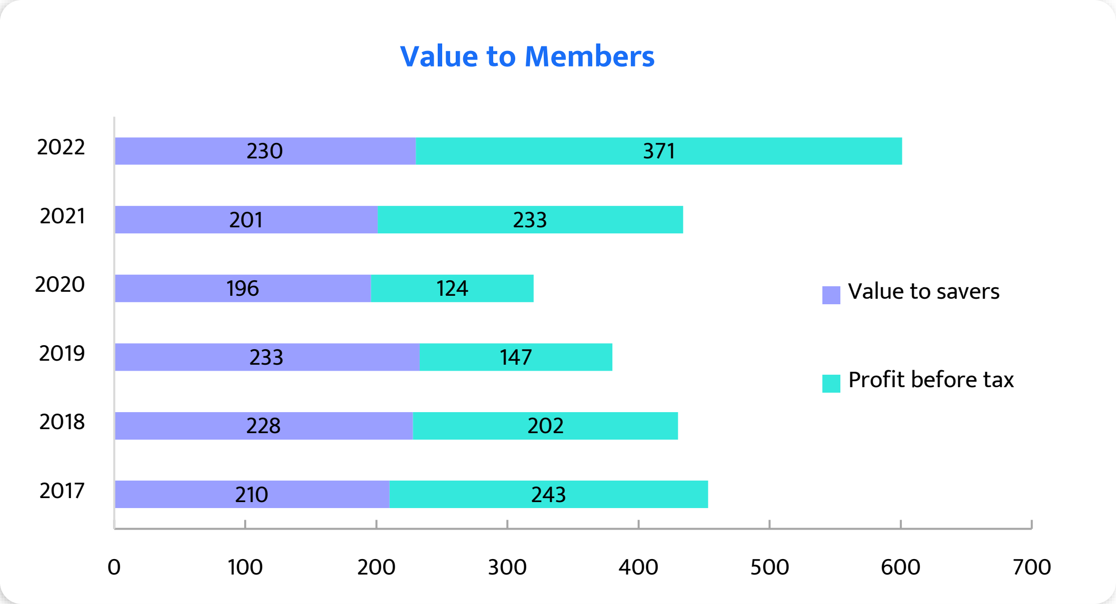
Key metrics remain robust

| % | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Net interest margin / mean assets | 1.02 | 0.96 | 0.83 | 0.81 | 0.90 | 1.16 |
| Cost / income ratio (including Investment) | 40.4 | 52.3 | 60.4 | 60.2 | 56.3 | 43.2 |
| Cost/ mean total assets (including Investment) | 0.42 | 0.50 | 0.48 | 0.49 | 0.50 | 0.52 |
| Retained profit / mean assets | 0.46 | 0.35 | 0.25 | 0.20 | 0.36 | 0.50 |
| UK Leverage Ratio | 4.6% | 4.6% | 4.4% | 4.6% | 4.8% | 5.2% |

# Strong profit performance

Whilst maintaining the value we give to savers

| | FY 2022 | FY 2021 |
|---|---|---|
| Total income | 682.5 | 468.2 |
| Management Expenses | (294.8) | (263.5) |
| Expected credit losses | (16.6) | 28.7 |
| Charitable donation to Poppy Appeal | (0.6) | (0.6) |
| **Profit Before Tax** | **370.5** | **232.8** |




Net interest income increased 38% to £657 million (2021: £476 million).

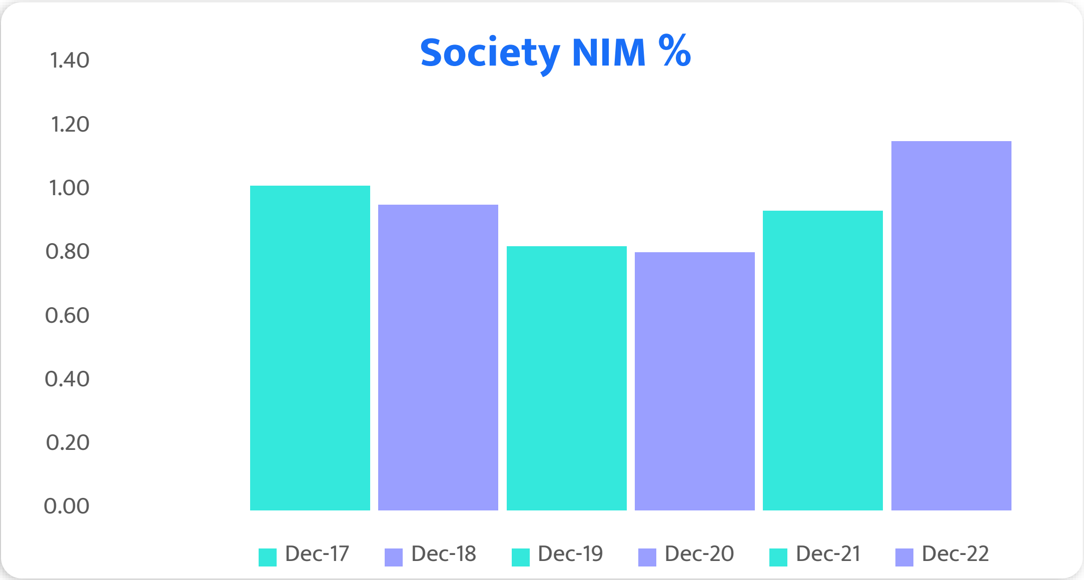
Our net interest margin increased by 26 basis points to 1.16% (2021: 0.90%). The increase was mainly driven by the rising Bank Rate environment and the net impact on rising mortgage and savings rates and returns earned on reserves.

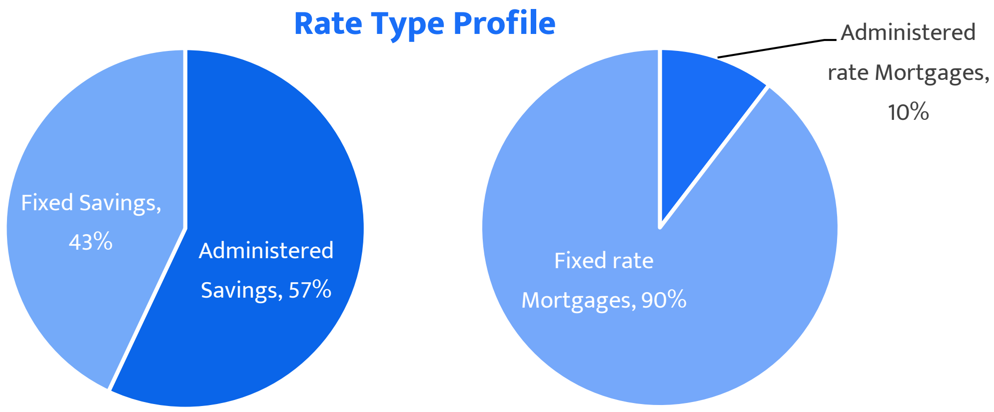
Interest payable on retail savings increased by £286 million with the average savings rate increasing to 2.18% in December 2022 compared to 0.77% a year earlier, representing an average pass through rate of 54% to our savings members.

We continued to prioritise paying interest rates to our savings members above the average seen in the market. In doing so we passed on 'member value' of £230 million (2021: £201 million). On average our savings rates were 0.62% above the market average (2021: 0.56% above market average).

# Society's NIM continues to rise

NIM continues to increase due to improvements in retail funding costs




At 1.16%, our net interest margin improved significantly from the 0.90% reported in 2021. The increase was mainly driven by the mortgage interest receivable rising more quickly than interest payable on retail deposits.

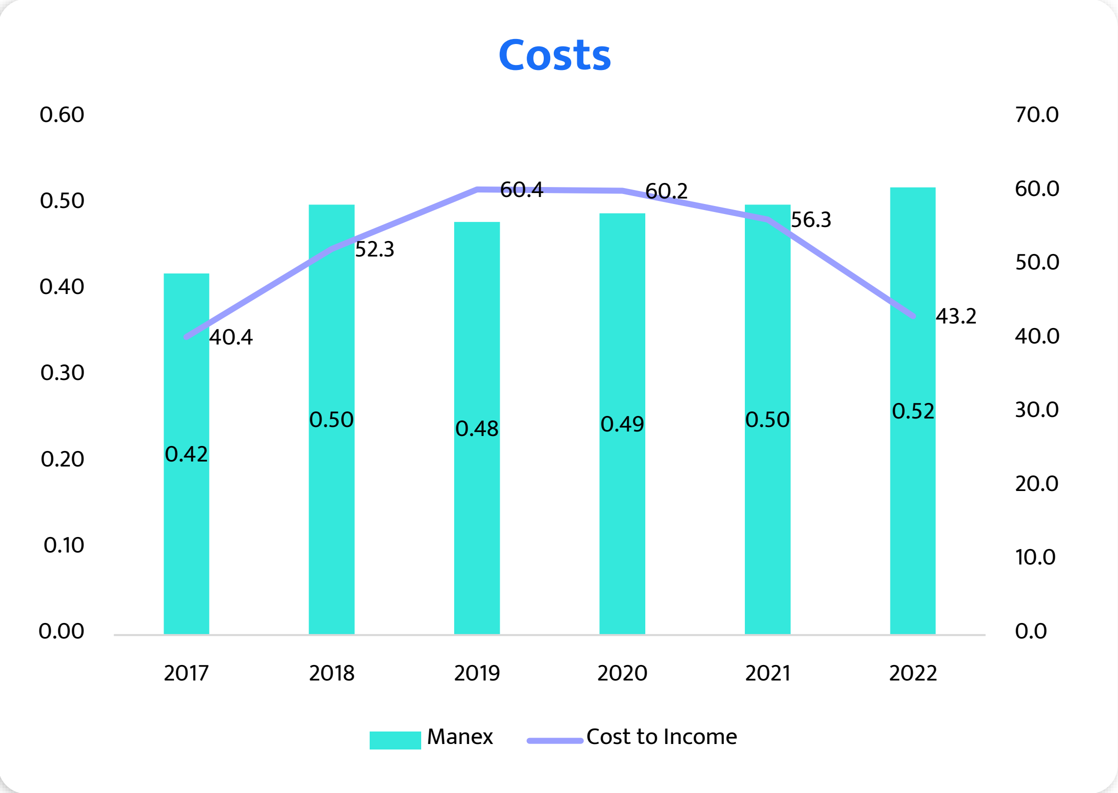
The average savings rate increased to 2.18% in December 2022 compared to 0.77% a year earlier, representing an average pass through of Bank base rate increases of 54% to our savings members. The Society also benefits from increased returns on the reserves.

The Bank of England Base Rate increased eight times during the year, increasing from 0.25% at 31 December 2021 to 3.50% at 31 December 2022.

The Society's low cost operating model means that it can still operate effectively in a low margin environment whilst maintaining capital ratios and returning value to members.

# Management Expenses and Investment

Cost efficiency is driven by the simple business model




As a building society we can plan longer term and take the opportunity of gains from a rising rate environment to invest in the business.

We invested £67 million in improving the resilience of the Society and our underlying infrastructure (2021: £57 million) which, together with an increase in our operational costs, resulted in a slightly increased cost to mean assets ratio of 0.52% (2020: 0.50%), with total management expenses increasing to £295 million (2021: £264 million).

The Society has invested significantly more in improving and modernising services for members, on developing our colleagues and supporting our communities.

We completed the refurbishment of our branches and increased our contribution to community and charitable activities.

The cost to income ratio materially reduced to 43% (2021: 56%) which is a function of our strong growth in income.

