Coventry Building Society

2023 half 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.

64
Branches

Nearly
2 million
Customers

139
Years of history

2,946
Colleagues

Our products

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

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

Performance highlights

Sustainable financial performance, maintaining profitability and capital strength

Savings balances increased by 7.5% (HY 2022: 1.0%)

We have grown savings by offering market-leading products, with a focus of rewarding loyalty.

Great products and great value have attracted more savers to the Society, increasing our overall savings balances by £3.2 billion (7.5%) to £45.5 billion

During the first half of 2023 our average savings rate increased by 1.8% to 2.7% from H1 2022.

We continue to reward members and pay 0.8% higher than the market average.

Mortgage growth 1.7% (HY 2022: 0.0%)

The Society continued growing the mortgage book into H1 2023, with growth of 1.7% or £0.8 billion in the first half of the year, to £48.8 billion.

During H1 2023 we helped 3,200 people move into their first home (H1 2022: 2,200).

The BTL market was initially subdued in H1 2023 with the Society focusing on owner occupied.

Profit before tax £269m (HY 2022: £158m)

In H1 2023 we delivered record breaking performance with our profit before tax of £269 million, 70% higher than H1 2022 (£158 million).

Net Interest Income rose to 134bps in H1 2023 (H1 2022: 111bps) supported by the increases in Bank of England Base Rate, earnings on reserves and lower funding costs.

Value returned to members was £163m[1] (HY 2022: £99m)

The value returned to members increased by 65% against the same period last year.

The mutual business model continues to benefit members in a volatile period, protecting our savings members with loyalty products and fair value savings.

On average our savings rates were 0.8% above the market average[1].

[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 five months of 2023.

Performance highlights

Sustainable financial performance, maintaining profitability and capital strength

Common Equity Tier 1 ratio 30.4% Leverage ratio 5.5%

We retain enough profit to maintain our capital strength and ensure we remain a safe place for our members to save and borrow.

In 2023, we have seen a further improvement in our Leverage ratio to 5.5% (H1 2022: 5.0%) and our Common Equity Tier 1 ratio has also increased to 30.4% (H1 2022: 29.9%).

The Society expects leverage will be its binding constraint in the future.

3m+ Arrears including possessions of 0.22% (HY 2022: 0.18%)

The Society's mortgage book continues to perform well with only 0.22% of mortgages more than 3 months in arrears (H1 2022: 0.18%).

We are mindful of the longer-term impact of increased cost of living seen to date and expected in the future and are working with our members to help manage through this difficult time, taking proactive steps to identify borrowers who many need our support.

Liquidity Coverage Ratio 263% (HY 2022: 206%)

On-balance sheet liquid assets have increased to £11.7 billion (H1 2022: £8.5 billion).

The Liquidity Coverage Ratio (LCR) at 30 June 2023 was 263% (H1 2022: 206%), significantly in excess of the regulatory minimum. This reflects very strong deposit inflows.

Costs as a percentage of overall assets 0.49% (HY 2022: 0.50%)

Costs remain a key focus for the Society. We benefit from the simplicity of our business model and focussed strategy.

Strong financial performance has allowed the Society to continue its significant investment in improving and modernising services for members.

We invested £44 million (H1 2022: £47 million) in the first half of the year with a focus on digital, mortgages and improving resilience and the financial control environment.

Excellent service to members and colleagues

Better for service, better for colleagues

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

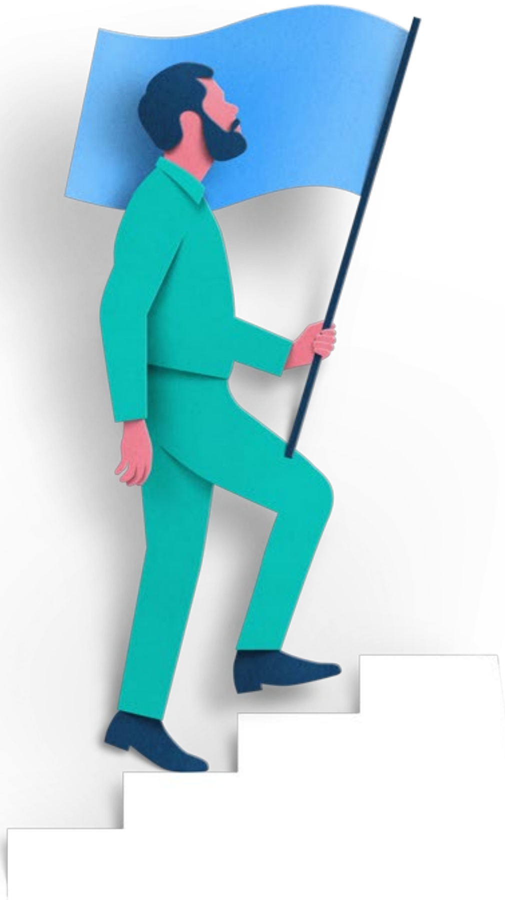
We are proud of our service offering, which has yet again been recognised with a number of awards.

The Society improved its position in the UK's Great Place to Work survey, with our overall Trust score now at +77%.[1]

Strong intermediary franchise based on the Society's pledges to brokers. The pledges include a 48 hour notice period on removing products which has been important in these fast changing times.

Our Net Promoter Score (NPS) remains high compared to the industry average.[2]

We have now been assessed for B Corp[3] accreditation and are the first building society and one of the first UK financial services organisations to be awarded this accolade.



Top 20 in first Great Place to Work league table of super-large organisations, improving 4 places from last year[4]

+74 Net Promoter Score

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

1st place 2023 Fairer Finance Gold Ribbon for savings

1st place 2023 Fairer Finance Gold Ribbon for mortgages

2023 award Fairer Finance Most Transparent for savings

Certified Great Place to work

77% Trust Index score[6]

1. A measure indicating a trust-based people first workplace based on positive responses to the annual Great Place to Work survey.
2. A measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.
3. B Corp status is the highest sustainability accolade awarded to organisations by the Science Based Targets Initiative.
4. Position in the Super Large category of 57 UK organisations that met the Great Place to Work benchmark.

Mortgage business in 2023

Measured mortgage growth, protecting capital and a result of the lower activity in the housing market

2023 initially saw relatively stable interest rate expectations over the first quarter of the year, following a slight cooling in interest rates in the final quarter of 2022. Mortgage rates reacted and followed on a steady downwards trajectory. This trend reversed in the second quarter, picking up pace at the end of H1 and seeing mortgage rates head up towards 7%.

The Society managed its growth in the first half of 2023 in response to the market conditions, with a noticeable slowdown in Buy to Let lending due to the interest rate increases.

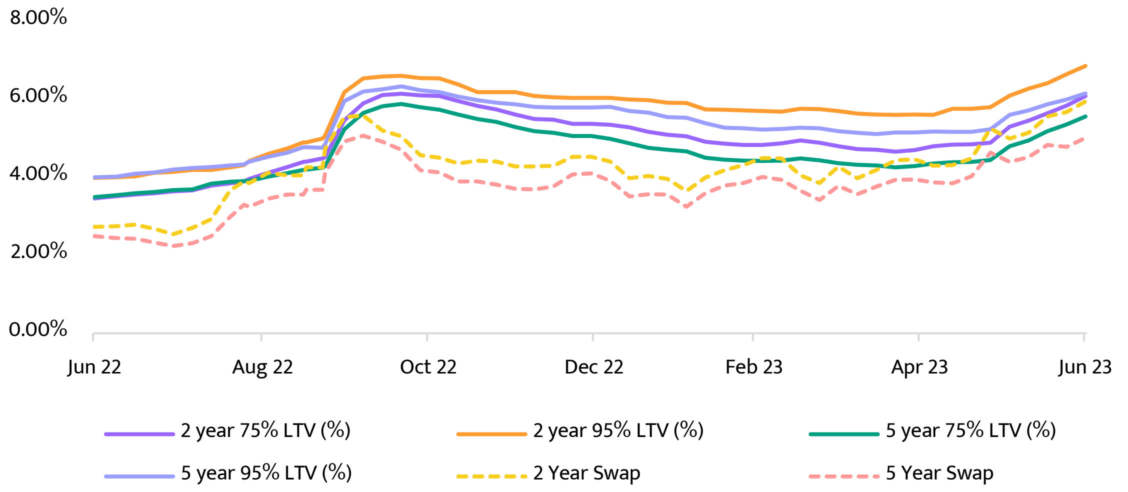
We continued growing the mortgage book in H1 2023, with growth of 1.7% or £0.8 billion in the year.

Total mortgage assets at 30 June 2023 stood at £48.8 billion (H1 2022: £46.6 billion) which comprised £29.4 billion (H1 2022: £27.6 billion) of owner-occupier and £14.4 billion (H1 2022: £14.0 billion) buy to let loans.

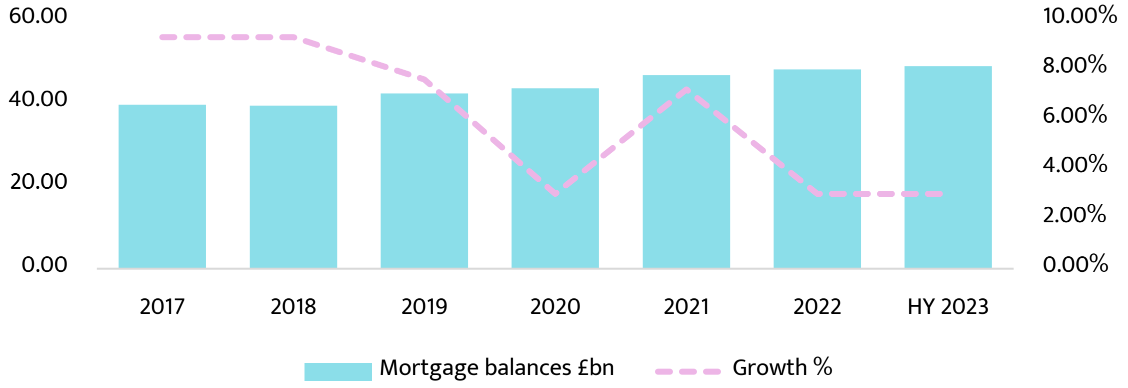
The balance weighted average indexed loan to value of the mortgage portfolio was 52.5% at 30 June 2023 (H1 2022: 48.6%) due to house price reductions and new lending.

New business LTV on the overall book in H1 2023 was 64.8%[1].

Mortgage Rates Versus Swaps in 2022 - 2023



Mortgage Balances (£bn)



[1]Including fees and excluding porting.

Financial Strength

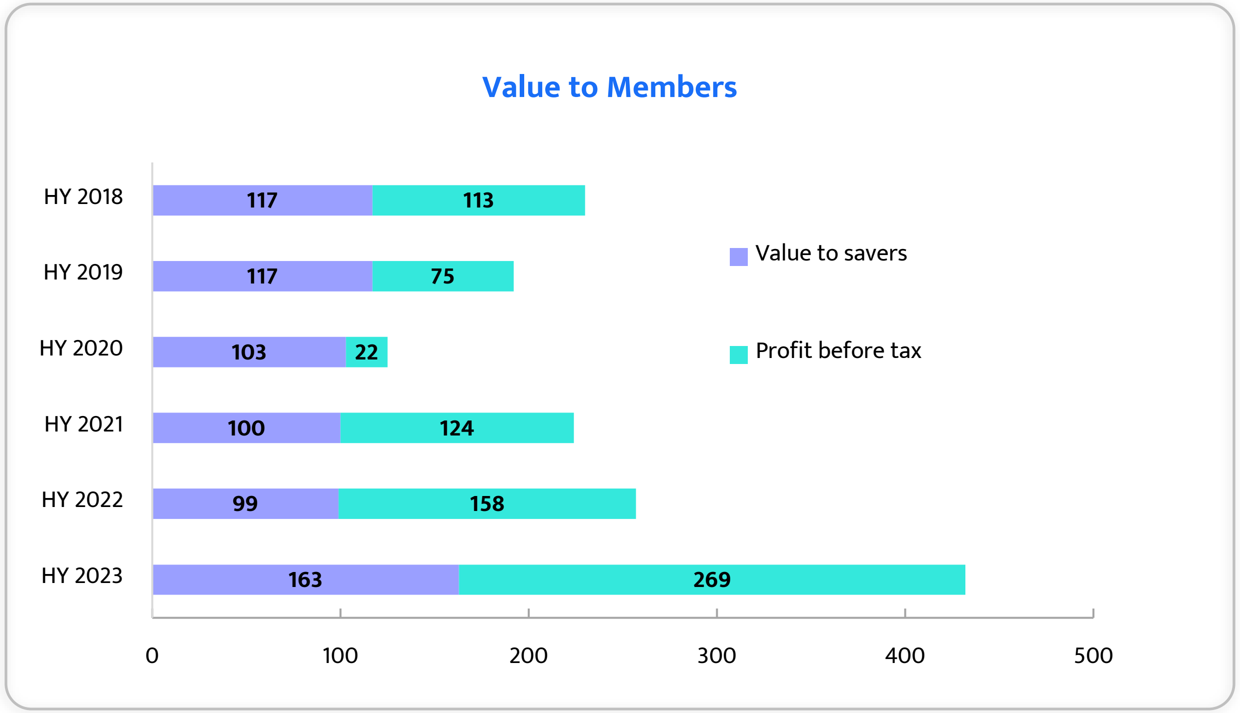
Key metrics remain robust

%	2017	2018	2019	2020	2021	HY 2022	FY 2022	HY 2023
Net interest margin / mean assets	1.02	0.96	0.83	0.81	0.90	1.11	1.16	1.34
Cost / income ratio (including Investment)	40.4	52.3	60.4	60.2	56.3	46.3	43.2	34.4
Cost/ mean total assets (including Investment)	0.42	0.50	0.48	0.49	0.50	0.50	0.52	0.49
UK Leverage Ratio	4.6%	4.6%	4.4%	4.6%	4.8%	5.0%	5.2%	5.5%

Strong profit performance

Whilst maintaining the value we give to savers

	HY 2023 £m	HY 2022 £m
Total income	426.5	299.7
Management Expenses	(146.8)	(138.8)
Impairment Charge	(11.1)	(2.3)
Charitable donation to poppy appeal	-	(0.3)
Profit Before Tax	**268.6**	**158.3**



Our profit before tax increased to £268.6 million (H1 2022: £158.3 million), an increase of 70% or £110.3 million on the same period last year. This increase is primarily driven by improvements in net interest income which increased to £403.9 million (H1 2022: £304.2 million).

