



RNS

Half-year/Interim Report

Half-year Report Replacement

COVENTRY BUILDING SOCIETY

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Coventry Building Society
06 August 2020

RELEASED IN ERROR

The 'Half-year Report' announcement released on 6 August 2020 at 07:00 under RNS No 2894V was released in error and should be disregarded.

6 August 2020

Coventry delivers resilient performance and mortgage growth in a challenging environment

Despite the impact of the Covid-19 on financial results, Coventry Building Society has remained firmly open for business. It has seen continued growth in mortgages and maintained its robust capital position, whilst continuing to deliver exceptional service to members, outstanding levels of colleague engagement and ongoing support to the local communities it serves.

Financial results for the six months ended 30 June 2020 include:

- **Mortgages:** Mortgage balances have increased by £0.8bn for the first half of 2020 to £43.0bn, over twice the rate of market growth in the period¹.
- **Savings:** Savings balances reduced by £0.8bn to £35.4bn in the first half of 2020 due to lower mortgage growth and strong acquisition at the end of 2019.
- **Member value:** The average weighted savings rate paid to members was 1.33%, 0.57% higher than the average paid in the market and equivalent to an additional £103m in interest to savers².
- **Member outcomes:** The Society's overall Net Promoter Score increased to +77³ during a period of exceptional concern for members and disruption to normal operations. The Society continues to report one of the lowest complaint overturn rates by the Financial Ombudsman Service⁴. During H1 the Society supported over 37,000 borrowers with payment holidays.
- **Profit:** Profit before tax of £22m (2019 H1: £75m), reduced from 2019 as a result of additional provisions of £39m for potential future credit losses in addition to lower net interest income following the reduction in the Bank of England Base Rate in March.
- **Capital and liquidity strength:** Common Equity Tier 1 (CET 1) ratio remains well above statutory requirements at 31.7% whilst the Society's Leverage Ratio⁵ on a UK modified basis has been maintained at 4.5%. The Liquidity Coverage Ratio of 200% is also considerably above the regulatory minimum requirement.
- **Leading cost efficiency:** At 0.47%⁶ the Society continues to report amongst the lowest cost to mean assets ratio of any UK building society⁷, whilst continuing to invest significantly in its technology infrastructure and digital capability.
- **Outstanding employee engagement:** The Society is rated 'Extraordinary' for employee engagement and was recognised for being 2nd in the Sunday Times Best Big Companies to Work For⁸ list.
- **Supporting communities:** Whilst face to face activity has been limited due to lockdown, we have increased emergency support for our community partners, tackling immediate needs and the longer term consequences of the pandemic. 66% of colleagues have been engaged in charitable activity over the last 12 months (2019 H1: 75%).

A resilient operational and capital performance

The Society has delivered a resilient performance. It has been open for business throughout the pandemic, increasing member satisfaction and delivering continued excellent service. It has continued to grow, increasing mortgage balances by £0.8bn. The strength of the Society's savings proposition is shown by the £103m additional savings interest it returned to members by paying higher than market rates². The Society remains committed to providing long term value, great service and a secure home for its members' savings.

As a mutual building society the organisation is run in the long term interest of members, with prudence and resilience being key parts of this. The reduction in the Bank of England base rate significantly impacts mortgage earnings and investment returns and as a result the Society has had to make difficult decisions on savings rates to balance the impact on margin. Due to the worsening economic outlook and the potential for higher unemployment £39m of additional provisions have been set aside to mitigate the risk of future credit losses.

Whilst costs have increased marginally, the Society remains one of the most cost efficient building societies in the UK, reducing its cost to mean assets ratio to 0.47%⁶, amongst the lowest in the sector. Investment in the business has continued during the year and cost efficiency continues to be a key strategic focus.

The Society maintained its capital strength. Common Equity Tier 1 ratio remains strong at 31.7% and the Leverage Ratio⁵ has been maintained at 4.5% - both being well above the regulatory minimum requirement. Together with a Liquidity Coverage Ratio of 200% these underline the Society's core strength and ability to focus on the long term benefit of its members.