# Asset Quality

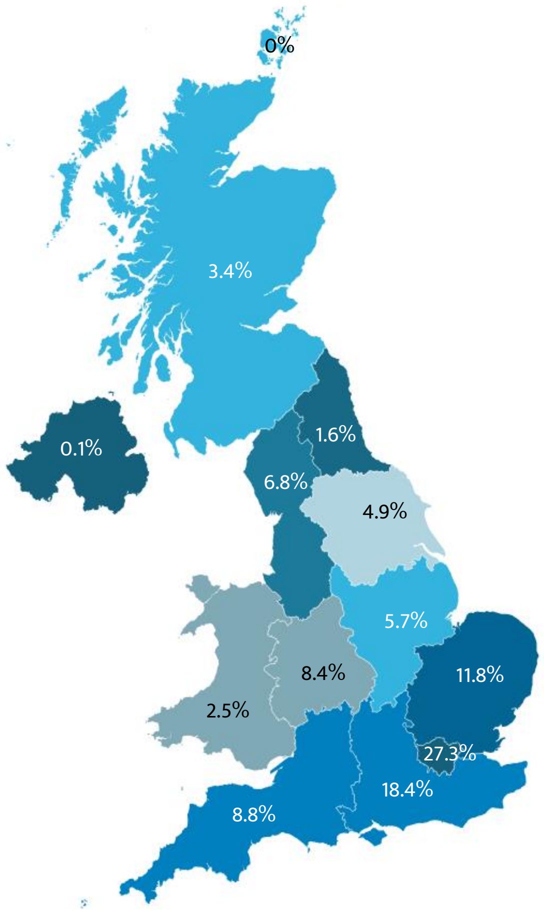
Remarkable asset quality and low risk tolerance

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| >3 Months Arrears (including possessions) | 0.23% | 0.18% | 0.17% | 0.19% | 0.18% | 0.18% |
| 2.5%+ Arrears | 0.13% | 0.10% | 0.08% | 0.09% | 0.10% | 0.10% |
| Number of Possessions | 29 | 34 | 33 | 22 | 27 | 27 |
| Impaired Loans / Gross Loans | 0.65% | 0.53% | 0.47% | 0.48% | 0.41% | 0.42% |
| Expected Credit Loss provisions (balance sheet) | 13.5 | 11.6 | 12.0 | 48.1 | 18.9 | 35.5 |
| Impairment charge / (credit) (I & E) | 0.2 | (0.4) | 2.1 | 36.4 | (28.7) | 16.6 |
| Portfolio LTV | 53.9% | 54.6% | 55.4% | 52.8% | 50.9% | 51.0% |
| New Business LTV | 59.8% | 62.6% | 63.7% | 63.7% | 65.7% | 65.3% |

# Overall mortgage portfolio

Well diversified mortgage portfolio reflecting the national coverage of the Society's distribution channels

## Geographical distribution by Value




New lending on owner-occupier homes accounted for 67% of total new lending in 2022 (2021: 65%) at an average LTV of 65.3% (2021: 65.7%).

Total mortgage assets at 31 December 2022 stood at £48.0 billion (2021: £46.6 billion) which comprised £28.5 billion of owner-occupier loans (2021: £27.4 billion) and £19.5 billion buy to let loans (2021: £19.2 billion).

The overall average LTV (balance weighted) marginally increased from 50.9% to 51.0% during the year.

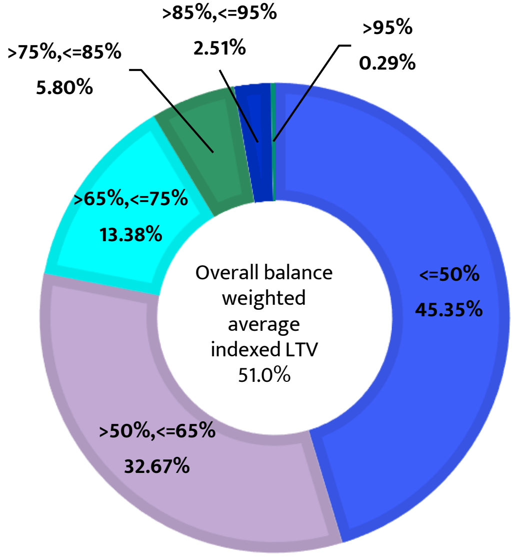
The percentage of mortgages above 75% LTV is 8.6% with only 2.8% above 85% LTV.

Of the book overall, lending is approximately 80% houses and 20% flats.

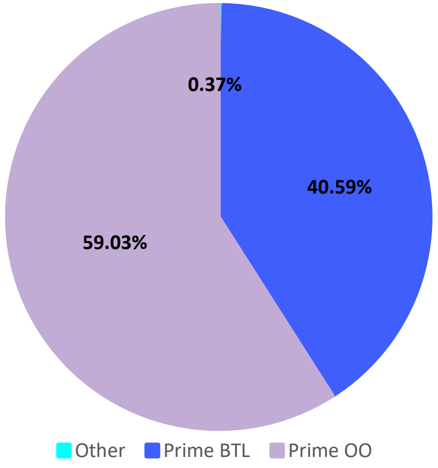
Intermediaries introduce over 95% of cases leading to a national distribution of mortgages.

In 2022 we moved to use a modelled AVM rental value from Hometrack (updated quarterly), which is more accurate and specific to each property on book than the ONS regional rental index which we were using previously.

## Total book split by LTV



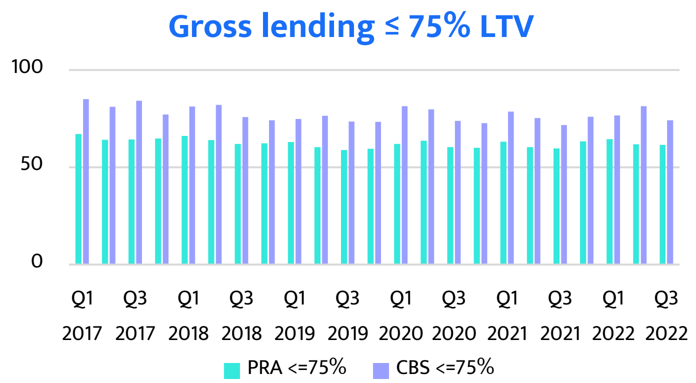

## Total book split by product

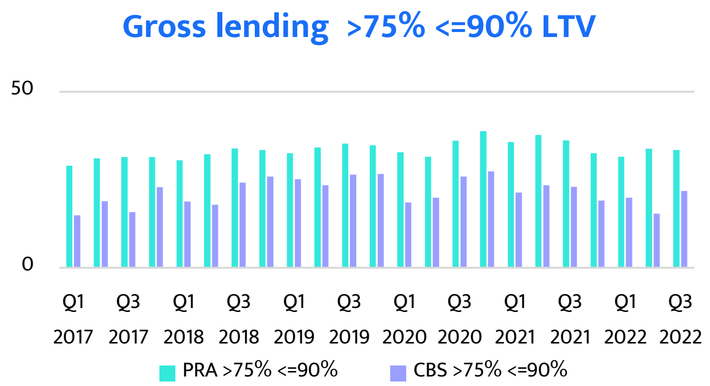



1. Including fees.

# Originations in 2022

Deliberate strategy to moderate mortgage growth in H1, returning to growth in H2 2022




**+77%**
Average broker advocacy score (2021: 85%)

**15.0**
Days to offer (2021: 14.5 days)

The average LTV of 2022 originations was 65.3%.

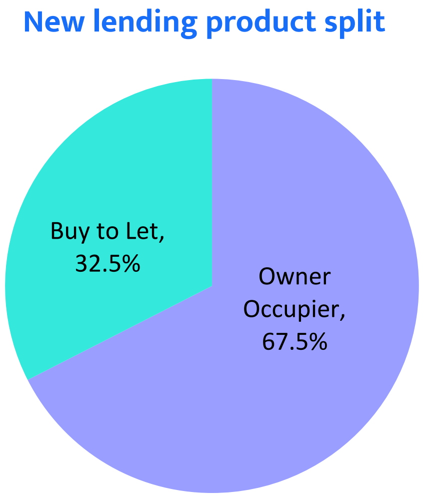
The Society has a strong intermediary franchise with high service levels and advocacy scores.

We have a lower risk approach to lending than the average UK mortgage provider which supports our financial resilience and strength over the long term.

All underwriting and servicing is performed by Coventry. There is no ‘packaging’; the intermediary acts solely as an introducer.

During the year, the Society has used an in-house assessment to identify customers who are potentially vulnerable to the cost of living crisis. The Society has proactively written to members identified as potentially vulnerable with around two thirds subsequently contacted by a customer service call.

The Society takes action to proactively contact mortgage customers who have or will be coming to the end of their initial fixed rate mortgage product period, and who may experience increases in their mortgage rates due to the interest rate environment.



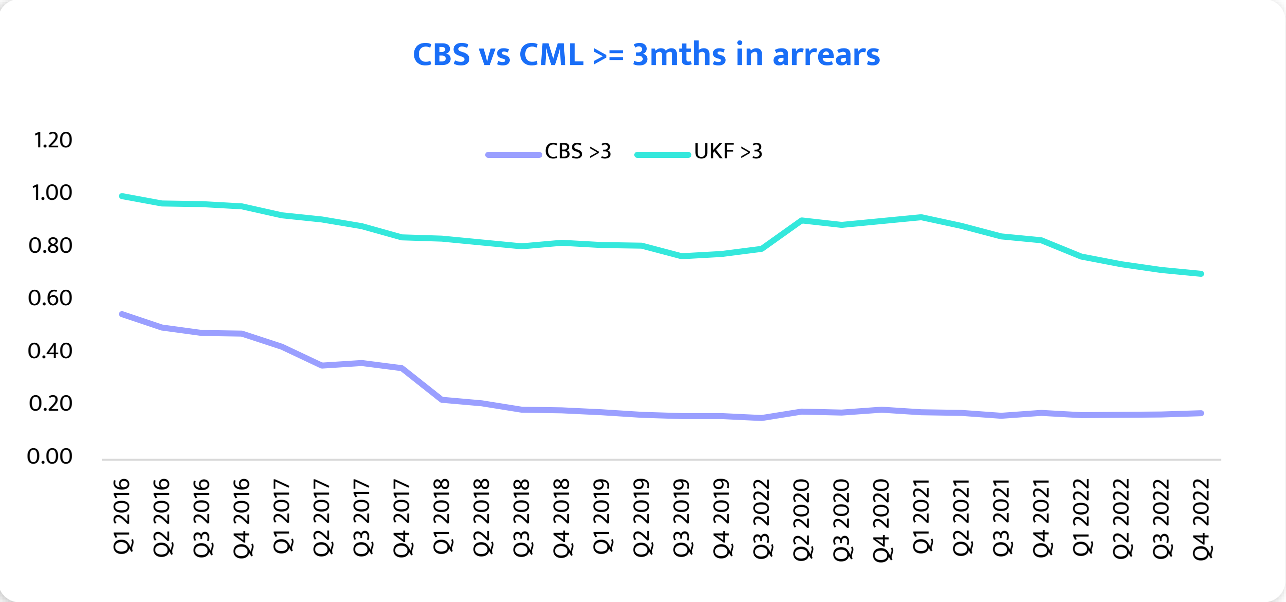
# Resilient Asset Performance

Proactive arrears performance monitoring reflected in arrears levels consistently below industry averages

The overall credit quality of the book remains high and arrears levels compare favourably to the UK finance average with 0.18% of accounts > 3 months in arrears including possessions (industry average 0.73%).

During 2022, the Society's longer-term arrears position remained broadly stable at £70.4 million (2021: £72.7 million) of accounts three months or more in arrears.

The total balance of accounts in 1+ month arrears totalled £222.8 million (1,641 cases).




1. UK Finance data as at 31 December 2022

## Lending strategy

The Society's lending strategy has remained focused on high quality low-risk residential mortgages, reflected in the low loan to value of the mortgage book and low levels of arrears and possessions.

## Arrears performance

There has been a slight decrease in accounts more than 12 months in arrears as a result of cases now being able to progress to possession as court backlogs show signs of improvement. As at 31 December 2022, arrears stood at £70.4m (owner occupied £49.3m (2021: £48.0m) and BTL £21.1m (2021: £24.6m)).

## Possessions

Our track record of lower risk lending has kept arrears and repossessions to a very low level compared to the industry average. At 31 December 2022, only 27 (31 December 2021: 27) properties were in possession (14 BTL, 8 Owner Occupied, 5 Equity Release).

Average time from possession to sale was 225 days in 2022. The Society made a loss on 13 possession sales in 2022 and a surplus on 15 cases (a loss on 46% of cases and a surplus on 54% of cases) with an average loss amount of £33k. This compares to 185 days and an average loss of £50k pre-covid.