Net interest income in the prior year included a charge of £17 million for the full year (H1 2022: £8.7 million) relating to a change to the future assumptions on mortgage redemption behaviour as customers spend less time on SVR.

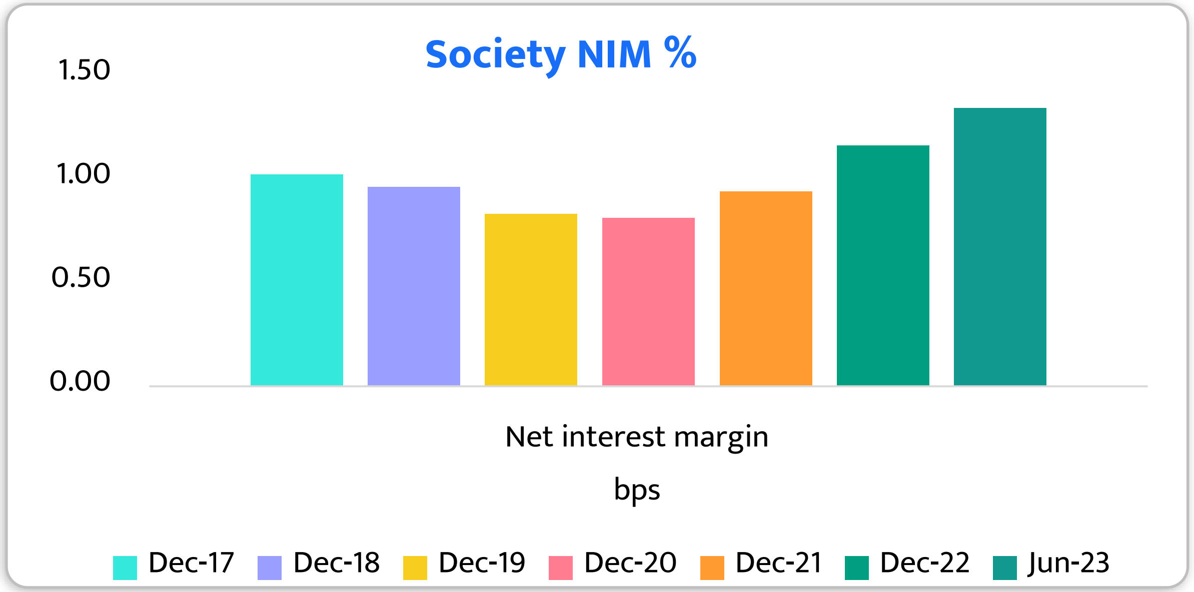
Interest payable on retail savings increased by £383 million following the base rate rises.

Our average pass through rate on savings for base rate increases in the six month period was 49%.

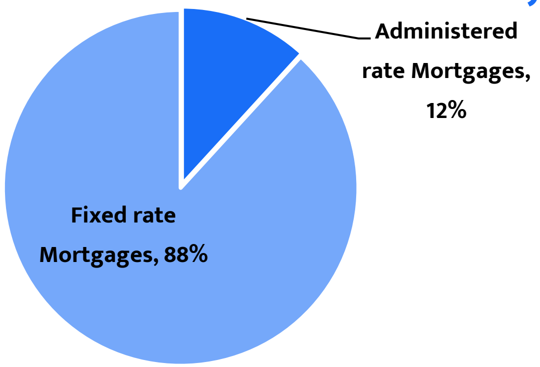
Throughout the period, the Society continued to pay above average savings rates, returning £163 million (H1 2022: £99 million) in member value compared to market average rates.

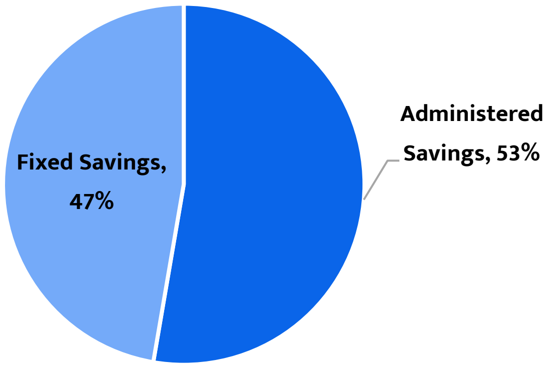
Society's NIM higher

NIM has increased due to improvements in retail funding margins



Rate Type Profile





As at June 2023, our net interest margin (NIM) increased to 1.34% (H1 2022: 1.11%).

During the first half of 2023 our average savings rate increased by 1.8% to 2.7% from the average in H1 2022, and was 0.8% higher than the market average as at 30 June 2023.

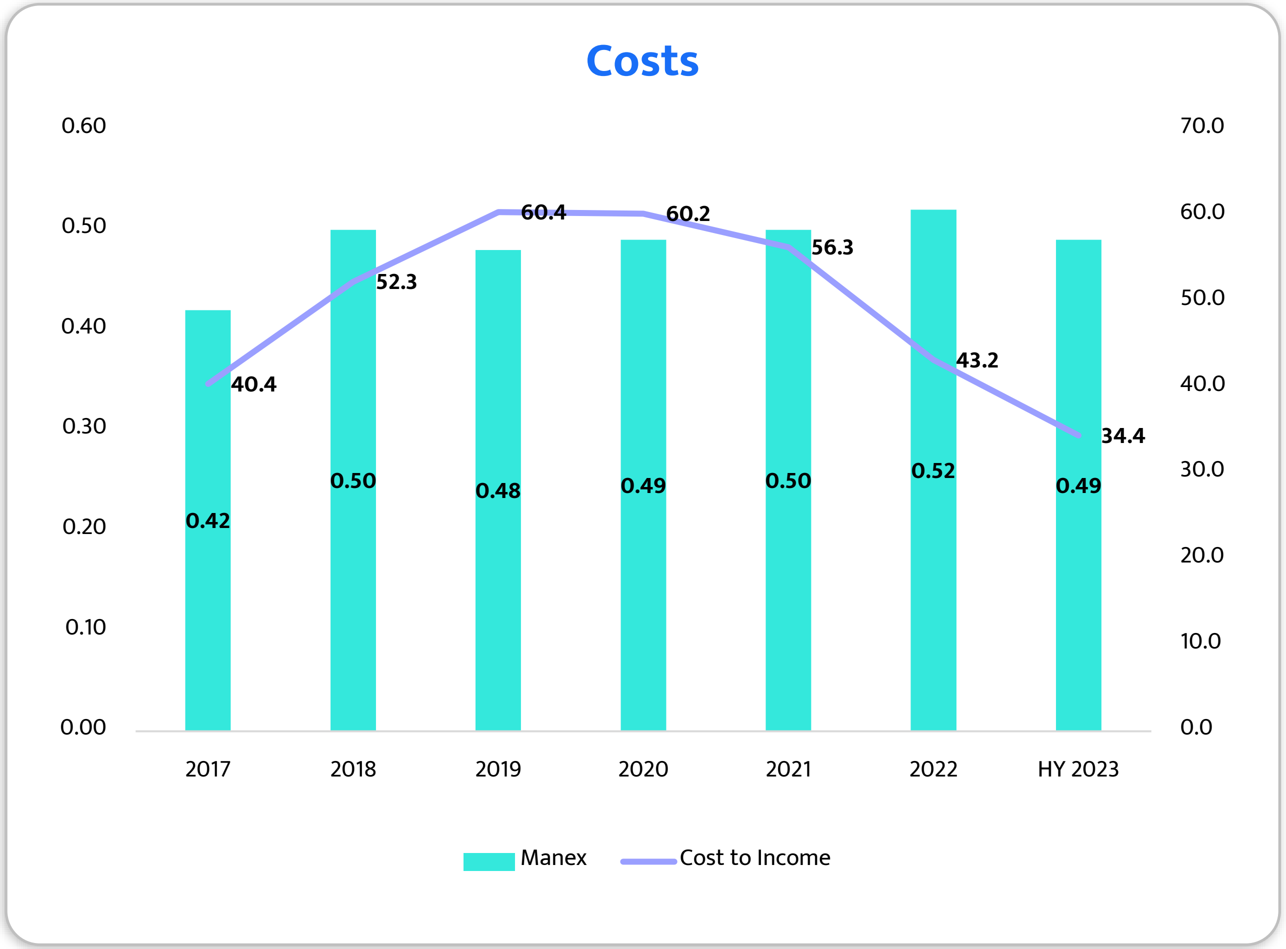
The Bank of England Base Rate has continued to rise, increasing to 5.0% from 3.5% at the beginning of January 2023.

Since December 2021, the base rate has increased by 4.9% however as rates have risen, the Society has only increased its Standard Variable Rate (SVR) by 2.75%.

The mutual business model ensures a fair pass back to our members. The Society passed back 49% of rate increases in H1 2023.

Management Expenses and Investment

Cost efficiency is driven by the simple business model



Management expenses for the period were £147 million (H1: 2022: £139 million). The rise in costs of £8 million was primarily driven by an increase in day-to-day running costs due to additional employee costs as we seek to improve service levels and resiliency, as well as continued inflationary impacts across all of our operations.

The Society remains focused on operating efficiency whilst navigating the ongoing inflationary pressures and investment priorities.

Our strong financial performance has allowed the Society to continue with its significant investment, the total spend on investment of £44 million (H1 2022: £47 million) has been focused on activity to modernise our services, with great progress on our digital roadmap and new mortgage sales platform.

We continue to make improvements to operational resilience and have achieved some significant milestones in our financial transformation programme.

Asset Quality

Early signs of economic environment from a very low base

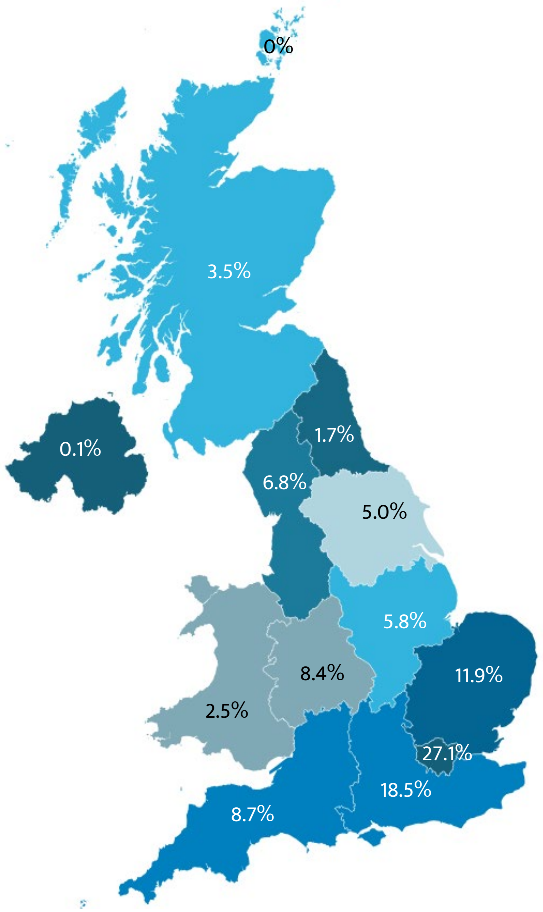
	2017	2018	2019	2020	2021	HY 2022	FY 2022	HY 2023
>3 Months Arrears (including possessions)	0.23%	0.18%	0.17%	0.19%	0.18%	0.17%	0.18%	0.22%
2.5%+ Arrears[1]	0.13%	0.10%	0.08%	0.09%	0.10%	0.09%	0.10%	0.14%
Number of Possessions	29	34	33	22	27	20	27	21
Impaired Loans / Gross Loans	0.65%	0.53%	0.47%	0.48%	0.41%	0.40%	0.42%	0.46%
Expected Credit Loss provisions (balance sheet)	17.1	11.6	12.0	48.1	18.9	21.2	35.5	46.6
Impairment income charge or (credit)	0.2	(0.4)	2.1	36.4	(28.7)	2.3	16.6	11.1
Portfolio LTV	53.9%	54.6%	55.4%	52.8%	50.9%	48.6%	51.0%	52.5%
New Business LTV[2]	59.8%	62.6%	63.7%	63.7%	65.7%	62.2%	65.3%	64.8%

[1] Including possessions
[1] Including fees and excluding porting

Overall mortgage portfolio

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

Geographical distribution by Value



The Society's lending strategy remains focussed on high quality, low risk owner-occupier and buy to let lending within the prime residential market.

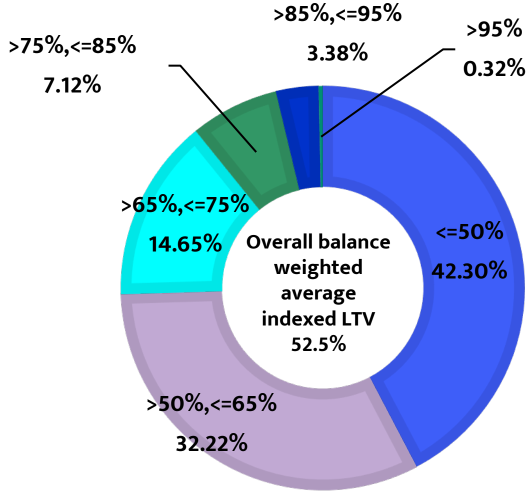
Intermediaries introduce over 96% of cases leading to a national distribution of mortgages.

Total mortgage assets at 30 June 2023 stood at £48.8 billion (H1 2022: £46.6 billion) which comprised £29.4 billion (H1 2022: £27.6 billion) of owner-occupier and £19.4 billion (H1 2022: £19.0 billion) buy to let loans.

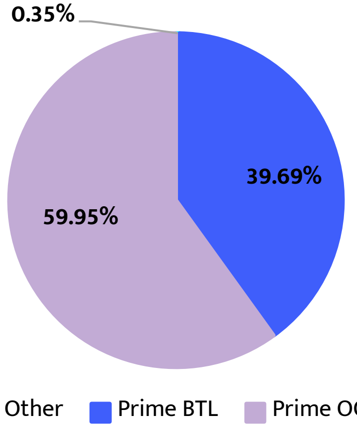
The balance weighted average indexed loan to value of the mortgage portfolio was 52.5% at 30 June 2023 (H1 2022: 48.6%) due to house price reductions and new lending.

The LTV distribution of the mortgage book has remained broadly stable during H1 2023 with 89.2% of the mortgage book having an LTV of 75% or lower (FY 2022: 91.4%).

