Coventry Building Society

2021 Half year results

COVENTRY
Building Society

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Our Strategy – All together, better

Simple
- Simple and straightforward
- UK mortgages and savings
- Lower cost model
- Market share growth drives economies of scale

A People and Purpose Led mutual
- Putting customers at the heart of what we do
- Providing long term value to membership
- Helping people to own residential property and save for the future
- Inclusive, inspiring workplace
- Purpose led approach to business and the environment

Sustainable
- Protecting our members' money
- Improving cost efficiency
- Lower risk mortgage lending
- Sustainable capital, liquidity and profitability
- Long term planning horizon
- Trading for 136 years

Our four Strategic Elements

Simple, focussed business model

Our Purpose

We exist **to give people the power to be better off through life** to create a wider society that is fair, confident and resilient. Our purpose provides clarity around why we exist as an organisation and our responsibility to the needs of different stakeholders.

Our Belief

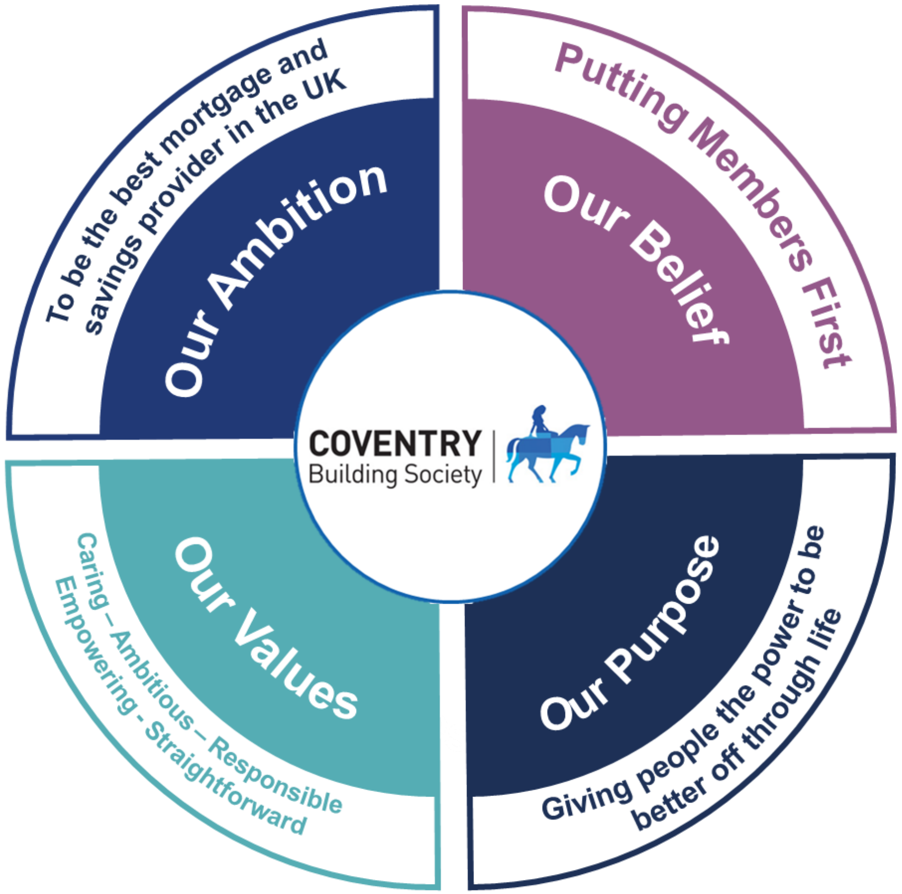
We believe that remaining an independent, customer owned mutual delivers the best outcomes for our Members and wider society. **Putting Members First** means considering the impact of our decisions and strategy for our current and future membership and has consistently led us to 'do the right thing' and outperform peers.

Our 'CARES' Values

Our people are **Caring, Ambitious, Responsible, Empowering and Straightforward** in our dealings with each other, our customers and other stakeholders as both a key driver of employee engagement and to sustain a strong culture.

Our Ambition

Our ambition is to be the **best mortgage and savings provider** in the UK by providing simple propositions, supported by exceptional customer service, distribution and access – All together, better.



Our performance highlights

All together, better, from the little things to the life-changing, we make it all add up

Better for savers

2.4%

Savings balances increased by £0.9bn (H1 2020: (2.2%))

- Net receipts in H1 2021 are £1.8bn higher than in 2020.
- We have plans to broaden our savings proposition to support more savers during the second half of the year.

£100m

Value returned to members (H1 2020: £103m[1])

- In the six months to April we delivered member value of £100m (30 June 2020: £103m[1]).
- Despite the reduction in savings rates, the Society paid interest to savers that was 0.53% higher than the market rate overall.
- We aim to retain only the profit we need to maintain capital levels and invest for the future.

Better for borrowers

5.5%

Mortgage Growth

- 8th largest lender in the UK, originating 3% of overall lending.
- Our mortgage growth rate of 5.5% for the six months to 30 June 2021 is over twice the rate of growth seen in the market.
- During the first six months of the year, we grew our mortgage book by £2.4bn (30 June 2020: £0.8bn).

0.18%

3m+ Arrears inc possession

- The Society granted 39,000 payment holidays to customers during 2020, with less than 400 accounts with active payment holidays at 30 June 2021.
- Only 23 properties were in possession, out of a total of c.303k mortgages.
- Performance and the overall economic outlook has improved releasing £17 million of ECLs.

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts and excluding current accounts, for the latest available data as at 31 May 2021. This measure has been updated in the period to use CACI source data for the market rate, previous source Bank of England adjusted average rates. If H1 2020 had been calculated on an equivalent basis, Member Value would have been reported as £105 million.

Our performance highlights

Sustainable financial performance, ensuring we remain a safe and secure place to save and borrow

Capital

35.2%

Common Equity Tier 1

- We retain enough profit to maintain our capital strength and ensure we remain a safe place for our members to save and borrow. The Society has one of the highest CET1 ratios of the top 20 lenders.
- The modified leverage ratio on a UK basis at 30 June 2021 is 4.7%, comfortably above the 3.25% minimum level.
- CET1 ratio at 35.2% (2020:33%), significantly above the regulatory minimum of 10.7%.

Liquidity & Funding

174%

Liquidity Coverage Ratio

- Liquidity considerably above the regulatory requirement with an LCR of 174% at 30 June 2021.
- Multi-award winning wholesale franchise, receiving EMEA Structured Finance Issue of the Year from IFR and ABS Overall Deal of Year from Global Capital.
- Continued issuance in H1 2021, with inaugural Senior Non Preferred and EMI RMBS issuance.
- TFSME scheme drawings of £3.5bn as at 30 June 2021. Total drawings of £5.2bn.

Profitability

£124m

Profit before tax

- Our profit before tax of £124 million for the six months to 30 June 2021 compares to £22 million reported in the same period of 2020.
- We continue to focus on the long term strength and security of your Society.
- Commitment to giving member value.

Our performance highlights

Maintain focus on cost and service, and broaden our social purpose

Service

+73 NPS

Service delivered through great colleagues

- Our NPS remains high compared to the industry average.
- Award winning levels of customer satisfaction and service including our Which? Recommended Mortgage Provider Status and our Gold Ribbons for customer experience for both savings and mortgages from Fairer Finance.
- Ranked 8th in the Best Companies Top 25 big companies to work for.

ESG

ON-TRACK

Net Zero Carbon Scope 1 & 2 by end of 2021

- Signatory to the United Nations Global Compact and Principles for Responsible Banking Initiatives.
- Strategy focuses on People, Planet and Prosperity
- Identified four UN Sustainable Development Goals to prioritise.
- On-track to be Scope 1 and 2 Net Zero Carbon at the end of 2021.
- Developed roadmap of product initiatives and expect to publish the Society's Climate Action Plan.