Delivering for members, colleagues and the communities we serve

Over 90% of branches have been open throughout lockdown. During the toughest times, the average call waiting time across the Society was just over 3 minutes⁹ and this reduced to 21 seconds in May - an incredible achievement by colleagues. We also helped over 25,000 members use our services online for the first time.

The Society has implemented flexible working practices and retrained colleagues to ensure that it meets its service promise to members and satisfaction, judged by Net Promoter Score³, was higher than the same period last year. The close relationship the Society has with members has meant it was able to contact some of the most vulnerable and help them when isolated and shielding.

The Society has supported over 37,000 borrowers through payment holidays, making a difficult time a little easier for those whose income has reduced in recent months. I am particularly proud of the way colleagues adapted and worked together tirelessly to provide a high quality service to members when they needed it most, including launching a new online application for payment holidays. Whilst it is still early days I am also encouraged by the high numbers of borrowers who have restarted their mortgage payments over the last few weeks.

The Society has kept colleagues safe too. No-one has been furloughed and 60% of colleagues have been working from home, supported by new technology and flexible working practices - including over 14,000 hours of paid leave for those with caring responsibilities. The wellbeing of colleagues, whether serving members in branches or adapting to working from home, continues to be a critical part of our response to the pandemic.

The Society has actively supported national and local charities, providing emergency funding and focusing on both the immediate needs of the vulnerable through support for local foodbanks and donations of PPE, and the consequences of the pandemic through long-standing partnerships with Coventry Citizens Advice Bureau and Coventry Haven - a domestic violence charity. Its successful schools programme has been re-focussed, providing stationery packs and books to over 2,000 disadvantaged primary school students to support home learning. The continued support of the Royal British Legion resulted in donations of £400k to the charity in the first half of the year, taking total donations to £18.3m making a meaningful difference to the charity and the fantastic work it does.

Investing for the future

Despite the challenges of Covid-19, the Society has made substantial progress in developing its technology infrastructure and completed significant migrations to new data centres. In June, it delivered a project to allow stronger online authentication, a significant deliverable in the Society's digital journey and important with more members looking to manage their money online - a trend that has been accelerated by the pandemic. The branch refurbishment programme continued up to lockdown with a further 3 completed bringing the total to 29. In addition, the Society is on track to deliver a new HR system in September to underpin the investment in its greatest asset, its people.

Investing in digital capability for both mortgages and savings will be a key focus for the Society over the coming months as it seeks to build on its brilliant personal service in an increasingly digital world.

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

"I joined the Society on the 20th April with Covid-19 impacting all parts of the Society and affecting our members, customers, colleagues and the communities in which we operate. It has dominated the first half of the year.

We responded quickly to keep members and colleagues safe and stayed open for business. Managing the competing needs of savers, borrowers and those in financial difficulty has been challenging. I'm confident we've made the right decisions, even if difficult at times, balancing the needs of our savers and borrowers, maintaining the financial stability of the Society and continuing to invest for the future, all with the aim of protecting the long term interests of our members.

Outside of the Society, the efforts to control the pandemic have been immense and I would like to thank every key worker in the UK for what they have done for us during this time, the spirit and hard work shown by so many has been great to see. I extend this to all of my colleagues at the Society for their fantastic efforts on behalf of our members during these very challenging times."

1. Source: Bank of England - latest published data as at 30 June 2020.

2. Based on the Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits for the first six months of the year on the Society's mix of products.

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. H1 2020 score is based on surveys completed between 1 January 2020 and 17 March 2020.

4. Source: Financial Ombudsman Service latest available information for the six months ending 31 December 2019.

5. During the period the Society has refined its calculation of this measure. Had this applied in 2019 the comparatives would be 30 June 2019 4.6% and 31 December 2019 4.6%.