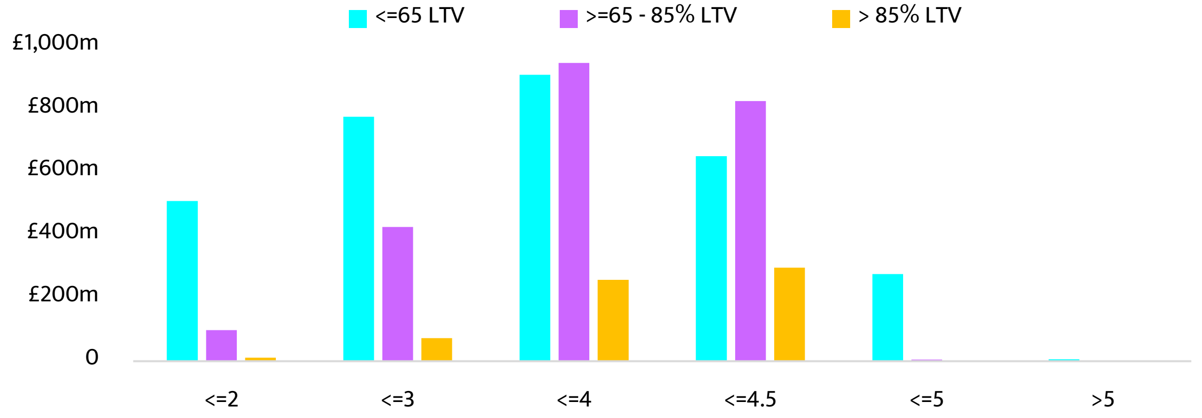
## Arrears Capitalisation minimal

Capitalisation of arrears is only used where we have exhausted other options to regularise an account and, as a result, only 2 cases (2021: 2 cases) had arrears capitalised as at 31 December 2022.

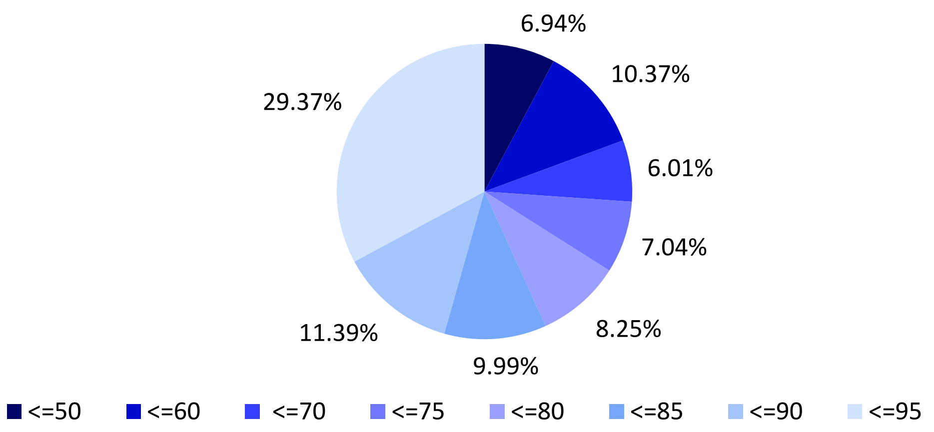
# Spotlight on owner-occupied

Affordability remains strong and stresses in excess of 7%

LTV vs. LTI in 2022 originations (£)




% of Maximum Affordability on 2022 lending




During the year, the Society has used an in-house assessment to identify customers who are potentially vulnerable to the cost of living crisis. The Society has proactively written to members identified as potentially vulnerable with around two thirds subsequently contacted by a customer service call.

The affordability test introduced by the Financial Policy Committee (FPC) in 2014 specifying a stress interest rate of 3% above a lenders reversion rate was withdrawn on 1 August 2022.

Affordability continues to be partly based on a stress rate for all applications. This started out at 7.24%, moved to 8.39% and is currently 7.74%. The Society no longer differentiates between transaction types when applying stress rates.

The average rate of loan amount vs maximum loan amount was 80.5% for 2022 lending.

Approximately 40% of completions were for lending amounts <=80% of the maximum loan amount.

Analysis by LTI (loan to Income) shows that only 4.8% of completions had LTI ratio of >=4.5.

The Society restricts the maximum income multiple above 65% LTV to 4.49.

1. UK Finance

# Spotlight on Buy to Let

## Resilient performance coupled with very low arrears

Prudent assumptions regarding rental voids, rent increases etc. are included.

Overall BTL lending is approximately two thirds houses and one third flats.

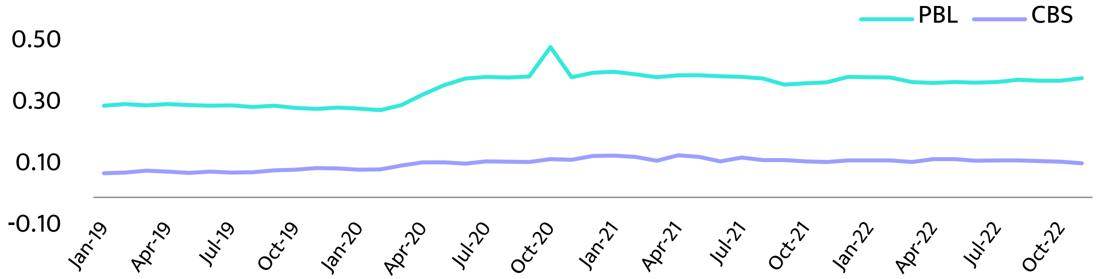
85% of our borrowers have only one property with the Society.

Under a quarter of all BTL mortgages are lent to portfolio landlords (4 or more properties with all lenders).

Arrears and impairment levels have been very low. On circa £34.5bn of lending granted since 2010 we have only seen £111k of losses (across 9 accounts). There are only 14 buy-to-let properties in possession at 31 December 2022, from a book of c. 130,000.

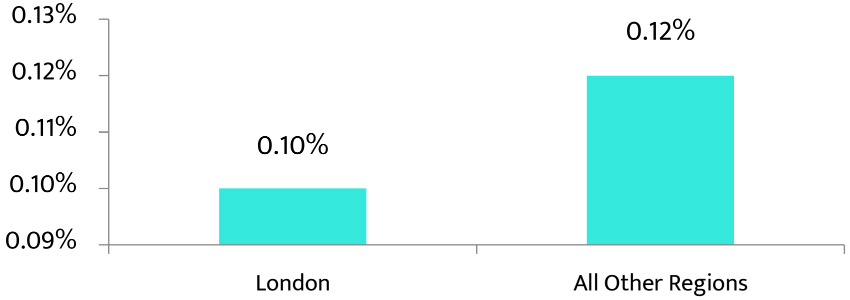
The Society's actual average interest coverage ratio at Full year 2022 using a 5% interest rate was 204.0% an increase from 2021 YE 174.9% (2020: 175.4%) significantly above minimum lending criteria. At a stress rate of 7%, 45% are below 125% ICR.

### Coventry vs. PBL >3mths buy-to-let arrears (excluding ROR, incl. possessions)[1]

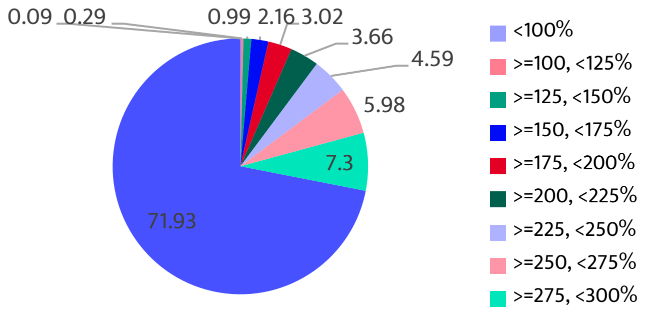



### Buy to let 3+ Arrears by region

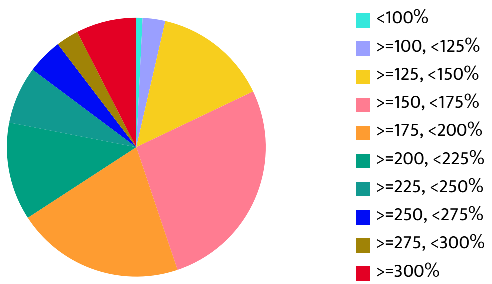
Portfolio Average 0.12%



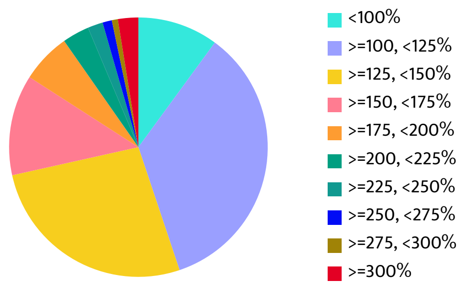

### Interest Coverage Ratio 31 December2022[2]




### Interest Coverage Ratio at 5% Stress Rate[2]




### Interest Coverage Ratio at 7% Stress Rate[2]




1. UK Finance. 2. From Jun 2022, the Society uses AVM ICR not ONS regional indexing for better data

# Buy to Let Criteria

## Conservative approach to lending

Properties must be readily saleable into the owner occupier market.

Maximum of 5 properties with the Coventry and an aggregate loan limit of £2,000,000.

Coventry lending policy ensures any loan greater than £750k is 50% LTV or lower, up to 75% LTV loan size is capped at £750k and above 75% is capped at £350k .

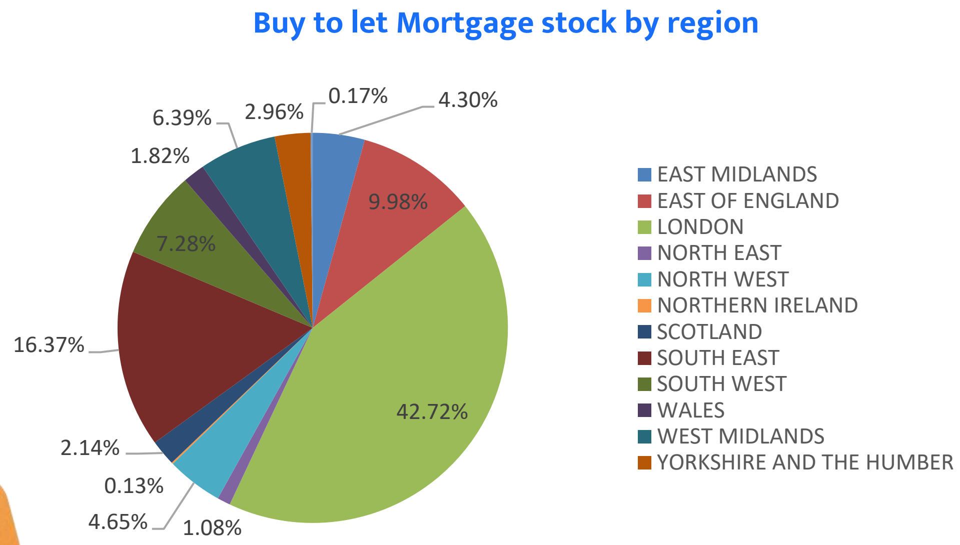
Minimum rental coverage of 125% for basic tax payers and 145% for higher rate tax payers.

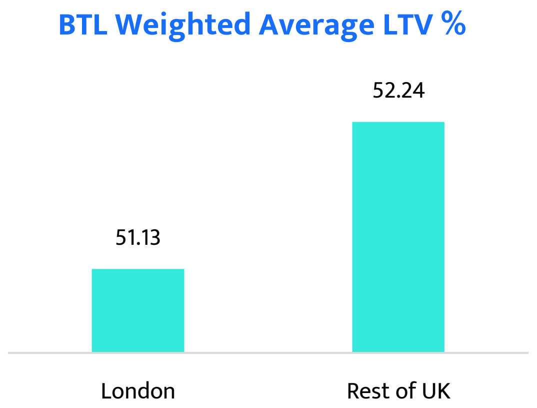
The Society does not lend on Studio and High Rise Flats (above ten storeys).

Borrowers with four or more mortgaged buy to let properties are treated as Portfolio Landlords, and are subject to additional checks by dedicated portfolio underwriters, and to a maximum LTV of 65% across all properties within the portfolio.