Cost

0.48%

Costs as a percentage of overall assets

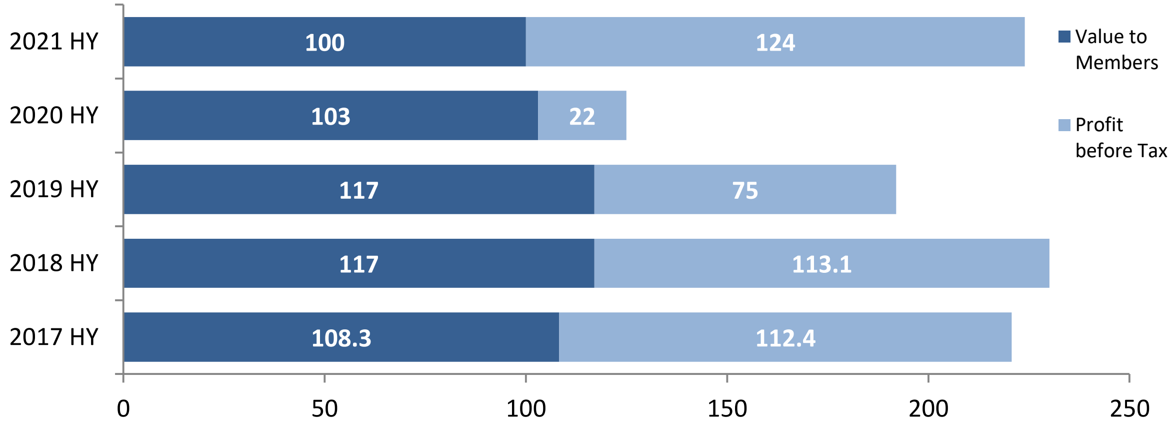
- Low cost advantage continues to be central to our strategy.
- One of the lowest Manex ratios in the peer group.
- Continue to invest in the business for the long term.
- Management expenses for the period were £124m, up from £117m for the same period last year. £7m cost increase was primarily driven by day-to-day running costs.

Net Interest Margin

Balancing the needs of the business and our members

	HY 2021	HY 2020	FY 2020
Total income	231.5	179.0	407.7
Management Expenses	-123.9	-117.2	-245.6
Expected credit losses	17.1	-39.4	-36.4
Provision	-	-0.5	-0.5
Charitable donation to Poppy Appeal	-0.3	-0.4	-0.8
Profit Before Tax	124.4	21.5	124.4

Value to Members



- **Net interest income** for the period was £228 million (30 June 2020: £178 million).
- Our **net interest margin** has increased by 16 basis points to 88bps since June 2020 (72 basis points). The underlying increase reflects an improvement in mortgage interest receivable due to higher margins on new lending and lower interest payable to savers following the changes made after the fall in the Bank of England Base Rate in March 2020.
- This higher NIM includes a decrease of 10 basis points relating to an adjustment to the EIR asset due to the expectation of mortgages repaying faster.
- The Society pays above market rates on savings, in line with our continued strategy of returning value to members.

Lending in HY 2021

Lockdowns have affected the Covid-19 Impact with strong recovery

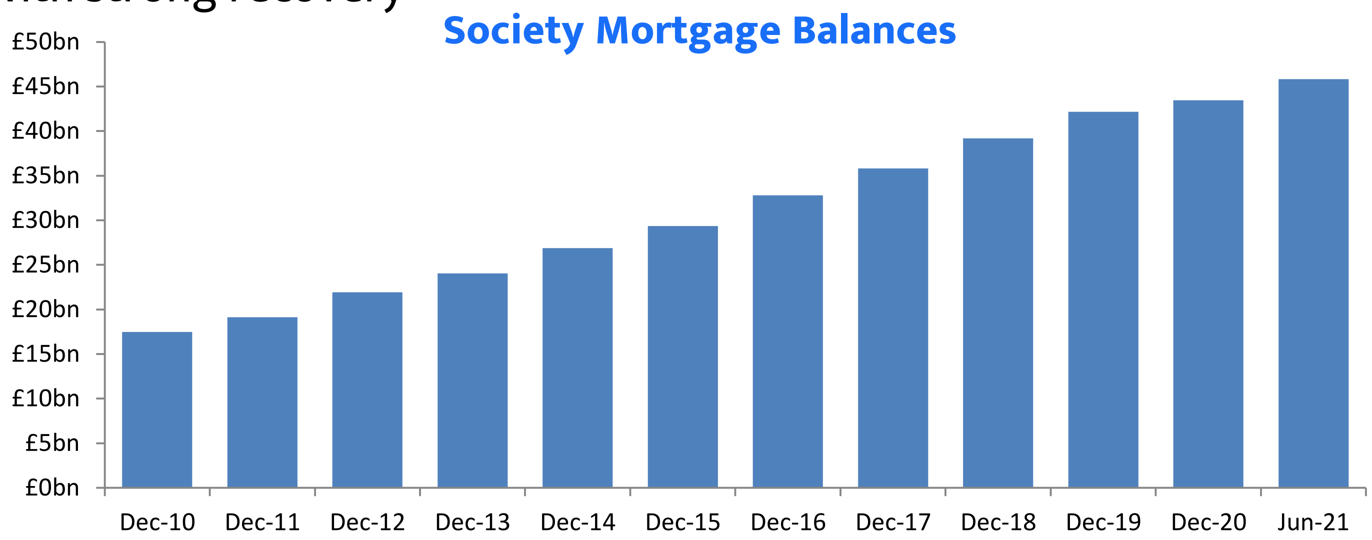
In 2021 we continued to support customers whilst protecting the long term security and objectives of the Society.

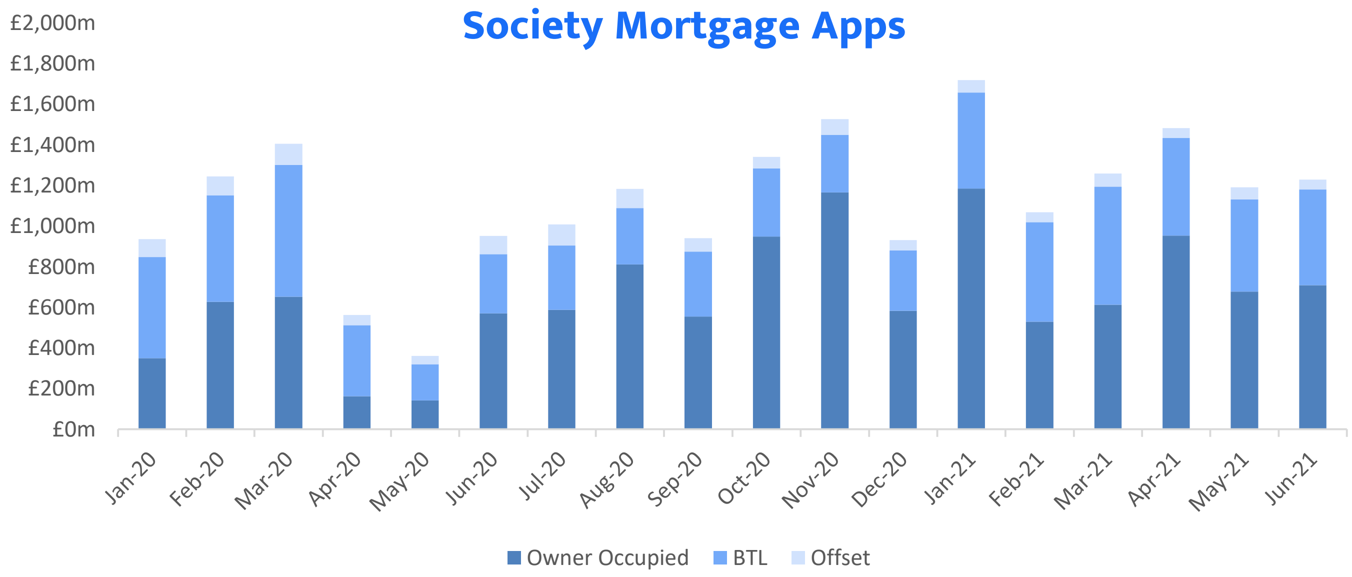
We started 2021 with a strong mortgage pipeline following a successful final quarter. The Society advanced £5.4 billion of mortgages (30 June 2020: £3.5 billion), with net mortgage lending of £2.4 billion (30 June 2020: £0.9 billion).

During the first half of the year the Society also introduced a mortgage range up to 95% loan to value in order to support first time buyers entering the housing market.

The average LTV of mortgages underwritten in H1 2021 was 63%.

In addition the Society repurchased two buy to let mortgage portfolios which added £480 million to loans and advances to customers.

