Coventry Building Society

2022 Half year results

COVENTRY Building Society

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Our Story

Putting Members First

Simple

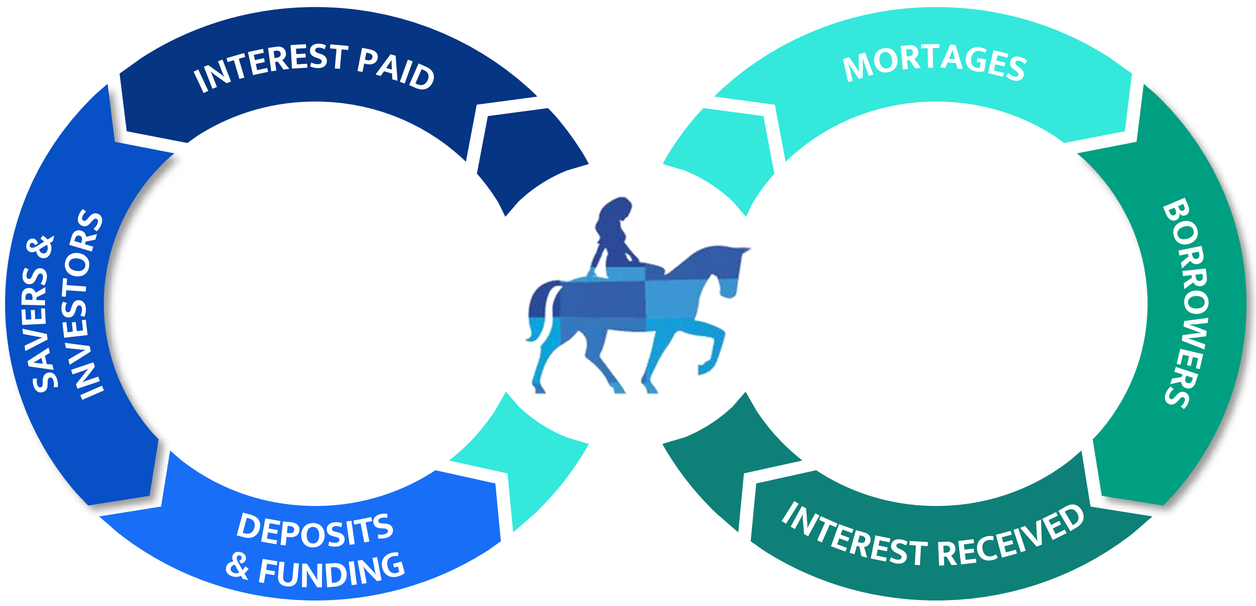
- A mutual model consistent with the values and ethos of those who founded the Society over 138 years ago
- Simple and straightforward, with an absolute focus on UK mortgages and savings
- Protect the interests of our members over the long term

Sustainable

- Cost efficient business model
- Sustainable capital, liquidity and profitability
- Delivering sustainable organic growth
- Investing for the future

A People and Purpose Led Mutual

- Putting customers at the heart of what we do
- Helping people to own residential property and save for the future
- Providing long term value products to membership
- Inclusive, diverse, inspiring workplace
- Ambitious ESG targets



Our Strategy – All together, better

A focused strategy with purpose, members and people at the core

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 Ambition

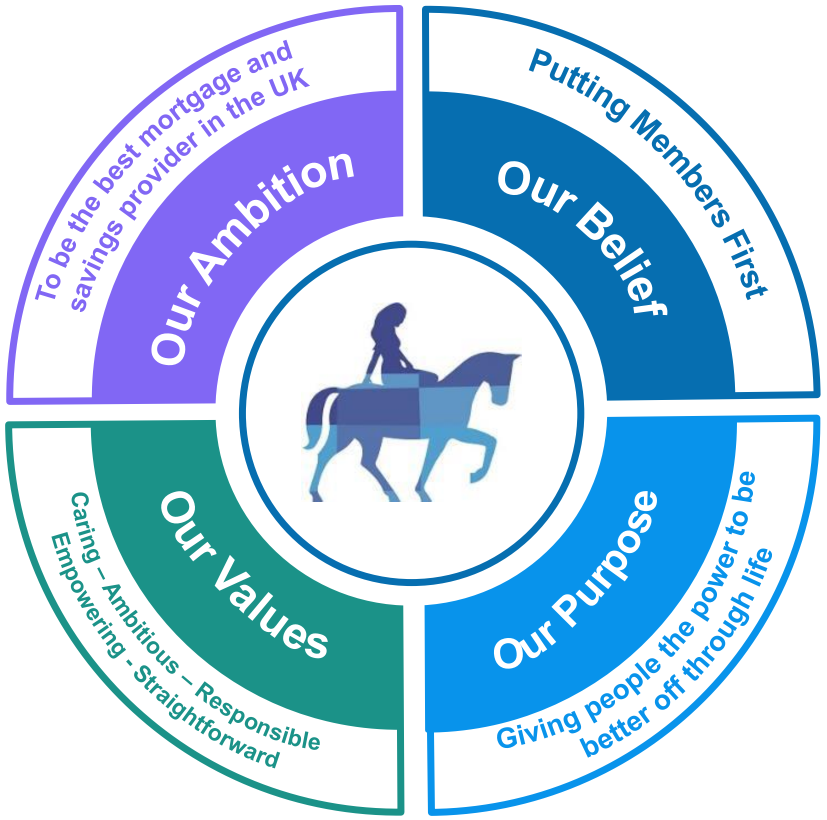
Our ambition is to be **the best mortgage and savings provider in the UK** by providing simple propositions offering good long-term value, supported by exceptional customer service, distribution and access.

Our 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 trust, engagement and a strong culture.

Our Belief

Putting Members First means considering the impact of our decisions and strategy for our current and future membership.



We believe that remaining an independent, customer owned mutual delivers the best outcomes for our Members and wider society.

Key performance highlights

Managed approach to trading, through a deliberate softening of our growth ambition in H1 2022

Mortgage growth 0.0% (HY 2021: 5.5%)

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

We advanced £3.8bn mortgages (HY 2021: £5.4bn).

During HY 2022, we helped 2,200 people move into their first home.

Savings balances increased by 1.0% (HY 2021: 2.4%)

Savings growth was subdued to match lower mortgage growth.

Whilst it is a particularly challenging time for savers, we continue to pay above average savings rates, supporting saving members as interest rates have risen.

Our average savings rates increased by 0.35% to 1.12% in the first half of 2022, maintaining our very strong competitive position. This led to further growth of £0.4 billion (30 June 2021: £0.9 billion) in our savings balances, which now exceed £40 billion for the first time.

Profit before tax £158m (HY 2021: £124m)

Increase in profit before tax of 27% year on year.

Performance reflects the strong pipeline of business we carried into the start of 2022 and margin improvements resulting from the rise in interest rates.

Value returned to members was £99m[1] (HY 2021: £100m)

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.

The value to members remained stable as the Society passed on interest rate hikes aligned to the market.

[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 the year.

Key performance highlights

Sustainable financial performance, maintaining profitability and capital strength

Common Equity Tier 1 ratio 29.9% (FY 2021: 36.2%)

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

The reduction in the CET1 ratio reflects the change in industry wide regulation required from 1 January 2022, partly offset by a rise in house prices.

The Society's UK leverage ratio increased to 5.0% due to the increase in retained profits, significantly above the regulatory expectation of 3.25%

3m+ Arrears including possessions of 0.17% (FY 2021: 0.18%)

The Society's mortgage book continues to perform well with only 0.17% of its mortgages 3 months or more in arrears, but we are mindful of the longer-term impact of increased cost of living seen to date and expected in the future. To reflect this expected challenge for some customers the Society has increased provisions by £4.5 million through a post model adjustment.

Liquidity Coverage Ratio 206% (FY 2021: 187%)

On-balance sheet liquid assets have increased to £8.5 billion (31 December 2021: £7.6 billion).

The LCR remains high at 206%, well above regulatory requirements.

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

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

Our total management expenses were £139 million (HY 2021: £124 million) with a continued focus on our technology and change.

Financial Strength

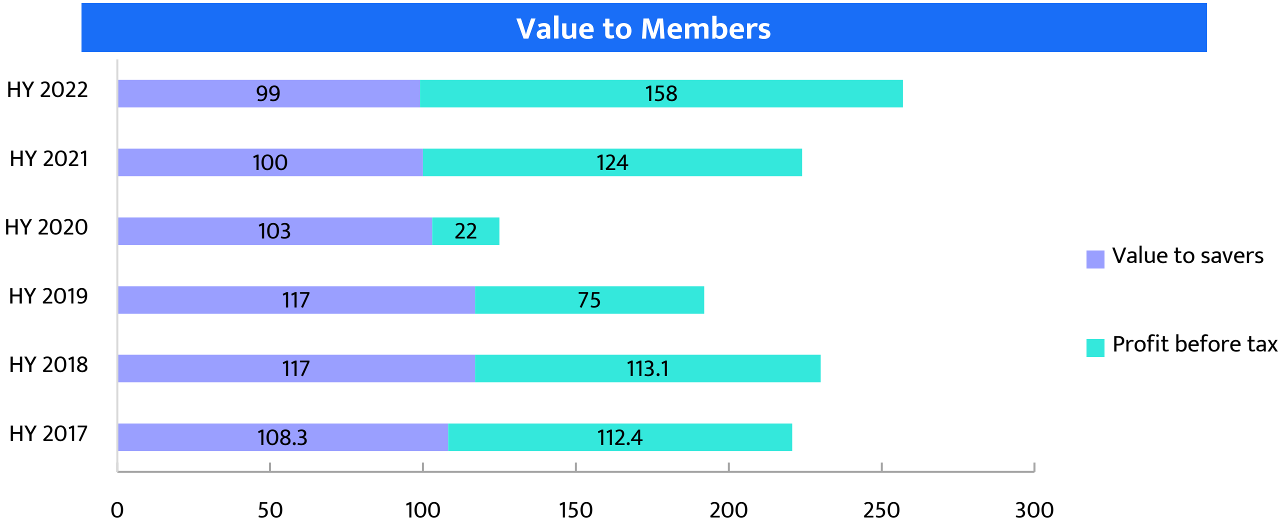
Key metrics remain robust

%	2017	2018	2019	2020	HY 2021	2021	HY 2022
Net interest margin / mean assets	1.02	0.96	0.83	0.81	0.88	0.90	1.11
Cost/ mean total assets (including Investment)	0.42	0.5	0.48	0.49	0.48	0.50	0.50
Cost / income ratio (including Investment)	40.4	52.3	60.4	60.2	54.0	56.3	46.0
Retained profit / mean assets	0.46	0.35	0.25	0.20	0.19	0.36	0.23

Strong profit performance

Whilst maintaining the value we give to savers

	HY 2022	HY 2021
Total income	299.7	231.5
Management Expenses	(138.8)	(123.9)
Expected credit losses	(2.3)	17.1
Provision	-	-
Charitable donation to Poppy Appeal	(0.3)	(0.3)
Profit Before Tax	**158.3**	**124.4**



- Our profit before tax increased to £158.3 million (30 June 2021: £124.4 million), an increase of 27% or £34million on the same period last year. This increase is primarily due to improvements in net interest income.
- Net interest income increased to £304 million (30 June 2021: £228 million) and our net interest margin (NIM) increased to 111bps (30 June 2021: 88bps). The increase was driven by an improvement in retail funding costs following the recent Bank of England base rate rises to 1.25%, whilst at the same time maintaining the value returned to members compared to market average.
- The Base Rate increased four times in the first half of 2022 which, together with the increase in December 2021, has seen it rise from 0.10% to 1.25%. The Society expects to see additional Base Rate increases in the next 12 months.
- The Society continues to manage value to members, with £99 million (H1 2021: £100 million) of additional interest paid to savings members as compared with average market rates.

