Half-year Report

COVENTRY BUILDING SOCIETY

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News release

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Robust performance for Coventry Building Society allows it to continue long-term support for members, colleagues, brokers and communities

Commenting on these results, Steve Hughes, Chief Executive Coventry Building Society, said:

"This is a robust performance in a challenging environment. We continue to balance the needs of savers and borrowers by offering long term value, strengthening our capital base and investing in the Society's future. This investment is delivering improved resilience, better member and broker services and ensuring that we remain relevant for the future as we digitise the business whilst keeping our human touch. We're doing more to support colleagues and those who need it most in the communities where we live and work. It's during tough times that organisations like ours remain true to their purpose and we're able to do this because of the strength of our business model that focuses on the long-term."

A robust financial performance

- **Profit before tax of £158m** (H1 2021: £124m). Increase in profits underpinned by the rising interest rate environment which provides a platform for growth and investment ensuring our capital position remains strong and resilient in these uncertain times.
- **Net Interest Margin of 1.11%** (H1 2021: 0.88%). The improvement in margin has helped the Society take a balanced view, supporting savers and protecting mortgage customers in a rising interest rate environment.
- **Common Equity Tier 1 (CET 1) ratio remains well above statutory requirements at 29.9%** despite changes to regulatory risk weighted asset requirements (FY 2021: 36.2[1]%). The Society's Leverage Ratio increased to 5.0% (FY 2021: 4.8%), with the Liquidity Coverage Ratio increasing to 206% (FY 2021: 187%).

A balanced trading performance

- **Gross mortgage lending of £3.8bn enabled overall balances to be maintained.** The Society has taken a deliberately cautious approach to lending to ensure it remains safe and secure for members in an uncertain economic environment and very competitive market.
- **Savings balances grew by £0.4bn to £40.3bn** supporting savings members with an average savings rate of 0.85[2]% (H1 2021: 0.86[2]%), that is 0.54[2]% (H1 2021: 0.56[2]) higher than the market average, whilst launching a new range of loyalty savings bonds benefitting tens of thousands of loyal members.

Delivering consistently excellent service while investing to meet the changing needs of members and stakeholders

- **Outstanding customer service** increasing the Experience Net Promoter Score[3] from +73 (H1 2021) to +77 (H1 2022).
- **Invested £47m in H1 2022** in technology infrastructure, digital transformation and the branch network, whilst maintaining **a cost to mean asset ratio[4] of 0.50%** amongst the lowest of any UK

building society. The cost/income ratio[5] improved to 46% reflecting the increase in margin performance.

More community support, a member-approved climate plan and a Great Place to Work

- **£0.7m direct funding to address issues of homelessness, social isolation and equipping young people with financial and career skills.** Colleagues volunteered more than 3,000 hours to support local community initiatives, including working with primary and secondary school students on numeracy, literacy and skills programmes.
- **Responding to climate change** Members approved the Society's Climate Action Plan at the 2022 AGM, including the ambition to achieve net zero by 2040.
- **Ranked Top Twenty overall in first Great Place to Work league table of super-large organisations**, as well as one of the best places to work for Women in large UK companies.

Chief Executive review

We have taken a balanced approach to managing the Society, which has increased profitability and investment in the near term, and maintained our strong capital position.

The economic conditions have led The Bank of England to increase Bank Rate four times in the first half of 2022 from 0.25% to 1.25%. We are expecting further increases during 2022 as the rate of inflation continues to present a significant challenge to the economy.

We have taken a deliberately cautious approach to lending that reflects both the uncertain market conditions, and competitive margin pressures. Redemptions are also running higher than in previous years with more borrowers choosing to pay early redemption charges in order to lock into lower mortgage rates ahead of anticipated increases in the Bank of England Bank Rate. Collectively this has meant mortgage balances have been maintained at £46.6 billion.

As we look ahead to the next six months, it is likely that demand for mortgage borrowing will continue to focus more on re-mortgages as home-owners seek certainty in what has become a very uncertain world. Ensuring that we remain a safe and secure place to save and borrow remains our priority, as is our focus on exceptional service and investing in the Society's future.

Our profit before tax of £158 million for the six months to 30 June 2022 compares with £124 million reported in the same period of 2021. This has been supported by the increases in Bank of England Bank Rate which have improved our margin and income performance. This has ensured our capital position remains strong despite changes to the regulatory environment and provides resilience in uncertain times.

A higher cost of living may limit people's ability to save and we will always work hard to provide the best value savings we can afford whilst ensuring we maintain our financial resilience.