Total book split by LTV

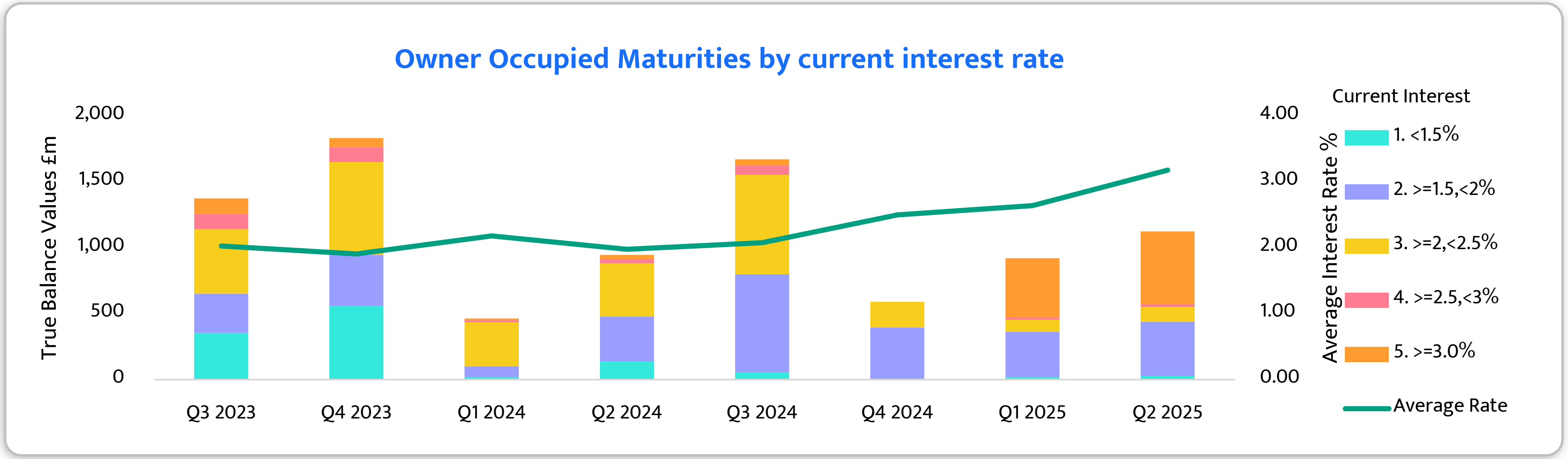


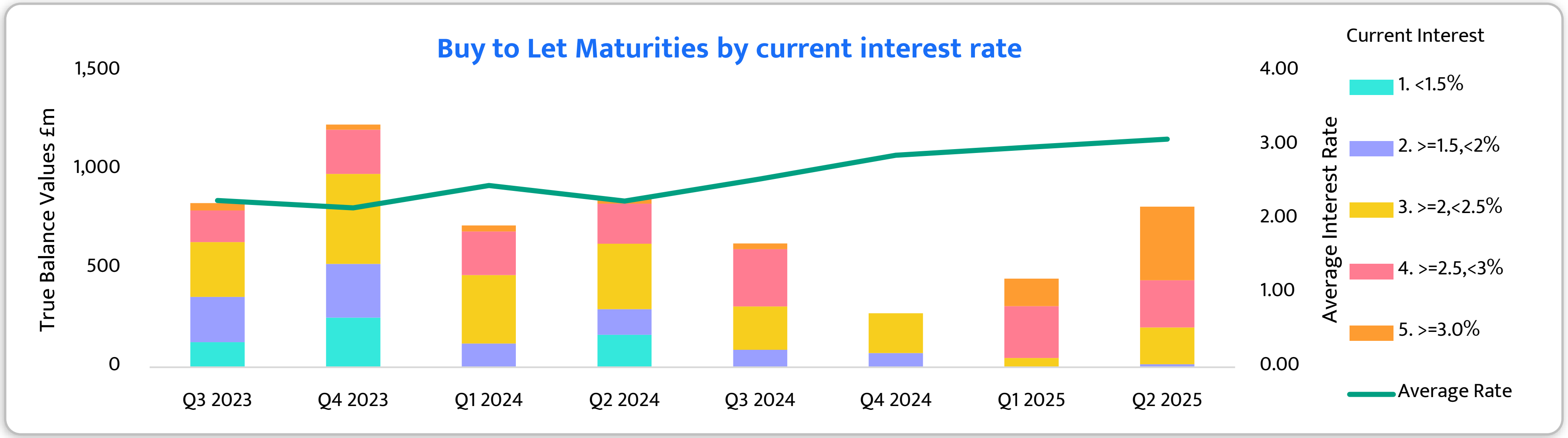
Total book split by product



Fixed rate maturities

We remain alert to helping those most vulnerable





We have a large volume of customers who are coming off fixed rate deals, and a number of customers will experience significant payment shocks given the rise in interest rates seen over the last 9 months.

Affordability continues to be partly based on a stress rate for all applications. The standard owner occupied stress rate started out at 7.24% in August 2022, moved to 7.74% in March 2023 and is currently 8.24%.

To date we have not seen increased arrears from customers maturing off fixed rates.

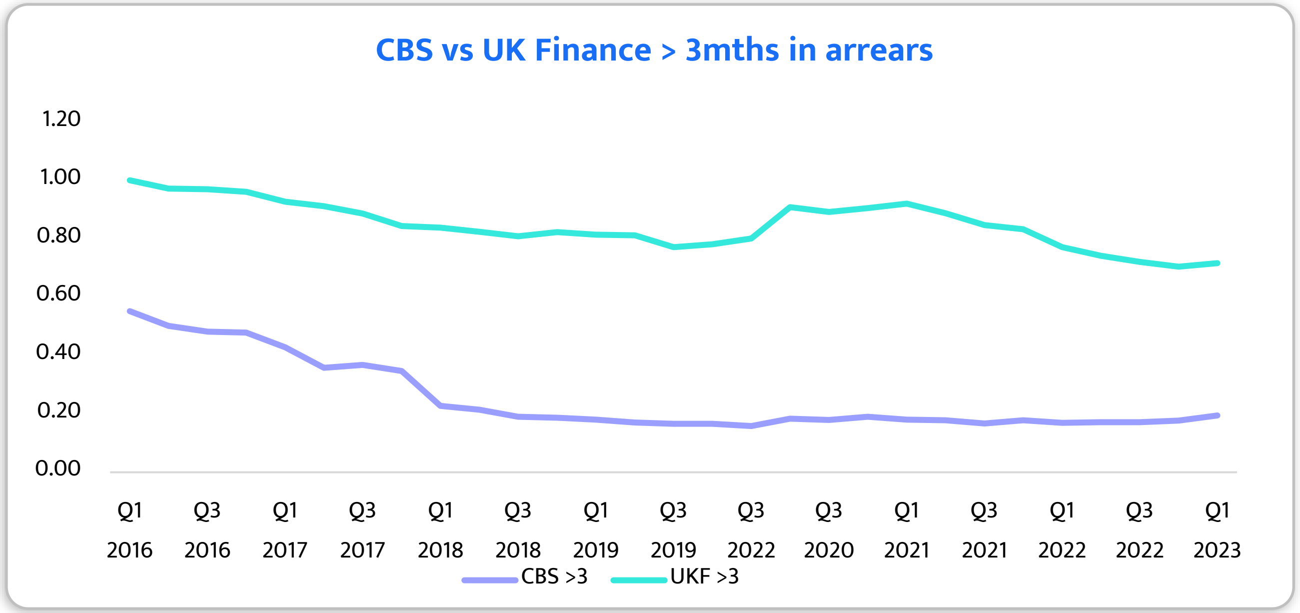
Resilient Asset Performance

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 0.22% of accounts > 3 months in arrears including possessions at Q2 (industry average 0.74% at Q1).

During H1 2023, the Society's longer-term arrears has increased to £93.5 million (2022: £70.4 million) of accounts more than three months in arrears due to cost of living pressures and the significant increase some borrowers are facing with mortgage rates having materially increased.

The balance of accounts in 1+ month arrears totalled £263.7 million (1,873 cases) compared to £203.3 million (1,534 cases) in H1 2022.



1. UK Finance data as at 31 March 2023

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

As at 30 June 2023, greater than three months arrears stood at £93.5 million (2022: £70.4 million). There has been no change in the proportion of balances that are more than 12 months in arrears at 0.03% (H1 2022: 0.03%).

Possessions

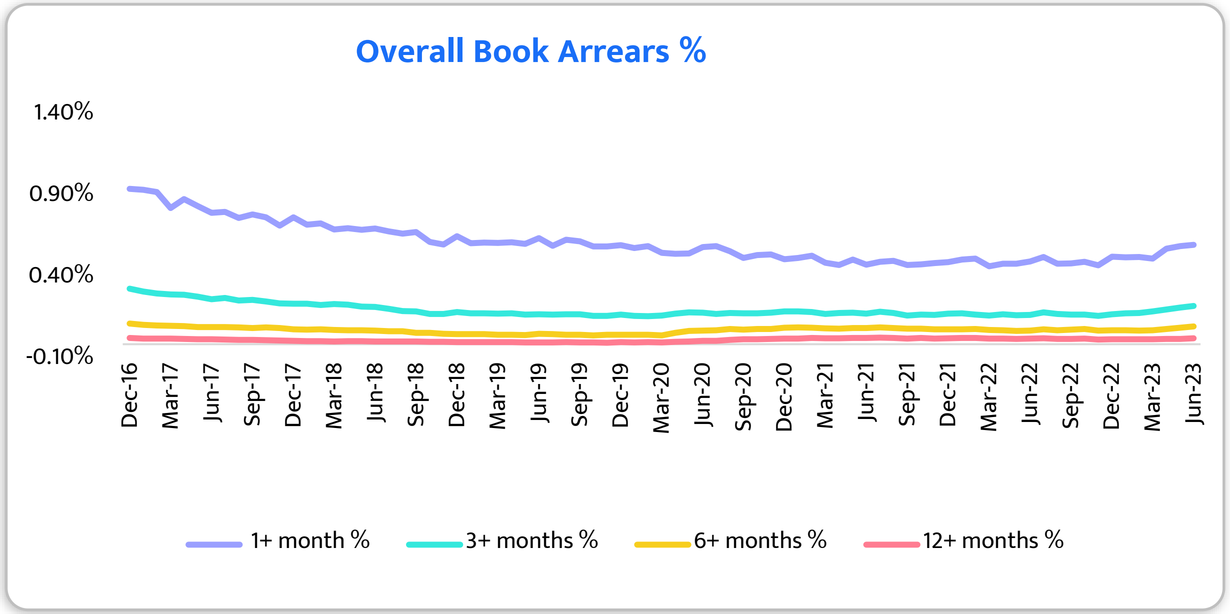
Our track record of lower risk lending has kept arrears and repossessions to a very low level compared to the industry average. At 30 June 2023, only 21 (27: 31 December 2022) properties were in possession (9 BTL, 7 Owner Occupied, 5 Equity Release).

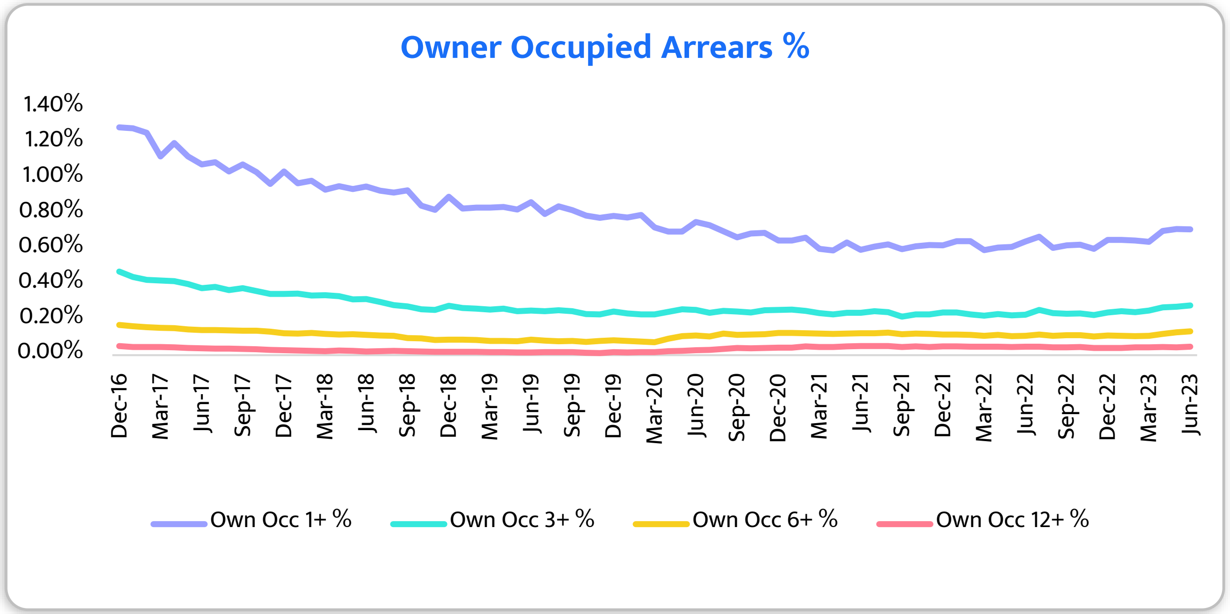
Average time from possession to sale was 203 days in H1 2023. The Society made a loss on 3 possession sales in H1 2023 and a surplus on 16 cases (a loss on 16% of cases and a surplus on 84% of cases) with an average loss amount of £33k. This compares to 185 days and an average loss of £50k pre-covid.

Arrears Capitalisation minimal

Capitalisation of arrears is only used where we have exhausted other options to regularise an account and, as a result, only 3 cases (2022: 2 cases) had arrears capitalised as at 30 June 2023.