CACI benchmarking confirms that the Society's exposure to London is not significantly out of line with the overall BTL Market, given London dominates the BTL market.
51% of exposure is in London, which is in line with the BTL market. Arrears in London are lower than the rest of the UK (1 month arrears of 35bps).

>3 arrears in London by volume is 0.10% compared to 0.12% on BTL Book as a whole.



# Expected Credit Losses

We have continued to remain cautious in our approach to estimating ECLs and in determining the appropriate provision. Significant judgement and estimates continue to be required in the calculation as a result of uncertainty as the economy's recovery from the pandemic is hindered by wider global economic factors and the rising costs of living. In 2022, the ECL stood at £35.5m, with an impairment charge of £16.6m.

| As at 31 December 2022 Indexed loan to value | Stage 1 Performing £m | Stage 2 Deteriorating £m | Stage 3 Default £m | Impairment £m | Total £m |
|---|---|---|---|---|---|
| <50% | 21,086.7 | 639.6 | 108.4 | (1.7) | 21,833.0 |
| 50% to 65% | 13,991.3 | 1,607.8 | 63.3 | (7.9) | 15,654.5 |
| 65% to 75% | 4,873.0 | 1,513.6 | 21.4 | (9.7) | 6,398.3 |
| 75% to 85% | 2,198.7 | 573.6 | 4.7 | (8.3) | 2,768.7 |
| 85% to 90% | 603.2 | 117.3 | 1.0 | (2.7) | 718.8 |
| 90% to 95% | 468.1 | 12.0 | 0.8 | (1.0) | 479.9 |
| 95% to 100% | 137.8 | 0.8 | - | (0.2) | 138.4 |
| > 100% | 1.1 | 0.4 | 2.1 | (1.2) | 2.4 |
| Unsecured loans | 10.4 | 1.3 | 0.3 | (0.6) | 11.4 |
| Mortgage pipeline | - | - | - | (0.6) | (0.6) |
| Other | - | - | - | (1.6) | (1.6) |
| **Total FY 2022** | **43,370.3** | **4,466.4** | **202.0** | **(35.5)** | **48,003.2** |
| **% FY 2022** | **90.3%** | **9.3%** | **0.42%** | **0.07%** | **100%** |
| **Total FY 2021** | **43,200.8** | **3,226.2** | **189.0** | **(18.9)** | **46,597.1** |
| **% FY 2021** | **92.7%** | **6.9%** | **0.41%** | **0.04%** | **100%** |

At 31 December 2022 91% of the Society's loans and advances to customers were within the Stage 1 'performing' category (31 December 2021: 93%), 9% were in Stage 2 (31 December 2021: 7%) reflecting an increase in credit risk since origination and 0.4% were in Stage 3 (31 December 2021: 0.4%).

Of the 9% in Stage 2, over two thirds reflect cost of living overlays, which may not materialise into future arrears.

The stage 3 profile has remained broadly consistent during 2022 with customer mortgage accounts 3 months or more in arrears at 0.18% (31 December 2021: 0.18%).

**PMAs to cover the following risk areas:**

- Risk relating to the impact of the cost-of living on our members where we have identified behavioural characteristics which may demonstrate future difficulties - £14.2m (31 December 2021: £nil)
- The potential for losses as a result of cladding remediation on flats where fire safety standards have not been met - £2.5m (31 December 2021: £3.7m).
- A more granular assessment of house price information which provides a more accurate view of indexed loan to values (LTVs) and risks associated with pockets of negative equity - £2.7m (31 December 2021: £3.5m).
- During the year, the PMA in relation to the Covid-19 pandemic was released in full (31 December 2021: £2.1m).

# Expected Credit Losses

## Key economic assumptions as at 31 December 2022

While the Society's ECL calculation is particularly sensitive to unemployment and HPI movements, GDP and the Bank of England Bank Rate remain key drivers of the provision calculation and the forward economic outlook. The rates applied to all key measures are shown below for the five year forecast period:

| Scenario/ weighting | Assumption | 2023 % | 2024 % | 2025 % | 2026 % | 2027 % | Peak to trough % | Range % | Average to 31 Dec 2027 %[1] |
|---|---|---|---|---|---|---|---|---|---|
| Base 55% | Unemployment | 4.7 | 5.2 | 5.1 | 4.8 | 4.6 | 1.3 | 3.9 – 5.2 | 4.8 |
| | HPI | (6.0) | (3.0) | 0.0 | 2.0 | 2.5 | 8.3 | (8.8) – (0.5) | (1.0) |
| | GDP | (0.7) | 1.0 | 1.5 | 1.5 | 1.7 | 5.8 | (0.7) – 5.0 | 1.0 |
| | Base Rate | 4.00 | 4.00 | 3.50 | 3.50 | 3.50 | 0.50 | 3.50 -4.00 | 3.7 |
| Downside 25% | Unemployment | 6.5 | 7.3 | 6.8 | 6.3 | 5.8 | 3.2 | 4.0 – 7.3 | 6.3 |
| | HPI | (7.5) | (9.5) | (4.5) | 0.0 | 3.0 | 19.4 | (20.1) - 0.6 | (3.8) |
| | GDP | (2.5) | 0.0 | 1.3 | 1.3 | 1.4 | 4.0 | (2.5) – 1.5 | 0.3 |
| | Base Rate | 5.00 | 5.00 | 4.50 | 4.25 | 4.00 | 1.50 | 3.50 – 5.00 | 4.40 |
| Severe Downside 10% | Unemployment | 7.6 | 8.3 | 7.7 | 7.1 | 6.5 | 4.5 | 4.0 – 8.5 | 7.2 |
| | HPI | (10.4) | (15.2) | (8.3) | 7.2 | 6.6 | 30.9 | (31.0) – 0.1 | (4.5) |
| | GDP | (5.0) | 1.2 | 1.2 | 1.2 | 1.2 | 4.9 | (5.0) – (0.1) | (0.1) |
| | Base Rate | 6.00 | 5.75 | 5.00 | 4.25 | 3.25 | 2.75 | 3.25 - 6.00 | 4.90 |
| Upside 10% | Unemployment | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 0.1 | 3.81 – 3.9 | 3.9 |
| | HPI | 2.5 | 4.0 | 4.0 | 4.0 | 4.0 | 19.7 | 0.2 – 19.9 | 3.7 |
| | GDP | 4.0 | 3.0 | 2.8 | 3.0 | 3.2 | 16.9 | 0.3 – 17.3 | 3.2 |
| | Base Rate | 3.50 | 3.50 | 3.00 | 3.00 | 3.00 | 0.50 | 3.50 – 3.50 | 3.20 |

[1] HPI change and GDP change average to 31 December 2027 are shown as the annual compound growth rates.

In the current year, inflation impacts are reflected within all four scenarios as the effect has become embedded within economic forecasts.

A significant degree of estimation relates to the relative weightings of the scenarios, incorporating different views of the House Price Index and Unemployment.

In order to demonstrate this sensitivity, the impact of applying 100% of a particular scenario on the reported IFRS 9 ECL provision wholly calculated on the base scenario would decrease by £8.1 million, or 22.8% (2021: £4.6 million, 24.3%) compared with the reported provision.

If a 100% weighting was attributed to each of the scenarios, ECLs would change as follows:

- Base – decrease by £8.1 million, or 22.8% (2021: £4.6 million, 24.3%)
- Downside – increase by £8.8 million, or 24.8% (2021: £8.6 million or 45.5%)
- Severe Downside – increase by £26.0 million, or 73.2% (2021: £29.4 million or 155.6%)
- Upside – decrease by £27.5 million, or 77.5% (2021: £6.7 million or 35.4%)

As at 31 December 2022, a decrease to the annual HPI assumption by 10% combined with an increase in the unemployment rate assumption of 10% throughout the forecast period would have the impact of increasing the core modelled ECL provision by £24.9 million to £60.4 million.

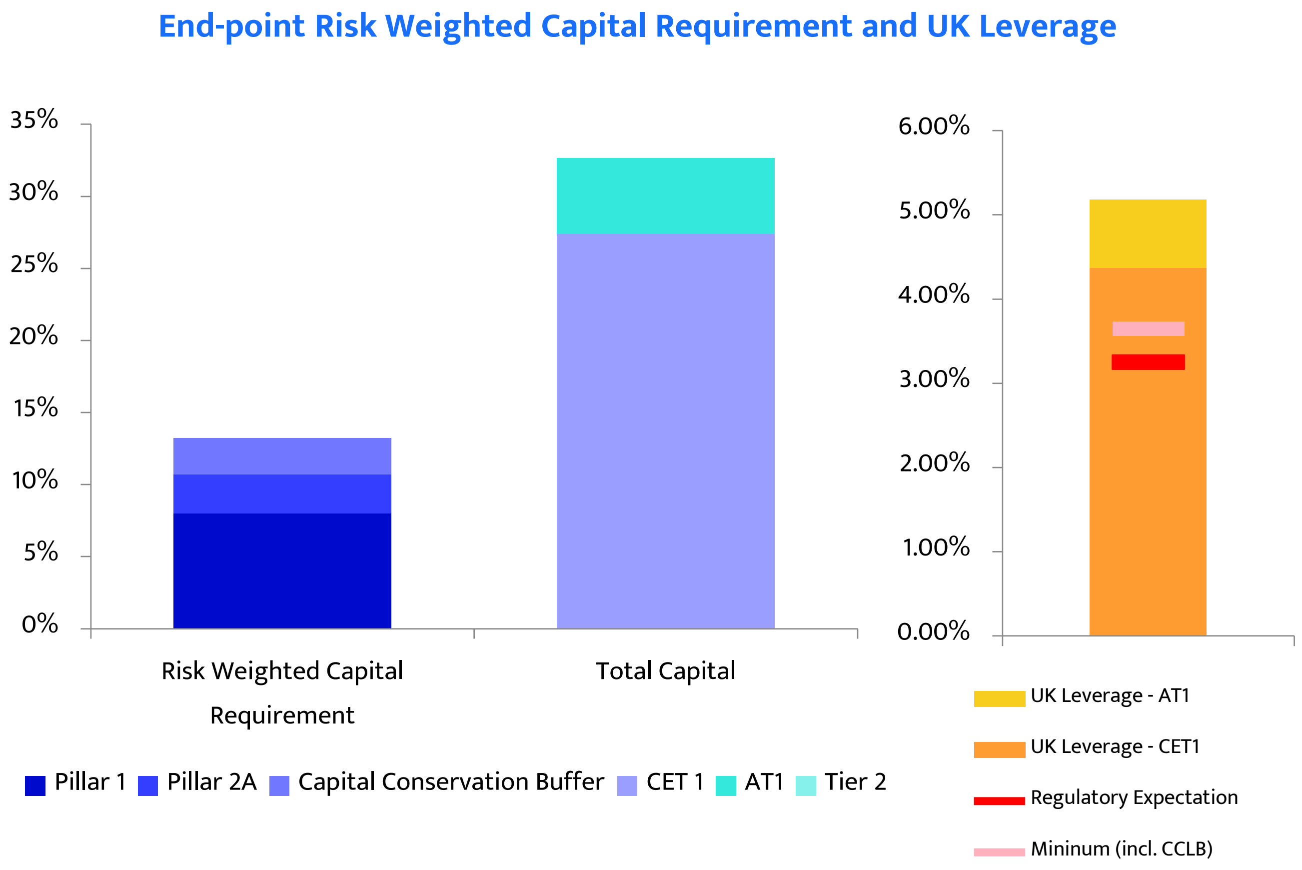
# Capital

Capital strength keeping our members and investors safe

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **CET1 Ratio** | 33.4% | 33.9% | 32.0% | 33.0% | 36.2% | 27.4% |
| **Total Capital Ratio** | 44.3% | 44.2% | 39.9% | 40.6% | 44.1% | 32.7% |
| **UK Leverage Ratio** | 4.6% | 4.6% | 4.4% | 4.6% | 4.8% | 5.2% |

# Capital ratios

Capital levels remain robust




## Regulatory Capital

The Society's CET1 ratio decreased to 27.4% as at Dec-22 from 36.2% in 2021 due to ongoing updates to the Society's IRB models following regulatory changes in early 2022.