We have supported savings members as interest rates have risen. Our average savings rates[6] increased by 0.35% to 1.12% in the first half of 2022, maintaining our very strong competitive position. This kept our average savings rate 0.54% higher than the market average meaning we paid an additional £99 million[7] of interest to our members than if we'd simply matched the average rates paid in the market (30 June 2021: 0.56%, £100 million)[7].

This helped grow our savings balances by £0.4 billion (30 June 2021: £0.9 billion), with overall balances exceeding £40 billion for the first time.

We also matched the average increase on our variable rate savings of 0.60% with the same average increase on our flexible variable mortgage rates. This together with limiting increases to our Standard Variable Rate linked mortgages to 0.40% shows our balanced and member-focussed approach to a rising interest rate environment.

We were able to offer higher rate savings bonds, including new loyalty bonds too. These products have been popular in the first six months of this year with members welcoming these additional options demonstrated by 70,000 members taking advantage of these great products at the time of writing.

While it is a challenging time for both savers and borrowers we have taken a balanced view for the whole of the Society. This means paying the best savings rates we can afford to our members, whilst maintaining our focus on financial resilience and protecting our mortgage customers too.

Our members and intermediary partners tell us how much they value the exceptional service my colleagues provide, which continues to differentiate us from other organisations.

We use a Net Promoter Score[3] to measure satisfaction. Our overall score currently stands at an outstanding +77, an increase of +4 from 30 June 2021. It is unsurprising, given this performance, that we have been re-awarded Gold Ribbons for customer experience for both savings and mortgages by Fairer Finance.

A simple example of this is the average time we take to answer the phone which stands at 97 seconds[8] on average so far this year (30 June 2021: 51 seconds). It's been a busy time, with customers contacting us more often and with more complex queries as interest rates have risen. I am really proud of the way our colleagues continue to offer such a brilliant and quick response to our members needs.

Our ability to deliver exceptional service as we grow will depend on our continued delivery of digital enhancements to both the savings and mortgage sides of the business.

We are maintaining this service focus with new capabilities coming on stream throughout the year, increasing the ability of members and brokers to self-serve whilst improving efficiency in the process. Notable enhancements during the first half of the year include digitising product switch capability for residential mortgages plus elements of our savings maturity process, as well as launching a webchat service for brokers and members. These are all examples of investing in making our services easier to access and scalable in support of our long term growth ambitions.

We talk about digital with a human touch, and our commitment to the personal service delivered through branches and contact centres is undiminished. During the last six months we have almost completed our branch investment programme, which will see all branches refurbished in a modern, warm and welcoming style. They are at the heart of their local communities, and the feedback we have received from members and colleagues alike has been fantastic. Fittingly, the final branch to be completed will be a new site in the heart of Coventry city centre, which is on track to open this autumn.

The '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. Again, these are significant investments in the long-term security and efficiency of the Society and we are increasingly seeing the benefit as we deliver these complex but critical programmes.

It is important that we invest wisely and during the six months to 30 June 2022 we kept our cost to mean assets ratio of 0.50%[4] which remains one of 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 and cost of living challenges.

We do not take our colleagues' commitment to the Society lightly and continue to work really hard to reward their contribution as well as create a fantastic environment for them to develop and succeed.

It was great to be publicly recognised as one of the best places in the UK to work following our first entry to the Great Place to Work survey.

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. One of our priorities is to adapt to hybrid working - a way of doing things that brings many benefits of increased flexibility but presents challenges too. Ensuring we're investing in our people and giving opportunities to engage, collaborate and connect with each other is key to maintaining a successful culture, and attracting and retaining talent at the Society.

Nowhere is this more important than building an inclusive and diverse workforce. I've talked in previous reports about our ambition to reflect the diversity of our city and the communities we serve. Following last year's submission, Great Place to Work also recently recognised us as one of the best places to work for women, ranking us 14th amongst the top 39 super large companies in this regard. One of our targets is for 50% of management roles to be held by women by 2025 and we are making real progress towards this, with women in 45% of management positions. We have a similar ambition for 25% of our manager and above roles to be held by colleagues with a Black, Asian or Minority Ethnic background by 2025. Progress against this metric is slower and so this year we've launched a talent programme specifically for colleagues from Black, Asian or Minority Ethnic backgrounds and are reviewing our hiring practices too. We are determined to make a difference.

We continue to make good progress in pursuit of our climate change objectives, being the first large building society to position sustainability within the Society's rules, an approach agreed by the FCA, as well as presenting our Climate Action Plan to a membership vote at our 2022 AGM.