Society's NIM continues to rise

NIM continues to increase due to improvements in retail funding costs

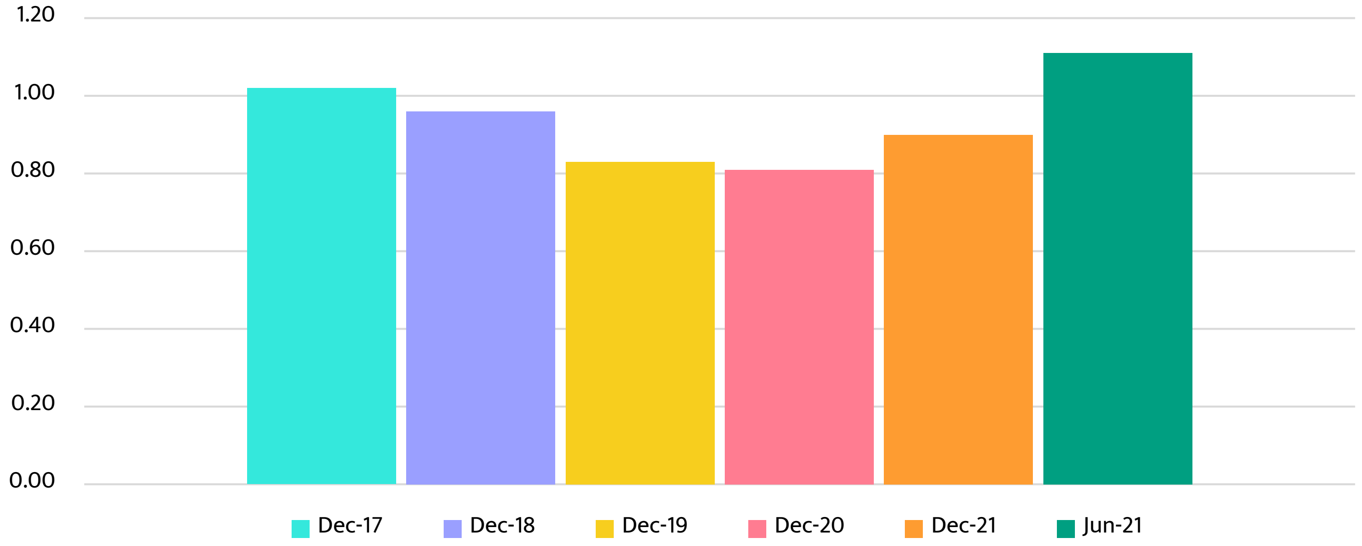
As at June 2022, our YTD net interest margin was 111bps, 23bps higher than the same point in 2021.

Competition in the mortgage market is persisting and putting increased pressure on mortgage margins. We are continuously monitoring trading performance and managing accordingly.

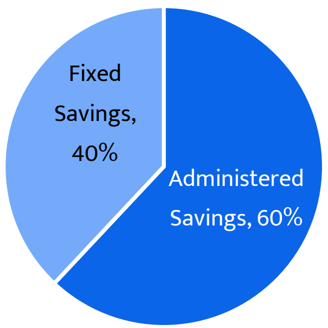
The Society has administered rate products on both side of the balance sheet, which can be updated when the Base Rate changes. In the first 90bps increases, the Society passed an average 60bps to administered rate savings products and the same to our administered mortgages, limiting the rate rises for customers on our Standard Variable Rate linked mortgages to 0.40%.

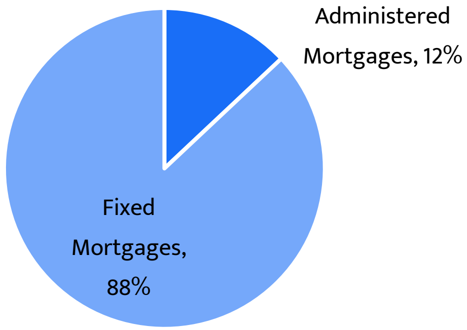
The Society's low cost operating model means that it can still operate effectively in a low margin environment whilst maintaining capital ratios and returning value to members.

Society NIM %



Margin Flexibility through Administered Rates





Excellent service to members and colleagues

Better for service, better for colleagues

- The Society is proud of its service offering that has been recognised again with a number of awards for customer experience for both savings and mortgages by Fairer Finance.
- The Society is a mutual that maintains a fair, simple and transparent proposition to customers and intermediaries.
- Our Net Promoter Score (NPS) remains high compared to the industry average.

2022 Great places to work

2022 award Fairer Finance Gold Ribbons for mortgages

2021 Which Recommended Provider for savings

2022 Fairer Finance Clear and simple terms and conditions

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

To achieve a top 20 position in our first entry was fantastic, and we are really keen to take this further by listening to our colleagues and hearing examples of best practice.

+77[1] Net Promoter Score

Our overall score currently stands at an outstanding +77, an increase of +4 from 30 June 2021.

97[2] second average call waiting time

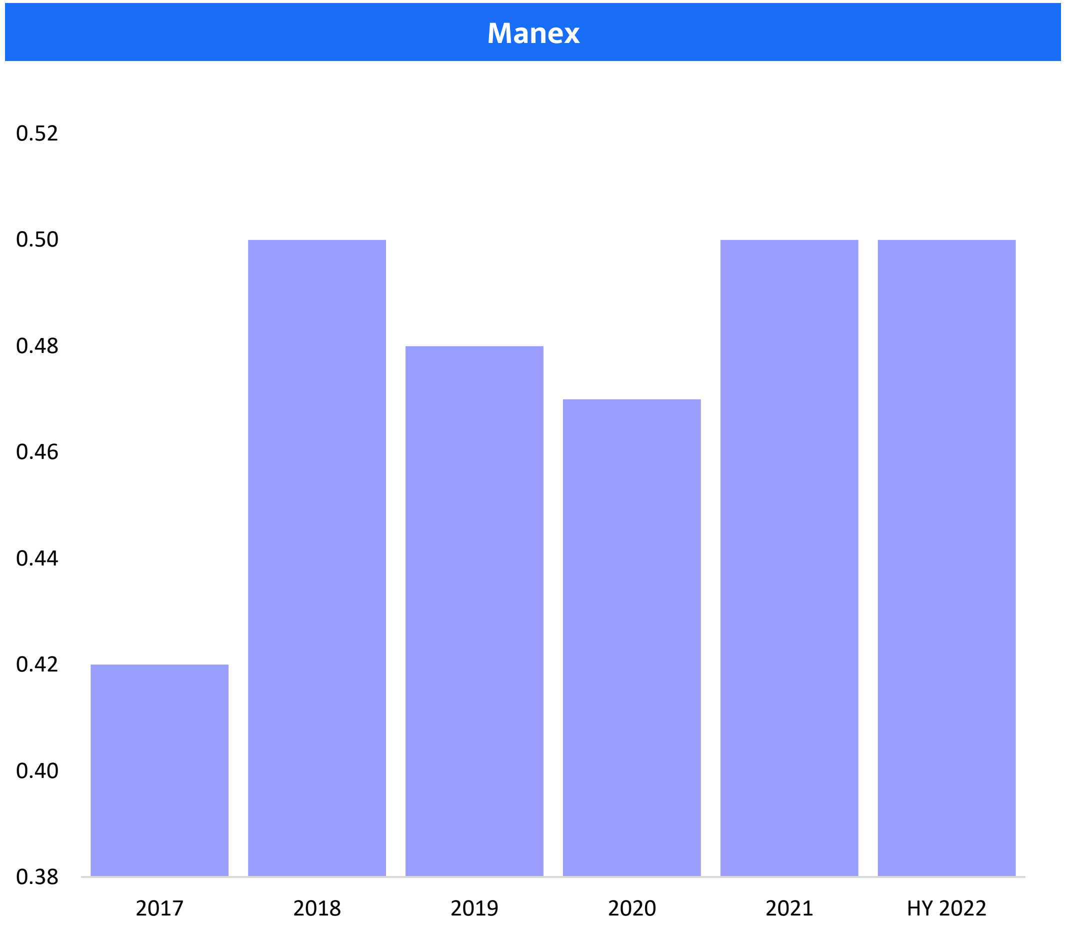
We take 97 seconds to answer the phone.

This has been achieved despite a volatile mortgage market.

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.
2. Based on average call waiting times between 1 January 2022 and 30 June 2022.

Management Expenses

Cost to mean assets ratio remains one of the lowest in the industry



- Cost efficiency is driven by the simple business model, efficient distribution channels and high average account balances, with growth driving economies of scale.

- The cost to mean assets ratio of 0.50% is broadly in line with the first six months of 2021 and is expected to remain among the lowest in the building society sector. This has been achieved despite the pressures of very high inflation and the need to support, attract and retain colleagues in the context of a tight employment market.

- The cost to income ratio has improved to 46% (30 June 2021: 54%) reflecting the growth in income relative to our cost base in the period.

- Management expenses for the period were £139 million (30 June 2021: £124 million). The increase in costs of £15 million was primarily driven by an of £8 million in spending relating to the Society's strategic investment programmes as well as an increase in day to day running costs of £7 million due to additional employee costs, inflationary impacts and investment in our branding including the Coventry Building Society Arena.

- The total spend on investment programmes of £47 million (30 June 2021: £44 million) has been focused on activity to modernise our services, whilst improving our resilience, and the Society's new mortgage platform, together with the ongoing redesign of the branch network.

Investment

Investing to improve resilience of services for members whilst maintaining cost efficiency

- Our strong financial performance has allowed the Society to increase its significant investment in improving and modernising services for members. We invested £47 million (30 June 2021: £44 million) in the first half of the year with a focus on digital, financial data and control systems, branches and mortgages.
- The Society is investing in technology to increase flexibility and resilience. We have taken steps to enhance our change capability which improve our processes, capacity and governance around change programmes to mitigate the execution risks associated
- Investing to improve resilience of services for members whilst maintaining cost efficiency are key goals and will remain a focus for future periods.

Infrastructure investment

‘Customer-facing’ investment is matched by ongoing delivery behind the scenes of improvements to operational resilience, information security and the transformation of our financial planning, controls and reporting.

Digitising our business

We’ve invested in a multi-year programme to digitise our savings and mortgage tools to improve our service to Intermediaries, borrowing members and savers. The roadmap is prioritised into discreet releases of functionality and extends across the Strategic Planning period as a result.

Branch Redesign

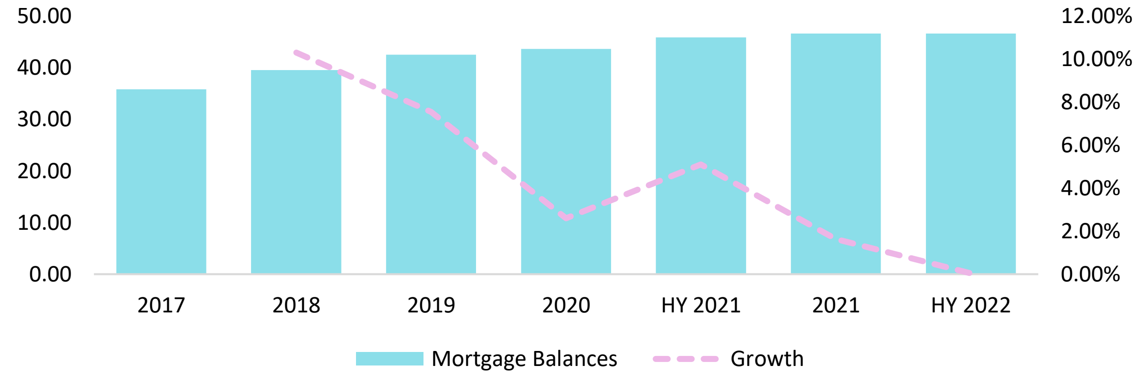
During the last six months we have almost completed our branch investment programme. They are at the heart of their local communities, and the feedback we have received from members and colleagues alike has been fantastic. The final branch to be completed will be a new site in the heart of Coventry city centre, which is on track to open in 2022.

Mortgage growth

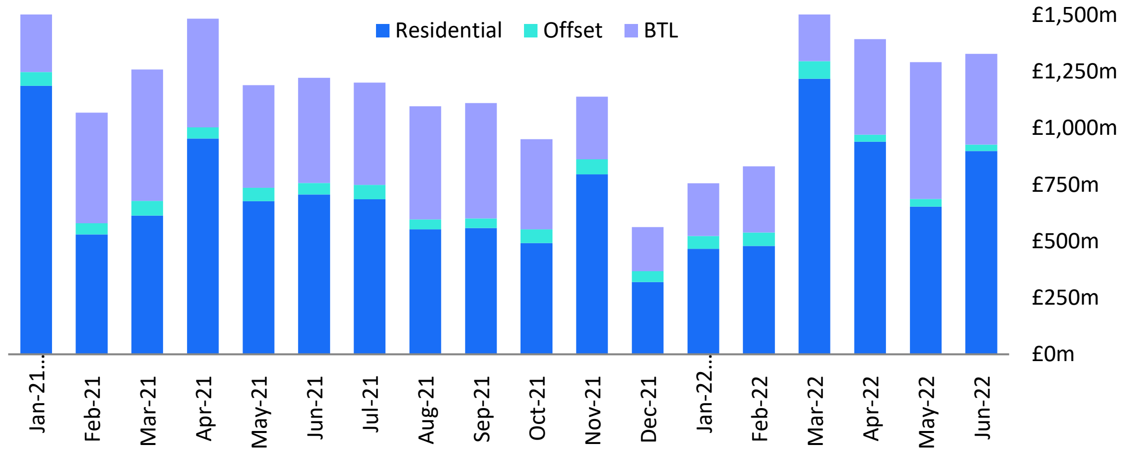
Moderating growth levels, protecting both capital and the long-term interests of members

- 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.
- The Society manages its growth in response to the market pricing and funding conditions. Given the economic uncertainty, competitive mortgage market and the contraction in new business margins over the past 12 months, the Society took the decision to moderate its growth levels during this period, protecting both capital and the long-term interests of member.
- This decision has led to the overall loan book being kept stable at £46.6 billion (31 December 2021: £46.6 billion) in the first 6 months of the year.
- During the period, the Society advanced £3.8 billion of mortgages (30 June 2021: £5.4 billion) offset by higher levels of redemptions as customers continue to lock in to longer term fixed products in response to base rate rises.
- As at 30 June 2022 margins have stabilised to slightly increased, whilst retail deposit margins remain low meaning the the Society expects to return to measured growth during the second half of the year.
- Of all mortgages originated in HY 2022, 68.9% were owner occupied and 31.1% buy to let. The average LTV of 2022 originations was 62.2%.
- The balance weighted average indexed loan to value of the mortgage portfolio has reduced to 48.6% in the period (31 December 2021: 50.9%), predominantly as a result of continued growth in house prices.