The Society was issued an updated Total Capital Requirement (TCR) in the first half of 2022 of 10.1% plus fixed add-ons, totalling 10.7% at Dec-22.

Coventry's total capital ratio is 32.7% compared to an RWA-based capital requirement of 14.2% (TCR + Capital Conservation Buffer 2.5% + Countercyclical Buffer 1%) giving a 19.5% buffer over TCR on RWA basis.

Basel 3.1 consultation released in Nov 22, which is in line with previous expectation and guidance. Basel 3.1 capital requirements are due to be implemented in 2025, with an output floor phased in from 50% to 72.5% in 2030. The fully loaded Basel 3.1 capital CET1 ratio was expected to be c. 20.4% based on December 2022 balance sheet.

Climate change risks are modelled across different climate change scenarios and compared to the market benchmark and included in the Society's ICAAP.

## Leverage

The UK Leverage Ratio will not become binding until the Society achieves £50bn of retail deposits but, at 5.2%, the UK Leverage Ratio is comfortably above the 3.25% minimum level, including buffers this was 3.7%.

The Society does not have a regulatory Leverage requirement today but expects Leverage to be the binding capital constraint in the future.

# Basel 3.1 Capital implications

## Surplus capital remains even with a lower ratio

PRA published Consultation Paper 16/22 in November 2022 outlining its proposed approach to BCBS proposals to Standardised Risk Weights and output floors, that seek to remove variability in internal models (IRB).

PRA have stayed largely true to BCBS, therefore the Society's long-standing key assumptions hold true.

Output floor is expected to be phased in Jan-25 in from 50% to 72.5% expected to be 5 years later.

Implementation of 50% output floor currently expected to produce CET1 ratio above the IRB approach at c. 29.6%, given tightening of IRB RWAs through regulation.

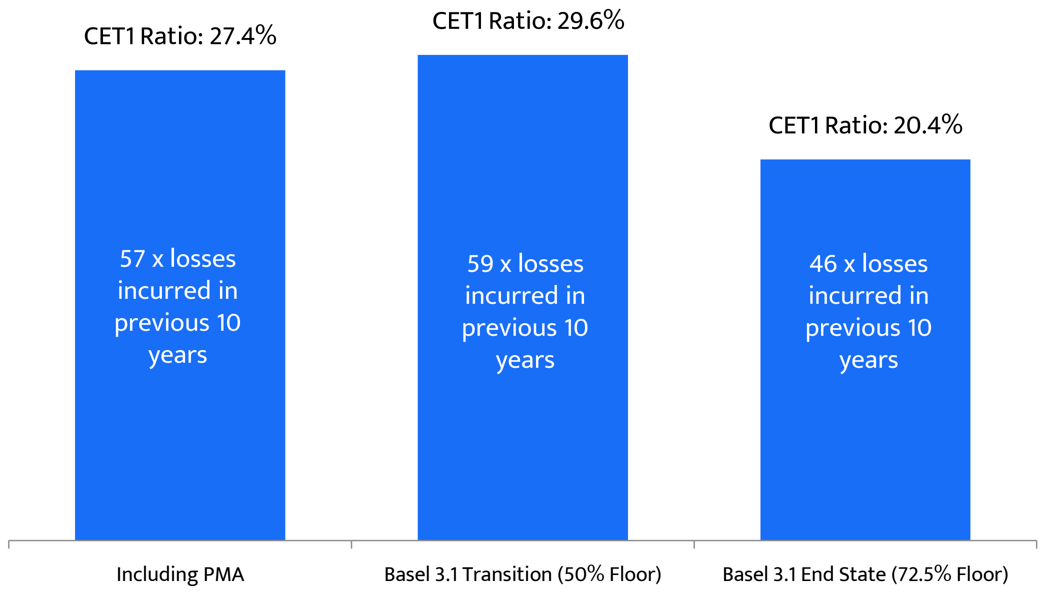
End-state Basel 3.1 CET1 ratio at c. 20.4%, reflecting the impacts of flooring on a low risk business model, but the Society remains more than adequately capitalised.

Surplus to regulatory minima remains considerable, equal to over 46 times the actual credit losses experienced in the last 10 years, even after transition.

The regulatory environment continues to evolve at pace and there are a number of regulatory changes that the Society is in the process of implementing, notably Basel 3.1 RWA floors, which are likely to add downward pressure on reported CET1 ratios in the coming years.

There is a risk that the scope and complexity of regulatory changes could increase our costs and funding requirements.

### Surplus over Basel 3.1 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

# MREL

MREL issuance opportunistic until Leverage binding

### MREL Current

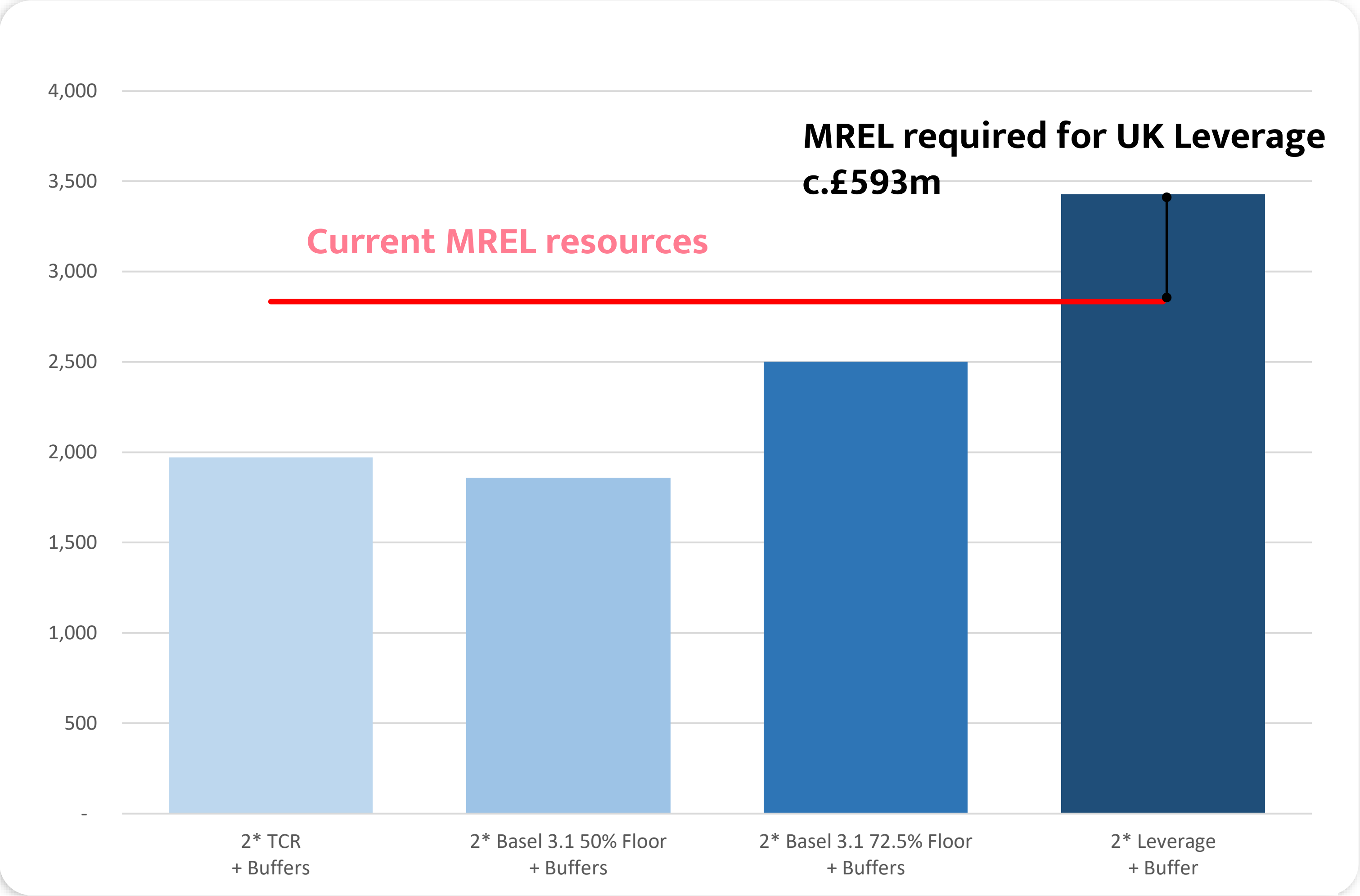
The Society is currently a ‘bail-in’ firm, with a MREL requirement of 18% of RWAs.

### 1st January 2023

The end-state MREL requirement for all firms will be twice the binding capital requirement as at Jan-23; for the Society, this is currently two times Pillar 1 and Pillar 2A, or 21.4% of risk weighted assets (excluding buffers).

### MREL Leverage

If the Leverage Ratio becomes the binding constraint the Society would need to raise just c.£0.6bn in MREL funding (based on Dec-22 balance sheet). The Society now expects Leverage to become the binding MREL requirement as soon as the capital requirement does



# Funding & Liquidity

Strong Retail and Wholesale Franchise, prudent liquidity management

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **LCR** | 208% | 202% | 214% | 179% | 187% | 195% |
| **Loans / Deposits Ratio** | 115.8% | 118.0% | 116.5% | 114.0% | 116.9% | 113.5% |

# Liquidity Management

Liquidity levels materially above regulatory requirements

## Internal Risk Appetite

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.

## Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) at 31 December 2022 was 195% (31 December 2021: 187%), significantly in excess of the regulatory minimum.

## Loan to Deposit Ratio

The Loan to Deposit ratio was 113.5% reflecting the stable funding profile of the Society.

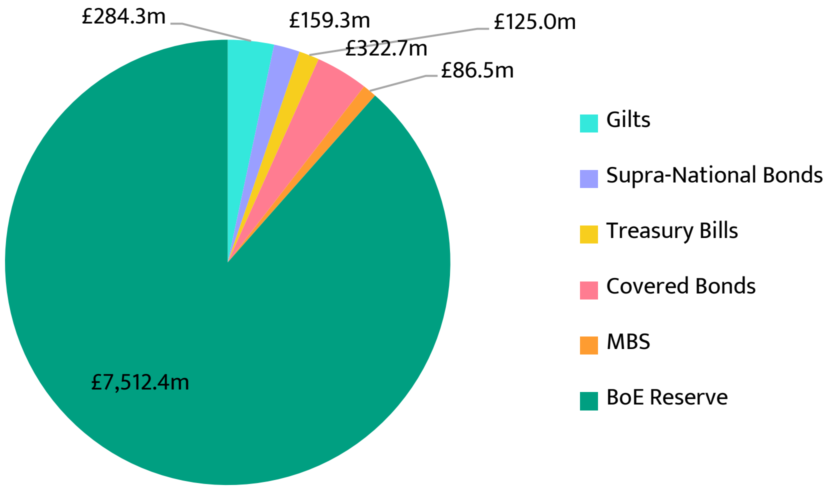
## Liquid Assets

Liquid assets increased to £10.0 billion (2021: £7.6 billion) as we maintained a prudent liquidity buffer. The majority of liquid assets of £7.5bn are held as cash in the BoE reserve account, with a small holding of UK Sovereign and Supranational bonds and UK issued Covered Bonds and RMBS.

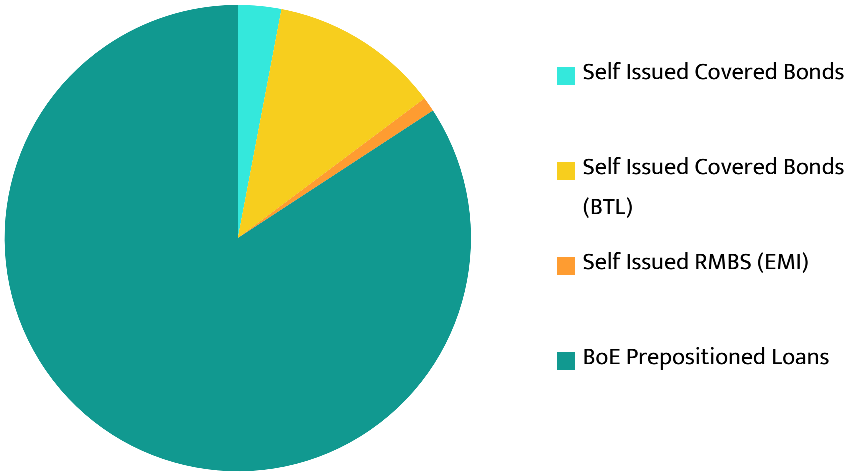
## Net Stable Funding Ratio (NSFR)

The Society holds sufficient stable funding to meet the regulatory requirement of 100% NSFR. The NSFR was 142.15% as at 31 December 2022.