The support was overwhelming, and we continue to press ahead. In the last six months we have signed The Climate Pledge[9], having demonstrated our transparency of reporting, our commitment to net zero plans, and our progress in already achieving net zero for Scope 1 and carbon neutrality for Scope 2 emissions. We incentivise and support work that improves the energy efficiency of existing housing stock and plan to do more in this area. We have joined the Science Based Targets Initiative and applied for BCorp[10] status and will update on both in future reports.

Investing in the governance of our sustainability strategy, whether through engaging members or applying independent scrutiny to our activities shows we are doing the right things in the right way. It extends to our social impact too, where we are supporting a trial with the leading global framework for measuring social impact (B4SI[11]) to evaluate the difference organisations are making through their community activities.

At a time when cost of living increases are being felt by members and non-members alike, we understand that many people's priorities are simply to make ends meet. We work really hard to help members who find themselves in financial difficulties. And we have extended the support we offer in partnership with national and local charities to provide a safety net to many families struggling in the current environment.

This builds upon our community strategy by which we are targeting issues of financial education and aspiration, access to housing and isolation and vulnerability.

I am really pleased with the progress we are making in building long term partnerships with public, third sector and business organisations. A particular highlight for me was the Seeing is Believing event, co-organised with the charity, Business in the Community, which demonstrated the fantastic work being done by charities in our most deprived areas. It really brought home to me the challenges our communities face but also the immense contribution businesses can make by applying their skills, knowledge and resources to the problems being faced by so many today. And I really appreciate that our branches play a vital role in sustaining and supporting local communities across the country. We will continue to report our social impact through our annual sustainability report which can be found on our website.

This review also comes as Coventry's time as the UK City of Culture officially comes to an end. Although altered by the pandemic I am proud to have supported something that has showcased the best of the city whilst helping to transform many aspects of it. The legacy of this investment will be felt for years to come and help change many people's perception of this young, diverse and energetic city.

We are looking to change perceptions too. Coventry Building Society will grow and succeed by being better known and this is why we continue to invest in increasing brand awareness. The sponsorship of the Coventry Building Society Arena has put us on the map, with great visibility from the sporting, entertainment and business events it holds. We are starting to see the impact in terms of increased awareness of the Society, and it is proving the focal point we hoped for in our community and colleague engagement.

Taking the long-term view lies at the heart of our performance.

I have said many times that the strength of the mutual business model is our ability to take the long-term view, working in the interests of members, colleagues, investors, business partners and local communities. Profit and capital provide resilience and a platform for investment. Our members see the benefit of the model through the value we offer, the service we provide and the impact we can have on them and their communities. We also invest for the future to ensure a thriving and relevant business for current and future members. All of this underpinned by investment in our colleagues , their careers and development.

In April, we said goodbye to Gary Hoffman, our Chair since 2018 and a fantastic advocate of the Society and what we do. I want to take this opportunity to thank him for his support to me personally and all that he has done for the Society during a period of great change.

At the same time, I would like to welcome David Thorburn our new Chair. David brings great experience and credibility to the role, but just as importantly shares the Values and ambition of a Society that continues to strive to improve. I am very much looking forward to working with him over the coming years.

Outlook

It is a challenging time. The economic fallout from the pandemic, exacerbated by the tragic events in Ukraine, will be the key influence on the lives of our members, colleagues and communities in the immediate future. It is likely there will be a period of retrenchment, if not recession, with implications for the type and level of activity we'll see in both the savings and mortgage markets.

At the same time, the rising interest rate environment will be welcomed by many of our members who rely on savings interest to bolster their income.

As I mentioned earlier, one of the strengths of the Society's business model is our ability to manage through tough times. Our priority is to protect the interests of our members over the long term, and we remain focused on doing so.

This means we will continue to deliver value and exceptional service, whilst investing for the future. It requires a sustainable financial performance and strong capital position, and we continue to deliver both. The Society is well placed to support our members, colleagues and communities delivering security and stability in an uncertain world, whilst proactively engaging with all stakeholders in line with our brand promise, All Together, Better.

I'd like to finish by thanking my colleagues across the Society who through their hard work make all this possible, and our members for the loyalty and trust they give us.

1. From the 1 January 2022 the Society applied a new calculation methodology in order to comply with new regulatory changes. A comparative ratio for 31 December 2021 under this new methodology would have been 26.6%.