Mortgage Balances (£bn)



Mortgage Apps



Asset Quality

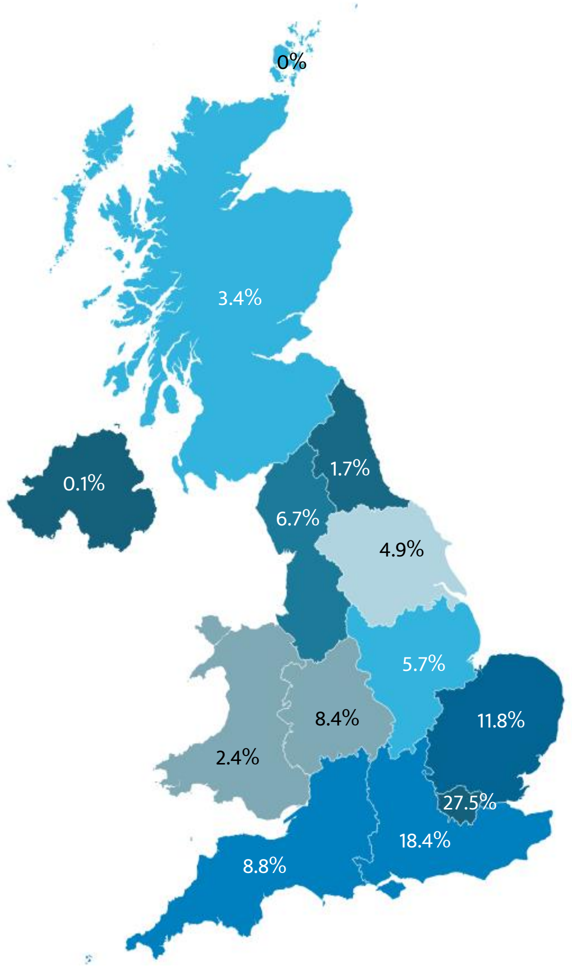
Best in class asset quality and low risk tolerance

	2017	2018	2019	2020	2021	HY 2022
3+ Months Arrears	0.23%	0.18%	0.17%	0.19%	0.18%	0.17%
2.5%+ Arrears	0.13%	0.10%	0.08%	0.09%	0.10%	0.09%
Number of Possessions	29	34	33	22	27	20
Impaired Loans / Gross Loans	0.65%	0.53%	0.47%	0.48%	0.40%	0.40%
Portfolio LTV	53.9%	54.6%	55.4%	52.8%	50.9%	48.6%
New Business LTV	59.8%	62.6%	63.7%	63.7%	64.8%	62.2 %

Overall mortgage portfolio

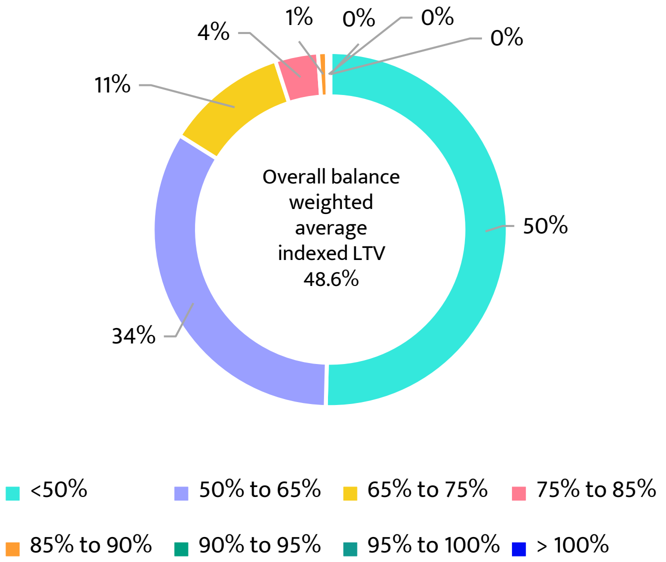
Low risk, geographically diverse, high quality prime residential lending

Geographical distribution by Value

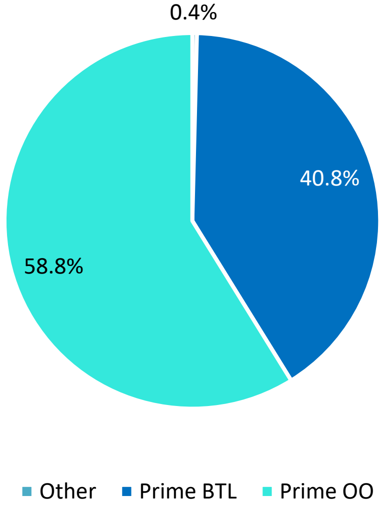


- The Society's lending strategy remains focused on high quality, low loan to value owner-occupier and buy to let lending within the prime residential market, distributed mainly through mortgage intermediaries giving the Society a regionally diverse mortgage portfolio in a cost-effective way.
- The balance weighted average indexed LTV of the entire mortgage book is 48.6% as at Jun 2022 (FY 2021: 50.9%).
- Total mortgage assets at 30 June 2022 stood at £46.6 billion (2021: £46.6 billion) which comprised £27.4 billion of owner-occupier loans (2021: £27.2 billion) and £19.0 billion buy to let loans (2021: £19.2 billion).
- Negligible levels of unsecured lending as at 30 June 2022 £13.2 million (2021: £14.5 million) and legacy commercial lending of £1.2m which is in run off.
- The LTV distribution of the mortgage book has remained broadly stable during 2022 with 90.8%[1] of all lending to 30 June 2022 at LTVs of 70% or below, in comparison to an industry average of 64%.

Total book split by LTV



Total book split by product

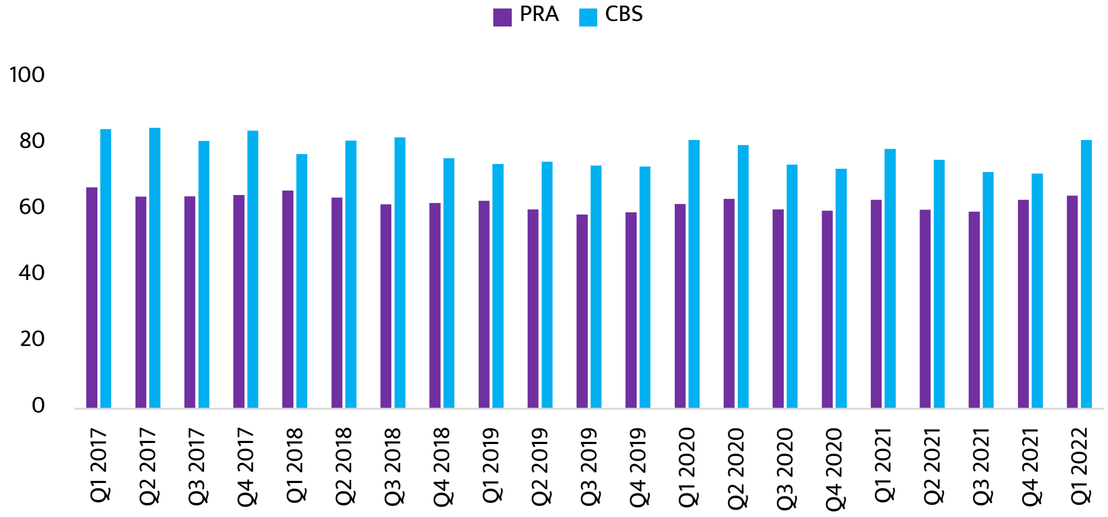


1. Including fees.

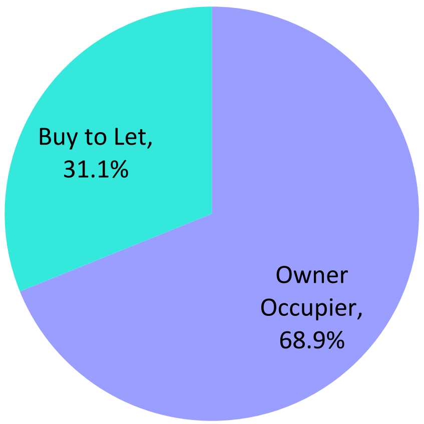
Originations in HY 2022

Deliberate strategy to moderate mortgage growth

Gross lending ≤ 75% LTV



New lending product split



- 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.
- The average LTV of 2022 originations was 56.89% for owner occupied and 62.29% for buy to let.
- The Society has a strong intermediary franchise with high service levels and advocacy scores.
- All underwriting and servicing is performed by Coventry. There is no ‘packaging’; the intermediary acts solely as an introducer.
- During 2021 the Society introduced a range of 95% LTV loans to support first time buyers entering the market. The number of first time buyer loans advanced in the 6 months to June 2022 was 2,202.
- For new mortgage applications the Society implemented the changes to National Insurance contributions in February prior to impact on members incomes from April 2022.
- We also brought forward our regular review of the affordability model to April and applied a forward looking view to the increased cost of living that will continue to impact members. Beyond this we have increased the cadence of affordability model reviews with the next review due prior to the increase in the Energy cap in October 2022.

+84%
Average broker advocacy score (2020: 82.8%)

11.7
Days to offer (2020: 14.5 days)

Resilient Asset Performance

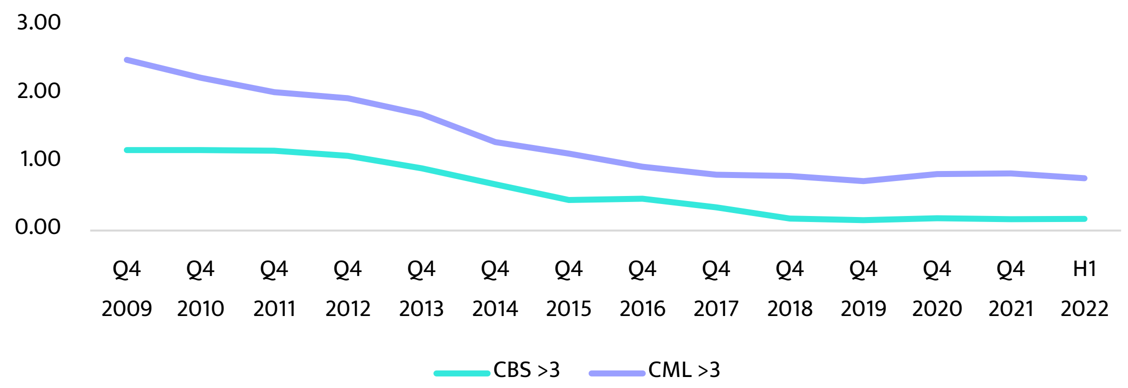
Arrears levels consistently below industry averages

The Society's longer term arrears position has improved during the first half of 2022 with £65.8 million (30 June 2021: £70.4 million, 31 December 2021: £72.7 million) of balances are three months or more in arrears.

Overall arrears balances have decreased since the year end. This is due to the economy continuing to recover from the pandemic and for most customers a return to normal payments. Although, there are some early signs of the additional pressures of cost of living within the mortgage portfolio.

The overall credit quality of the book remains high and arrears levels compare favourably to the UK finance average with 0.17% of accounts > three months in arrears including possession (industry average 0.77%[1]).

CBS vs CML >= 3mths in arrears



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 30 June 2022, owner occupied arrears stood at £45.2m (2021: £49.6m) and BTL £20.6m (2021: £24.5m).

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 2022, only 20 (31 December 2021: 27) properties were in possession (12 BTL, 4 Owner Occupied, 4 Equity Release).

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 30 June 2022.