Arrears over time…

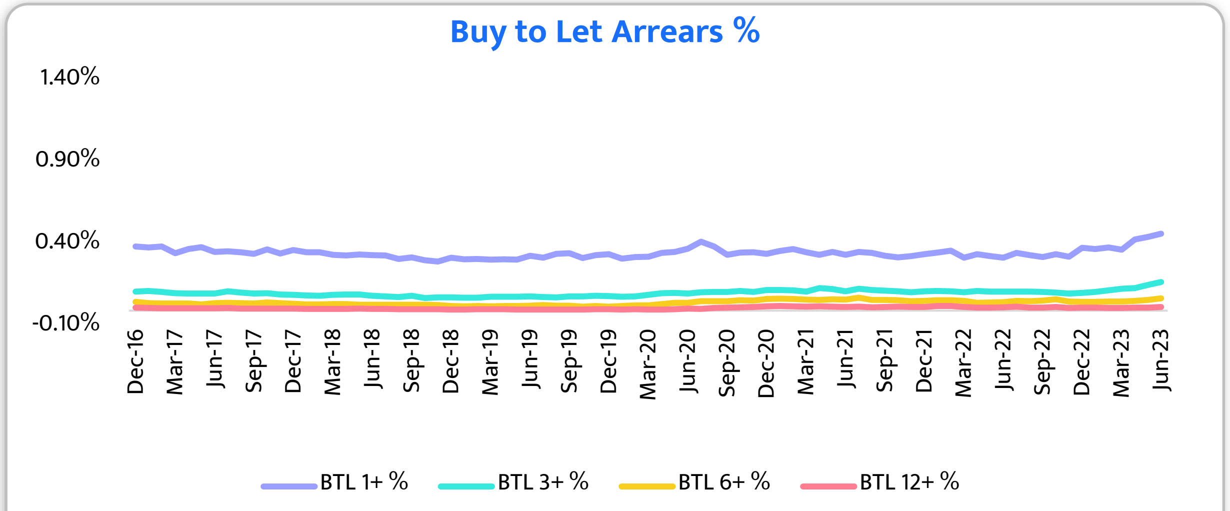




The Society has seen an increase in Buy to Let arrears levels over the last few months and while some of this is inevitably the result of the increasing cost of living impacting both landlords and tenants, there has not at this stage been a significant increase in arrears cases for customers maturing off fixed rate deals.

During H1 2023 the Society conducted an exercise with new BTL arrears cases to look for any trends in the reasons for BTL customers entering arrears, this exercise did not highlight any consistent trends but notably, some landlords stated tenant issues (either Voids or missed rental payments) were the cause of the arrears.

Over three quarters of our 3+ BTL arrears cases have an indexed LTV below 65%, with just 7 accounts (£940k) having indexed LTVs above 75%. We monitor ourselves using an external benchmarking group to track performance against other lenders and this data shows that our 1-3 and 3+ BTL arrears levels continue to outperform our peers.



Proactively helping our members

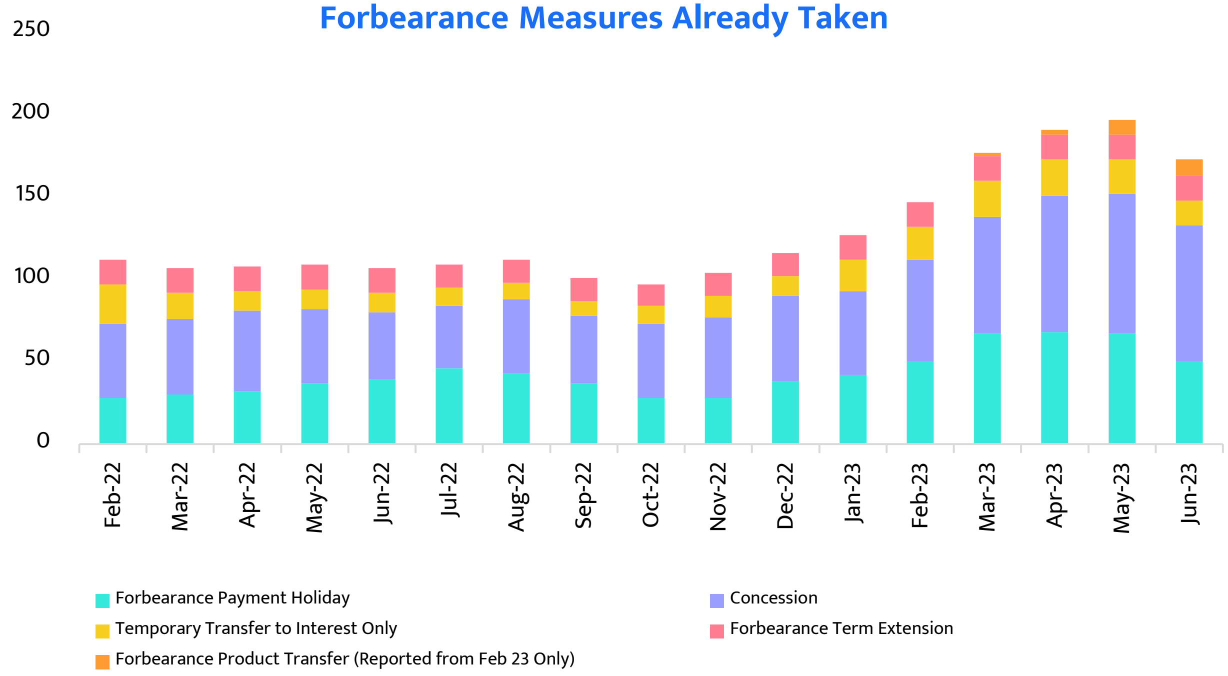
Putting Members First, now and into the future

Mortgage Charter

The Society signed up to the mortgage charter in June 2023 to help support customers during the cost of living crisis. The main initiatives in the charter are:

- Anyone worried about their mortgage repayments can contact their lender for help and guidance, without any impact on their credit file.
- Support will be available for customers who are up-to-date with payments to switch to a new mortgage deal at the end of their existing fixed rate deal without another affordability check.
- Lenders will provide well-timed information to help customers plan ahead should their current rate be due to end.
- Lenders will offer tailored support for anyone struggling and deploy highly trained staff to help customers. This could mean extending their term to reduce their payments, offering a switch to interest only payments, but also a range of other options like a temporary payment deferral or part interest-part repayment. The right option will depend on the customer's circumstances.

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.

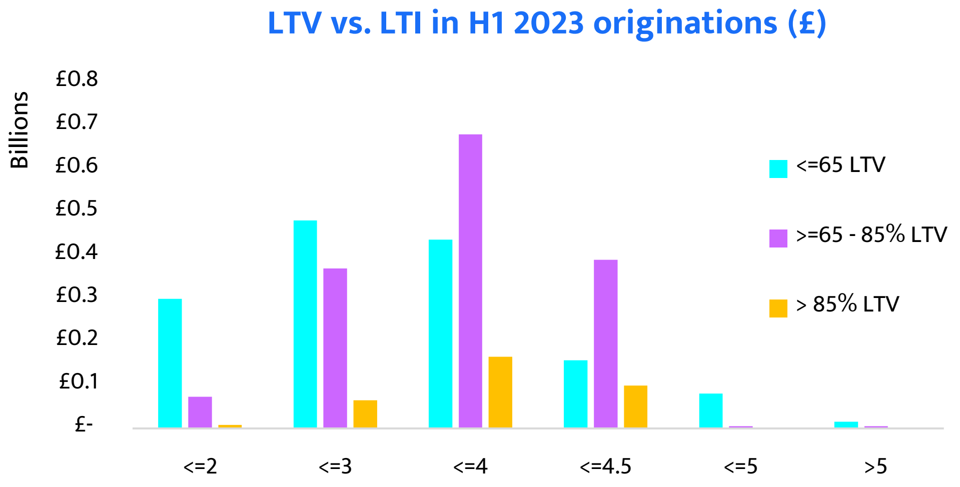


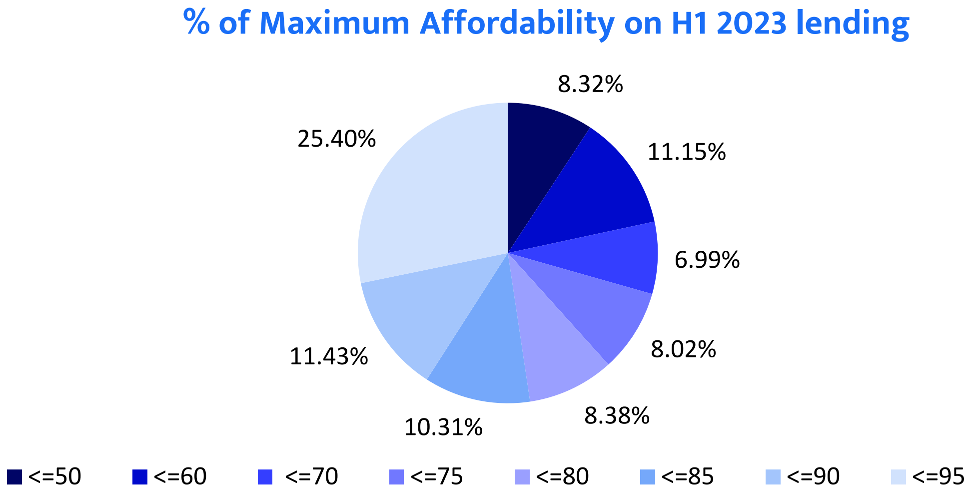
Only a very small number have needed any additional help to date.

This proactive approach and the extensive forbearance arrangements already in place have been further underlined by signing up to the Government's Mortgage Charter Initiative.

Spotlight on owner-occupied

Affordability remains strong and stresses in excess of 8%





Affordability continues to be assessed using both an affordability model and loan to income ratios. A key element of the affordability model is the stress rate applied for all applications. This has increased to 8.24% from 7.24% in August 2022 for standard owner occupied mortgages.

The Society currently only uses one stress rate and there is no differentiation between transaction types.

Prior to the mini budget in September 2022, circa two thirds of mortgage completions were restricted by LTI ratios as opposed to the affordability model. On lending in 2023, this has flipped so that one third of mortgage completions are restricted by LTI ratios.

The average rate of loan amount vs maximum loan amount was 79.7% for H1 23 lending.

Approximately 44.5% of completions were for lending amounts <=80% of the maximum loan amount.

Analysis by LTI (loan to Income) shows that only 3.2% 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 low arrears

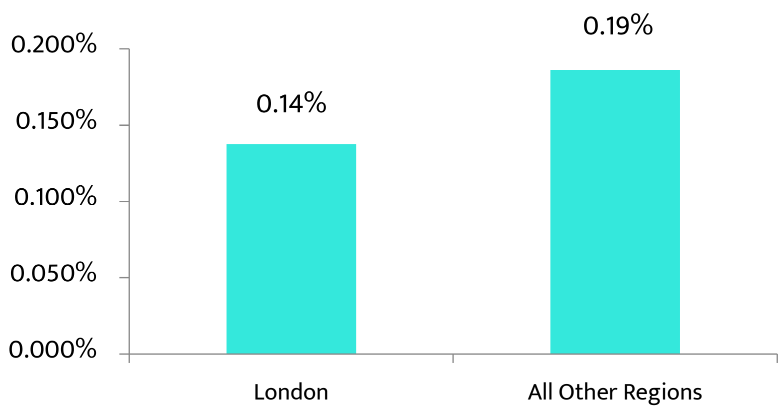
Prudent assumptions regarding rental voids, rent increases etc. are included.

Concentration risk for portfolio landlords is low because the majority of our BTL borrowers have 1 property (85%). With over 97% of BTL borrowers having less than four properties.

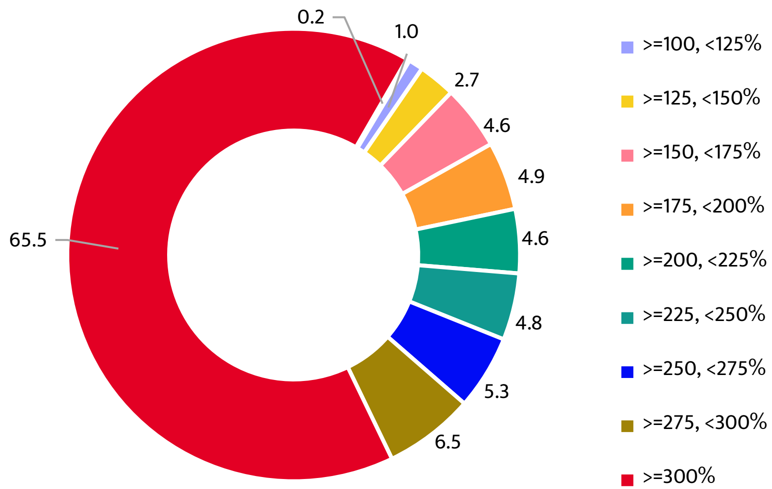
Losses and impairments have been very low. On circa £35.2bn of lending granted since 2010 we have only seen £111k of losses. There are only 9 buy-to-let properties in possession as at 30 June 2023, from a book of c.130,000.

The Society's actual average interest coverage ratio at half year 2023 using a 6.5% interest rate is 161.43% and 209.86% at 5% stress rate. At a stress rate of 7.5%, 58% are below 125% ICR.

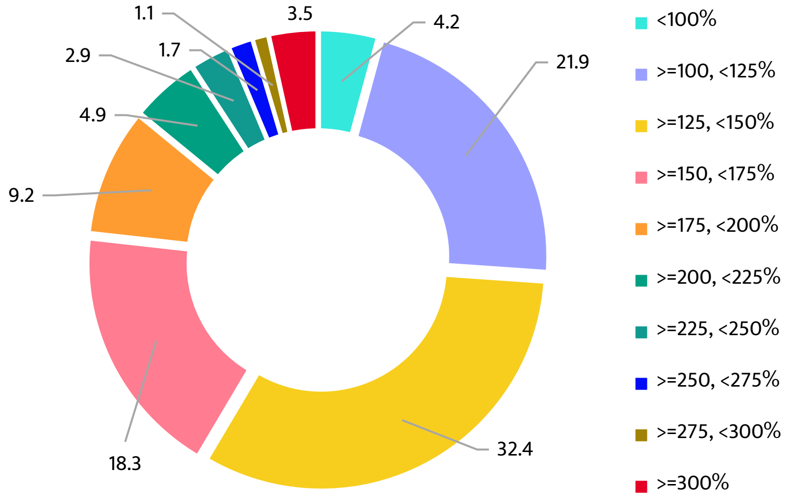
Buy to let 3+ Arrears by region Portfolio Average 0.18%



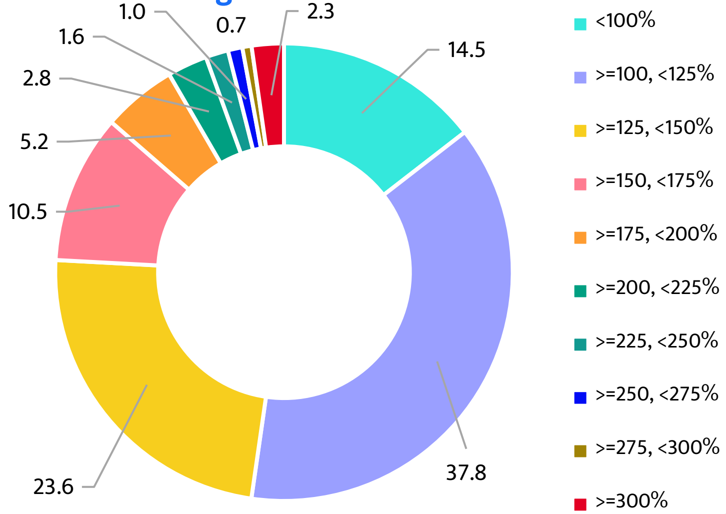
Interest Coverage Ratio 30 June 2023



Interest Coverage Ratio at 6.5% Stress Rate[2]



Interest Coverage Ratio at 7.5% Stress Rate[2]



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

Expected Credit Losses

Performance of our mortgage book remains strong

As at 30 June 2023 Indexed loan to value	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
<50%	19,970.1	643.5	115.3	(1.7)	20,727.2
50% to 65%	13,537.7	2,125.6	65.8	(9.2)	15,719.9
65% to 75%	4,760.3	2,353.8	29.7	(12.3)	7,131.5
75% to 85%	2,550.3	910.2	9.2	(10.6)	3,459.1
85% to 90%	753.9	245.5	1..4	(5.0)	995.8
90% to 95%	560.3	87.2	1.0	(2.4)	646.1
95% to 100%	136.0	17.2	0.6	(0.7)	153.1
> 100%	0.4	0.4	2.0	(1.3)	1.5
Unsecured loans	9.7	1.3	0.3	(0.6)	10.7
Mortgage pipeline	-	-	-	(0.7)	(0.7)
Other[1]	-	-	-	(2.1)	(2.1)
Total HY 2023	**42,278.7**	**6,384.7**	**225.3**	**(46.6)**	**48,842.1**
% HY 2023	**86.6%**	**13.1%**	**0.46%**	**0.10%**	**100%**
Total HY 2022	**43,266.6**	**3,190.9**	**188.0**	**(21.2)**	**46,624.3**
% HY 2022	**92.7%**	**6.9%**	**0.41%**	**0.04%**	**100%**

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.
We remain cautious in our approach to provisions for expected credit losses, with a charge of £11 million recognised in the period.