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

7. As at 5 August 2020.

8. Source: Best Companies '25 Best Big Companies to Work For' listing 2020. In 2019 The Society was rated 55th in the 'Top 100 Companies to work for' listing in the Mid-sized companies category.

9. Based on average call waiting times between 23 March 2020 and 3 May 2020.

Condensed Consolidated Income Statement

For the period ended 30 June 2020

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Interest receivable and similar income calculated using the Effective Interest Rate method	438.3	501.7	1,010.5
Interest payable and similar charges	(259.9)	(300.6)	(613.8)

Net interest income	178.4	201.1	396.7
Fees and commissions receivable	3.5	3.9	7.8
Fees and commissions payable	(4.4)	(5.0)	(10.2)
Other operating income	0.3	2.2	2.5
Net gains/(losses) from derivative financial instruments	1.2	(12.4)	(17.2)
Total income	179.0	189.8	379.6
Administrative expenses	(103.7)	(99.3)	(201.4)
Amortisation of intangible assets	(5.9)	(7.1)	(13.5)
Depreciation of property, plant and equipment	(7.6)	(6.9)	(14.2)
Expected credit losses on loans and advances to customers	(39.4)	(1.2)	(2.1)
Provisions for liabilities and charges	(0.5)	-	-
Charitable donation to Poppy Appeal	(0.4)	(0.6)	(1.2)
Profit before tax	21.5	74.7	147.2
Taxation	(2.8)	(14.1)	(25.5)
Profit for the financial period	18.7	60.6	121.7

Profit for the financial period arises from continuing operations and is attributable to the members of the Society.

Condensed Consolidated Statement of Comprehensive Income

For the period ended 30 June 2020

Profit for the financial period	18.7	60.6	121.7
Other comprehensive income			
Items that will not be transferred to the Income Statement:			
Remeasurement of defined benefit plan	(2.4)	(6.9)	(6.2)
Taxation	0.7	1.9	1.6
Effect of change in corporation tax rate	-	(0.1)	(0.1)
Items that may be transferred to the Income Statement:			
Fair value through other comprehensive income investments:			
Fair value movements taken to reserves	11.8	6.4	3.7
Amount transferred to Income Statement	(11.7)	(9.6)	(6.2)
Taxation	(0.1)	0.9	0.6
Effect of change in corporation tax rate	-	(0.1)	-
Cash flow hedges:			
Fair value movements taken to reserves	34.8	4.7	(124.2)
Amount transferred to Income Statement	(115.0)	(5.6)	106.0
Taxation	21.4	0.3	4.9
Effect of change in corporation tax rate	0.1	(0.1)	(0.3)
Other comprehensive expense for the period, net of tax	(60.4)	(8.2)	(20.2)
Total comprehensive (expense)/income for the period, net of tax	(41.7)	52.4	101.5

Condensed Consolidated Balance Sheet

As at 30 June 2020

	30 Jun 2020 (Unaudited) £m	30 Jun 2019 (Unaudited) £m	31 Dec 2019 (Audited) £m
Assets			
Cash and balances with the Bank of England	4,360.2	6,044.2	5,226.0
Loans and advances to credit institutions	807.3	380.7	336.1
Debt securities	1,276.5	1,150.7	1,292.6
Loans and advances to customers	43,030.0	40,586.5	42,234.7
Hedge accounting adjustment	441.5	175.8	149.7
Derivative financial instruments	269.4	242.0	137.9
Investment in equity shares	4.3	4.0	4.1
Current tax asset	4.5	-	-
Deferred tax asset	17.1	-	-
Intangible assets	33.3	35.1	33.2
Property, plant and equipment	76.0	76.8	77.8
Pension benefit surplus	22.0	22.9	24.3
Prepayments and accrued income	17.9	15.4	14.4
Total assets	50,360.0	48,734.1	49,530.8
Liabilities			
Shares	35,438.6	35,158.7	36,238.1
Deposits from banks	7,256.7	5,320.7	5,318.6
Other deposits	7.0	12.5	8.5
Amounts owed to other customers	217.4	677.6	462.7
Debt securities in issue	4,445.5	4,895.2	4,815.6
Hedge accounting adjustment	113.8	58.8	44.0
Derivative financial instruments	601.1	255.2	281.8
Current tax liabilities	-	10.1	14.2
Deferred tax liabilities	-	14.7	5.0
Accruals and deferred income	32.8	38.0	36.0
Other liabilities	32.7	41.5	35.7
Provisions for liabilities and charges	0.5	1.8	0.7
Subordinated liabilities	25.5	25.5	25.5
Subscribed capital	41.6	41.6	41.6