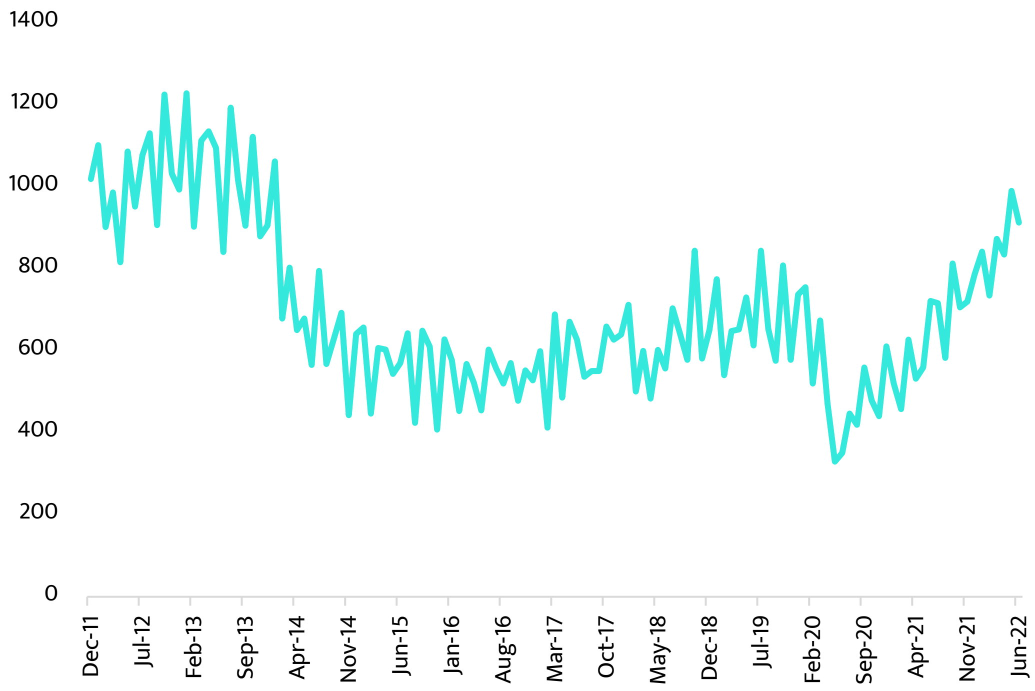
Unrestricted

1. UK Finance data as at 31 March 2022

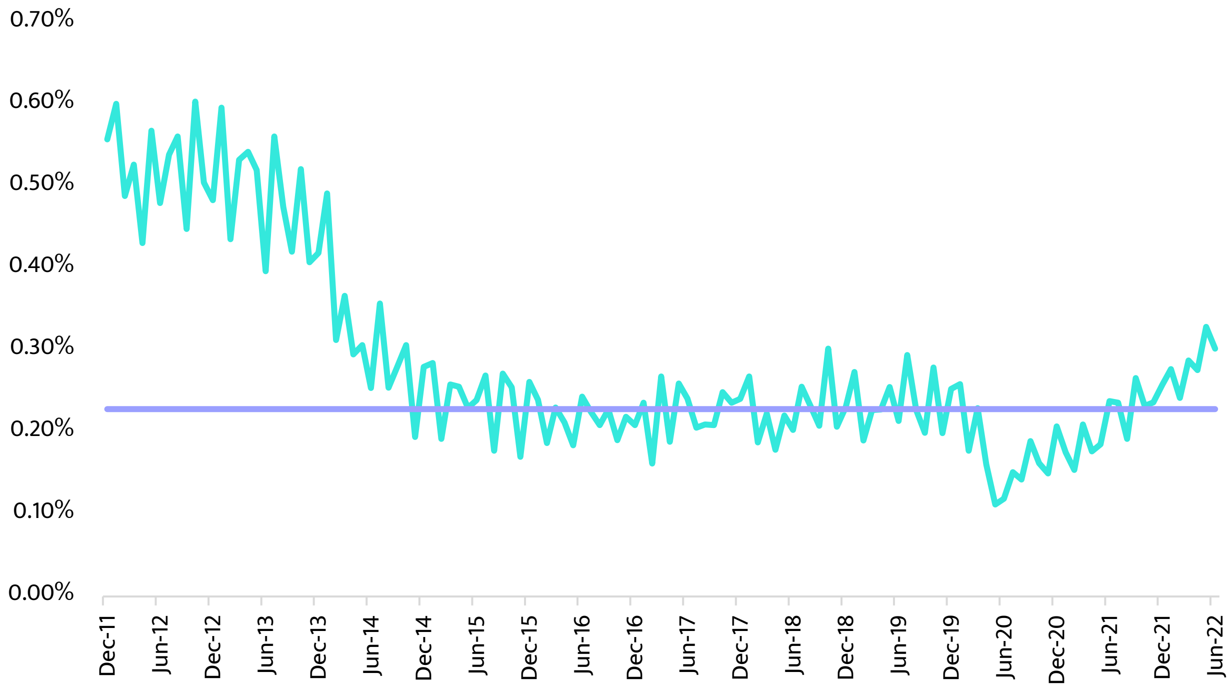
Proactive arrears performance monitoring

- The level of unpaid direct debits (DDs) remained incredibly stable between 2015 and 2019, the average is shown as the blue line on the chart.
- The drop at the start of the pandemic was as a result of the use of payment holidays.
- We are starting to see a slow but steady increase from April 2020 and are proactively engaging with this cohort of customers.
- To date, the increase in unpaid DD's has not resulted in a corresponding rise in new arrears.

Volume of Unpaid Direct Debits



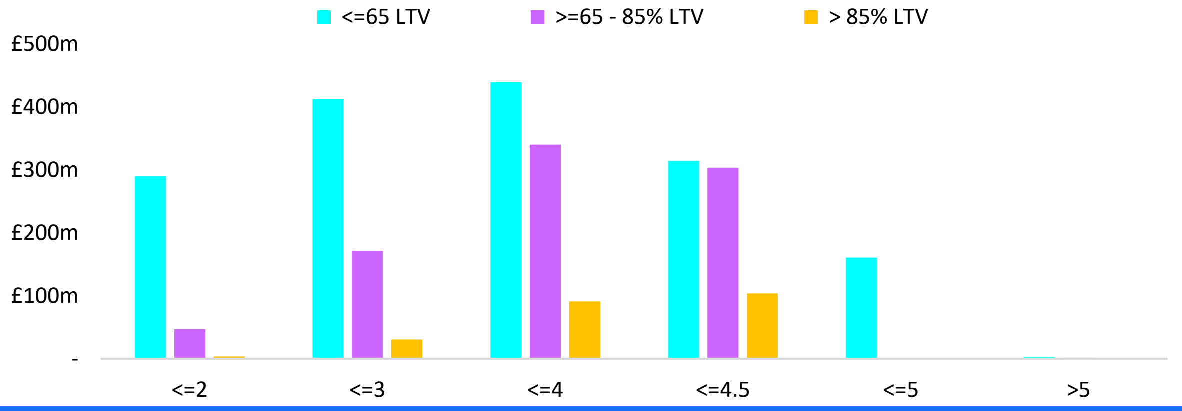
% of Unpaid Direct Debits



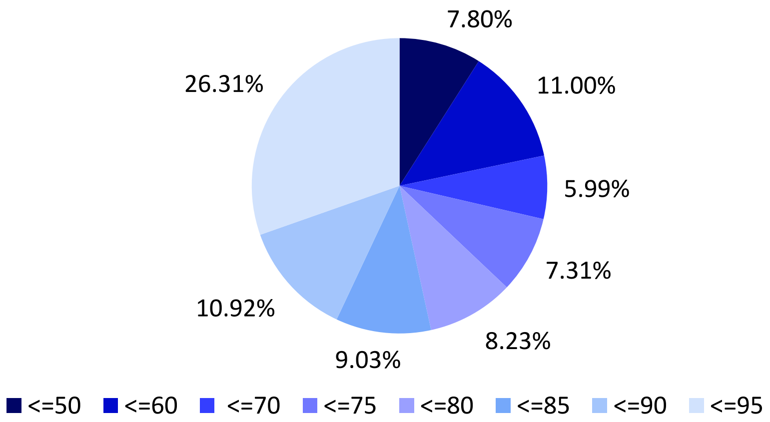
Spotlight on owner-occupied

Affordability remains strong and stresses in excess of 7%

LTV vs. LTI in 2022 originations (£)



% of Maximum Affordability

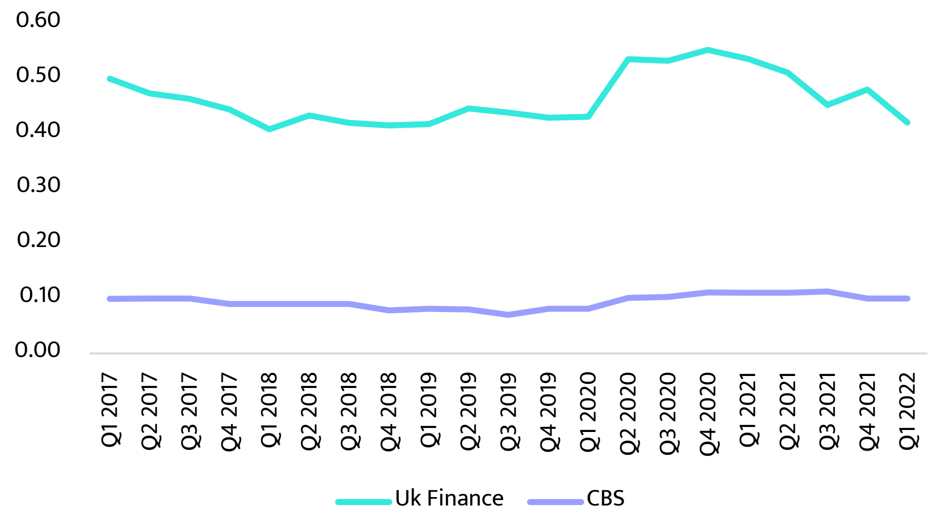


- During quarter 2 the Society has developed a tool to allow us to re-assess the affordability of existing mortgage members based on the current affordability model. This tool helps to identify members that may be at higher risk of financial stress as a result of the increased cost of living. These customers are being contacted as part of a pro-active campaign to offer support if required.
- Affordability is based on a stress rate for all applications - this is currently 7.24% for most cases with a lower stress rate of 5.49% for re-mortgages with no additional borrowing.
- The average rate of loan amount vs maximum loan amount was 77.7% for H1 2022 lending.
- 45% of completions were for lending amounts <=80% of the maximum loan amount.
- Analysis by LTI (loan to Income) shows that only 6.2% of completions a LTI ratio of >=4.5.
- The Society restricts the maximum income multiple above 50% LTV to 4.49.

Spotlight on Buy to Let

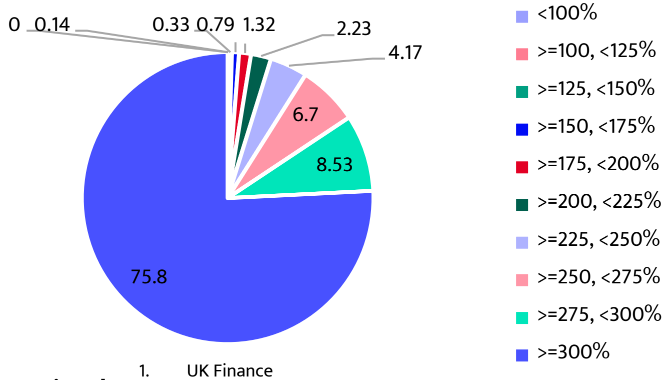
Resilient performance coupled with very low arrears and impairment levels

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

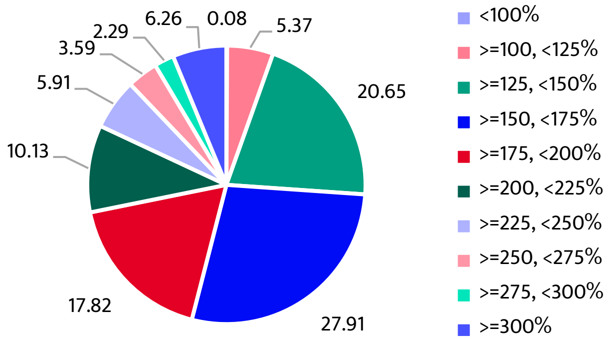


- Approximately two thirds of Coventry's buy-to-let lending is on houses, with one third on flats.
- 85% of our borrowers have only one property with the Society and the remaining have more than two.
- Arrears and impairment levels have been very low. On circa £32.8bn of lending granted since 2010 we have only seen £111k of losses (across 9 accounts). There are only 12 buy-to-let properties in possession at 30 June 2022, from a book of c. 130,000.
- The Society's actual average interest coverage ratio at H1 2022 using a stressed 5% interest rate was 193.8% an increase from 2021 YE 174.9% (2020: 175.4%) significantly above minimum lending criteria.
- We now 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. Also rents have increased generally.
- Prudent assumptions regarding rental voids, rent increases etc. are included. At a stress rate of 7% over 45% of loans remain above 125% ICR.
- Prudent assumptions regarding rental voids, rent increases etc. are included.