### High Quality Liquid Assets - £8.5bn




### Contingent Liquidity - £4.3bn



# Funding Mix

A diverse and stable funding base

Lending is primarily funded through retail deposits.

Retail savings balances grew by 6% or £2.4 billion (31 December 2021: £1.7 billion), with overall balances exceeding £40 billion for the first time.

Having increased during the Pandemic, online remains the most utilised savings channel.

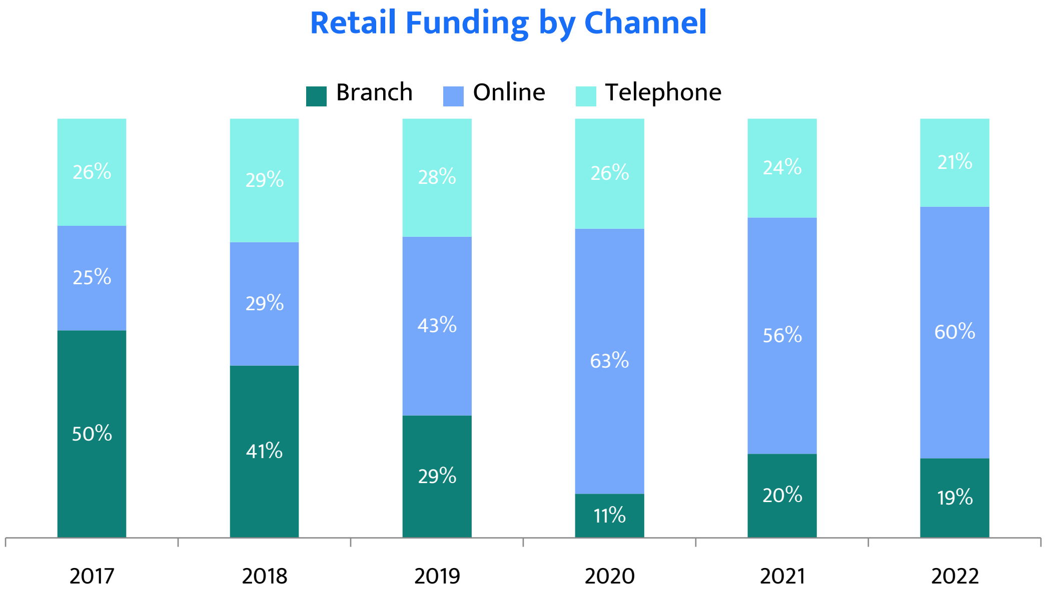
In 2022 the Society paid 0.62% above the market average rate in line with our continued strategy of returning value to members. The Society continues to manage value to members, with £230 million (2021: £201 million) of additional interest paid to savings members as compared with average market rates.

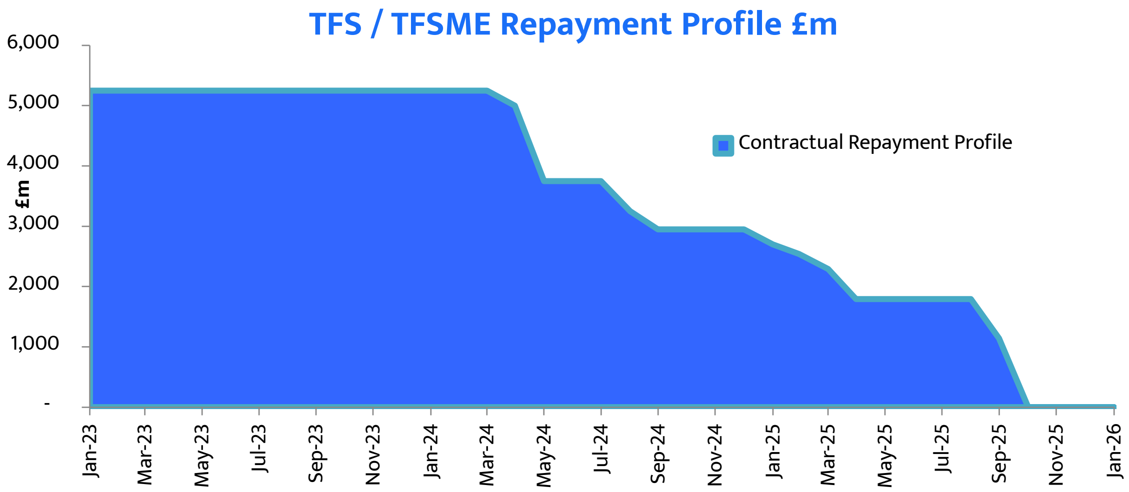
The cost of funding for retail compared to SONIA reduced materially in 2022, with lower competition for balances.

Interest payable on retail savings increased by £286 million with the average savings rate increasing to 2.18% in December 2022 compared to 0.77% a year earlier. With further increases being applied in January 2023 following the bank rate change in December 2022, representing a pass through of over 54% to our savings members.

The Society uses wholesale funding to provide diversification of funding by source and term, supporting growth and lowering risk by reducing the overall cost of funding. This benefits saving members through better savings rates and mortgage customers by enabling us to offer more competitive long term rates.

The Society has £5.25bn of TFSME outstanding as of 31 December 2022.



# Wholesale funding franchise

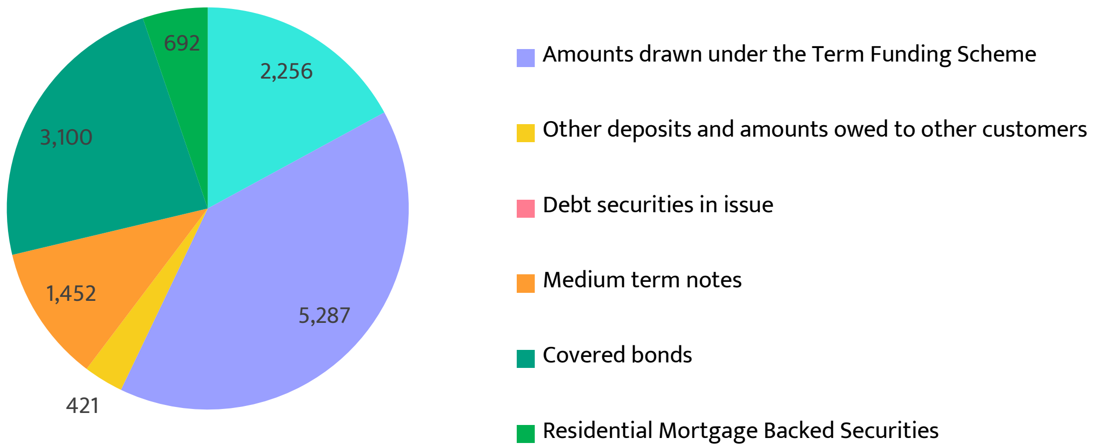
Strong and diversified funding base with access to a range of wholesale funding markets

- Retail deposits are supplemented by a number of wholesale funding options.
- Wholesale funding in the period increased by £1.3 billion to £13.2 billion (31 December 2021: £11.9 billion).
- The Society remains committed to being a regular benchmark issuer in all formats.

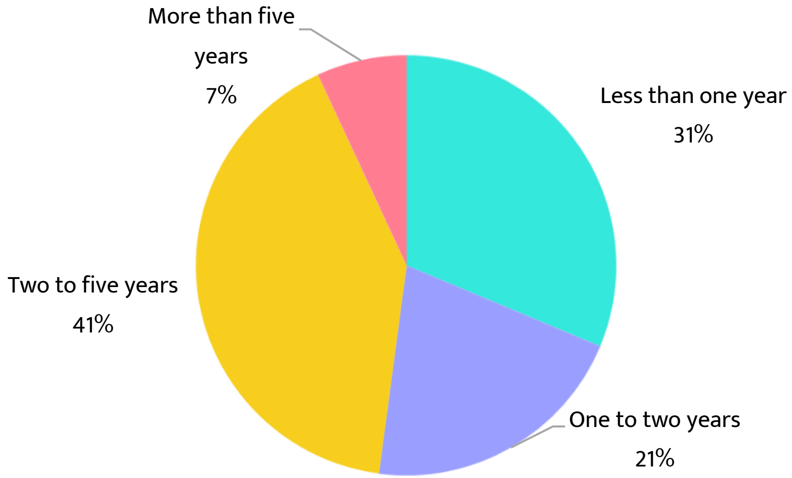
**The Society is a programmatic issuer with four different programmes:**

- Covered Bonds
- EMTN
- Economic Master Issuer RMBS
- Godiva Covered Bonds (used for retained issuances)