2. 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 for the five months ended 31 May 2022. Comparative numbers have been updated to reflect a consistent basis with those used at 31 December 2021, previously disclosed number was 0.53% higher than the average market rate.

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

4. Administrative expenses, depreciation and amortisation/Average total assets.

5. Administrative expenses, depreciation and amortisation/Total income.

6. Based on the average month end rate across the Society's mix of products for savings accounts, excluding current accounts and offset savings for the first six months of the year.

7. 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 for the five months ended 31 May 2022. Comparative numbers have been updated to reflect a consistent basis with those used at 31 December 2021, previously disclosed numbers 0.53% and £100 million respectively.

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

9. Companies and organisations that sign the Pledge agree to measure and report greenhouse gas emissions on a regular basis and implement decarbonisation strategies in line with the Paris Agreement with an overall goal to achieve net-zero annual carbon emissions by 2040.

10. B Corp status is the highest sustainability accolade awarded to organisations by the Science Based Targets Initiative.

11. The B4SI Framework is a robust measurement standard that any company can apply to understand the difference their contributions make to their business and society.

Financial Review

Income Statement

	Period to 30 Jun 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Interest receivable	**547.5**	406.9	833.9
Interest payable	**(243.3)**	(179.2)	(357.7)
Net interest income	**304.2**	227.7	476.2
Other income	**0.4**	(0.8)	(1.4)
(Losses)/gains on derivatives and hedge accounting	**(4.9)**	4.6	(6.6)
Total income	**299.7**	231.5	468.2
Management expenses	**(138.8)**	(123.9)	(263.5)
Impairment (charge)/release	**(2.3)**	17.1	28.7
Provisions	**-**	-	-
Charitable donation to Poppy Appeal	**(0.3)**	(0.3)	(0.6)
Profit before tax	**158.3**	124.4	232.8

Net interest income for the period was £304 million (30 June 2021: £228 million). The increase in net interest income of £76 million includes the impact of the charge recognised in the prior year due to changes made to the estimations within our Effective Interest Rate (EIR) calculation of £27 million explained below. The increase is due to improved performance in our savings portfolio as a result a lower cost of variable savings balances where we have passed on 52% of the 1.15% increase in the Bank of England Bank Rate, the benefit of lending growth in our book from prior year, offset by a reduction in our mortgage returns following the recent competitive pressure in the secured lending market. This improved performance delivered a Net Interest Margin (NIM) of 1.11% (30 June 2021: 0.88%).

Net interest income in the prior year included a charge of £27 million relating to a change to the future assumptions on mortgage redemption behaviour as customers spend less time on SVR, a trend that has continued to be observed into 2022. More information is included in note 3 to the accounts.

Losses on derivatives and hedge accounting of £5 million (30 June 2021: £5 million gain). The Society uses derivative financial instruments to manage interest rate and currency risks arising from its mortgage and savings activity and from wholesale funding, including non-sterling issuances.

The loss in the first half of the year represents fair value movements on savings derivatives which were not yet designated into hedge relationships.

Management expenses including depreciation and amortisation for the period were £139 million (30 June 2021: £124 million). The increase in costs of £15 million was primarily driven by an increase of £8 million in spending related to the Society's strategic investment programme 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 brand including the Coventry Building Society Arena.

The total spend on investment programmes including capital expenditure of £47 million (30 June 2021: £44 million) has been focused on activity to modernise our services which has included the ongoing redesign of the branch network, the implementation of a new mortgage platform and investment to improve our digital capability. In addition, we continue to focus on improving the resilience of services for members, whilst maintaining our strong focus on cost efficiency.

The cost to mean assets ratio of 0.50%[1] is broadly in line with the first six months of 2021 and is expected to remain among the lowest in the building society sector[2]. The cost to income ratio has improved to 46%[3] (30 June 2021: 54%) reflecting the growth in income relative to our cost base in the period.

Expected credit losses

The performance of our mortgage book has improved with the overall economic outlook being better in certain key metrics than anticipated as at 31 December 2021 with the continued growth in house prices and observed lower unemployment levels. Despite these measures improving, with rising inflation and a cost of living crisis the Society has incorporated a 5th economic scenario into its models to account for a period of heightened inflation and the subsequent impact to the economy and in turn Expected Credit Losses (ECLs). As well as incorporating a new scenario we have introduced a new post model adjustment (PMA) to reflect the potential risk associated to the increase in cost of living for borrowers, and potential for increased levels of arrears which have not yet been identified within the Society's impairment models, despite the current low levels being observed and strong affordability lending measures used by the Society. As a result of this the ECL provision has increased to £21 million (31 December 2021: £19 million) reflecting a reduction of £2.5 million due to improved performance and economic scenarios offset by a £4.5 million post model adjustment for cost of living resulting in a net charge of £2 million being recognised in the Income Statement (30 June 2021: release of £17 million).