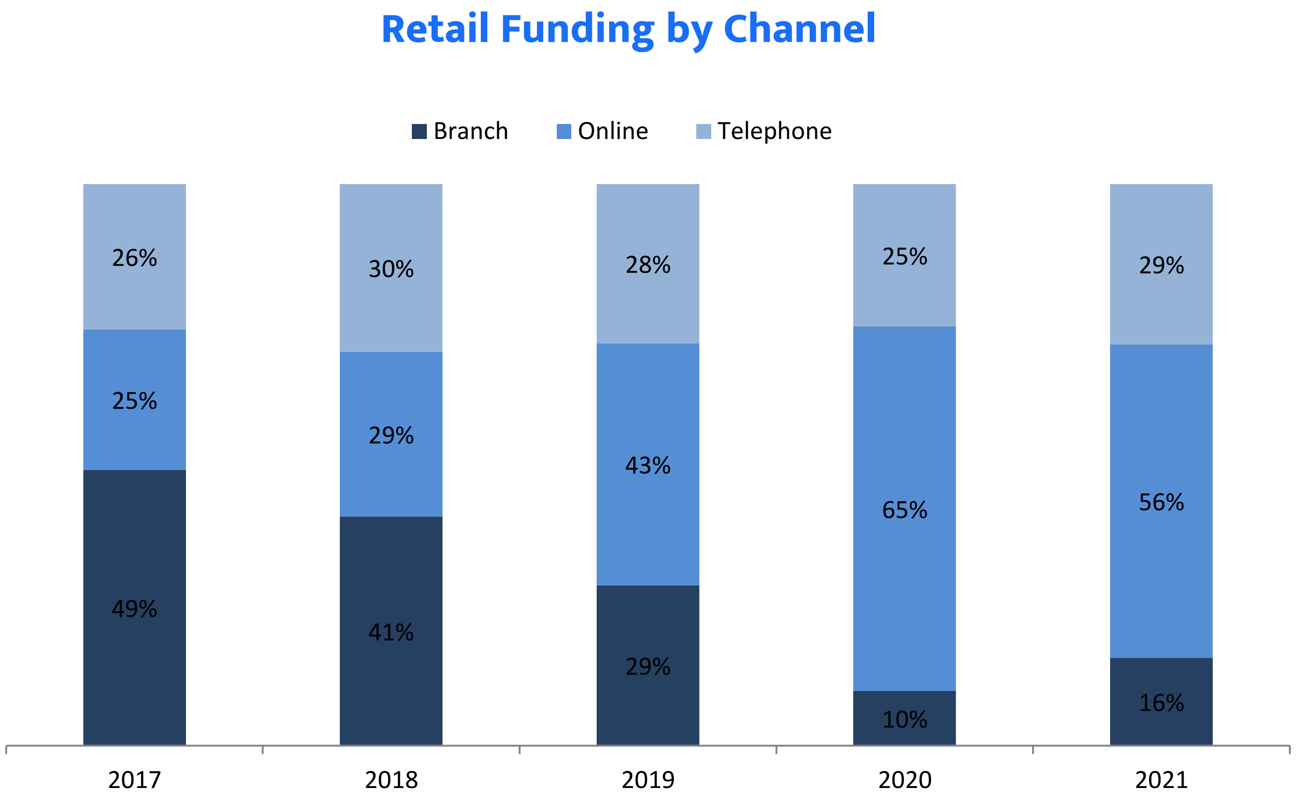




Retail funding

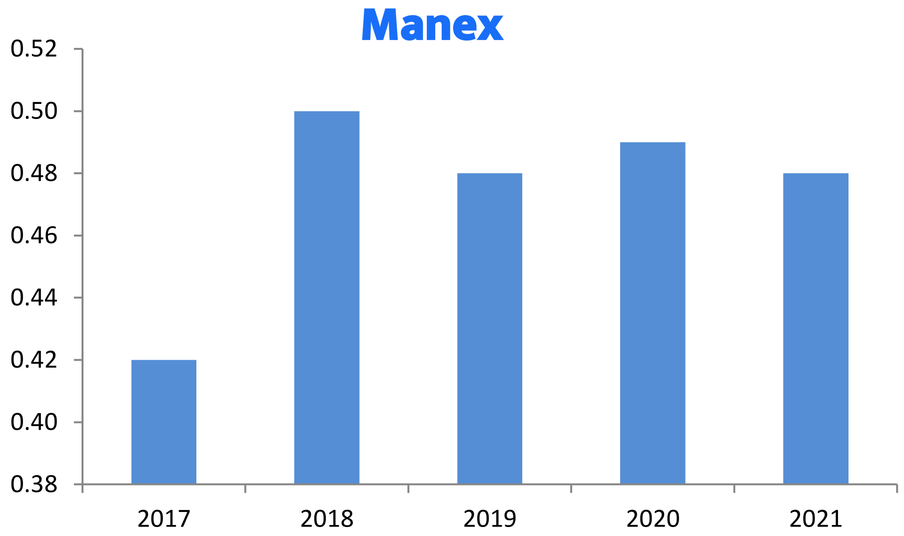
Retail funding has grown 10% in H1 2021 against H1 2020, balancing value to members and financial security

- The Society continues to be predominantly funded by retail savings, with balances of £39.1 billion at 30 June 2021 (31 December 2020: £38.2 billion). Additional savings balances have been used to fund the growth in the mortgage book.
- The Society continued to provide market leading regular savings and Child ISA products as well as paying a significant premium to our wider savings membership.
- In the six months to April the Society paid 0.53% above market rates on savings, in line with continued strategy of returning value to members and only retaining profits needed to maintain capital ratios and fund investment.
- Consistent presence in the retail funding market and value proposition for savings.



Investment costs

0.48% MANEX inc. £27m investment spend



The Society has a significant investment agenda and we have continued to make good progress on our change projects throughout the year.

We continue to invest in the business for the long term, investing in better technology and delivering improved digital capabilities and branch experience to our members and spending our members' money wisely.

This investment has focussed on activity to digitise our services, whilst enabling significant progress in delivery of our infrastructure programmes, and the Society's new mortgage platform, together with the ongoing redesign of the branch network.

Scaling Infrastructure

We're moving our servers and applications into new modern data centre – some cloud based and others new physical locations.

Mortgage Origination

We're introducing a new system to help us make it easier for our mortgage customers and intermediaries to apply for new business or make changes to an existing mortgage.

Branch Redesign

An additional 10 branches refurbished during HY 2021.

Excellent service to customers and colleagues

Better for service, better for colleagues

- Ranked 8th in the Top 25 Big Companies to Work For.
- We sustained award winning levels of customer satisfaction and service including our Which? Recommended Mortgage Provider status and our Gold Ribbons for customer experience for both savings and mortgages from Fairer Finance.
- Award winning product proposition, being fair and transparent.
- Our NPS remains high compared to the industry average.

2020
Which?
Recommended provider for mortgages

2021 award
Fairer Finance
Clear and simple terms and conditions

2021
Best Companies
8th Best Big Company to Work For

3★ "Outstanding" Colleague Engagement

- Remained one of the Best Large Companies to work for in the UK

8th Best Top 25 Big Companies to Work For

- Remained one of the Best Large Companies to work for in the UK
- Maintained very high levels of colleague engagement

+73 Net Promoter Score

- Net promoter scores in excess of that of the market NPS for each customer journey

51[1] second average call waiting time

- Within the contact centres, service was maintained by colleagues working both remotely and on site
- Our average waiting time of 51 seconds increased slightly from 47 seconds at HY 2020

1. Based on average call waiting times between 1 January 2021 and 30 June 2021.

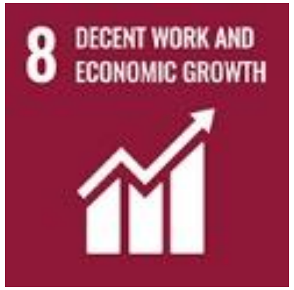
ESG Priorities

Our strategy focuses on People, Planet and Prosperity to respond to the needs of all stakeholders, wider society and address the challenge of climate change

In 2020, we became signatories of the UN Global Compact, the UNEP Principles for Responsible Banking, and identified four of the 17 UN Sustainable Development Goals to prioritise.

Goal 4

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.



Goal 8

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 11

Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 13

Take urgent action to combat climate change and its impacts.

Impact on Society and local community

Environmental impact

- We will only purchase renewable sources of energy and strive to minimise the consumption of energy, water and raw materials in all of the Society's activities.
- We are committed to reducing our impact on the environment and will be Net Zero Carbon by 2021 for Scope 1 and 2 emissions, and aim to be entirely Net Zero Carbon by 2030.
- We only procure FSC certified paper for use within the Society and for communicating to members. Our in-house print facility is, and will continue to be, accredited to FSC standards.
- We aim to reduce our use of resources, particularly paper, by providing digital alternatives.