**Wholesale Funding Outstanding at 31 December 2022 £13.2bn**



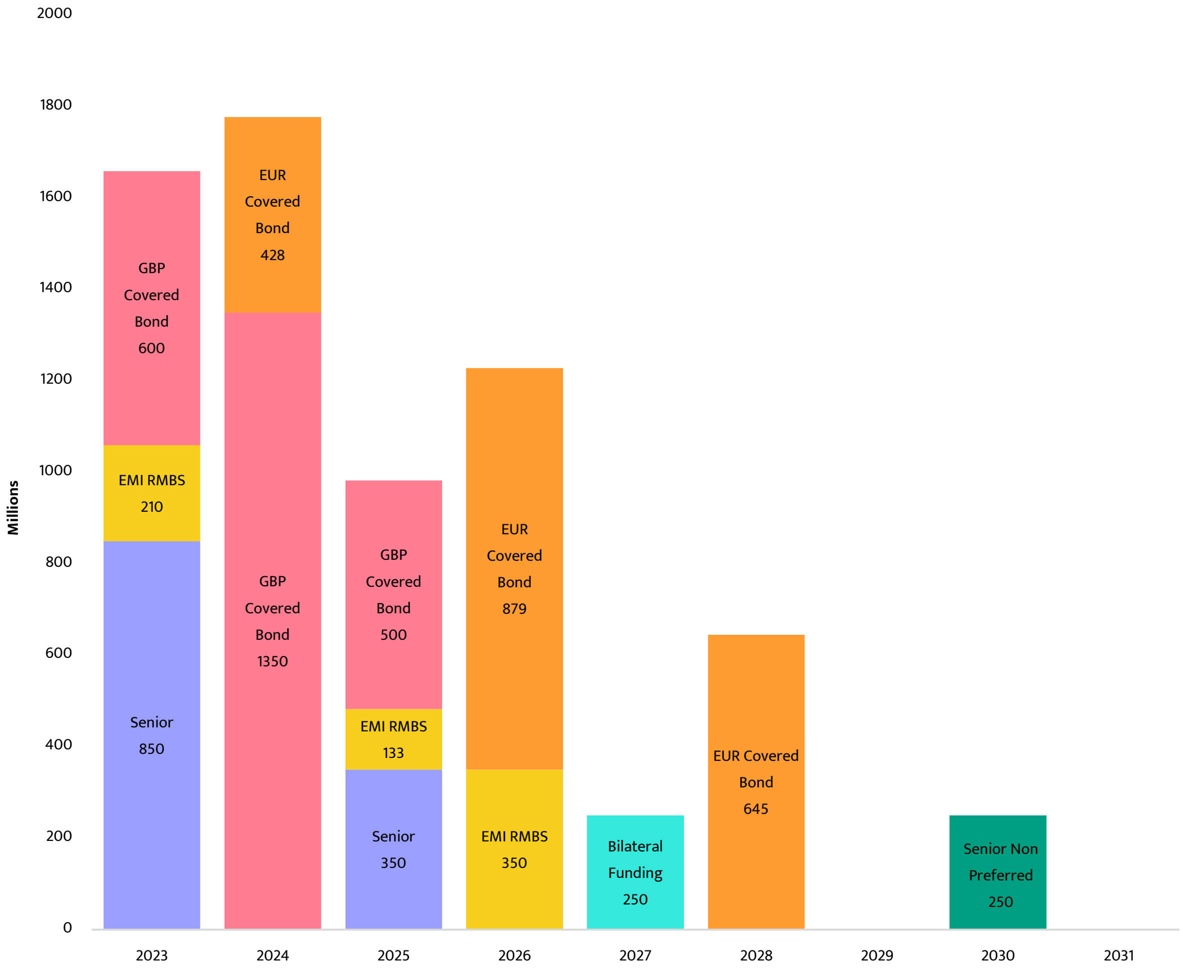

**Wholesale Funding Profile %**



# Wholesale funding profile

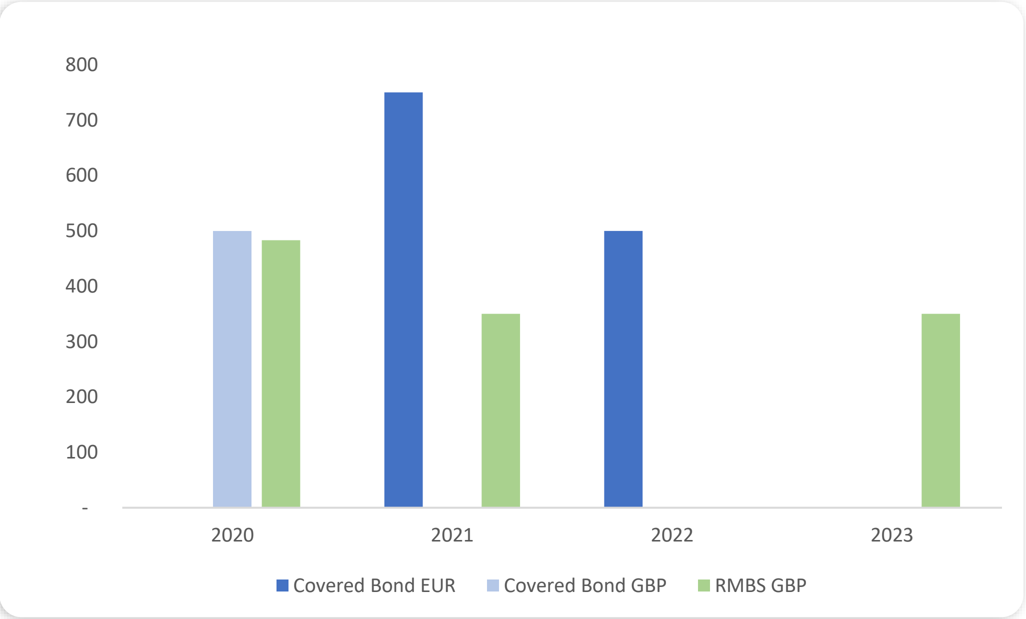
Diversification, enabling growth and lowering risk

## Wholesale Funding Maturities



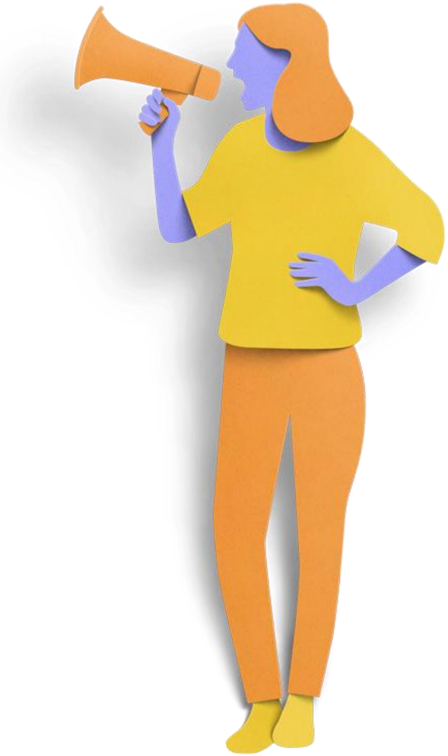

## Public Wholesale Issuance 2020-2022

| Instrument | Tenor | Currency | Notional (CCY) | Year |
|---|---|---|---|---|
| Covered Bond | 7yr | EUR | 750,000,000 | 2021 |
| Covered Bond | 4yr | EUR | 500,000,000 | 2022 |
| RMBS | 5yr | GBP | 350,000,000 | 2021 |
| RMBS | 3yr | GBP | 350,000,000 | 2020 |
| RMBS | 5yr | GBP | 133,000,000 | 2020 |
| Covered Bond | 4yr | GBP | 500,000,000 | 2020 |



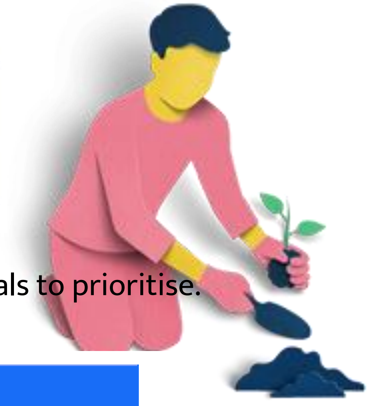
# ESG Priorities and Achievements

Strategy focuses on People, Planet and Prosperity



# Our Priorities in ESG

## We are determined to make a difference



We are signatories of the UN Global Compact, the UN Principles for Responsible Banking, and have identified 4 of the 17 UN Sustainable Development Goals to prioritise.

| SDG | Why we make a difference | Our targets and ambitions | In 2022, we delivered |
|---|---|---|---|
| 4 Quality Education | • We are a leading local employer, wanting to provide employment opportunities for our local communities.<br>• We are committed to enhancing the skills of our employees.<br>• We have the resources to make a positive impact on education in Coventry. | • 250 apprenticeships over five years from 2021.<br>• 50% of senior management roles from internal recruits by 2025.<br>• 10,000 children and young people in Coventry supported via education programmes over the three years from 2021. | • 103 apprentices since 2021.<br>• 57% of senior management roles from internal recruits in 2022.<br>• 14,984 children and young people supported since 2021. |
| 8 Decent Work and Economic Growth | • We provide career opportunities at differing levels of seniority.<br>• We spend over £172 million annually with our supply chain, enabling us to drive positive changes with our suppliers.<br>• We can offer underrepresented groups career pathways. | • Offer career development to enable colleagues to achieve their potential.<br>• Progress the sustainability agenda with our suppliers.<br>• 40% of all senior manager and above roles held by women by 2025.<br>• 25% of manager and above held by colleagues from ethnic minority groups by 2025.<br>• All key suppliers have committed to the Society's Supplier Code of Conduct by 2023. | • 45% of roles filled by internal candidates in 2022, giving 440 colleagues the opportunity to take on a new role.<br>• Sustainability questions feature in supplier due diligence questionnaires and request for proposal documents.<br>• 38% of all senior manager and above roles held by women in 2022.<br>• 12% of manager and above roles held by colleagues from ethnic minority groups.<br>• 100% of our suppliers committed to the Society's Supplier Code of Conduct. |
| 11 Sustainable Cities and Communities | • We provide financing for housing and can help first time buyers onto the housing ladder.<br>• We can help homeowners with the transition to Net Zero.<br>• Our community programme focuses on access to housing. | • Number of people supported through Access to Housing is 1,000 between 2021 and 2025.<br>• Double first time buyer numbers in 2021 (3,200 to 7,500) and move to supporting 10,000 first time buyers annually by 2023. | • 561 people supported through Access to Housing as a result of funding from the Society and our members.<br>• We supported 5,400 first time buyers and are working on new build propositions to help them. The improved energy efficiency of these new builds will also align to our sustainability strategy. |
| 13 Climate Action | • Our own operations emit GHG emissions.<br>• Our borrowing customers will need help to deal with the transition to Net Zero. | • Carbon Neutral Scope 1 and claim Net Zero merits for Scope 2 emissions by the end of 2021.<br>• Net Zero Scope 3 upstream emissions by the end of 2030.<br>• Ambition to be entirely Net Zero by 2040.<br>• 50% reduction in paper by 2023 compared with 2017 levels. | • Remained Carbon Neutral for Scope 1 and Net Zero for Scope 2 emissions.<br>• Net Zero Scope 3 reduced by 5%.<br>• Reduced our Scope 1 and 2 emissions by 16%.<br>• 49% reduction in paper consumption since 2017. |

# Our 2022 highlights

## Environmental

### ISO 14064-1[1] Accredited
We are certified under the Carbon Reduce Scheme, a leading global standard for calculating emissions.

### 5%
Reduction in carbon emissions for Scopes 1, 2 and 3 (compared to 2020)

### Zero
Waste sent to landfill (since 2017)

### Carbon Neutral
We are Carbon Neutral for our own operations since 2021

## Social

### 77%
Great Places to Work Trust Index®[2] score

### 81%
Colleagues supported with a cost of living allowance

### Over 3,500
Young people helped through our education and employability programmes

### £3.2m[3]
Invested in our communities

## Governance

### 43%
of key suppliers rated green by EcoVadis

### 38%
of senior manager and above roles held by women

### Launched
Supplier diversity initiative

### Zero
Identified thefts, leaks or losses of customer data in 2022

1.An international standard that quantifies the reporting and verification of greenhouse gas emissions (GHG)
2.A measure indicating a trust-based people first workplace based on positive responses to the annual Great Place to Work® survey.
3.Full details of our total community investment, including the BS4I assurance statement can be found

# Climate Action Plan

### Achieved

- We are Carbon Neutral for our business operations
- We transitioned to procure 100% renewable energy from wind and solar
- ISO 14064-1 certified for our Scope 1, 2 and 3 emissions data and we align with TCFD framework
- Products and propositions designed to support greening of homes

### Progress in 2022

- Continued to improve our energy efficiency and transition away from gas consumption
- Developed our transition plan to reach Net Zero
- New and existing customer reward scheme incentivising efficiency improvements
- Annual reporting on progress against our targets and external frameworks
- Member endorsement and engagement with our Climate Action Plan
- Engaged with our suppliers and regulators on climate matters
- Publicly disclosed climate strategy positions
- Continued to obtain third-party assurance and ISO certification

In 2021, we produced our first ever Climate Action Plan, which set out in detail how the Society will respond to the climate challenge and focused on addressing our direct Scope 1 and 2 emissions. We are making good progress on our Net Zero Journey and we are already a Carbon Neutral business for our own operations. During 2022, we have begun to focus on how we reduce our indirect Scope 3 emissions. There is further work to do in this area, but what is clear is that this can only be done with the support and collaboration of a variety of external stakeholders. Our Climate Action Plan sets out the activities designed to support our ambitions

### 2023 - 2040 ambitions

- Set a Science-Based Target by 2024
- Align capital expenditure to 1.5°c pathway
- Work with partners to deliver change
- New and existing customer retrofit borrowing incentives
- Customer understanding, support and engagement campaigns
- Have 100% electric vehicles in our fleet by 2030 or sooner
- Achieve Scope 3 upstream emissions to be Net Zero by 2030
- Ambition to be fully Net Zero by 2040 across Scope 1, 2 and 3.