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 within markets as the economy continues to recover from the pandemic hindered by the wider global economic factors resulting in rising costs of living.

Of the total expected credit loss provision, £11 million (31 December 2021: £9 million) relates to PMAs where existing models do not fully reflect the expected credit loss given the market environment. These adjustments include the new cost of living PMA noted above, potential for losses as a result of cladding remediation where fire safety standards have not yet been met and the continued roll off of those customers who took Covid-19 payment holidays as well as smaller adjustments for risks that cannot easily be modelled. More information on the calculation of the PMAs is included in note 7 to the accounts.

The remaining £10 million of provision relates to the modelled ECL provision across a range of alternative economic scenarios, including the newly incorporated 5th Stagflation scenario, which reflect various possible outcomes as the economy recovers from the pandemic and the current impact of cost of living on affordability.

As a result of these changes the ECL provision now equates to 0.05% of the overall mortgage book (31 December 2021: 0.04%).

Under IFRS 9 the Society is required to categorise its mortgages into one of three 'stages'. 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 default or 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%).

More information on the calculation of ECL is included in note 7 and 10 to the accounts.

The **Corporation tax** charge represents an effective rate of tax of 20.9% (30 June 2021: 20.4%). The increase in rate is driven by the increase in profits during the year including the impact of the 8.0% banking surcharge.

Balance Sheet

	30 Jun 2022 (Unaudited) £m	30 Jun 2021 (Unaudited) £m	31 Dec 2021 (Audited) £m
Assets			
Loans and advances to customers	**46,642.7**	45,869.6	46,620.6
Liquidity	**8,543.2**	7,099.3	7,622.0
Other	**403.9**	454.3	287.1
Total assets	**55,589.8**	53,423.2	54,529.7
Liabilities			
Retail savings	**40,291.6**	39,079.4	39,890.2
Wholesale funding	**12,422.3**	11,564.9	11,907.3
Subordinated liabilities and subscribed capital	**56.9**	67.1	56.9
Other	**186.2**	399.8	215.7
Total liabilities	**52,957.0**	51,111.2	52,070.1
Equity			
General reserve	**2,121.7**	1,927.3	2,012.6
Other equity instruments	**415.0**	415.0	415.0
Other	**96.1**	(30.3)	32.0
Total equity	**2,632.8**	2,312.0	2,459.6
Total liabilities and equity	**55,589.8**	53,423.2	54,529.7

Loans and advances to customers: 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 Society manages its growth according to economic conditions, market pricing and funding conditions; as a result, with mortgage margin pressure within the market the Society has continued to moderate its growth as seen in the second half of 2021. This decision has led to the overall loan book being kept broadly 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 look for rate certainty and continue to lock in to longer term fixed products in response to Bank Rate rises. As at 30 June 2022 there are indications of improvements within the market with a stablisation of margins and the Society expects to see growth in H2.

The balance weighted average indexed loan to value of the mortgage portfolio has reduced to 48.6% at 30 June 2022 (31 December 2021: 50.9%) predominantly as a result of continued growth in house prices.

Liquidity: On-balance sheet liquid assets have increased to £8.5 billion (31 December 2021: £7.6 billion) and the Liquidity Coverage Ratio (LCR) at 30 June 2022 was 206% (31 December 2021: 187%), significantly in excess of the regulatory minimum.

Retail savings: The Society continues to be predominantly funded by retail savings, with balances of £40.3 billion at 30 June 2022 (31 December 2021: £39.9 billion) and growth of £0.4 billion in the first six months of the year.

Wholesale funding: The Society uses wholesale funding[4] 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 (31 December 2021: £11.9 billion).

The Society previously accessed the Bank of England's Term Funding Schemes with balances of £5.25 billion outstanding at 30 June 2022 (31 December 2021: £5.25 billion).

Pension benefit surplus (included in Other assets): The pension benefit surplus has decreased to £27 million (31 December 2021: £29 million) as a result of volatility in financial markets which has impacted the valuation of the scheme assets largely offset by reductions in the pension obligation.