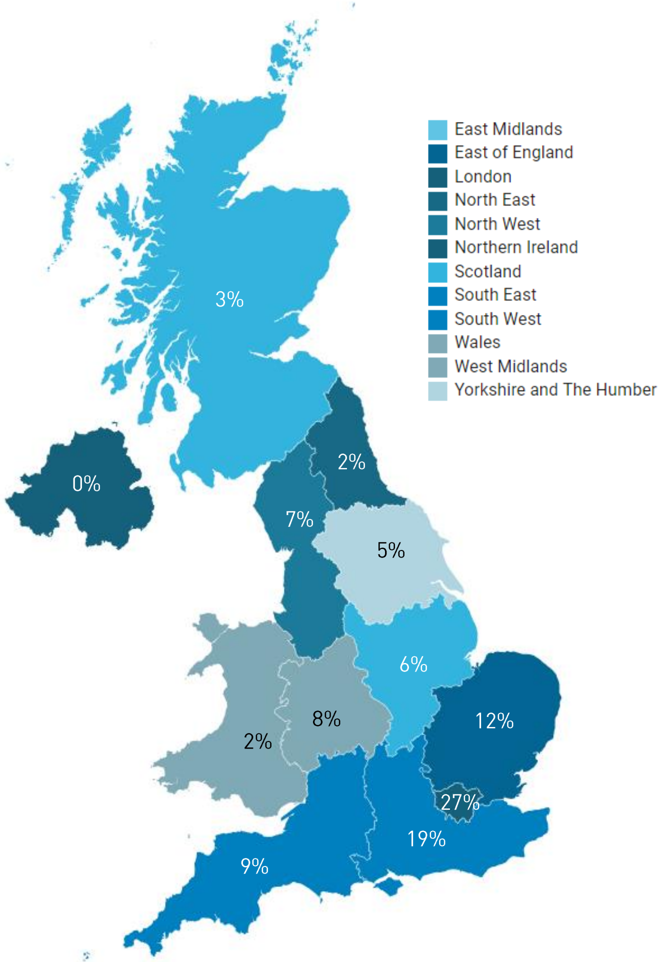
Volunteering and fundraising

- We're passionate about making a real difference to the lives of people in and around Coventry. That's why we work with partners right in the heart of our local communities.
- Whilst lockdown continues to limit face to face activity, the Society has found ways of continuing with our financial education and employability support for young people delivered through technology.
- We've teamed up with the Positive Youth Foundation, which empowers young people who suffer from inequalities in our home city to boost their life chances.
- The Society donated £0.3m to the Royal British Legion, bringing the total donated over the Society's relationship with the Legion to £19m since 2008.
- The Society supported local and national charities through donating £0.3m from dormant accounts having a positive impact in our communities.

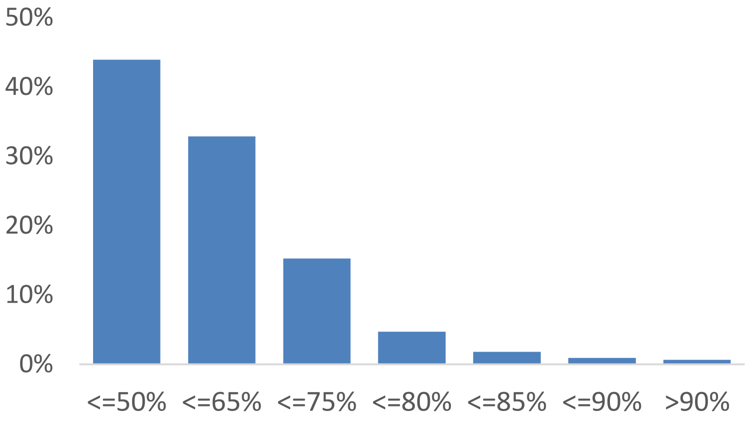
Overall mortgage portfolio

Conservative Prime Residential lending

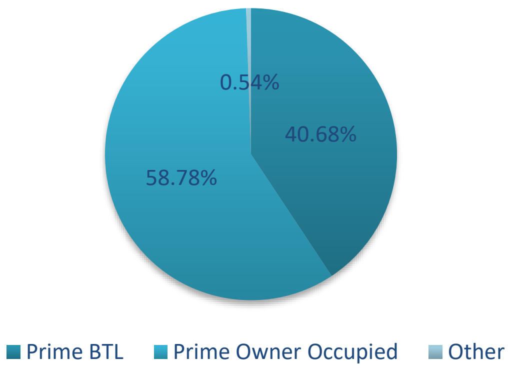
Geographical distribution by Value



Total book split by LTV



Product Split



82.8%

Average broker advocacy score

14.5

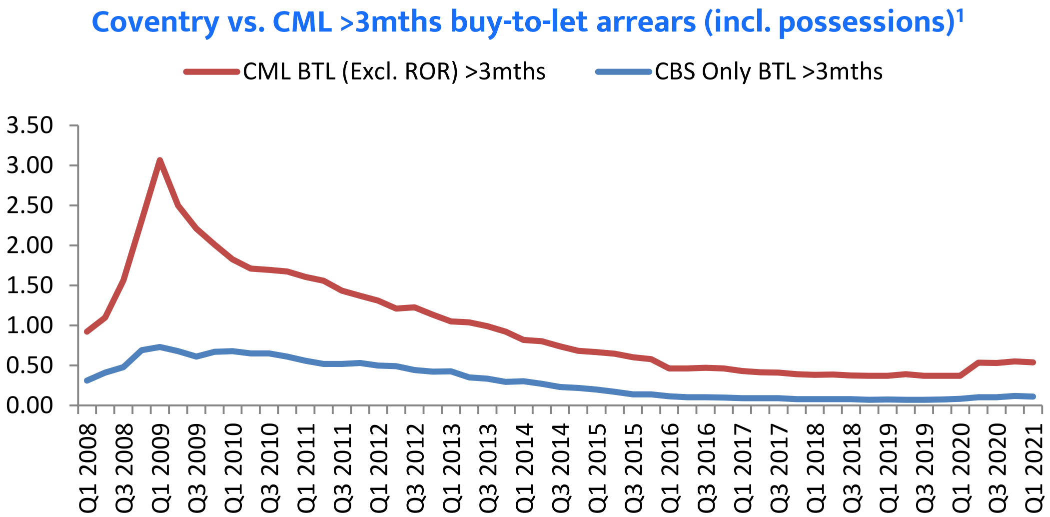
Days to offer (application volumes up 43% compared to H1 2020)

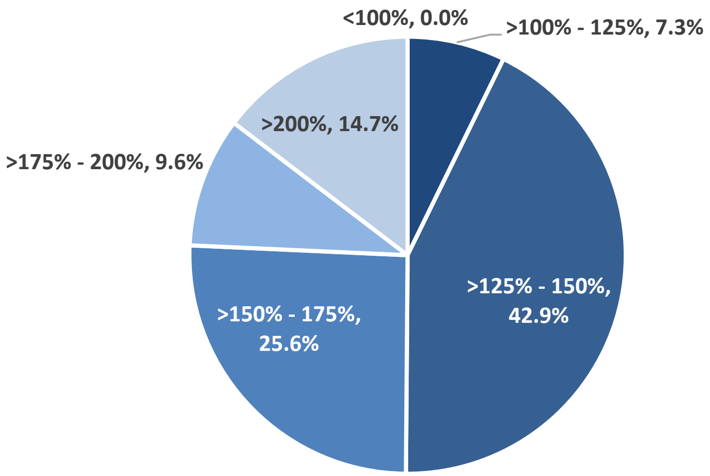
- The balance weighted average indexed LTV of the entire mortgage book is 51.4% as at June 2021.
- During the first 6 months we grew our mortgage book by £2.4bn, over twice the growth rate seen in the first half of 2020.
- The Society continues to lend more at lower LTV's then its peers in H1 2021, with 70%[1] of all lending at sub-70% LTV in comparison to an industry average of 63%.
- In 2021 c.50% of all buy-to-let lending was originated at 65% LTV or less.
- Intermediaries give national coverage and support our geographic diversification of the mortgage book.
- The majority of the UK mortgage market is introduced via intermediaries, 96% of applications were through intermediaries in H1 2021
- The Society has a longstanding relationship with the broker network combined with efficient operations means great service for customers. This continued throughout the pandemic with brokers continually commending the level of service.
- Crucially, all underwriting and servicing is performed by Coventry. There is no 'packaging'; the intermediary acts solely as an introducer

1. Including fees.

Focus on Buy to Let

Buy to let lending still showing resilient performance





- Approximately two thirds of Coventry's buy-to-let lending is on houses, with one third on flats.
- Buy-to-let demographic is older than typical owner occupied demographic.
- Buy-to-let lending proved to be even more resilient than owner occupier lending during the crisis, with peak > 3 months arrears of 0.73% compared to 1.34% for the owner occupier book.
- 84.9% of our borrowers have only one property with the Society and 3.8% have more than two with the Society (maximum 5 properties).
- The balance weighted average LTV of the buy-to-let book is only 52.1% as at 30 June 2021.
- Arrears and impairment levels have been very low. On circa £30bn of lending since entering the market in 2002. Only £108k losses (8 accounts) on lending originated since 2010. There are currently only 10 buy-to-let properties in possession at H1 2021, from a book of c. 125,000 properties.
- For over 99% of accounts, rent provides over 100% coverage of the interest due on the loan.
- Coventry's actual indexed ICR for 30 June 2021 was 175.2%.