The performance of our mortgage book has remained strong, despite the backdrop of a worsening economic outlook with rising interest rates, house price concerns, and stubborn levels of high inflation presiding during the period.

The Society has updated its economic scenarios to account for this, which has impacted its Expected Credit Losses (ECLs) recognised in the period.

As a result of this the ECL provision has increased to £47 million (31 December 2022: £36 million) reflecting £3 million due to worsening economic scenarios and a £8 million increase in the cost of living post model adjustment (PMA).

Overall a charge of £11 million is recognised in the Income Statement (30 June 2022: charge of £2 million). Of the total expected credit loss provision, £28 million (31 December 2022: £19 million) relates to PMAs where core models do not fully reflect the risk of expected credit loss given the market environment.

The ECL provision now equates to 0.10% of the overall mortgage book (31 December 2022: 0.07%), which is reflective of the more challenging credit outlook.

[1] Other includes expected credit losses which are not directly attributable to underlying accounts and therefore are not allocated across loan to value bandings.

Expected Credit Losses

Key economic assumptions as at 30 June 2023

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[1]	2023 %	2024 %	2025 %	2026 %	2027 %	Peak to trough %	Range %	Average to 31 Dec 2027 %[2]
Base 55%	Unemployment	4.3	4.7	4.7	4.7	4.6	0.7	4.0 – 4.7	4.6
	HPI	(6.1)	(3.0)	0.0	2.0	2.5	0.1	(8.9 – (1.0)	(1.1)
	GDP	(0.1)	1.0	1.5	1.5	1.5	0.1	(0.1)– 5.5	1.2
	Base Rate	5.8	5.0	4.3	3.8	3.8	2.0	3.75 – 5.75	4.6
Downside 25%	Unemployment	6.5	6.8	6.5	6.3	6.0	2.4	4.4 – 6.8	6.3
	HPI	(7.6)	(9.5)	(4.5)	0.0	3.0	0.2	(20.1) – (1.3)	(4.2)
	GDP	(2.6)	0.0	1.3	1.3	1.4	0.0	(2.6) – 1.4	0.3
	Base Rate	6.3	6.3	6.3	6.3	6.0	1..3	5.00 – 6.25	6.1
Severe Downside 10%	Unemployment	5.2	8.5	8.0	7.4	6.8	4.4	4.01– 8.5	7.2
	HPI	(3.6)	(14.1)	(16.4)	4.3	6.8	0.3	(31.0) – (0.1)	(5.6)
	GDP	(1.5)	(3.0)	1.2	1.2	1.2	0.00	(5.0) – (0.1)	(0.2)
	Base Rate	6.5	7.5	6.8	6.0	5.3	2.5	5.00 – 7.5	6.5
Upside 10%	Unemployment	3.9	3.9	3.9	3.9	3.9	0.0	3.9 – 3.9	3.9
	HPI	1.0	2.5	3.5	4.0	4.0	0.2	0.2 – 15.9	3.3
	GDP	1.5	3.3	3.5	3.5	3.8	0.2	0.2 – 16.5	3.4
	Base Rate	5.3	4.8	4.0	3.8	3.5	1.8	3.50 – 5.25	4.4

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.

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 £11.0 million, or 24% (31 December 2022: £8.1 million, 23%) compared to the reported provision.

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

- Base – decrease by £11 million, or 24.0% (FY 2022: £8.1 million, 22.8%)
- Downside – increase by £14.3 million, or 31.0% (FY 2022: £8.8 million or 24.8%)
- Severe Downside – increase by £33.7 million, or 72.0% (FY 2022: £26.0 million or 73.2%)
- Upside – decrease by £28.9 1million, or 62.0% (FY 2022: £27.5 million or 77.5%)

As at 30 June 2023, a decrease to the annual HPI assumption by 10% combined with an increase in the unemployment rate assumption of 10% throughout the forecast period has the impact of increasing the ECL provision by £32.6 million (31 December 2022: £24.9 million) to £79.2 million (31 December 2022: £60.4 million).

[1] Unemployment and Bank Rate are shown at the year-end rate; HPI change and GDP change are for the six months ending 31 December 2023, and 12 months ending 31 December 2024 to 2027.
[2] HPI change and GDP change average to 31 December 2027 are shown as the annual compound growth rates.

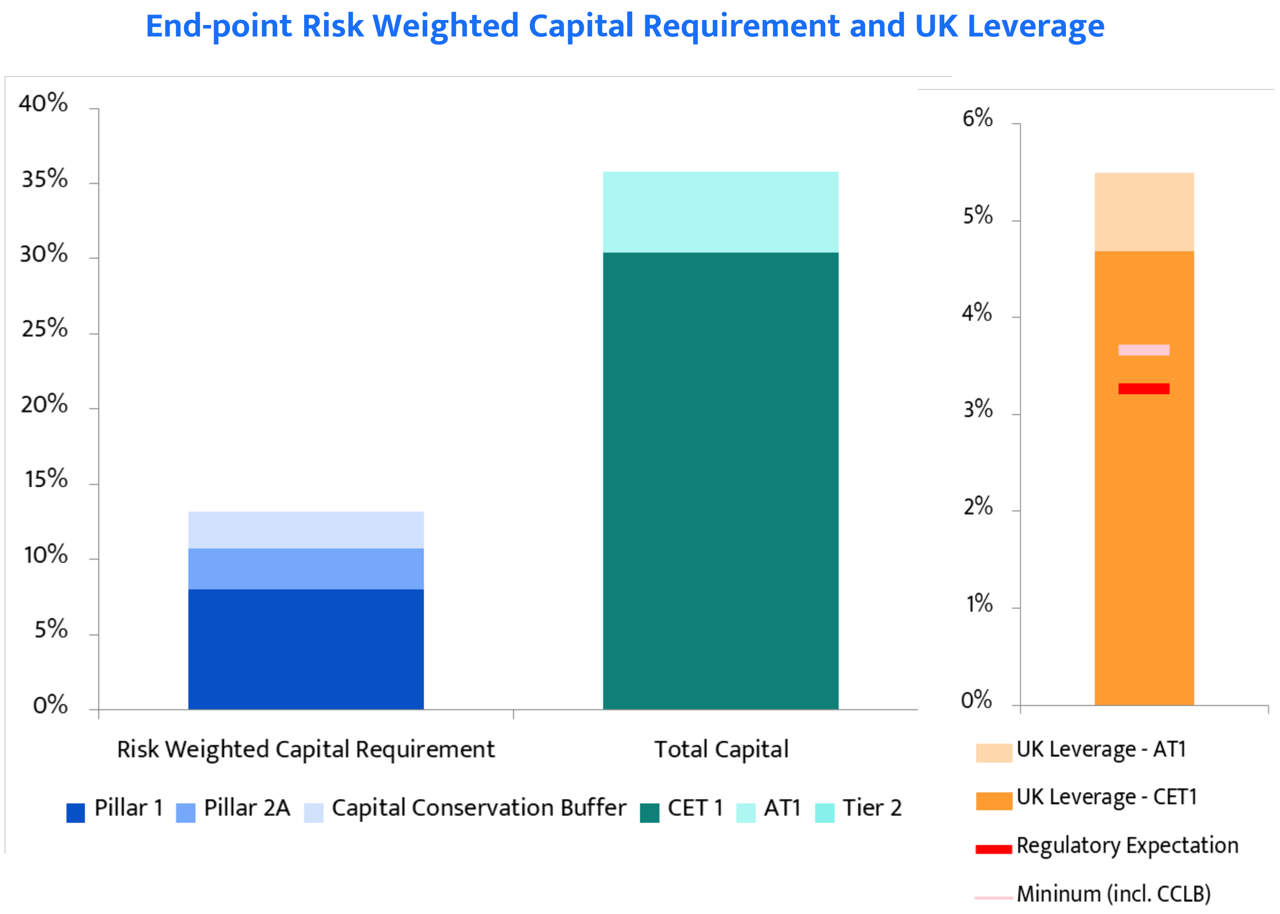
Capital

Capital strength keeping our members and investors safe

	2017	2018	2019	2020	2021	HY 2022	FY 2022	HY 2023
CET1 Ratio	33.4%	33.9%	32.0%	33.0%	36.2%	29.9%	27.4%	30.4%
Total Capital Ratio	44.3%	44.2%	39.9%	40.6%	44.1%	36.2%	32.7%	35.7%
UK Leverage Ratio	4.6%	4.6%	4.4%	4.6%	4.8%	5.0%	5.2%	5.5%

Capital ratios

Capital levels have grown in 2023



Regulatory Capital

The Society's CET1 ratio increased to 30.4% as at Jun-23 from 27.4% at Dec-22, through a combination of strong profitability, moderate growth, and updates to the IRB PMA. The Society has submitted further enhancements to PRA and expect feedback in H2 2023.

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 Jun-23.

Coventry's total capital ratio is 35.8% compared to an RWA-based capital requirement of 14.2% (TCR + Capital Conservation Buffer 2.5% + Countercyclical Buffer 1%) giving a 21.6% buffer over TCR on RWA basis.

Leverage

The UK Leverage Ratio will not become binding until the Society achieves £50bn of retail deposits but, at 5.5%, the UK Leverage Ratio is comfortably above the 3.25% minimum level, including buffers this was 3.7%. The Society 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).

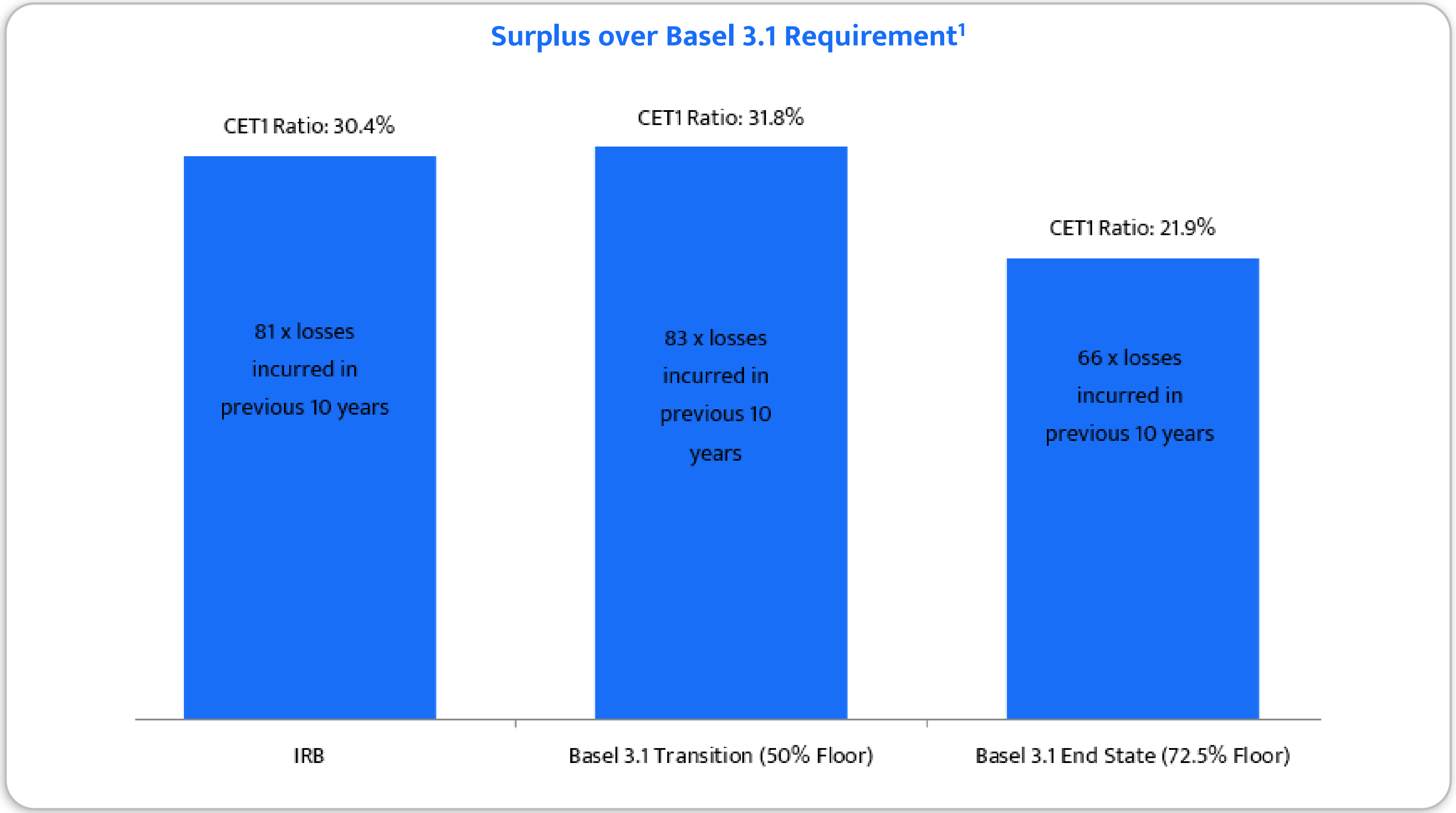
PRA have stayed largely true to BCBS, therefore the Society's long-standing key assumptions hold true.