Total liabilities	48,213.2	46,551.9	47,328.0
Equity			
General reserve	1,776.0	1,725.4	1,773.3
Other equity instruments	415.0	429.9	415.0
Fair value through other comprehensive income reserve	3.7	3.2	3.7
Cash flow hedge reserve	(47.9)	23.7	10.8
Total members' interests and equity	2,146.8	2,182.2	2,202.8
Total members' interests, liabilities and equity	50,360.0	48,734.1	49,530.8

Condensed Consolidated Statement of Changes in Members' Interests and Equity For the period ended 30 June 2020

	General reserve £m	Other equity instruments £m	Fair value through other comprehensive income reserve £m	Cash flow hedge reserve £m	Total £m
Period to 30 June 2020					
As at 1 January 2020 (Audited)	1,773.3	415.0	3.7	10.8	2,202.8
Profit for the financial period	18.7	-	-	-	18.7
Net remeasurement of defined benefit plan	(1.7)	-	-	-	(1.7)
Net movement in Fair value through other comprehensive income reserve	-	-	-	-	-
Net movement in Cash flow hedge reserve	-	-	-	(58.7)	(58.7)
Total comprehensive income	17.0	-	-	(58.7)	(41.7)
Distribution to Additional Tier 1 capital holders	(14.3)	-	-	-	(14.3)
As at 30 June 2020 (Unaudited)	1,776.0	415.0	3.7	(47.9)	2,146.8

Period to 30 June 2019

As at 1 January 2019 (Audited)	1,693.5	396.9	5.6	24.4	2,120.4
Changes on initial application of IFRS 16	(0.8)	-	-	-	(0.8)
Restated balance at 1 January 2019	1,692.7	396.9	5.6	24.4	2,119.6
Profit for the financial period	60.6	-	-	-	60.6
Net remeasurement of defined benefit plan	(5.1)	-	-	-	(5.1)
Net movement in Fair value through other comprehensive income reserve	-	-	(2.4)	-	(2.4)
Net movement in Cash flow hedge reserve	-	-	-	(0.7)	(0.7)
Additional Tier 1 Capital repurchased (net of tax)	(9.3)	(382.0)	-	-	(391.3)
Additional Tier 1 Capital issued (net of tax)	(2.5)	415.0	-	-	412.5
Total comprehensive income	43.7	33.0	(2.4)	(0.7)	73.6
Distribution to Additional Tier 1 capital holders	(11.0)	-	-	-	(11.0)
As at 30 June 2019 (Unaudited)	1,725.4	429.9	3.2	23.7	2,182.2

Year ending 31 December 2019

As at 1 January 2019 (Audited)	1,693.5	396.9	5.6	24.4	2,120.4
Changes on initial application of IFRS 16	(0.8)	-	-	-	(0.8)
Restated balance at 1 January 2019	1,692.7	396.9	5.6	24.4	2,119.6
Profit for the financial year	121.7	-	-	-	121.7
Net remeasurement of defined benefit plan	(4.7)	-	-	-	(4.7)
Net movement in Fair value through other comprehensive income reserve	-	-	(1.9)	-	(1.9)
Net movement in Cash flow hedge reserve	-	-	-	(13.6)	(13.6)
Additional Tier 1 Capital repurchased (net of tax)	(9.3)	(396.9)	-	-	(406.2)
Additional Tier 1 Capital issued (net of tax)	(2.5)	415.0	-	-	412.5
Total comprehensive income	105.2	18.1	(1.9)	(13.6)	107.8
Distribution to Additional Tier 1 capital holders	(24.6)	-	-	-	(24.6)
As at 31 December 2019 (Audited)	1,773.3	415.0	3.7	10.8	2,202.8