1. UK Finance.

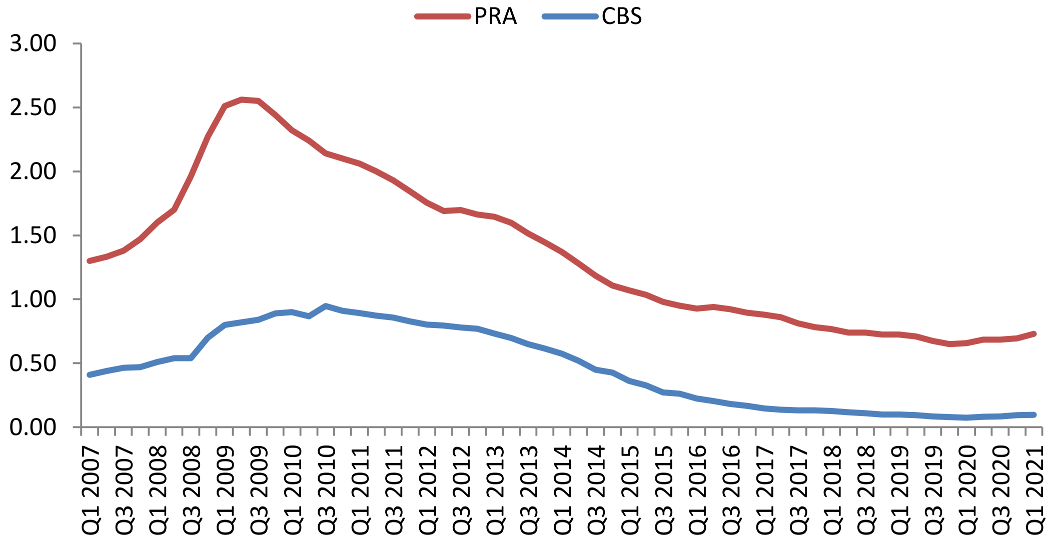
Arrears Performance

Consistently low level of arrears and possession

Arrears levels consistently below industry averages

- 0.18% of accounts > three months in arrears including possession (Industry average 0.85%); and
- 0.09% of accounts >= 2.5% balance in arrears

CBS vs PRA >= 2.5% balance in arrears



Payment Holidays

The total payment holidays that the Society has granted is 40,101 of which 358 were active at 30 June 2021. Of the accounts with payment holidays which had expired at 30 June 2021, 98.1% had recommenced repayments.

Possessions

At 30 June 2021, only 23 properties were in possession, out of a total of c.303k mortgages; 9 are a legacy product, 4 standard owner occupier and 10 Buy to Let. With a further 28 where the process of repossession has now commenced following the ending of the moratorium.

Uncertainty remains

There is still a level of uncertainty as government initiatives end and financial vulnerabilities may materialise, however the Society is moving from extremely low levels of arrears.

Capitalisation minimal

Capitalisation of arrears is only used where we have exhausted other options to regularise an account and, as a result, only 1 case had arrears capitalised in 2021 YTD.

Payment Holiday Performance

Prudent provisions for the range of outcomes following payment deferrals

Total Payment Holidays	Status as at 30 June 2021		IFRS9 Staging
Owner Occupied Mortgages Vol: 26,980 Val (£m): 4,067	Expired Vol: 23,470 Val (£m): 4,026 LTV: 53%	Resumed Payments Vol: 22,950 Val (£m): 3,958	Stage 1: 57% Stage 2: 42% Stage 3: 1%
		Arrears < 3 months Vol: 320 Val (£m): 43	Stage 1: 0% Stage 2: 73% Stage 3: 27%
		Arrears >= 3 months Vol: 200 Val (£m): 26	Stage 1: 0% Stage 2: 0% Stage 3: 100%
	Outstanding Vol: 230 Val (£m): 41 LTV: 56%	Extended Vol: 160 Val (£m): 30	Stage 1: 0% Stage 2: 99% Stage 3: 0%
		Initial Vol: 70 Val (£m): 10	Stage 1: 63% Stage 2: 36% Stage 3: 1%
	Closed Vol: 3,280		

Total Payment Holidays	Status as at 30 June 2021		IFRS9 Staging
Buy To Let Mortgages Vol: 13,070 Val (£m): 1,975	Expired Vol: 11,320 Val (£m): 1,948 LTV: 55%	Resumed Payments Vol: 11,170 Val (£m): 1,924	Stage 1: 60% Stage 2: 39% Stage 3: 0%
		Arrears < 3 months Vol: 100 Val (£m): 17	Stage 1: 0% Stage 2: 72% Stage 3: 28%
		Arrears >= 3 months Vol: 50 Val (£m): 8	Stage 1: 0% Stage 2: 0% Stage 3: 100%
	Outstanding Vol: 130 Val (£m): 27 LTV: 56%	Extended Vol: 90 Val (£m): 19	Stage 1: 1% Stage 2: 95% Stage 3: 4%
		Initial Vol: 40 Val (£m): 8	Stage 1: 46% Stage 2: 52% Stage 3: 2%
	Closed Vol: 1,620		

Only 0.9% of payment holidays remain outstanding, with C.360 remaining. Of those payment holidays expired, 1.9% are in arrears, with Buy to Let having a lower level of arrears than Owner Occupier.

Expected Credit Losses

Improvement in the economic environment factored in

Key economic assumptions as at 30 June 2021

Scenario/ weighting	Assumption	2021 %[1]	2022 %[1]	2023 %[1]	2024 %[1]	2025 %[1]	Peak to trough %	Range %	Average to 31 Dec 2025 %[2]
Base 55%	Unemployment	6.1	5.7	5.0	4.7	4.5	1.6	4.5 – 6.1	5.2
	HPI	(4.0)	(5.0)	3.0	2.5	2.0	8.2	(8.8) – (0.6)	(0.4)
	GDP	3.7	6.0	3.0	2.0	2.0	17.2	0.6 – 17.8	3.7
	Base Rate	0.1	0.1	0.1	0.1	0.1	-	0.1 – 0.1	0.1
Upside 15%	Unemployment	5.5	5.0	4.5	4.0	4.0	1.5	4.0 – 5.5	4.6
	HPI	(4.0)	2.5	4.0	4.0	4.0	14.7	(4.0) – 10.7	2.3
	GDP	4.7	6.0	3.0	2.8	3.2	20.5	0.8 – 21.3	4.4
	Base Rate	0.1	0.1	1.0	1.3	1.5	1.4	0.1 – 1.5	0.7
Downside 20%	Unemployment	7.0	8.0	7.5	7.2	6.8	4.0	5.0 – 9.0	7.4
	HPI	(5.9)	(10.0)	(5.0)	2.0	2.0	18.6	(19.6) – (1.0)	(3.9)
	GDP	0.7	1.0	5.0	2.0	2.0	11.0	0.1 – 11.1	2.4
	Base Rate	0.1	0.0	0.0	0.0	0.0	0.1	0.0 – 0.1	0.0
Severe Downside 10%	Unemployment	10.0	11.6	10.0	8.9	8.3	6.5	5.5 – 12.0	9.8
	HPI	(5.9)	(12.8)	(19.0)	(4.2)	5.8	36.3	(37.3) – (1.0)	(8.4)
	GDP	(0.3)	0.0	3.0	5.0	2.0	10.3	(0.3) – 10.0	2.1
	Base Rate	0.1	0.0	0.0	0.0	0.0	0.1	0.0 – 0.1	0.1

Scenario	IFRS 9 ECL provision £m	(Decrease)/ increase %	IFRS 9 ECL provision £m	(Decrease)/ increase %
IFRS 9 weighted average	30.6	–	48.1	–
Base scenario	21.7	(29.1)	29.5	(38.7)
Downside scenario	49.1	60.5	60.8	(26.4)
Severe downside scenario	107.3	250.7	119.7	148.9
Upside scenario	16.5	(46.1)	18.6	(61.3)

Uncertainty remains given the impact of the removal of government and central bank intervention which have helped to support the economy, however, a better than expected economic environment has also led the Society to reassess the severity of the scenarios and the weightings.