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. 31.8%.

End-state Basel 3.1 CET1 ratio at c. 21.9%, 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 66 times the actual credit losses experienced in the last 10 years, even after transition.



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

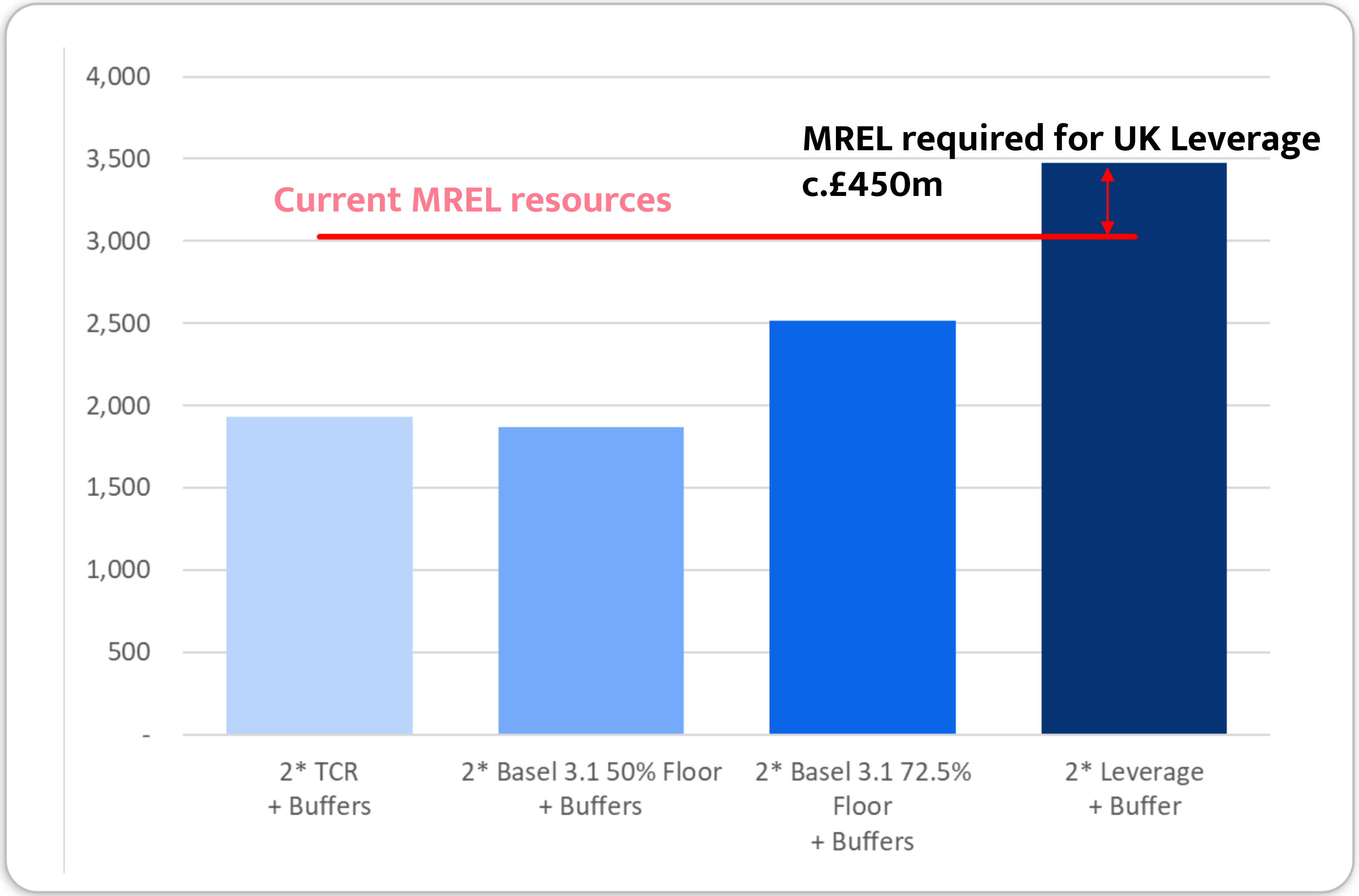
MREL issuance opportunistic until Leverage binding

MREL Current

The Society is currently a 'bail-in' firm, with a MREL requirement of twice the binding capital requirement from 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.£0.5bn in MREL funding (based on Jun-23 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	HY 2022	FY 2022	HY 2023
LCR	208%	202%	214%	179%	187%	206%	195%	263%
Loans / Deposits Ratio	115.8%	118.0%	116.5%	114.0%	116.9%	115.8%	113.5%	107.6%

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 30 June 2023 was 263% (H1 2022: 206%), significantly in excess of the regulatory minimum.

Loan to Deposit Ratio

The Loan to Deposit ratio was 107.6% reflecting the stable funding profile of the Society.

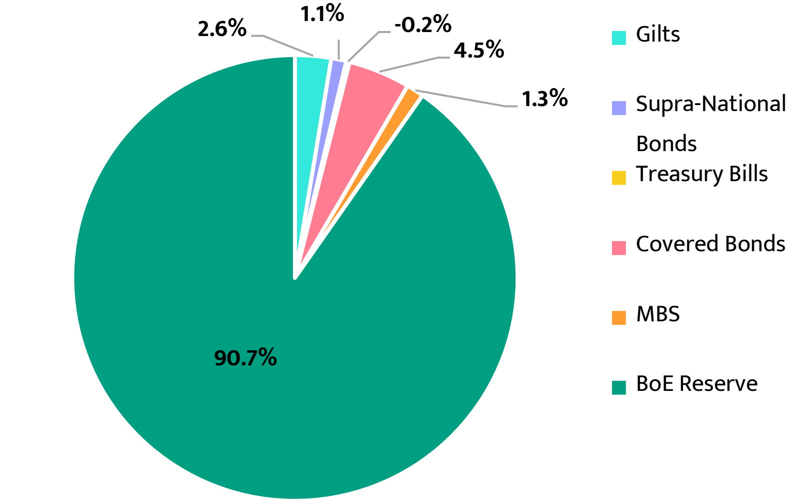
Liquid Assets

Liquid assets increased to £11.7 billion (FY 2022: £10.0 billion) as we maintained a prudent liquidity buffer. The majority of liquid assets 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.

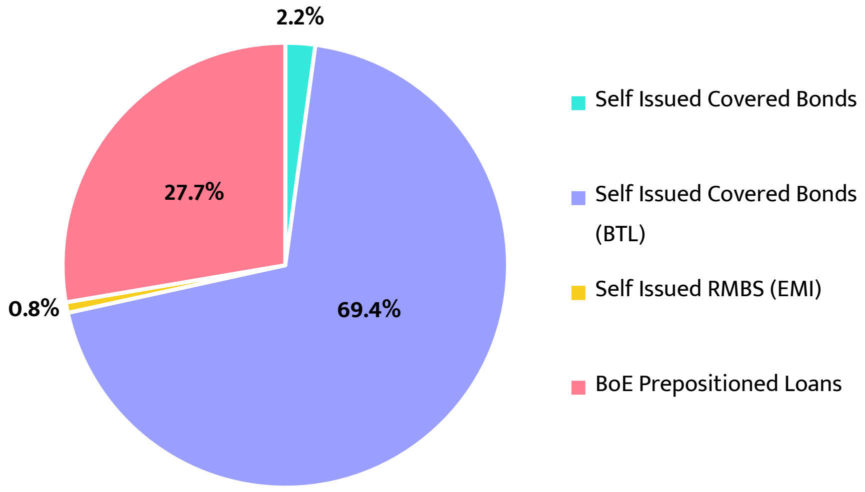
Net Stable Funding Ratio (NSFR)

The Society holds sufficient stable funding to meet the regulatory requirement of 100% NSFR. The NSFR was 143.41% as at 30 June 2023.

High Quality Liquid Assets - £9.9bn



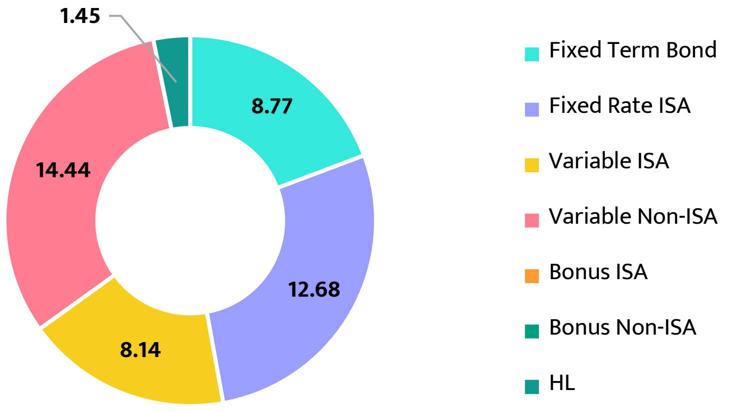
Contingent Liquidity - £5.8bn



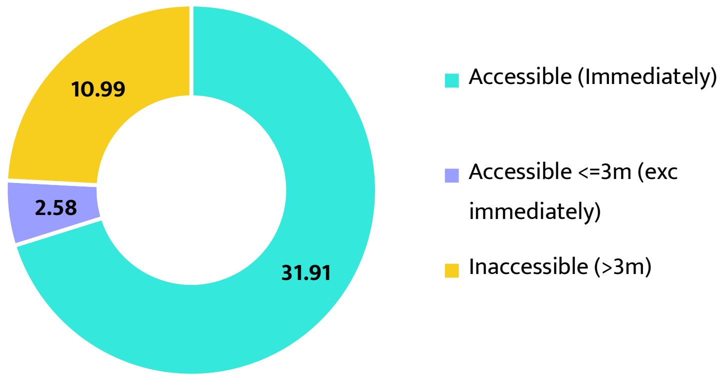
Strong Liquidity Portfolio

Predominantly funded by retail savings

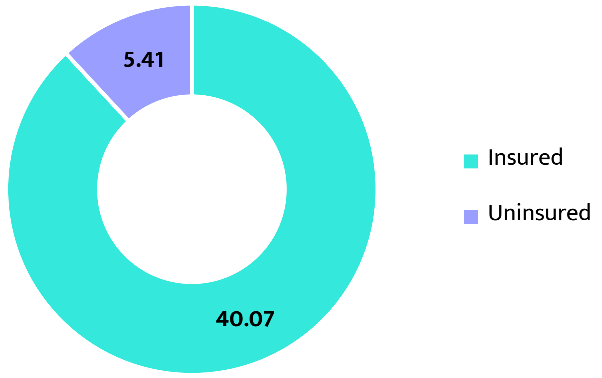
Customer deposit mix split by product type £bn



Customer deposits shown by access £bn



Deposits split by insured versus uninsured £bn



The Society continues to be predominantly funded by retail savings, with balances of £45.5 billion at 30 June 2023 (FY 2022: £42.3 billion) and growth of £3.2 billion in the first six months of the year, which is reflective of our focus on offering very competitive savings propositions which have proved very popular with savers.

The Society’s UK leverage ratio increased to 5.5% due to the increase in retained profits, and remains above the current regulatory minima of 3.25%.

The UK leverage ratio framework will apply to the Society at the point retail deposits exceed £50 billion.

Funding Mix

A diverse and stable funding base

Lending is primarily funded through retail deposits.

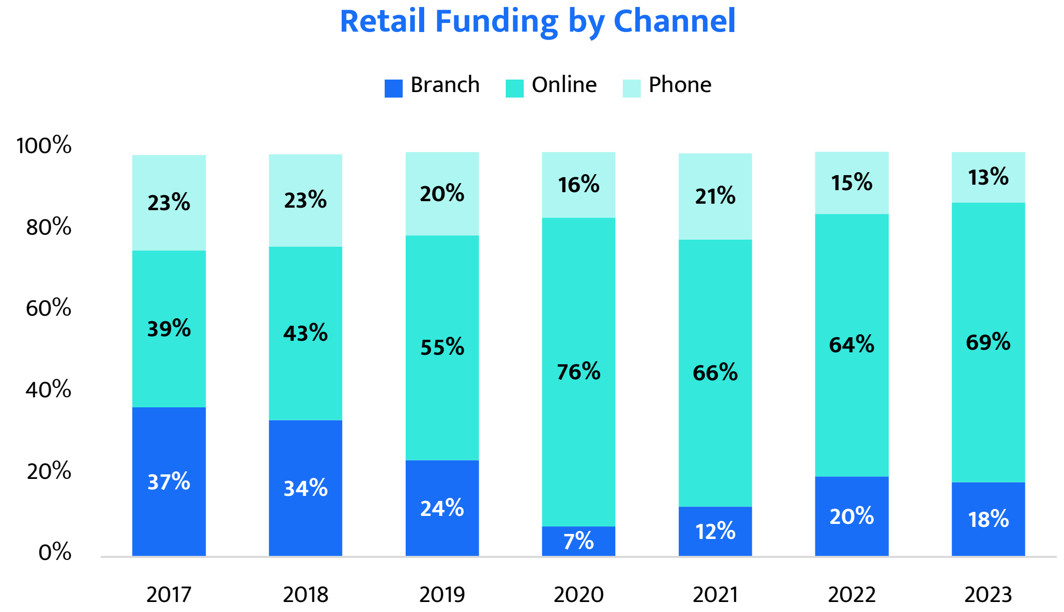
Our overall savings balances by £3.2 billion (7.5%) to £45.5 billion (H1 2022 1.0%).