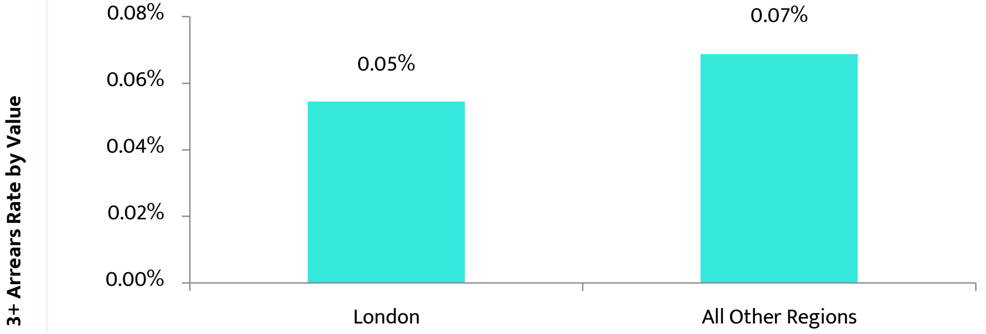
Interest Coverage Ratio 30 June 2022[2]



Interest Coverage Ratio at 5% Stress Rate[2]



Buy to let 3+ Arrears by region Portfolio Average 0.12%



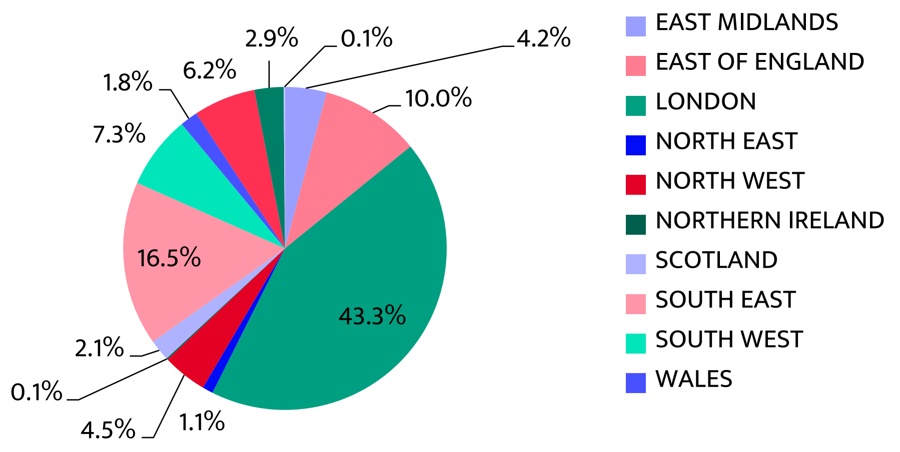
1. UK Finance
2. From Jun 2022, the Society uses AVM ICR not ONS regional indexing for better data

Buy to Let Criteria

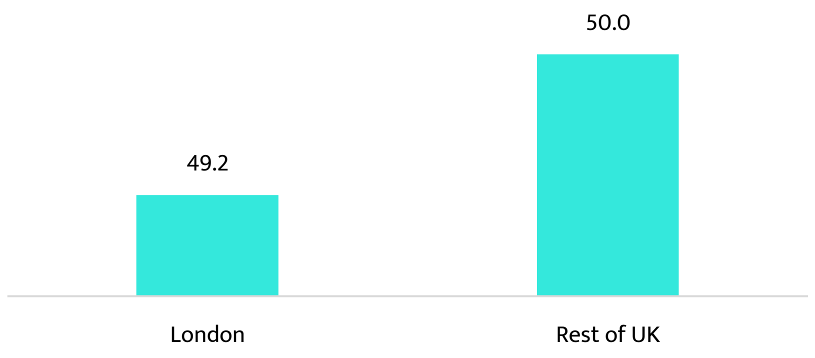
Conservative approach to lending

- 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.
- The arrears rate for London is 0.35% and the rest of the UK 0.37%, broadly in line with the portfolio average arrears of 0.33%.

Buy to let Mortgage stock by region



BTL Weighted Average LTV %



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.

The Society has added a new indicator within its staging assessment and has therefore moved loans to Stage 2 where a loan has an indication of worsening affordability criteria as a result of the increased cost of living. This has resulted in £1,095.2 million of loans being recognised within Stage 2 at 30 June 2022 that otherwise would have remained in Stage 1.

At 30 June 2022 92.8% of the Society's loans and advances to customers were within the Stage 1 'performing' category (31 December 2021: 92.7%), 6.8% were in Stage 2 (31 December 2021: 6.9%) reflecting a significant increase in credit risk since origination and 0.4% were in Stage 3 (31 December 2021: 0.4%).

This profile has continued to improve during 2022 with customers arrears falling with 0.17% of mortgages 3 months or more in arrears (31 December 2021: 0.18%).

PMAs to cover the following risk areas:

- New cost of living PMA of £4.5 million (31 December 2021: £nil).
- Cladding and other fire safety risk post model adjustment - £3.7m (31 December 2021: £3.7m).
- Risks associated with pockets of negative equity and fraud not recognised in underlying models.
- As a result of these changes the expected credit loss provision now equates to 0.05% of the overall mortgage book (31 December 2021: 0.04%).

As at 30 June 2022	Stage 1 Performing	Stage 2 Deteriorating	Stage 3 Default	Impairment	Total
Indexed loan to value	£m	£m	£m	£m	£m
<50%	21,953.8	1,420.8	109.4	(1.8)	23,482.2
50% to 65%	14,417.9	1,152.4	57.1	(6.2)	15,621.2
65% to 75%	4,711.6	433.1	16.9	(5.1)	5,156.5
75% to 85%	1,675.2	154.4	2.0	(3.0)	1,828.6
85% to 90%	330.9	26.1	0.2	(1.0)	356.2
90% to 95%	143.3	1.7	-	(0.1)	144.9
95% to 100%	21.9	-	-	-	21.9
> 100%	1.1	0.4	2.1	(1.2)	2.4
Unsecured loans	10.9	2.0	0.3	(0.8)	12.4
Mortgage pipeline	-	-	-	(0.4)	(0.4)
Other	-	-	-	(1.6)	(1.6)
Total H1 2022	**43,266.6**	**3,190.9**	**188.0**	**(21.2)**	**46,624.3**
Total H1 2021	**42,323.4**	**3,322.7**	**198.0**	**(30.6)**	**45,813.5**
Total FY 2021	**43,200.8**	**3,226.2**	**189.0**	**(18.9)**	**46,597.1**

Expected Credit Losses

Key economic assumptions as at 30 June 2022

Scenario/ weighting	Assumption[1]	2022 %	2023 %	2024 %	2025 %	2026 %	Peak to trough %	Range %	Average to 31 Dec 2026 %[2]
Base 55%	Unemployment	3.9	4.2	4.5	4.4	4.4	0.7	3.8 - 4.5	4.3
	HPI	0.4	(2.0)	1.0	1.5	1.5	4.0	(1.6) - 2.4	0.5
	GDP	2.0	1.5	1.5	1.5	1.5	8.2	0.0 - 8.2	1.8
	Base Rate	2.25	2.50	2.50	2.50	2.25	1.25	1.25 - 2.50	2.34
Downside 10%	Unemployment	9.0	7.8	7.4	7.0	6.8	5.2	3.8 - 9.0	7.3
	HPI	(5.0)	(7.6)	(1.6)	2.0	2.0	14.5	(14.5) - 0.0	(1.9)
	GDP	0.5	2.0	2.2	1.5	1.8	8.1	0.1 – 8.2	2.4
	Base Rate	0.00	0.00	0.00	0.00	0.00	1.25	0.0 – 1.25	0.06
Severe Downside 5%	Unemployment	11.5	11.5	8.3	5.5	4.9	8.1	3.8 - 11.9	8.3
	HPI	(11.9)	(23.9)	21.0	15.4	6.1	32.8	(32.9) – 0.0	(0.2)
	GDP	(5.1))	11.4	4.5	2.2	1.5	23.6	(0.9) - 14.6	3.1
	Base Rate	(0.02)	(0.10)	(0.06)	0.02	0.11	1.35	(0.10) - 0.25	0.03
Upside 10%	Unemployment	3.9	3.9	3.9	3.9	3.9	0.1	3.8 - 3.9	3.9
	HPI	1.3	3.3	4.0	4.0	4.0	17.6	0.0 - 17.6	3.7
	GDP	3.0	4.5	2.9	3.0	3.2	17.7	0.0 – 17.7	3.7
	Base Rate	1.25	1.25	1.25	1.50	2.00	0.75	1.25 - 2.00	1.45
Stagflation 20%	Unemployment	4.0	7.0	8.0	6.0	5.0	4.2	3.8 – 8.0	6.1
	HPI	(6.2)	(8.0)	(5.0)	0.0	3.0	18.0	(18.0) – 0.0	(3.7)
	GDP	(1.8)	(2.0)	(1.0)	0.0	1.0	4.7	(4.7) – 0.0	(0.8)
	Base Rate	3.00	4.00	3.50	2.50	2.25	0.75	1.25 – 2.00	3.04

- At 30 June 2022 the Group has used alternative economic scenarios to assess ECLs for its core owner-occupier and buy to let portfolios which represent over 99% of total loans and advances to customers.
- The base scenario has been updated to capture the shift in central bank response to the rapidly evolving inflationary environment that followed pandemic stimulus and energy price shocks.
- During the period the weightings for each scenario were reviewed and updated from those applied at 2021 year end, most notably the inclusion of a 5th Stagflation scenario to reflect the ongoing high inflationary environment.

[1]Unemployment and Base rate are shown at the year-end rate; HPI change and GDP change are for the six months ending 31 December 2022, and 12 months ending 31 December 2022 to 2026.
[2]HPI change and GDP change average to 31 December 2026 are shown as the annual compound growth rates.

Capital

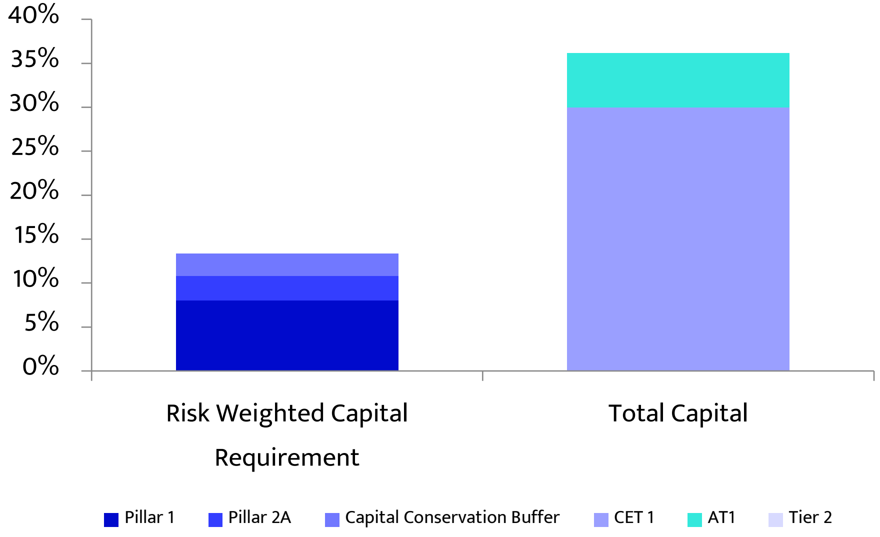
Capital Ratios considerably in excess of regulatory requirements

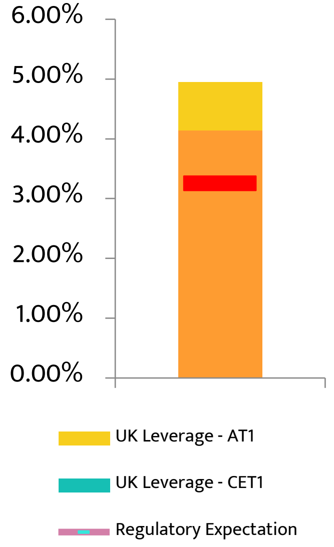
	2017	2018	2019	2020	2021	HY 2022
CET1 Ratio	35.0%	36.0%	32.0%	33.0%	36.2%	29.9%
Total Capital Ratio	45.3%	44.2%	39.9%	40.6%	44.1%	36.2%
UK Leverage Ratio	4.1%	4.6%	4.4%	4.6%	4.8%	5.0%

Capital ratios

Capital strength remains

End-point Risk Weighted Capital Requirement and UK Leverage





Regulatory Capital

- The Society's CET1 ratio decreased to 29.9% as at Jun-22, remaining very strong.
- The Society was issued an updated Total Capital Requirement (TCR) in the first half of 2022 of 10.8% including fixed add-ons, this a reduction from the previous pre-Covid TCR, which totalled 11.1%.
- Coventry's total capital ratio is 36.2% compared to an RWA-based capital requirement of 13.3% (TCR + Capital Conservation Buffer 2.5% + Countercyclical Buffer 0%) giving a 22.9% buffer over TCR on RWA basis.
- The Society's IRB models continue to evolve to comply with required regulatory changes. Initial feedback has been received on required updates and further work is being undertaken. The Society has held additional RWAs from 1 January 2022.
- Basel IV capital requirements are due to be implemented in 2025, with output floor phased in from 50% to 72.5% in 2030. The fully loaded Basel IV capital CET1 ratio was expected c.18.6% based on June 2022 Balance Sheet. The final model output assessment may vary from this assessment.