The ECL calculation is particularly sensitive to changes in the following assumptions in each of the scenarios:

- Unemployment rate, given its impact on borrowers' ability to meet their loan repayments.
- House Price Index (HPI), given the significant impact it has on mortgage collateral valuations.

Expected Credit Losses

The ECL credit for the period is £17.1 million, with total ECL of £30.6m as at end of June 2021.

As at 30 June 2021	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Total £m
Gross balances						
Owner-occupier	24,788.7	2,060.1	49.8	53.1	58.0	27,009.7
Buy to Let	17,458.0	1,096.3	32.3	23.7	33.9	18,644.2
Other loans[1]	76.7	80.8	3.4	14.2	15.1	190.2
Total	42,323.4	3,237.2	85.5	91.0	107.0	45,844.1
ECL						
Owner-occupier	3.2	6.4	0.1	3.8	1.1	14.5
Buy to Let	5.4	4.7	0.1	2.1	1.5	13.8
Other loans[1]	0.2	0.8	–	0.9	0.3	2.3
Total	8.8	11.9	0.2	6.8	2.9	30.6
ECL coverage as a % of total balance						
Owner-occupier	0.01%	0.31%	0.20%	7.16%	1.90%	0.05%
Buy to Let	0.03%	0.43%	0.31%	8.86%	4.42%	0.07%
Other loans[1]	0.26%	0.99%	-	6.34%	1.99%	1.21%
Total coverage	0.02%	0.37%	0.23%	7.47%	2.71%	0.07%

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.1m has been included in other.

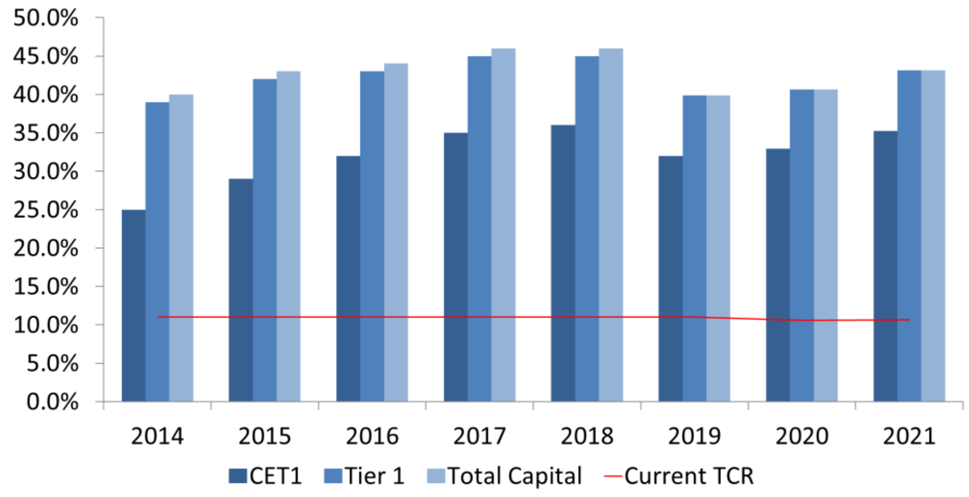
Included within the ECL provision of £30.6 million (31 December 2020: £48.1 million) is £23.2 million (31 December 2020: £37.6 million) relating to post model adjustments (PMAs). These post model adjustments have been included where the Society's models cannot fully capture the associated risks or be adequately modelled.
PMA includes the following:

- Covid-19 PMA £6.6m reducing £10.2m since December 2020.
- House price inflation and Negative Equity PMA £8.2m reducing £6.8m since December 2020.
- Fire safety risk PMA £5m associated with flats with unsuitable cladding and other fire safety risks which require remediation. The Society has applied assumptions on its affected mortgage book based on building height, to assess property values, any additional lending required and their saleability as a result of these issues.
- Other post model adjustments of £3.4 million which have been included in ECLs on a consistent basis with the previous periods (31 December 2020: £5.1 million).

Capital ratios

Considerable headroom to total capital requirements

CET1 and Total Capital Ratios



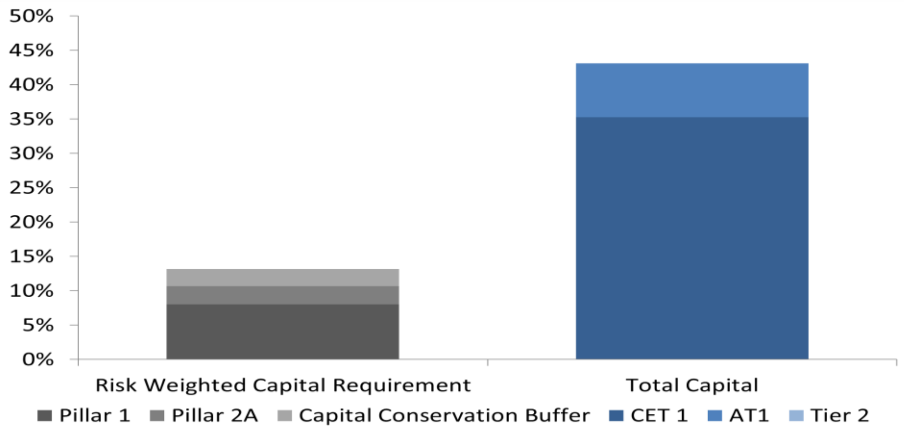
Regulatory Capital

- Coventry's total capital ratio is 43.1% compared to an RWA-based capital requirement of 13.2% (TCR + Capital Conservation Buffer 2.5% + Countercyclical Buffer 0%) 29.9% buffer over TCR on RWA basis.
- Consultation Paper 14/20 was expected to bring in a risk weight floor of 7% on individual mortgages and reduce the CET1 ratio by c.6%. Policy Statement 16/21 has removed this element, only keeping the portfolio floor of 10% which is expected to reduce the CET1 ratio by c.4%.
- Following the 2020 update, the Society's IRB models continue to evolve to meet the expectations of the PRA especially SS11/13, this is expected to have an adverse impact on RWAs in 2022.
- Basel IV capital requirements are due to be implemented in 2023, with output floor phased in from 50% to 72.5% in 2028.

Capital and Reserves

- The Society's CET1 ratio increased to 35.2% as at Jun-21, remaining comfortably above requirements.
- The Society was issued with Total Capital Requirement (TCR) of 10.7% or £562m comprising Pillar 1 and Pillar 2A.
- Retained earnings from strong profitability (currently c. £1.93bn) are Coventry's primary source of CET1 capital.
- Internally generated capital is augmented by £415m of AT1 issuance, providing 81bps uplift in leverage ratio.
- The Society repurchased two non-member buy to let mortgage portfolios that were previously sold in 2015 and 2018, providing a small increase to capital requirements.

End-point Risk Weighted Capital Requirement



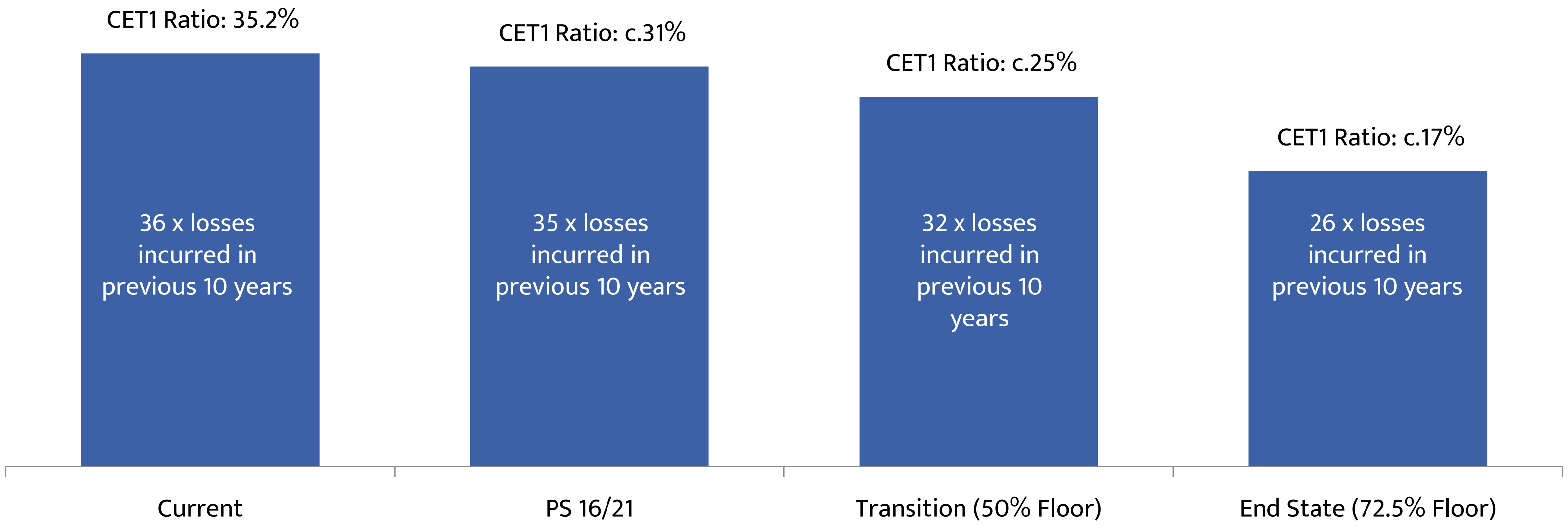
1. The CCyB reduced to 0% in March 2020 2.Reported on a end state.