Climate Action Plan | Our products | Governance and risk | Our operations | Our influence on society

# CONTACTS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| Ratings | Short Term | Long Term Unsecured SP | SNP | AT1 | BCA / IDR | Outlook | Date |
|---|---|---|---|---|---|---|---|
| Moody's | P-1 | A2 | Baa1 | Baa3 | A3 | Stable | July 2021 |
| Fitch | F1 | A | A- | BB+ | A- | Stable | November 2022 |

| ESG Ratings | Score | Date |
|---|---|---|
| MSCI | A | January 2023 |
| Vigero Eiris | 52/100 | April 2021 |
| ISS ESG | C, Prime | August 2021 |
| Sustainalytics | 14.9, Low Risk | September 2021 |

# Appendix

Summary Balance Sheet and Income Statement / Key Metrics
UK Economy Overview
EPC Portfolio Ratings

# Summary Financial Statements

## Balance Sheet summary

| | FY 31 Dec 2022 £m | FY 31 Dec 2021 £m |
|---|---|---|
| **Assets** | | |
| Loans and advances to customers | 48,014.3 | 46,620.6 |
| Liquidity | 10,009.8 | 7,622.0 |
| Other | 843.0 | 287.1 |
| **Total assets** | **58,867.1** | **54,529.7** |
| | | |
| **Liabilities** | | |
| Retail funding | 42,288.7 | 39,890.2 |
| Wholesale funding | 13,207.2 | 11,907.3 |
| Subordinated liabilities and subscribed capital | 57.0 | 56.9 |
| Other | 366.5 | 215.7 |
| **Total liabilities** | **55,919.4** | **52,070.1** |
| | | |
| **Equity** | | |
| General reserve | 2,250.7 | 2,012.6 |
| Other equity instruments | 415.0 | 415.0 |
| Other | 282.0 | 32.0 |
| **Total equity** | **2,947.7** | **2,459.6** |
| **Total liabilities and equity** | **58,867.1** | **54,529.7** |

## Income Statement summary

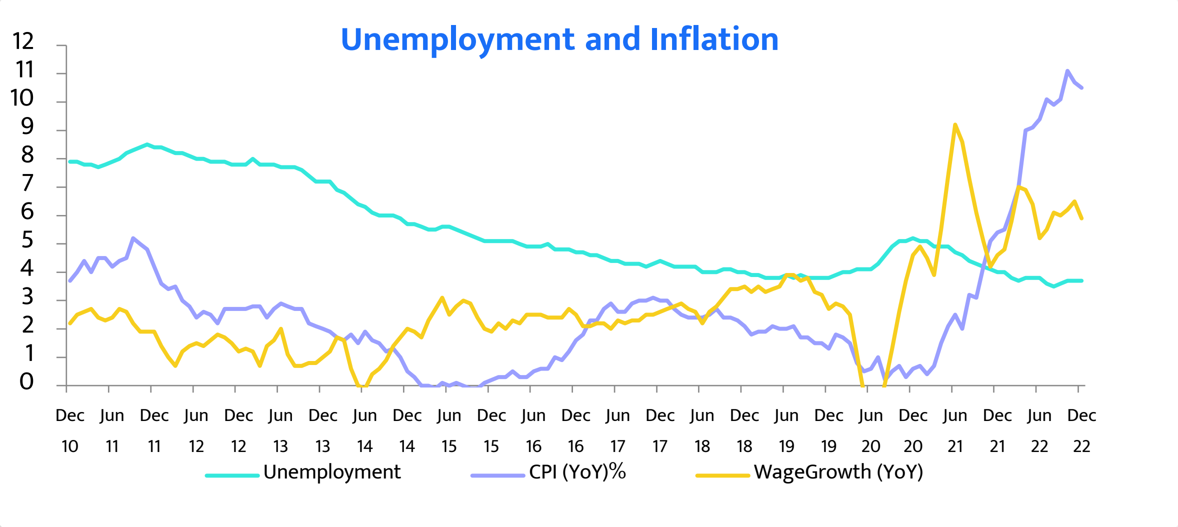
| | FY 31 Dec 2022 £m | FY 31 Dec 2021 £m |
|---|---|---|
| Interest receivable | 1,421.1 | 833.9 |
| Interest payable | (763.8) | (357.7) |
| **Net interest income** | 657.3 | 476.2 |
| Other income | (1.6) | (1.4) |
| Gain/(loss) on derivatives and hedge accounting | 26.8 | (6.6) |
| **Total income** | 682.5 | 468.2 |
| Management expenses | (294.8) | (263.5) |
| Impairment Charge | (16.6) | 28.7 |
| Charitable donation to Poppy Appeal | (0.6) | (0.6) |
| **Profit before tax** | 370.5 | 232.8 |
| Tax | (84.3) | (42.0) |
| **Profit after tax** | 286.2 | 190.8 |

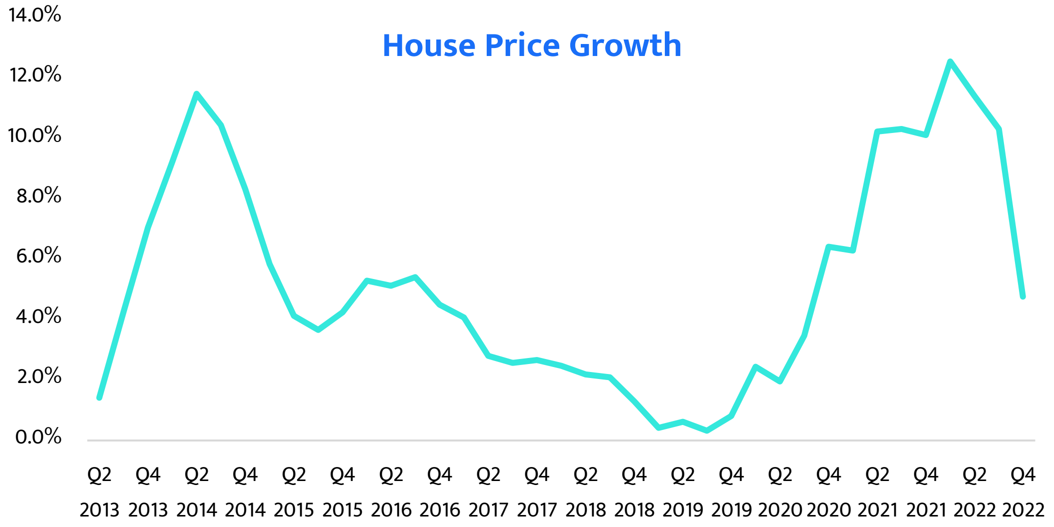
# Financial strength

Key metrics remain robust

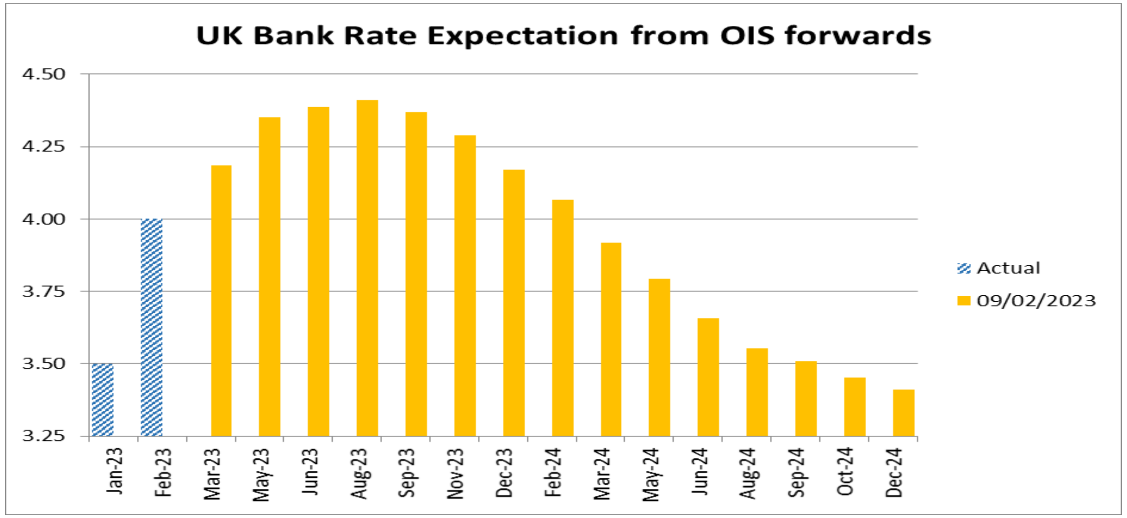
| % | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Net interest margin / mean assets | 1.02 | 0.96 | 0.83 | 0.81 | 0.90 | 1.16 |
| Cost/ mean total assets (including Investment) | 0.42 | 0.50 | 0.48 | 0.49 | 0.50 | 0.52 |
| Cost / income ratio (including Investment) | 40.4 | 52.3 | 60.4 | 60.2 | 56.3 | 43.2 |
| Retained profit / mean assets | 0.46 | 0.35 | 0.25 | 0.20 | 0.36 | 0.50 |
| Mortgage assets growth | 9.3 | 9.3 | 7.6 | 3.0 | 7.2 | 3.0 |
| Common Equity Tier 1 ratio | 33.4 | 33.9 | 32.0 | 33.0 | 36.2 | 27.4 |
| UK Leverage Ratio | 4.6 | 4.6 | 4.4 | 4.6 | 4.8 | 5.2 |
| Liquidity Coverage Ratio (LCR) | 208 | 202 | 214 | 179 | 187 | 195 |

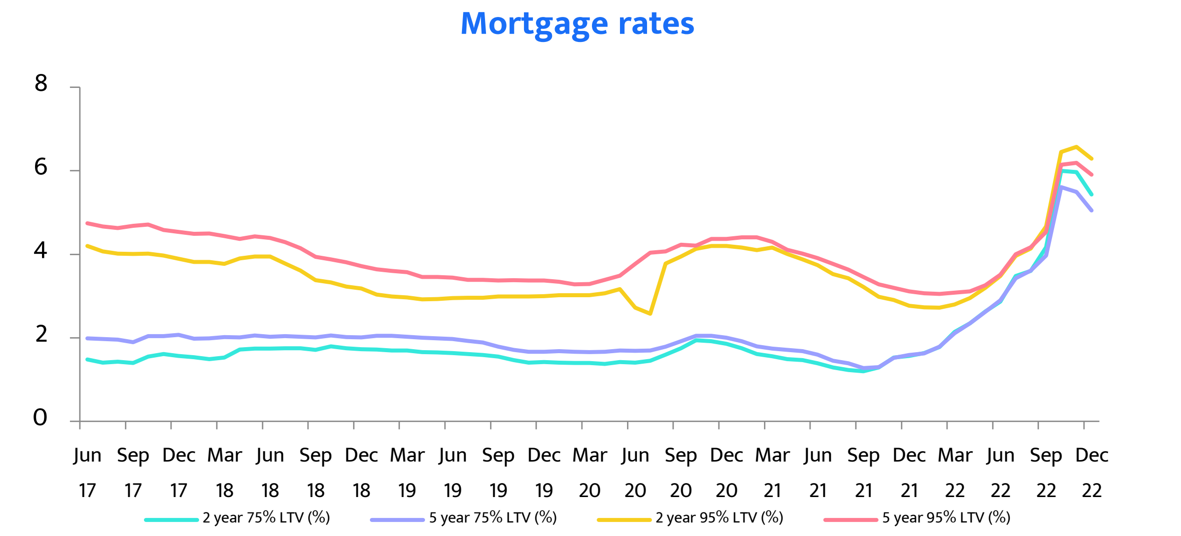
# UK Economy




## Base Rate Expectation






Source: ONS data

# EPC Portfolio Ratings

## Owner Occupied

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| **31 Dec[1] 2021** | 0.1% | 6.0% | 16.0% | 31.9% | 14.4% | 3.6% | 0.7% |
| **31 Dec[1] 2022** | 0.2% | 6.7% | 18.2% | 34.3% | 14.6% | 3.5% | 0.7% |
| **Change** | 0.1% | 0.7% | 2.2% | 2.4% | 0.2% | 0.1% | - |

## Owner Occupied

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| **Current** | 0.2% | 6.7% | 18.2% | 34.3% | 14.6% | 3.5% | 0.7% |
| **Potential** | 5.5% | 47.2% | 36.8% | 7.9% | 2.1% | 0.4% | 0.1% |

## BTL[2]

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| **31 Dec[1] 2021** | 0.1% | 4.9% | 23.7% | 36.1% | 12.2% | 1.1% | 0.3% |
| **31 Dec[1] 2022** | 0.1% | 5.1% | 26.7% | 39.4% | 12.0% | 0.8% | 0.2% |
| **Change** | - | 0.2% | 3.0% | 3.3% | 0.2% | 0.3% | 0.1% |

## BTL[2]

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| **Current** | 0.1% | 5.1% | 26.7% | 39.4% | 12.0% | 0.8% | 0.2% |
| **Potential** | 2.9% | 55.0% | 35.6% | 5.7% | 0.8% | 0.1% | 0.0% |

1. The figures above exclude properties where we do not have an actual EPC.
2. The minimum EPC for BTL in policy is E.