Condensed Consolidated Statement of Cash Flows For the period ended 30 June 2020

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Cash flows from operating activities			
Profit before tax	21.5	74.7	147.2
Adjustments for:			
Expected credit loss provisions and other provisions	39.9	1.2	2.4
Depreciation and amortisation	13.5	14.0	27.7
Interest on subordinated liabilities and subscribed capital	3.3	3.3	6.6
Changes to fair value adjustment of hedged risk	(126.1)	(42.8)	85.3
Other non-cash movements	(7.1)	1.3	13.9
Non-cash items included in profit before tax	(76.5)	(23.0)	135.9
Loans and advances to credit institutions	(479.0)	(156.4)	(119.3)
Loans and advances to customers	(834.7)	(1,323.1)	(2,972.5)
Prepayments, accrued income and other assets	(3.6)	(5.3)	(4.2)
Changes in operating assets	(1,317.3)	(1,484.8)	(3,096.0)
Shares	(790.3)	1,907.6	2,963.5

Deposits and other borrowings	1,699.5	51.0	(170.3)
Debt securities in issue	132.0	3.2	(57.6)
Accruals, deferred income and other liabilities ¹	(4.2)	(2.4)	(5.8)
Changes in operating liabilities	1,037.0	1,959.4	2,729.8
Interest paid on subordinated liabilities and subscribed capital	(3.3)	(3.3)	(6.6)
Interest paid on lease liabilities	(0.3)	(0.4)	(0.7)
Taxation	(21.6)	(15.9)	(29.0)
Net cash flows from operating activities	(360.5)	506.7	(119.4)
Cash flows from investing activities			
Purchase of investment securities	(572.3)	(596.9)	(1,095.1)
Sale and maturity of investment securities and equities	599.3	385.8	739.2
Proceeds from sale of property	0.5	-	-
Purchase of property, plant and equipment and intangible assets	(14.2)	(12.2)	(28.7)
Net cash flows from investing activities	13.3	(223.3)	(384.6)
Cash flows from financing activities			
Distributions paid to Additional Tier 1 capital holders	(14.3)	(11.0)	(24.6)
Repurchase of Additional Tier 1 capital	-	(393.6)	(400.0)
Repurchase of Additional Tier 1 transaction costs	-	-	(8.5)
Issue of Additional Tier 1 capital	-	411.6	415.0
Additional Tier 1 issuance costs	-	-	(3.4)
Repurchase and repayment of debt securities	(1,009.9)	(13.9)	(22.6)
Principal elements of lease payments	(2.4)	(3.2)	(4.5)
Issue of debt securities	500.0	544.6	544.6
Net cash flows from financing activities	(526.6)	534.5	496.0
Net increase/(decrease) in cash	(873.8)	817.9	(8.0)
Cash and cash equivalents at start of period	5,114.3	5,122.3	5,122.3
Cash and cash equivalents at end of period	4,240.5	5,940.2	5,114.3
Cash and cash equivalents:			
Cash and balances with the Bank of England ¹	4,240.5	5,940.2	5,114.3

1. Excludes £119.7 million mandatory reserve with the Bank of England (30 June 2019: £104.0 million, 31 December 2019: £111.7 million).

Other Information

A copy of the Interim Financial Report is available here:

http://www.rns-pdf.londonstockexchange.com/rns/4151V_1-2020-8-6.pdf

The Interim Financial Report has also been placed on the website of [Coventry Building Society](http://www.coventrybuildingsociety.co.uk/interim2020), at www.coventrybuildingsociety.co.uk/interim2020.

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.

For more information or additional comment please contact the press office on 0800 121 6868 or email media@thecoventry.co.uk

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