Basel IV Capital implications

Surplus capital remains even with a lower ratio

- BCBS Paper released in December 2017 outlining Standardised Risk Weights and output floors that seek to remove variability in internal models (IRB).
- Regulation and implications still need finalising and have national discretion (especially in the treatment of differing mortgage types).
- Output floor phased in from 50% in 2023 to 72.5% in 2028.
- Assuming the implementation of 50% output floor, the CET1 ratio reduces materially but remains above 25%, reflecting the impacts of the flooring on a low risk business model.
- Surplus to regulatory minima remains considerable, equal to over 26 times the actual credit losses experienced in the last 10 years, even after transition.

Surplus over Basel IV Requirement[1]



1. Based on Portfolio Landlords (landlords with 4 or more properties) risk weighted as real estate exposures with repayment materially dependant on cash flows generated by property

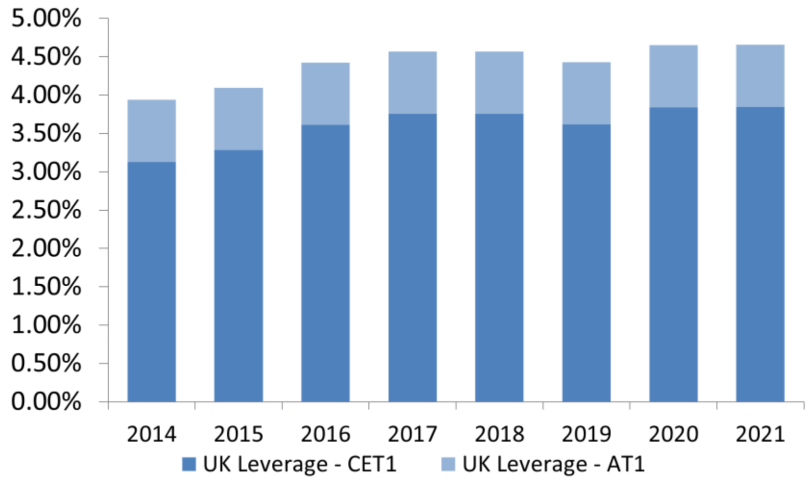
Leverage and MREL

Continued capital strength

The modified leverage ratio on a UK basis at 30 June 2021 is 4.66%, comfortably above the 3.25% minimum level.

Following the FPC and PRA joint consultation the leverage ratio is not expected to become binding on the Society until it reaches £50bn of retail deposits.

Internally generated capital is augmented by £415m of AT1 issuance, providing 81 bps uplift in leverage ratio.



MREL Current

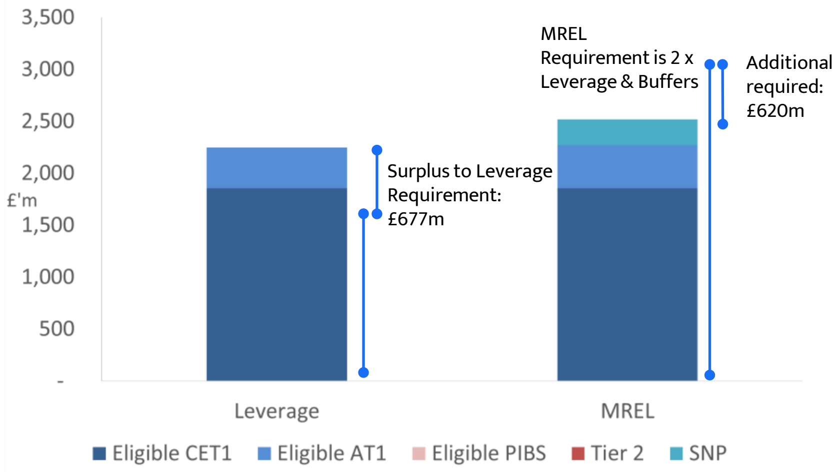
The Society is currently a 'bail-in' firm, with a MREL requirement of 18% of RWAs. The Bank of England have issued their awaited consultation on MREL, the impact of which is under review.

MREL End State

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

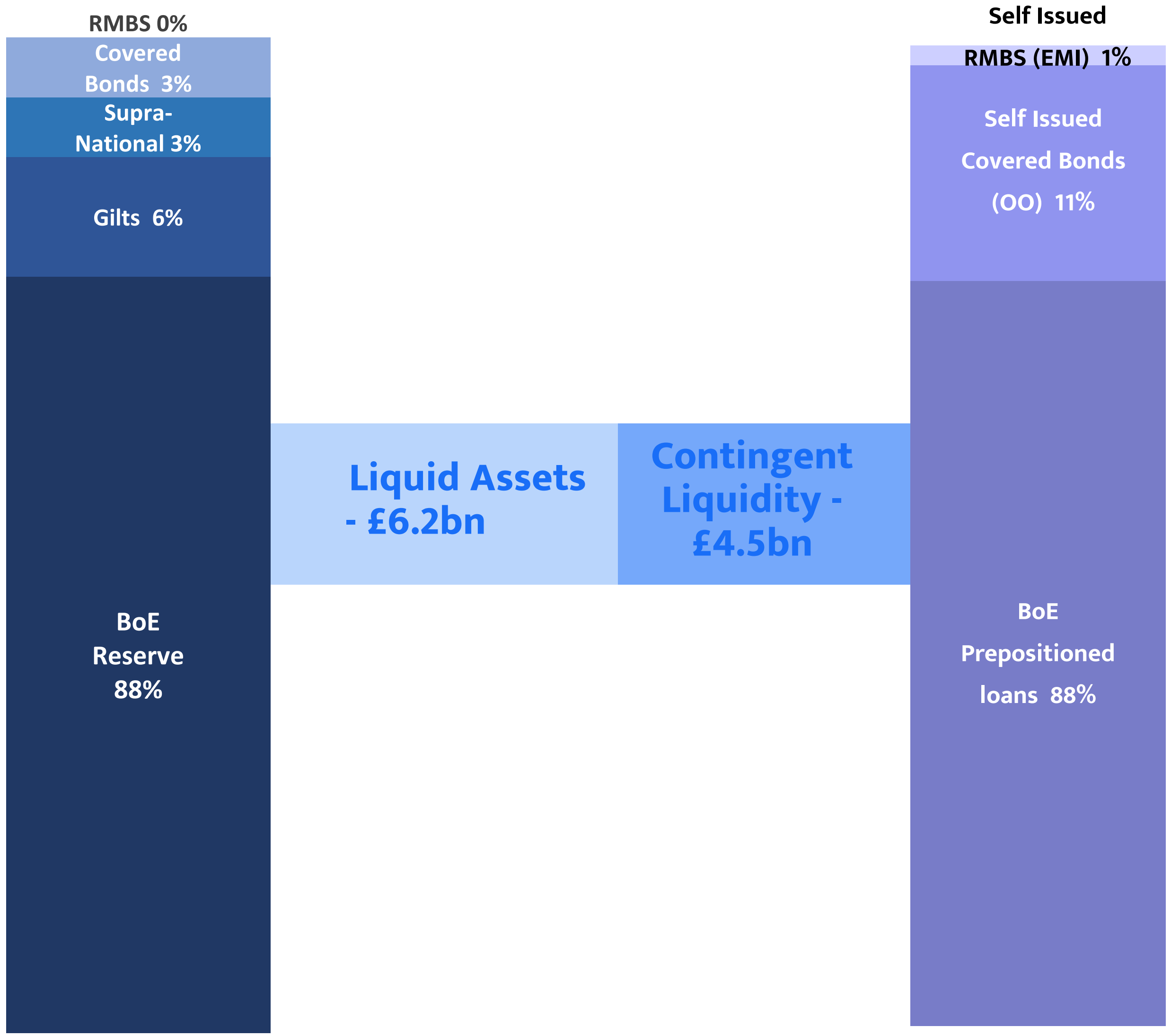
MREL Leverage

If the leverage ratio becomes the binding constraint the Society would need to raise just over £0.6bn in MREL funding (based on Jun-21 balance sheet).