Leverage

- The UK leverage ratio will not become binding until the Society achieves £50bn of retail deposits but, at 5.0%, the UK leverage ratio is comfortably above the 3.25% minimum level.
- The Society does not have a regulatory leverage requirement today but expects leverage to be the binding capital constraint in the future.

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). The PRA have announced a consultation paper will be issued in Q4 2022.

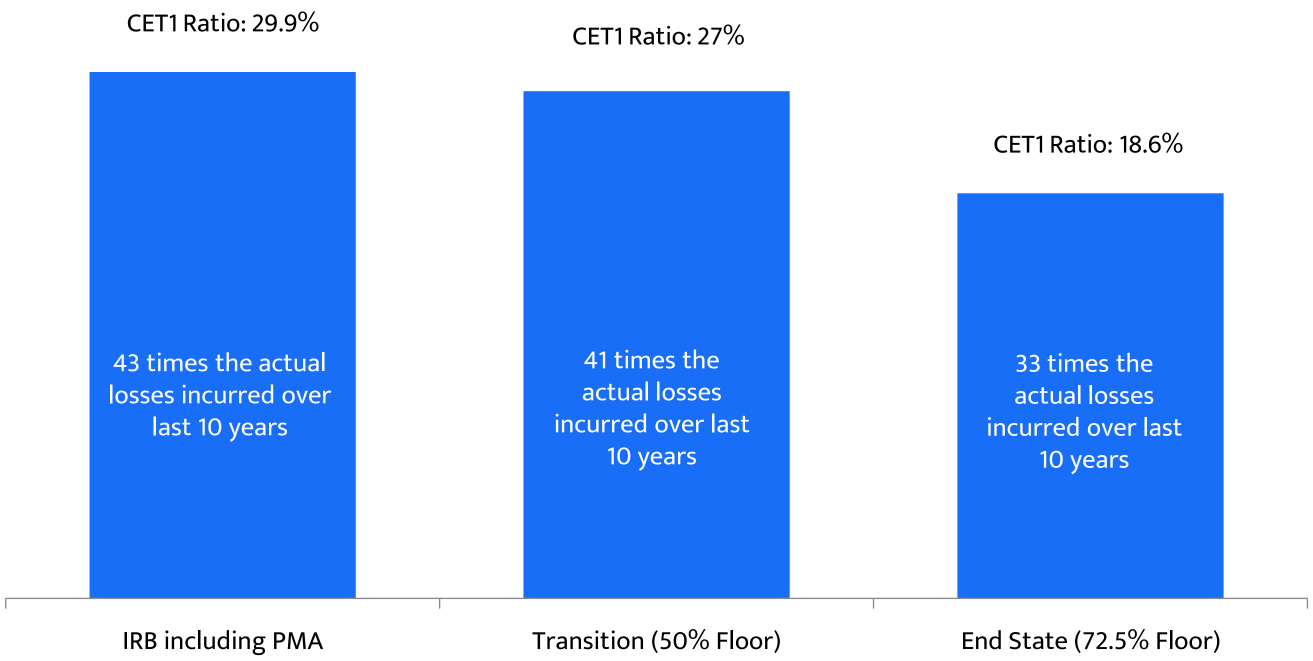
Output floor is expected to be phased in Jan-25 in from 50% to 72.5% expected to be 5 years later.

Assuming the implementation of 50% output floor, the CET1 ratio reduces but remains above 26%, reflecting the impacts of the flooring on a low risk business model.

Surplus CET1 remains considerable, equal to over 33 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 IV RWA floors, which are likely to add downward pressure on reported CET1 ratios in the coming years.

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

MREL

MREL issuance opportunistic until leverage binding

MREL Current

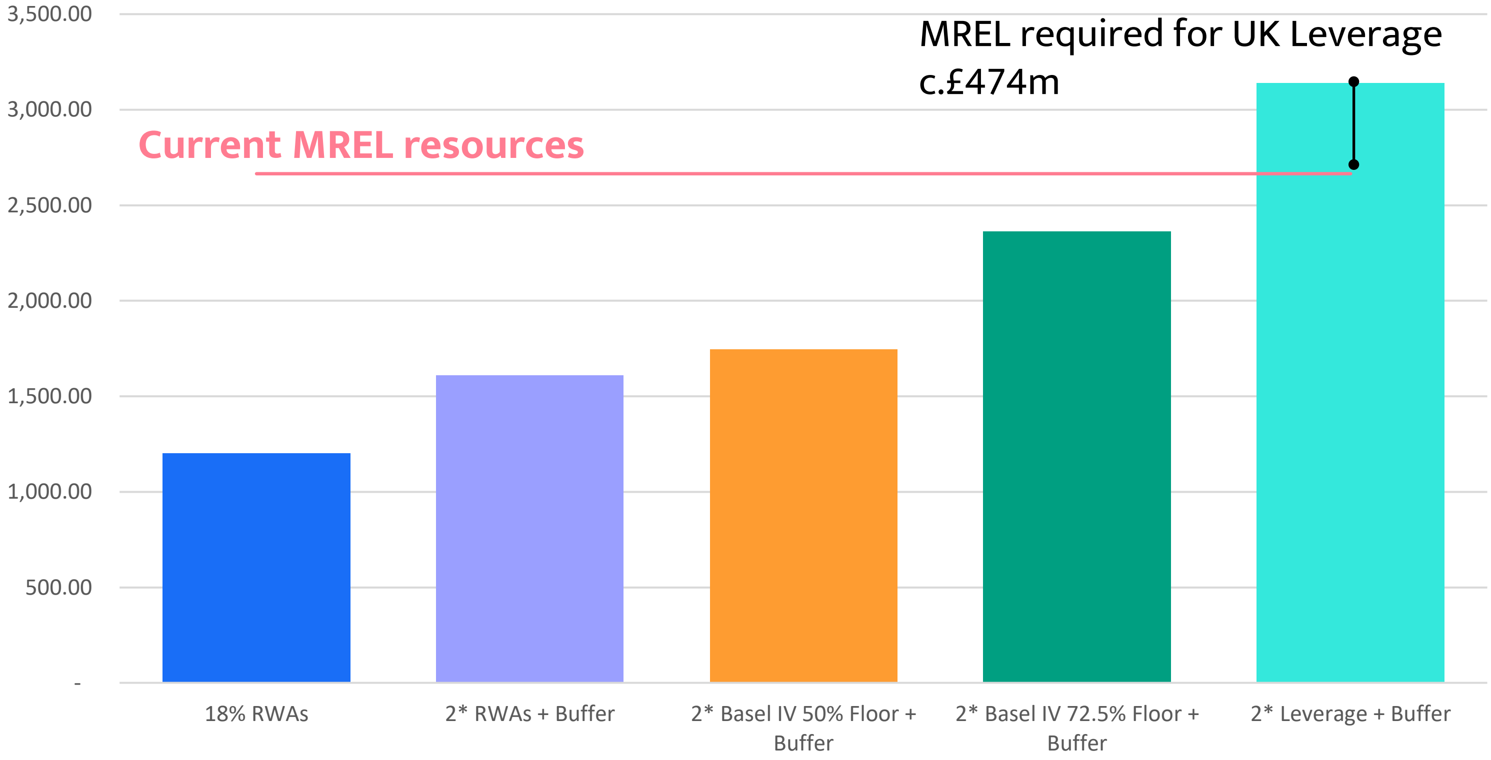
The Society is currently a ‘bail-in’ firm, with a MREL requirement of 18% of RWAs.

MREL End State

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 21.6% 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-22 balance sheet). Following the Bank’s review, 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

	2017	2018	2019	2020	2021	HY 2022
LCR	208%	202%	214%	179%	187%	206%
Loans / Deposits Ratio	113.1%	116.2%	115.1%	112.3%	116.9%	115.8%

Liquidity Management

Liquidity levels 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 2022 was 206.3% (31 December 2021: 187%), significantly in excess of the regulatory minimum.

Loan to Deposit Ratio

The Loan to Deposit ratio was 115.8% reflecting the stable funding profile of the Society.

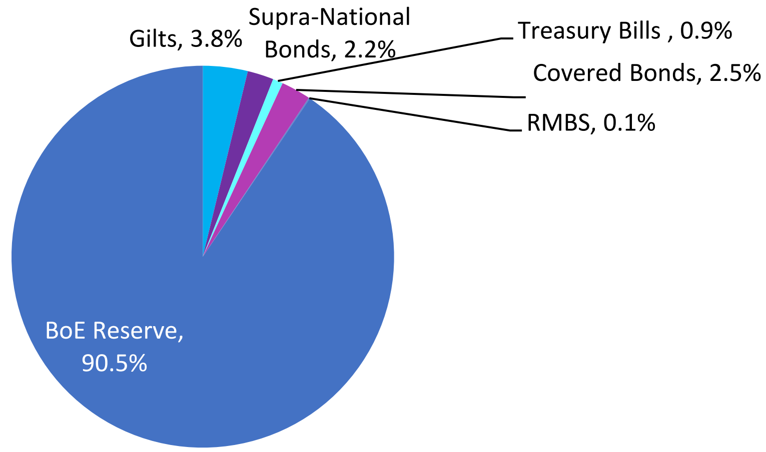
Liquid Assets

The majority of liquid assets of £8.5bn are held as cash in the BoE reserve account, with a small holding of UK Sovereign and Supranational bonds. The Society also continues to invest in UK issued Covered Bonds and RMBS.

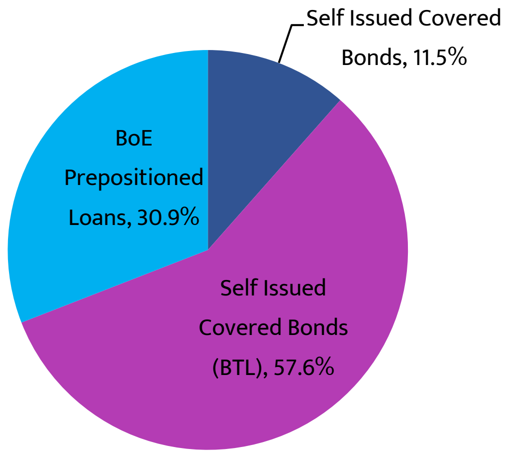
Net Stable Funding Ratio (NSFR)

The Society holds sufficient stable funding to meet the regulatory requirement of 100% NSFR. The NSFR was 136.4% as at 30 June 2022.