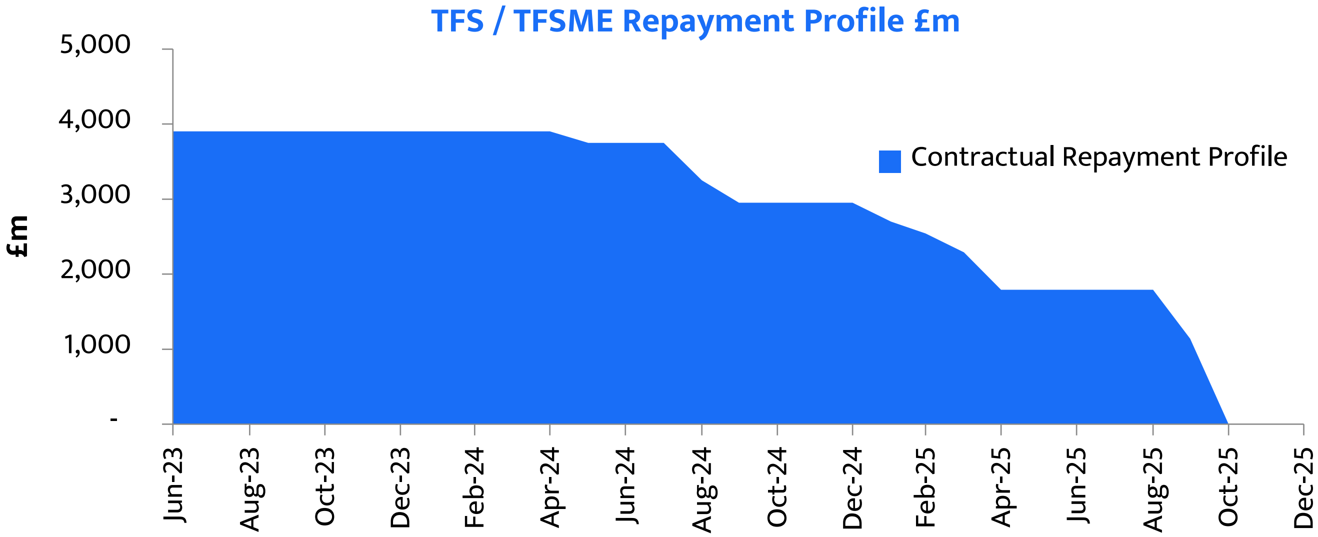
During the first half of 2023 our average savings rate increased by 1.8% to 2.7%, when compared to the first half of 2022, and was around 0.8% higher than the market average.

Our focus remains on delivering excellent value to our savings members and this is evidenced by a 7.5% increase in deposits and a 65% increase in the member value which amounts to £163 million (30 June 2022: £99m).

Interest payable on retail savings increased by £383 million following the base rate rises. Our average pass through rate on savings for base rate increases in the six month period was 49%. Throughout the period, the Society continued to pay above average savings rates, returning £163 million (H1 2022: £99 million) in member value compared to market average rates.

The Society previously accessed the Bank of England's Term Funding Schemes with £5.25 billion drawn. Repayments of £1.35 billion have been made in the period and the outstanding drawings at 30 June 2023 are £3.9 billion (31 December 2022: £5.25 billion).





Wholesale funding franchise

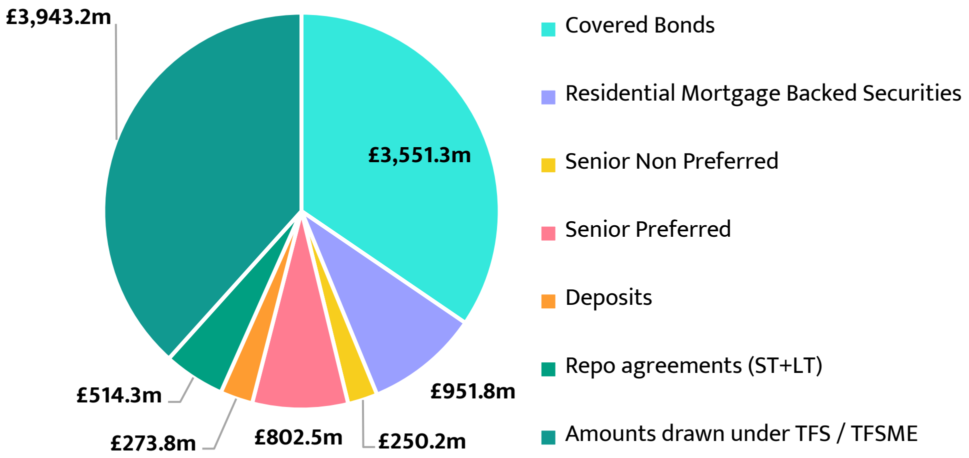
Strong and diversified funding base with access to a range of wholesale funding markets

- 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.
- Wholesale funding in the period has remained stable at £12.4 billion (H1 2022: £12.4 billion).
- The Society remains committed to being a regular benchmark issuer in all formats.

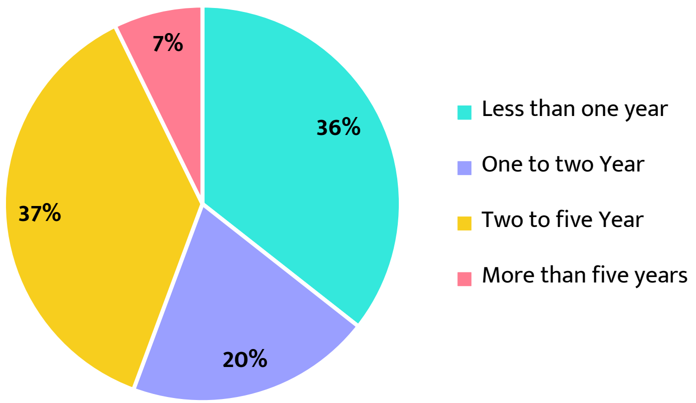
The Society is a programmatic issuer with four different programmes:

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

Wholesale Funding Outstanding at 30 June 2023 £12.4bn

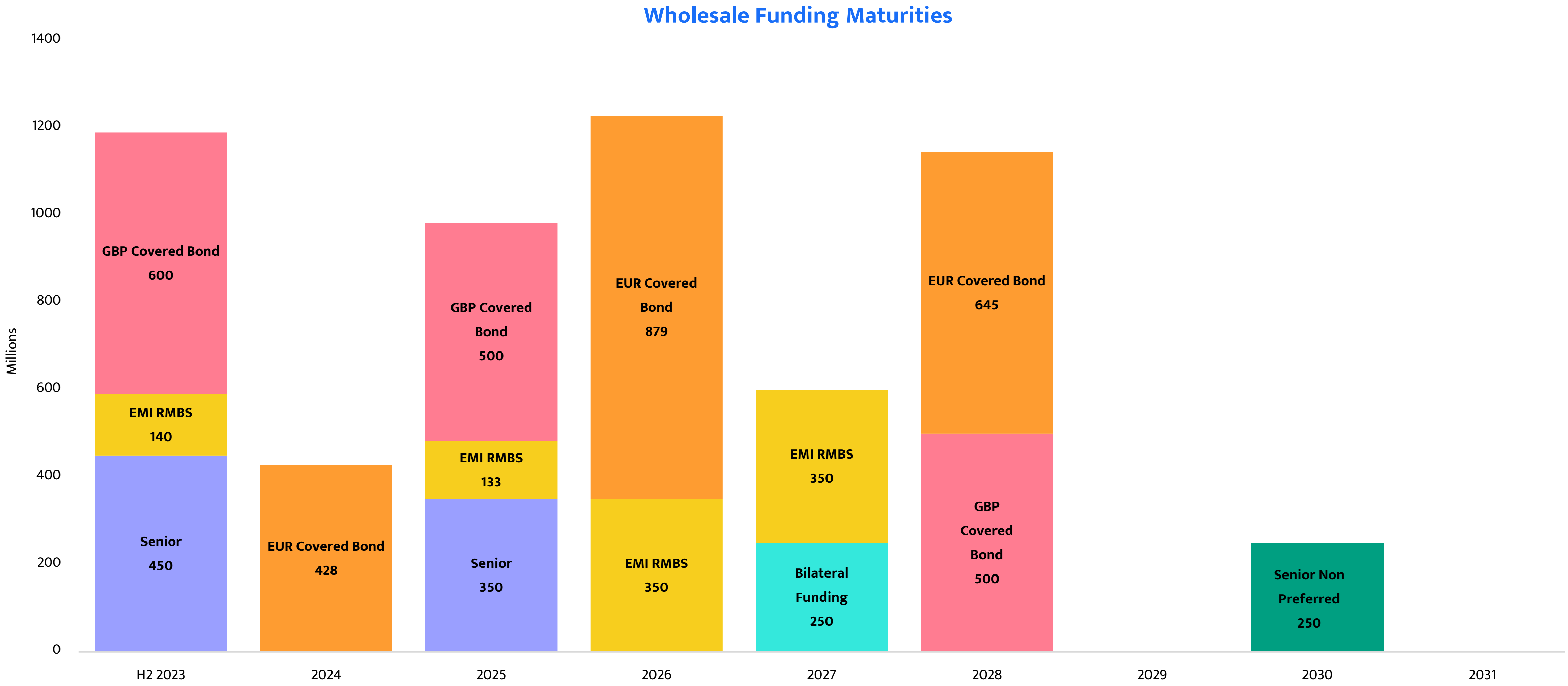


Wholesale Funding Profile %



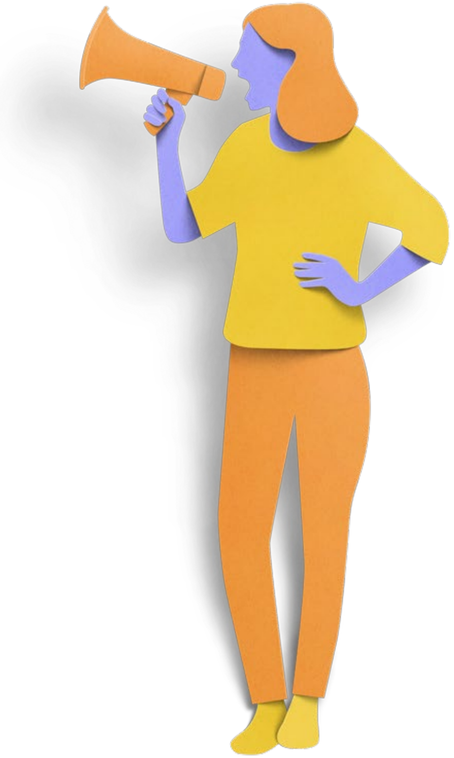
Wholesale funding profile

Diversification, enabling growth and lowering risk



ESG Priorities and Achievements

Strategy focuses on People, Planet and Prosperity



2023 Half Year Highlights

We have published our Net Zero Transition plan, to meet our 2040 ambition.

We're accelerating our work to remove all of our emissions from our own operations, working with our supplier and customers to reduce their emissions too.

Most importantly our plan is consistent with our commitment to being All together, better, where we commit to doing more for members and society, together making things better for everyone.

Our Milestones

2021-2022

Carbon Neutral for our own operations from 2021.

100% renewable energy procured for our operations from 2021 onwards.

2023

Continued installation of low carbon technology at our sites.

The launch of our carbon calculator app for our customers to use for free from 2023.

2025-2030

Our gas consumption will be phased out by or before 2030.

Ambition to reduce our supply chain emissions by between 5%-25% by 2030.

All of our company car fleet will be 100% electric by or before 2030.

Become Net Zero for Scopes 1, 2 and partial 3 by 2030.

Seek to invest further in renewable energy for our energy demand by or before 2030.

By 2025 we aim to reduce our Scope 1, 2 and partial 3 emissions by 42%*

By 2030, we aim to reduce our Scope 1, 2 and partial 3 emissions by 69%*

*Excludes the mortgage book emissions, from a baseline of 2021

2040

Improving our customers' home energy efficiency, with an ambition to improve their energy performance certificate (EPC) ratings to an average of C or above.

We will continue to evolve our plans, aligning with relevant industry and sector reviews. We will adapt as further science, data and/or reviews become available, e.g. the Transition Plan Taskforce (TPT), Financial Conduct Authority (FCA), Glasgow Financial Alliance for Net Zero (GFANZ), International Sustainability Standards Board (ISSB) and Science Based Targets (SBTi)

We will work closely in line with UK Net Zero plans, specifically regulation and innovation (including some of our own planned products and support mechanisms) for domestic homes to reduce the significant emissions related to the Society and its borrowers.

By 2040, we have our ambition to reach

Net Zero

2023 Half Year Highlights

We’re the UK’s first B Corp certified Building Society

We’re proud to have become the first Building Society in the UK to be certified as a B Corp. It shows that, even after 138 years, we’re still leading the way in doing things the right way.

As a mutual, we’ve always acted in the wider interest, ensuring that the work we do benefits the many, not the few. Becoming a certified B Corp is the latest milestone on our journey to a future that’s All together, better.

Here’s why being a B Corp matters…

To our customers

When you borrow or save with us, you’re choosing more than the right rate. You’re choosing a business that seeks to be a force for good to benefit people, communities and the environment.

To our communities

B Corps distinguish themselves by the role they play in their communities, taking collective action to address society's most critical challenges. Through the initiatives we create and the projects we support, we’ll continue to make a positive impact to the lives of people around us.

To our colleagues

When you’re building something bigger than a career, being part of a B Corp feels like business as usual. So we’ll always keep supporting each other, engaged in our mission to make a difference and create lasting, sustainable success.

To our environment

Becoming a certified B Corp means that we remain committed to protect the environment and preserve its resources. Our own operations have been carbon neutral since 2021 and we’re on a path to being entirely Net Zero by 2040.

2023 Half Year Highlights

We are ranked 13th through Great Places to work

Great Place To Work®
Certified
OCT 2022-OCT 2023
UK

Great Place to Work revealed that we're ranked 15 for Women out of the 55 Super Large organisations on the list
and
we're ranked 22nd for wellbeing out of the 38 Super Large organisations on the list.

Best Workplaces™ for Women
Great Place To Work®
UK 2023

Best Workplaces™ For Wellbeing
Super Large Organisations
Great Place To Work®
UK 2022

centre point give homeless young people a future

Centrepoint partnership launched in March 2023, and we have already donated over £300k.

We have had over a 1,000 entries into the Coventry Young Writers of the Year competition and we have recruited over 30 young people as Summer interns including 13 from our partner schools.

An inclusive and inspiring workplace and value proposition

We've signed up to Progress Together to improve social mobility

Progress Together

Our external associations

Our external associations reflect our ambition to deliver sustainable financial services through our purpose, the products and services we offer, and the way we operate our business. We are proud to have signed up with key signatories that align to our ambitions, and are pleased to have achieved Fair Tax Mark and ISO 14064-1 accreditations. We also align to the Task Force on Climate-related disclosures (TCFD), with a section in our Annual Report & Accounts which describes our understanding of the risks and opportunities of climate change. Our sustainability performance is reported in accordance with industry-leading ESG frameworks and is underpinned by our memberships, as highlighted below. Further information on each of these can be found by clicking onto the icons.