Liquidity Management

Prudent risk appetite driving liquidity materially above regulatory requirements



£5.45bn in the BoE reserve account with the majority of liquid assets in UK Sovereigns with a small proportion in Supranational bonds, the Society also continues to invest in UK issued Covered Bonds and RMBS.

Available contingent liquidity has decrease since year end due to the continued run off of the prepositioned loan pools as well as the cancellation of the Mercia retained notes.

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.

LCR

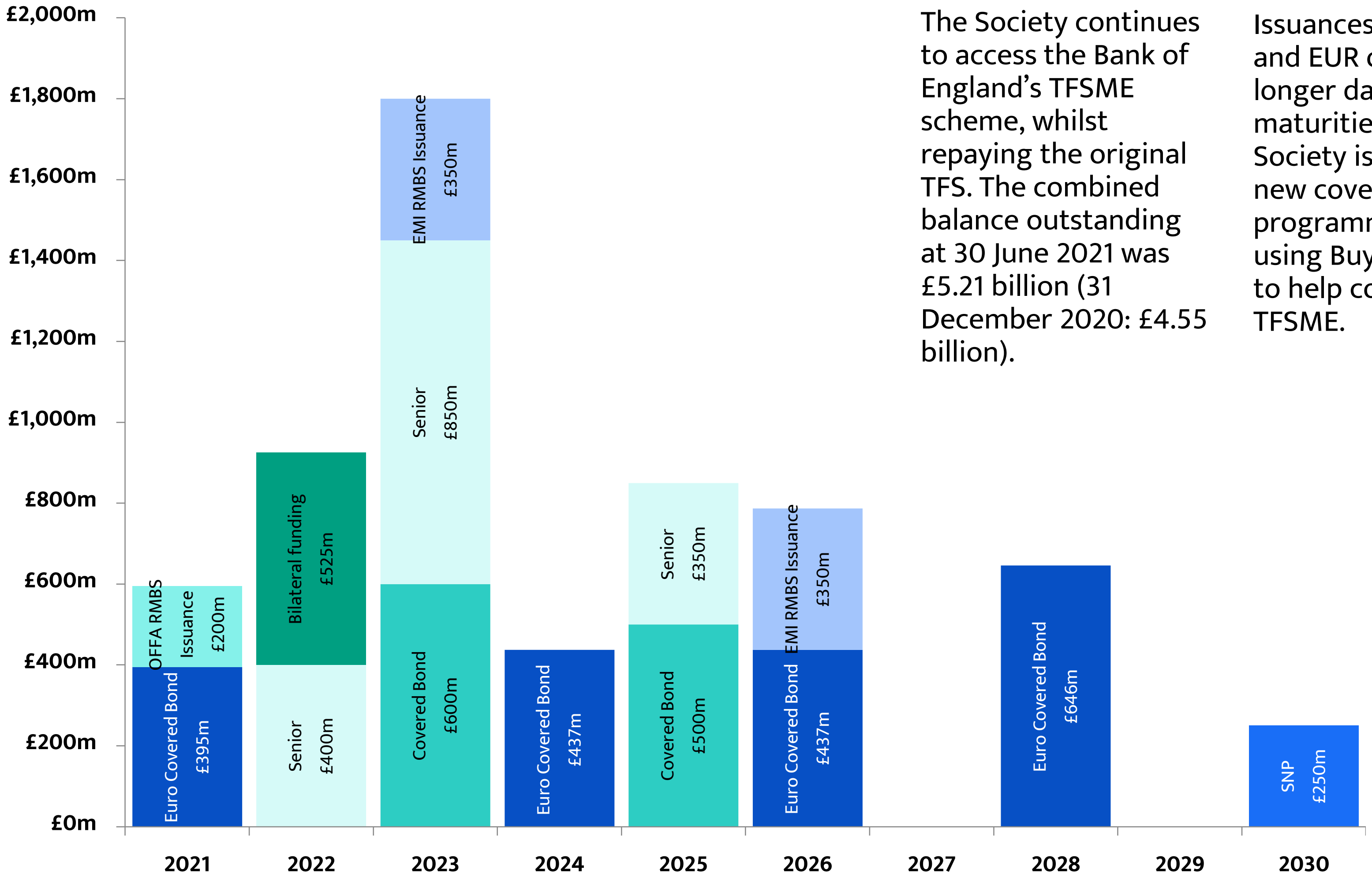
The Society maintains liquidity considerably above the regulatory requirement. With an LCR of 174% at the end of H1 2021.

NSFR

The NSFR was 137% as at 30/06/2021 and the Loan to Deposit ratio was 118% reflecting the stable funding profile of the Society.

Wholesale funding franchise

Diversification enabling growth



TFSME / TFS

The Society continues to access the Bank of England's TFSME scheme, whilst repaying the original TFS. The combined balance outstanding at 30 June 2021 was £5.21 billion (31 December 2020: £4.55 billion).

Covered Bond

Issuances in both GBP and EUR outstanding, longer dated maturities. The Society issued from a new covered bond programme in 2020 using Buy-to-let assets to help collateralise TFSME.

Economic RMBS

Master issuer programme created in 2020 to meet investor demand in the RMBS market. The structure helps with efficiency and flexibility of execution. Second issuance completed in June 2021.

Unsecured debt

Senior issuance in 2020 to maintain Moody's LGF uplift. Preferred and non-preferred issuance allowable from existing program. Non-preferred issued for first time in April 2021.

The Society uses wholesale funding to provide diversification of funding, supporting growth and lowering risk as well as providing value to members through lowering the overall cost of funding. Wholesale funding in the period has increased by £1.2 billion as a result of issuances in the period, partially offset by maturities.

During 2021 to date the Society has completed its first issuance of Senior Non-Preferred notes (£250m), a €750m 7-year covered bond and a £350m 5-year transaction from its RMBS Master Issuer programme. This programme received recognition during 2021 from both the International Financing Review and the Global Capital awards.

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Ratings	Short Term	Long Term Unsecured	SNP	AT1	BCA / IDR	Outlook
Moody's	P-1	A2	Baa1	Baa3	A3	Stable
Fitch	F1	A	A-	BB+	A-	Stable

Appendix

Balance Sheet / Income Statement H1 2021

Balance Sheet summary

	30 June 2021 (Unaudited) £m	30 Jun 2020 (Unaudited) £m	31 Dec 2020 (Audited) £m
Assets			
Loans and advances to customers	**45,869.6**	43,030.0	43,482.8
Liquidity	**7,099.3**	6,444.0	7,314.5
Other	**454.3**	886.0	701.0
Total assets	**53,423.2**	50,360.0	51,498.3
Liabilities			
Retail funding	**39,079.4**	35,438.6	38,151.1
Wholesale funding	**11,564.9**	11,926.6	10,367.9
Subordinated liabilities and subscribed capital	**67.1**	67.1	67.2
Other	**399.8**	780.9	706.0
Total liabilities	**51,111.2**	48,213.2	49,292.2
Equity			
General reserve	**1,927.3**	1,776.0	1,835.1
Other equity instruments	**415.0**	415.0	415.0
Other	**(30.3)**	(44.2)	(44.0)
Total equity	**2,312.0**	2,146.8	2,206.1
Total liabilities and equity	**53,423.2**	50,360.0	51,498.3

Income Statement summary

	Period to 30 June 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Net interest income	**227.7**	178.4	408.5
Fees and commissions	**(1.4)**	(0.9)	(2.3)
Other income	**0.6**	0.3	2.2
Gain/(loss) on derivatives and hedge accounting	**4.6**	1.2	(0.7)
Total income	**231.5**	179.0	407.7
Management expenses	**(123.9)**	(117.2)	(245.6)
Expected credit losses	**17.1**	(39.4)	(36.4)
Provisions	**-**	(0.5)	(0.5)
Charitable donation to Poppy Appeal	**(0.3)**	(0.4)	(0.8)
Profit before tax	**124.4**	21.5	124.4