High Quality Liquid Assets - £7.2bn



Contingent Liquidity - £4.3bn

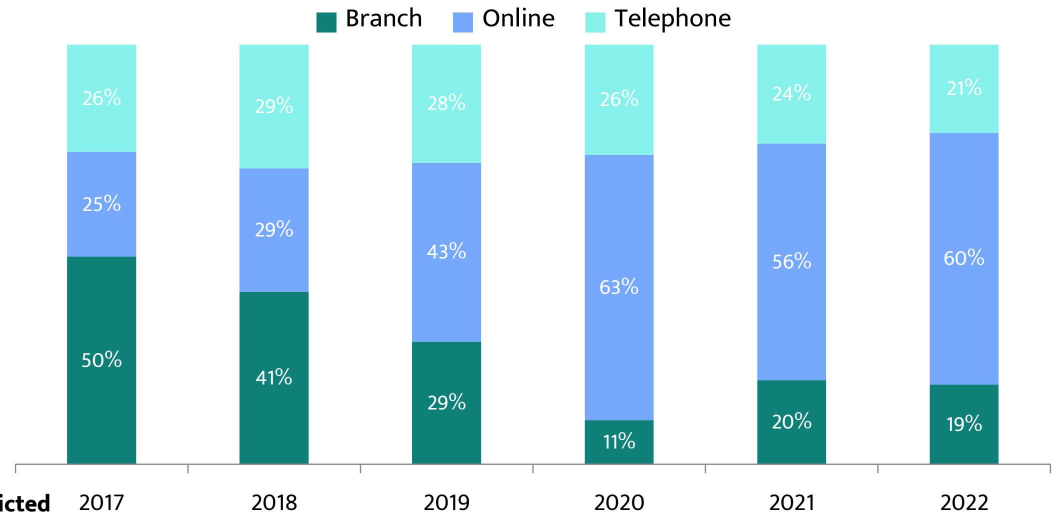


Funding Mix

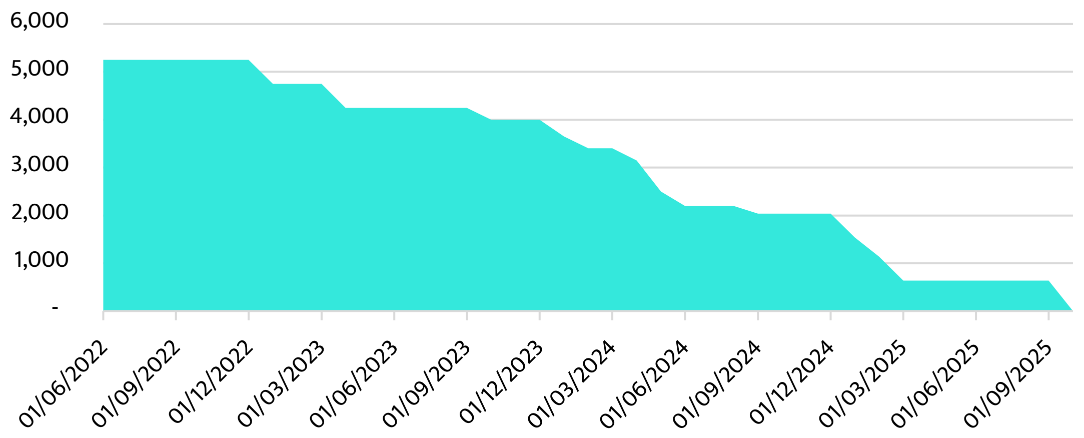
A diverse and stable funding base

- Lending is primarily funded through retail deposits with savings balances increasing by 1.0% in HY 2022 (HY 2021: 2.4% 2021)
- In HY 2022 the Society paid 0.54% above the market average in line with our continued strategy of returning value to members. The Society continues to manage value to members, with £99 million (HY 2021: £100 million) of additional interest paid to savings members as compared with average market rates.
- Our average savings rates increased by 0.35% to 1.12% in the first half of 2022, maintaining our very strong competitive position. This led to further growth of £0.4 billion (30 June 2021: £0.9 billion) in our savings balances, which now exceed £40 billion for the first time.
- We made 0.60% increases on average to our variable rate savings and the same to our flexible variable mortgage customers, limiting the rate rises for customers on our Standard Variable Rate linked mortgages to 0.40% in the first 90bps of Bank of England base rate hikes.
- 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.

Retail Funding by Channel



TFS / TFSME Repayment Profile £m



Wholesale funding franchise

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

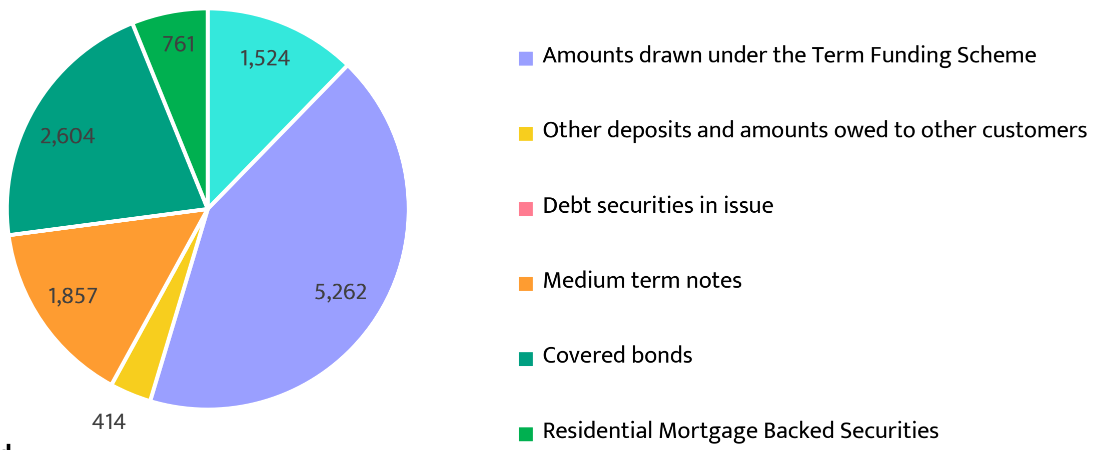
Retail deposits are supplemented by a number of wholesale funding options.

The Society is a programmatic issuer with four different programmes:

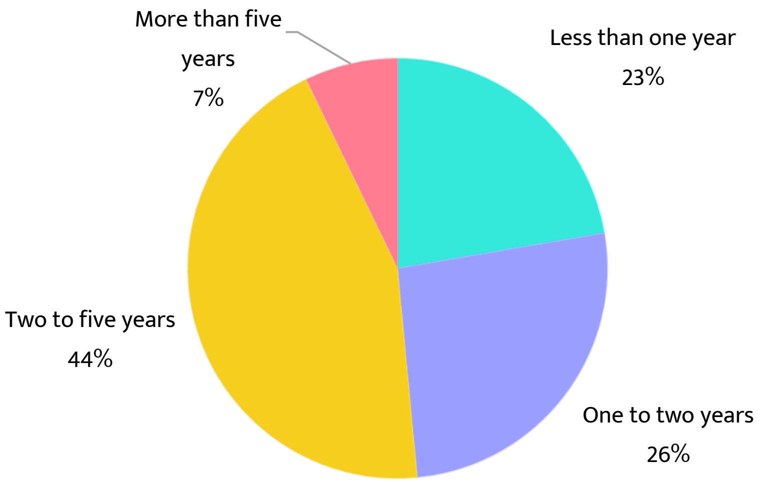
- Covered Bonds
- EMTN
- Economic Master Issuer RMBS
- Godiva Covered Bonds (used for retained issuances)

Wholesale funding in the period has remained broadly stable at £12.4 billion (31 December 2021: £11.9 billion).

Wholesale Funding Outstanding at 30 June 2022 £m

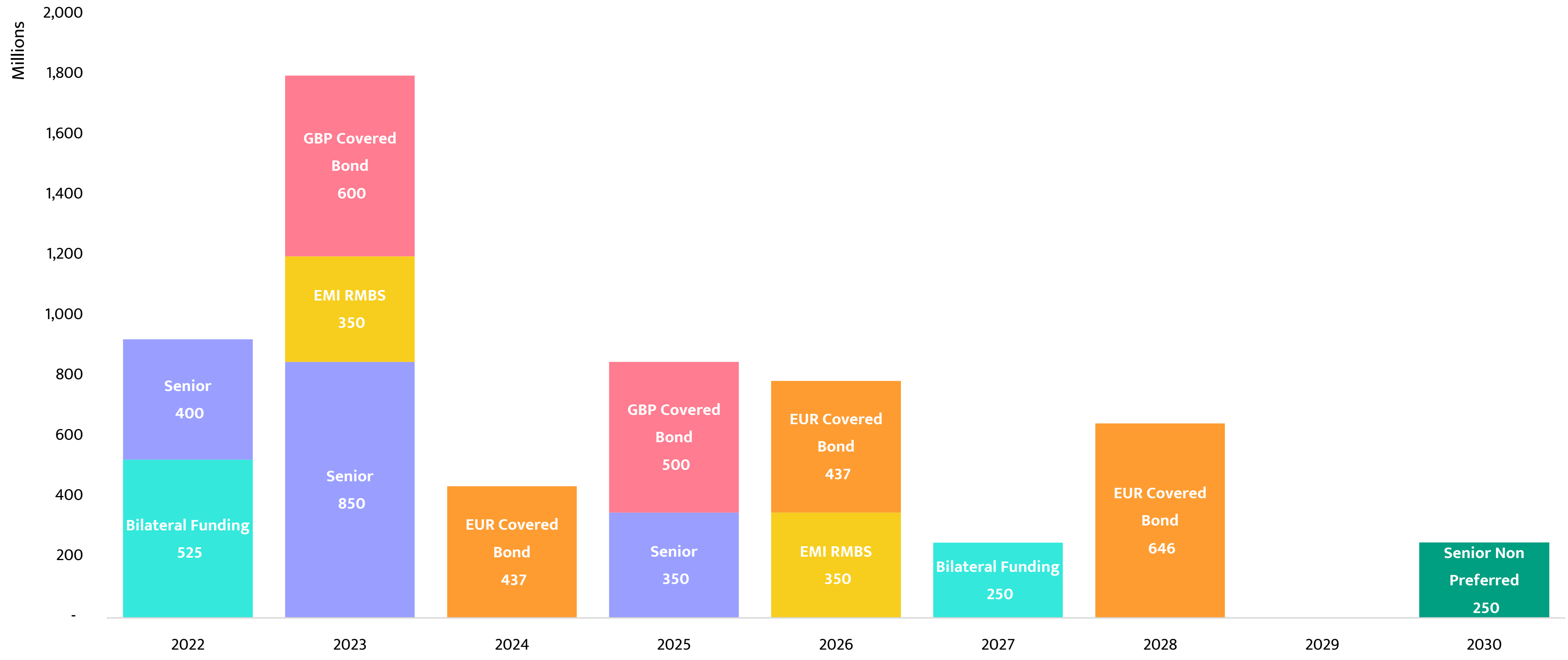


Wholesale Funding Profile %



Wholesale funding profile

Diversification, enabling growth and lowering risk



ESG Priorities and Achievements

Strategy focuses on People, Planet and Prosperity

Key achievements

- Achieved net zero for scope 1 and carbon neutrality for scope 2
- 59% of senior management roles recruited internally (target 50% by 2025)
- First building society to sign up to the Climate Pledge Initiative
- First building society to receive FCA approval for B Corp compliant rules
- Member approval for Society's first Climate Action Plan at 2022 AGM
- 40% of key suppliers have agreed to the supplier code of conduct
- During HY 2022, we helped 2,200 people move into their first home

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 Priority Targets

- 250 apprenticeships over five years from 2021.
- 50% of senior management roles recruited internally by 2025.
- 10,000 children and young people in Coventry supported via education programmes over the three years from 2021.

- Offer career development to enable colleagues to achieve their potential.
- Progress the sustainability agenda with our suppliers.
- 50% of all senior manager and above roles held by women by 2025.
- 25% Black, Asian, Minority Ethnic management roles by 2025.
- All key suppliers have committed to the CBS Supplier Code of Conduct by 2023.

- Number of people supported through “Access to Housing” is 1,000 between 2021 and 2025.
- Supporting 10,000 first time buyers annually by 2023.

- Net zero Scope 3 upstream emissions by the end of 2030.
- Ambition to be net zero by 2040.
- 50% reduction in paper by 2023 compared to 2017 levels.

SDG Priority Achievements

- 67 apprentices at the end of 2021, 41 on programme at as 30 June 2022.
- 59% of senior management roles were recruited internally in the six months to June 2022.
- 1,845 young people in Coventry were supported via education programmes in 2022.
- We created a number of strategic partnerships with charities and schools in the city.

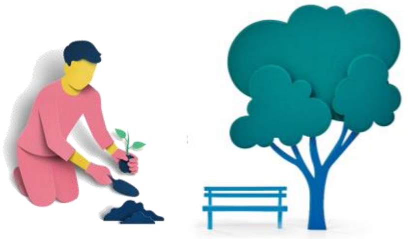
- In the 12 months to end of June 347 colleagues moved to new role internally.
- 37.1% of SM+ roles held by women as at 30 June 2022.
- 12.3% of M+ roles held by colleagues from Black, Asian, ME backgrounds.
- We've launched a talent programme specifically for colleagues from Black, Asian or minority ethnic backgrounds and are reviewing our hiring practices too.
- 40% of key suppliers have agreed to the supplier code of conduct.

- Our staff fundraising event at the Coventry Building Society in May, Pitch In, raised £12,056, which Change into Action estimate will benefit 75 rough sleepers.
- Retention of two experienced debt advisers at the Coventry Citizen’s Advice Bureau amid funding uncertainty.
- During HY 2022, we helped 2,200 people move into their first home.

- Gathered Scope 3 emissions data in line with ISO requirements
- All single use plastic has been removed from our head office sites.
- We are using 100% renewable energy, we have installed solar panels at head office sites and we are transitioning to electric vehicles.
- We only use FSC certified paper.