Signatories

UNEP Finance Initiative – Principles for Responsible Banking
Race at Work Charter
The Climate Pledge
Menopause Friendly
United Nations Global Compact

Memberships/Accreditations

GRI
TCFD – Task Force on Climate-related Financial Disclosures
Business for Societal Impact – Corporate Citizenship
Sustainable Development Goals

ESG reporting frameworks

UN environment programme finance initiative
UKSIF – UK Sustainable Investment and Finance Association
Bankers for NetZero
Fair Tax
ISO
Business in the Community – The Prince's Responsible Business Network

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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	June 2023
Fitch	F1	A	A-	BB+	A-	Stable	June 2023

ESG Ratings	Score	Date
MSCI	A	January 2023
Moody's ESG	52/100	April 2021
ISS ESG	C, Prime	February 2022
Sustainalytics	17.3 Low Risk	February 2023

Appendix

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

Summary Financial Statements

Balance Sheet summary

	HY 30 Jun 2023 £m	HY 30 Jun 2022 £m
Assets		
Loans and advances to customers	48,849.4	46,642.7
Liquidity	11,736.3	8,543.2
Other	1,071.3	403.9
Total assets	**61,657.1**	**55,589.8**
Liabilities		
Retail funding	45,460.7	40,291.6
Wholesale funding	12,380.6	12,422.3
Subordinated liabilities and subscribed capital	57.0	56.9
Other	577.1	186.2
Total liabilities	**58,475.4**	**52,957.0**
Equity		
General reserve	2,437.5	2,121.7
Other equity instruments	415.0	415.0
Other	329.1	96.1
Total equity	**3,181.6**	**2,632.8**
Total liabilities and equity	**61,657.0**	**55,589.8**

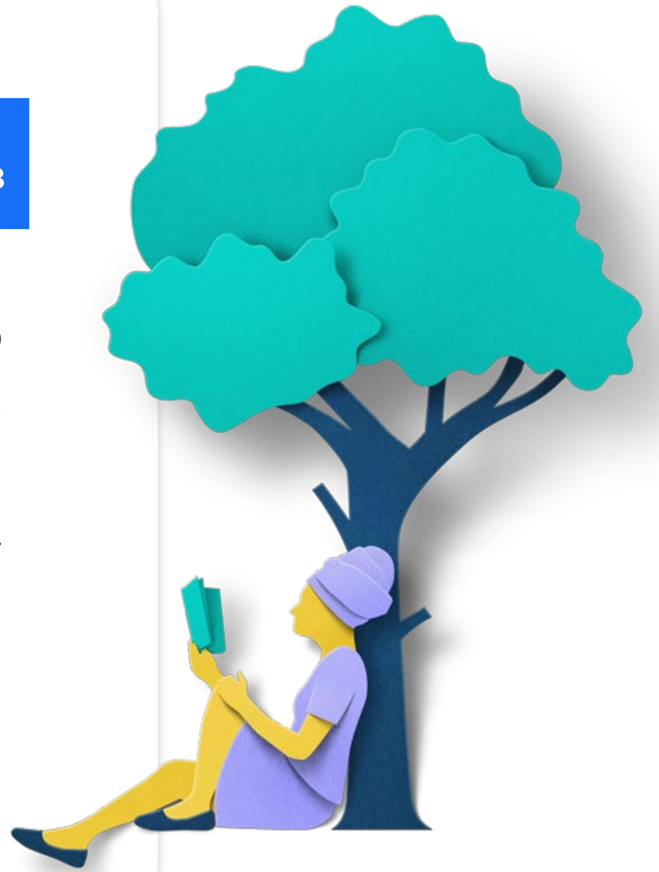
Income Statement summary

	HY 30 Jun 2023 £m	HY 30 Jun 2022 £m
Interest receivable	1,346.4	547.5
Interest payable	(942.5)	(243.3)
Net interest income	**403.9**	**304.2**
Other income	(2.0)	0.4
Gain/(loss) on derivatives and hedge accounting	24.6	(4.9)
Total income	**426.5**	**299.7**
Management expenses	(146.8)	(138.8)
Impairment Charge	(11.1)	(2.3)
Charitable donation to Poppy Appeal	-	(0.3)
Profit before tax	**268.6**	**158.3**

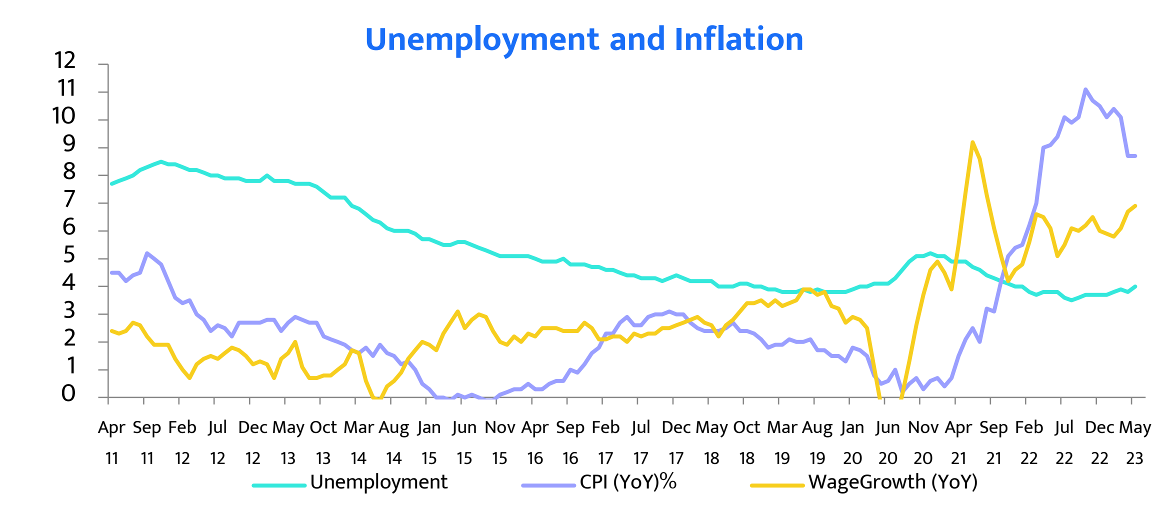
Financial strength

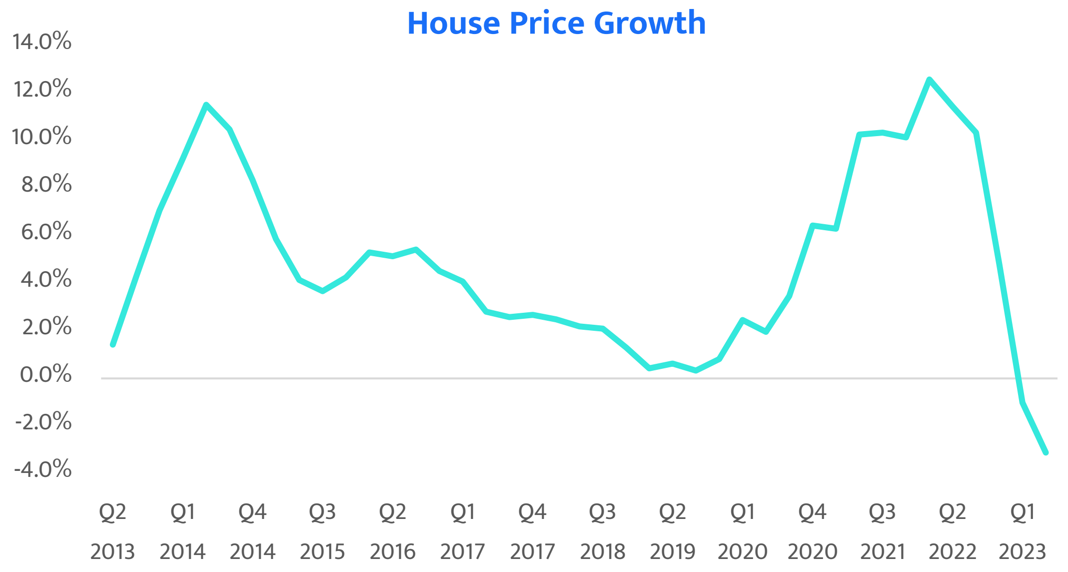
Key metrics remain robust

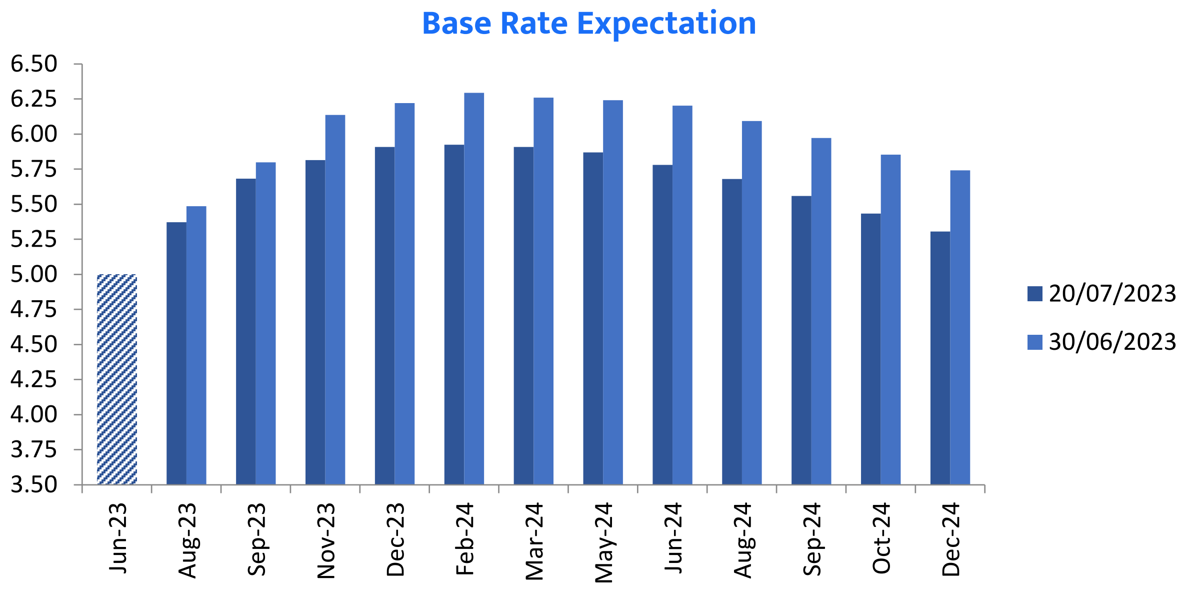
%	2017	2018	2019	2020	2021	HY 2022	2022	HY 2023
Net interest margin / mean assets	1.02	0.96	0.83	0.81	0.90	1.11	1.16	1.34
Cost/ mean total assets (including Investment)	0.42	0.50	0.48	0.49	0.50	0.50	0.52	0.49
Cost / income ratio (including Investment)	40.4	52.3	60.4	60.2	56.3	46.3	43.2	34.4
Mortgage assets growth	9.3	9.3	7.6	3.0	7.2	0.0	3.0	1.7
Common Equity Tier 1 ratio	33.4	33.9	32.0	33.0	36.2	29.9	27.4	30.4
UK Leverage Ratio	4.6	4.6	4.4	4.6	4.8	5.0	5.2	5.5
Liquidity Coverage Ratio (LCR)	208	202	214	179	187	206	195	263

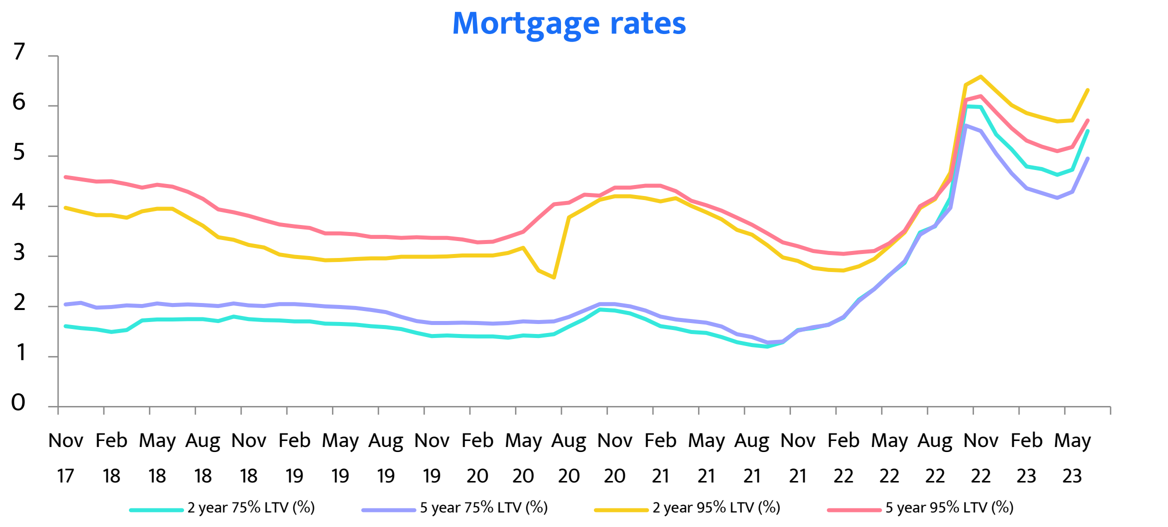


UK Economy









Source: ONS data

EPC Portfolio Ratings

Owner Occupied

	A	B	C	D	E	F	G
31 Dec[1] 2022	0.3%	8.6%	23.3%	43.8%	18.6%	4.5%	0.9%
30 June[1] 2023	0.3%	8.6%	23.4%	43.9%	18.5%	4.4%	0.9%
Change	-	-	0.1%	0.1%	(0.1%)	(0.1%)	-

Owner Occupied

	A	B	C	D	E	F	G
Current	0.3%	8.6%	23.4%	43.9%	18.5%	4.4%	0.9%
Potential	5.5%	47.6%	36.6%	7.7%	2.0%	0.4%	0.1%

BTL[2]

	A	B	C	D	E	F	G
31 Dec[1] 2022	0.1%	6.1%	31.7%	46.8%	14.3%	0.9%	0.2%
30 June[1] 2023	0.1%	6.2%	31.1%	46.6%	14.7%	1.1%	0.3%
Change	-	0.1%	(0.6%)	(0.2%)	0.4%	0.2%	0.1%

BTL[2]

	A	B	C	D	E	F	G
Current	0.1%	6.2%	31.1%	46.6%	14.7%	1.1%	0.3%
Potential	2.8%	53.2%	36.3%	6.7%	0.9%	0.2%	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.