General reserves: The growth in General reserves of £109 million in the first half of the year (30 June 2021: £92 million) reflects retained profit for the period of £125 million (30 June 2021: £99 million), loss on remeasurement of the defined benefit pension scheme of £2 million (30 June 2021: gain of £7 million) and £14 million distribution to Additional Tier 1 capital holders (30 June 2021: £14 million).

Total equity: Total equity has increased by £0.1 billion to £2.6 billion (31 December 2021: £2.5 billion).

Capital Ratios

The table below provides a summary of the Society's capital resources and CRD IV ratios on an end-point basis (i.e. assuming all CRD IV requirements were in force in full with no transitional provisions permitted).

	End-point 30 Jun 2022 £m	End-point 30 Jun 2021 £m	End-point 31 Dec 2021 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**2,000.5**	1,853.6	1,921.8
Total Tier 1 capital	**2,415.5**	2,268.6	2,336.8
Total Tier 2 capital	**-**	-	-
Total capital	**2,415.5**	2,268.6	2,336.8
Risk weighted assets	**6,680.8**	5,265.7	5,303.6

CRD IV ratios:	**%**	%	%
Common Equity Tier 1 (CET 1) ratio[5]	**29.9**	35.2	36.2
UK Leverage ratio	**5.0**	4.7	4.8

The table above shows the capital position at 30 June 2022. The ratios include additional risk weighted assets (RWAs) held for regulatory changes that are currently not reflected in the IRB models, as previously disclosed within the 2021 Annual Report & Accounts. The Society has submitted updated models but has yet to receive approval for changes to its calculation of RWAs and as further work is still required, it is unlikely to be implemented prior to the end of 2022. When approval is granted, the final model output may vary from those calculated, impacting the CET 1 ratio, effectively bringing forward some of the effect of increasing RWAs envisaged in Basel IV.

RWAs have increased as a result of the application of a post model adjustment by 36.4%, and by the growth in the mortgage book of 0.1%. This has been partially offset by improved credit conditions, predominantly driven by increases in house prices. As a result, the CET 1 ratio has decreased, mainly due to the regulatory changes in the IRB models, to 29.9%. Our CET 1 remains significantly ahead of the Total Capital Requirement for the Society, which has been updated in H1 2022 and was of 10.8% of risk weighted assets as at 30 June 2022.

From 2025, Basel IV RWA floors are being phased in and will reduce the Group's reported CET 1 ratio further, as they do not give full credit for the Group's very low risk mortgage book. Applying the Basel IV RWA floors to the 30 June 2022 figures on a full transition basis would result in a CET 1 ratio of 18.6%. The projected reduction in reported CET 1 measures has been included within the Society's financial plans and does not materially reduce the capital surplus to regulatory requirements, ensuring we remain safe and secure.

We are not currently bound by regulatory leverage ratios, which measure Tier 1 capital against total exposures, including off-balance sheet items. The UK leverage ratio framework will apply to the Society if retail deposits exceed £50 billion. The Society's UK leverage ratio increased to 5.0% due to the increase in retained profits, above the current regulatory minima of 3.25%.

The capital disclosures above are on a Group basis, including all subsidiary entities. For regulatory purposes the Group also reports on an Individual Consolidated basis, which only includes those subsidiaries meeting particular criteria contained within CRD IV. The Individual Consolidated CET 1 ratio on an end-point basis at 30 June 2022 is 0.3% higher than the Group ratio due to assets held by entities that sit outside of the Individual Consolidation, primarily those held by the Group's securitisation and covered bond entities.

1. Administrative expenses, depreciation and amortisation/Average total assets.
2. As at 28 July 2022 based on available market data.
3. Administrative expenses, depreciation and amortisation/Total income.
4. Deposits from banks, Other deposits, Amounts owed to other customers and Debt securities in issue.
5. From the 1 January 2022 the Society applied a new calculation methodology in order to comply with new regulatory changes. A comparative ratio for 31 December 2021 under this new methodology would have been 26.6%.

Other Information

A copy of the Interim Financial Report is available here:
http://www.rns-pdf.londonstockexchange.com/rns/1660U_1-2022-7-28.pdf

The Interim Financial Report has also been placed on the website of Coventry Building Society, at www.coventrybuildingsociety.co.uk

The directors are responsible for the maintenance and integrity of the information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Forward Looking Statements

Certain statements in this Interim Financial Report are forward looking. The Society, defined in this Interim Financial Report as Coventry Building Society and its subsidiary undertakings, believes that the expectations reflected in these forward looking statements are reasonable based on the information available at the time of the approval of this report. However, we can give no assurance that these expectations will prove to be an accurate reflection of actual results; because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

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