Key achievements and H2 priorities

We are determined to make a difference



Key achievements in H1 2022	Plans for H2 2022
• First building society to sign up to the Climate Pledge initiative • Gathered Scope 3 emissions data in line with ISO requirements	• Create Pathway to Net Zero by 2040
• First building society to receive FCA approval for B Corp compliant rules • Issued the Society’s first TCFD and GRI compliant Sustainability Report • Member approval for Society’s first Climate Action Plan at 2022 AGM	• Set a Science Based Target (SBTi) • ISO 14064 accreditation expanded to Scope 3 emissions
• Procurement & SRM team awarded the CIPS ethics kitemark, the first building society to receive this recognition.	• Evaluate impact of our education programmes • Launch supplier diversity initiative • Tree planting partnership with Coventry City Council underway
• Launched PawPrint tool for colleagues to assess and reduce their carbon impacts • Launched virtual volunteering	• Launch EV Fleet for colleagues • Air Source Heat Pump & Solar PV install at Godiva House

EPC Portfolio Ratings

	A	B	C	D	E	F	G
31 Dec[1] 2021	0.1%	7.4%	25.6%	44.8%	18.0%	3.4%	0.7%
30 Jun[1] 2022	0.2%	7.5%	26.1%	45.0%	17.4%	3.2%	0.6%
Change	0.1%	0.1%	0.5%	+0.2%	-0.6%	-0.2%	-0.1%

The EPC register records the energy performance certificate (EPC) for 14m properties in England, Wales and Scotland.

Hometrack reviewed EPC data on our portfolio as a proxy for transition risk. We have a strong EPC match of over 80% for the portfolio.

Compared to the Dec 2021 analysis, the EPC position for our portfolio remains broadly unchanged albeit slightly improved - with a 0.7% increase in the A-C property range and a 0.9% decrease in E-G rated properties.

	A	B	C	D	E	F	G
Current	0.2%	7.5%	26.1%	45.5%	17.4%	3.2%	0.6%
Potential	4.2%	48.9%	37.0%	7.8%	1.7%	0.3%	0.1%

The EPC also records the cost of improving the property from the current energy efficiency to the potential energy efficiency. On a portfolio level, CBS is focussed on the D-G range. If all properties were retrofitted to their potential, this figure would change dramatically.

1. The figures above exclude properties where we do not have an actual EPC. We have a valid EPC for 80% of the current mortgage book by value.

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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 2021

ESG Ratings	Score	Date
MSCI	BBB	June 2022
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

Summary Financial Statements

Balance Sheet summary

	HY 30 Jun 2022 £m	HY 30 June 2021 (Unaudited) £m
Assets		
Loans and advances to customers	**46,642.7**	45,869.6
Liquidity	**8,543.2**	7,099.3
Other	**403.9**	454.3
Total assets	**55,589.8**	53,423.2
Liabilities		
Retail funding	**40,291.6**	39,079.4
Wholesale funding	**12,422.3**	11,564.9
Subordinated liabilities and subscribed capital	**56.9**	67.1
Other	**186.2**	399.8
Total liabilities	**52,957.0**	51,111.2
Equity		
General reserve	**2,121.7**	1,927.3
Other equity instruments	**415.0**	415.0
Other	**96.1**	(30.3)
Total equity	**2,632.8**	2,312.0
Total liabilities and equity	**55,589.8**	53,423.2

Income Statement summary

	HY 30 Jun 2022 £m	HY 30 June 2021 (Unaudited) £m
Net interest income	**304.2**	227.7
Other income	**0.4**	(0.8)
Gain/(loss) on derivatives and hedge accounting	**(4.9)**	4.6
Total income	**299.7**	231.5
Management expenses	**(138.8))**	(123.9)
Expected credit losses	**(2.3)**	17.1
Provisions	**-**	-
Charitable donation to Poppy Appeal	**(0.3)**	(0.3)
Profit before tax	**158.3**	124.4

Financial strength

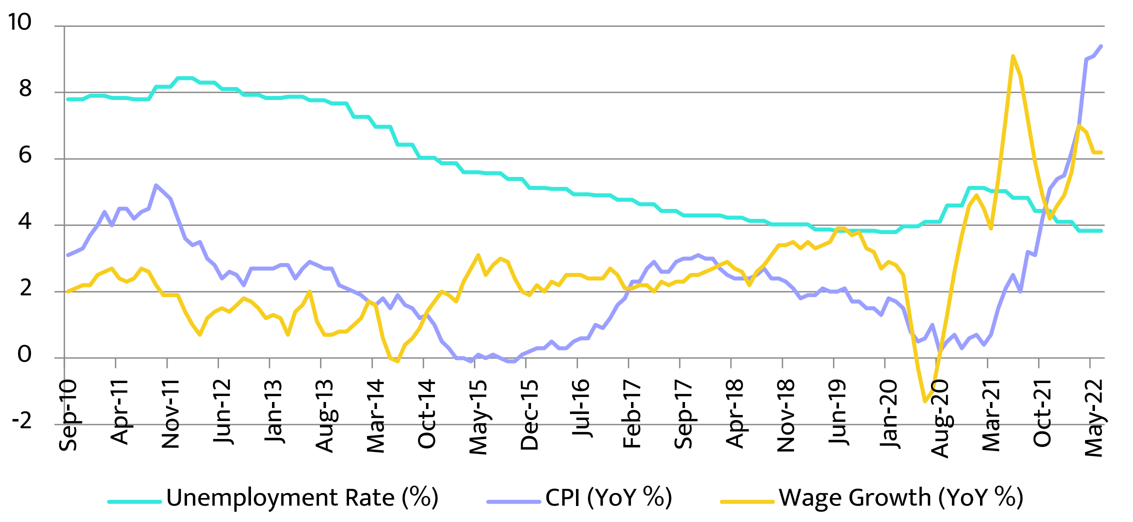
Key metrics remain robust

%	2015	2016	2017	2018	2019	2020	HY 2021	2021	HY 2022
Net interest margin / mean assets	1.11	1.06	1.02	0.96	0.83	0.81	0.88	0.90	1.11
Cost/ mean total assets (including Investment)	0.42	0.41	0.42	0.50	0.48	0.49	0.48	0.50	0.50
Cost / income ratio (including Investment)	37.2	37.9	40.4	52.3	60.4	60.2	54.0	56.3	46.0
Retained profit / mean assets	0.52	0.5	0.46	0.35	0.25	0.20	0.19	0.36	0.23
Liquidity (as percentage of SDL)	13.8	13.5	15.5	14.7	13.8	12.8	13.3	14.7	16.2
Wholesale funding	20	21.6	22.7	23.7	21.4	19.8	21.2	21.7	22.7
Mortgage assets growth	9.1	11.8	9.3	9.3	7.6	3.0	5.5	7.2	0.0
Common Equity Tier 1 ratio	29.4	32.2	34.9	35.5	32.0	33.0	35.2	36.2	29.9
UK Leverage Ratio	4.4	4.4	4.6	4.6	4.4	4.6	4.7	4.8	5.0
Liquidity Coverage Ratio (LCR)	141	151	208	202	214	179	174	187	206

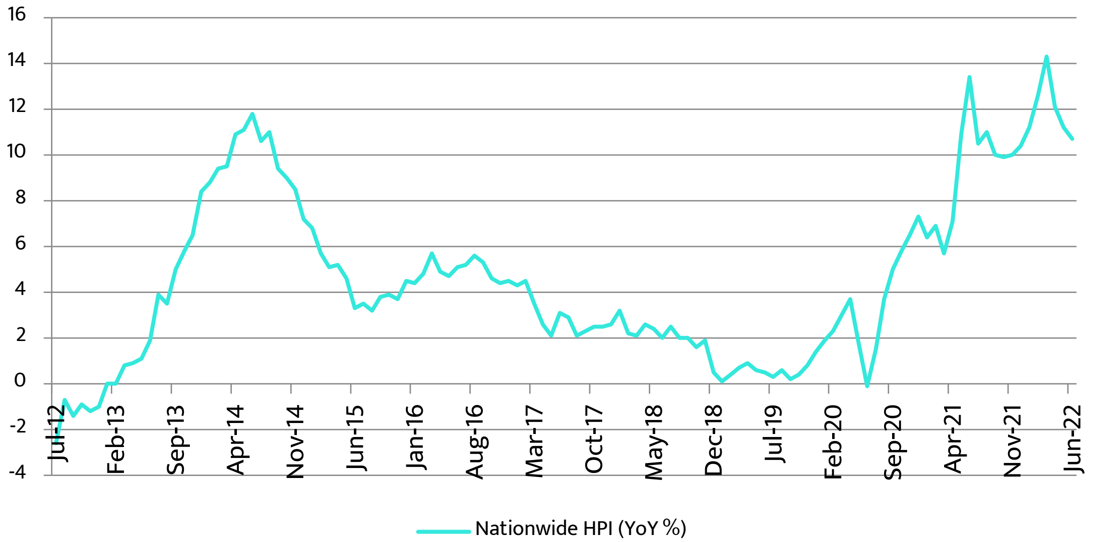
- Growth was moderated in H1 2022 to build capital and not compete aggressively at lower margins.
- Simple business model keeps costs low, with manex and cost income strong versus peers in the sector.
- CET1 ratio is one of the highest reported by any top 20 lender. Capital strength and low losses key for the Society.
- Liquidity significantly in excess of regulatory minimum with a comfortable buffer to protect against economic uncertainty.

UK Economy

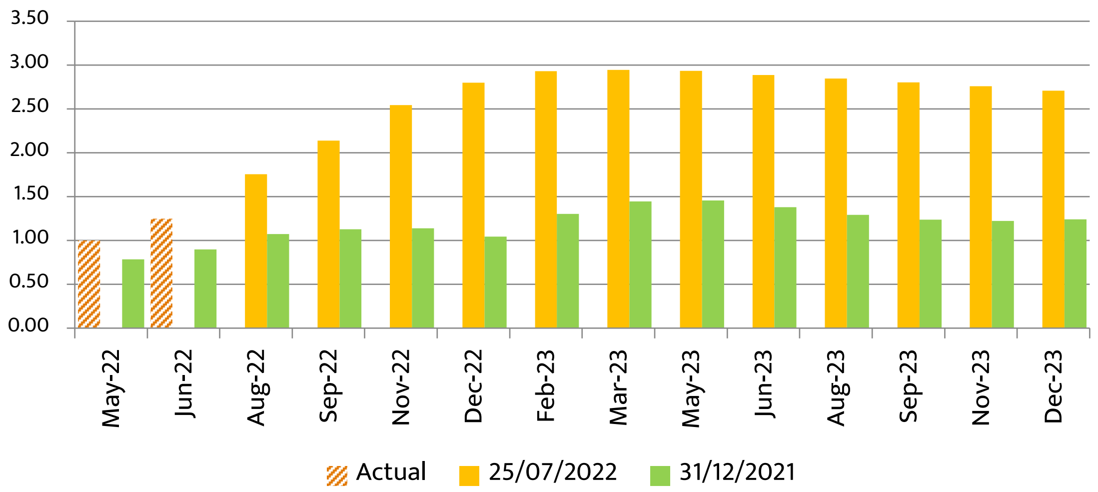
Unemployment and Inflation



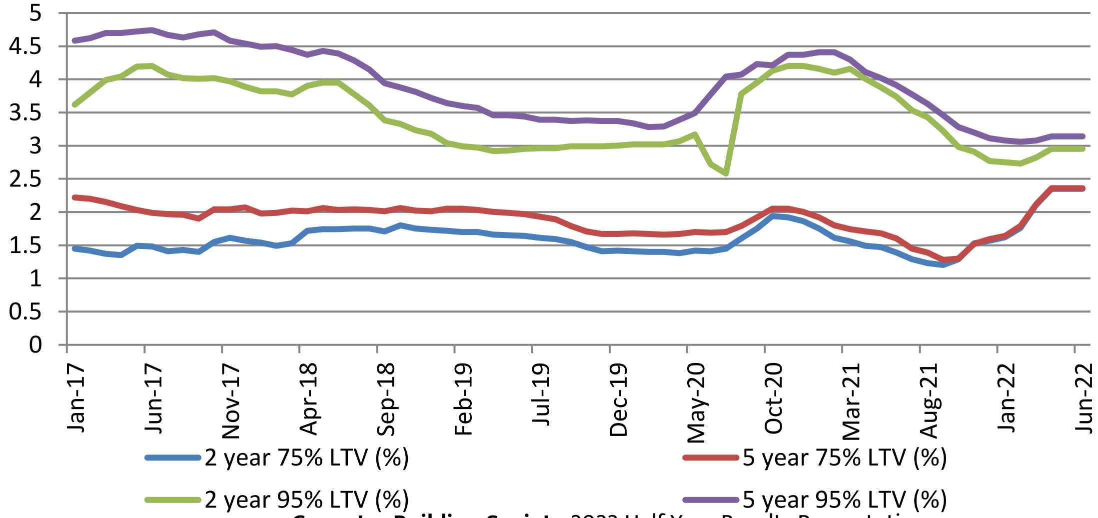
House Price Growth



Base Rate Expectation



Mortgage rates



Source: ONS data