News release

1 March 2019

COVENTRY BUILDING SOCIETY REPORTS ROBUST FINANCIAL RESULTS

Coventry Building Society has today announced its results for the year ended 31 December 2018. Highlights include:

- **Strong growth in mortgages:** Mortgage assets increased by £3.4 billion to £39.3 billion, representing growth of 9%, three times faster than the market[1].
- **Strong growth in savings:** Savings deposit balances grew by £2.3 billion to £33.3 billion, representing growth of 7%, more than two and a half times the rate of the market[1].
- **Giving value to members:** Our average savings rate in 2018 was 1.50% compared with a market average of 0.78%. This represents value returned to members of £227 million (2017: £210 million)[2].
- **Delivering the right member outcomes:** The Society works hard to sustain and improve the service it provides to members. It measures this using the common metric of Net Promoter Score[3] and in 2018 achieved a very high and increased score of +75, representing a strong endorsement from our members.
- **Leading cost-efficiency:** At 0.50% the Society continues to report the lowest cost to mean asset ratio of any UK building society[4], whilst investing significantly in its technology infrastructure and branch network. Without the significant increase in investment spend, cost to mean asset ratio was maintained at 0.41%[5].
- **Low risk:** The Society is a low risk lender, which protects individual borrowers and the Society alike. During the year, mortgage arrears fell and were only a seventh of the industry average[6].
- **Maintained capital strength:** Common Equity Tier 1 ratio was maintained at 35%, the highest reported by any top 20 lender[7] and Leverage ratio was over 4%.
- **Leading colleague engagement:** Excellent service is delivered by our colleagues, who are proud to Put Members First. In 2018, the Society was again rated one of the 100 Best Companies to Work For in the UK.
- **Supporting local communities:** In 2018, 79% of colleagues were actively involved in volunteering, fundraising or raising awareness for local charities and community groups.

Commenting, Mark Parsons, Coventry Building Society Chief Executive said:

Coventry Building Society has a simple purpose. We exist to meet the needs of our saving and borrowing members. Our performance is equally simple to articulate. In 2018, we delivered strong growth in both savings and mortgages, continuing a long record of outperforming the market.

We delivered profit that maintains our capital position whilst providing superior returns to our members and investing in our future. In doing this, we provided an exemplary level of service to members and intermediary partners. This only happens because we have a highly engaged, enthusiastic workforce who deliver great results for members as well as making a positive and tangible difference in their local communities.

In the mortgage market we grew balances by 9%, over three times the growth in the market[1]. This, in a very price competitive environment which has seen sustained pressure on mortgage pricing despite increases in the Bank of England Base Rate.

The price competitive mortgage environment has led to noticeable changes in consumer behaviour, with the re-mortgage sector being particularly active both for owner-occupier and buy to let mortgages. We are also seeing further movement away from Standard Variable Rate mortgages to fixed rate loans as borrowers seek to lock in to attractive rates.

Despite the pressure on mortgage pricing, we have maintained the low risk approach to lending that is right for our members and that has been our hallmark for many years. The Society's arrears fell again in 2018, and are only one seventh of the industry average[6], meaning that members benefit from low credit losses. The weighted average loan to value of our mortgage book of 55%[8] (2017: 54%) reflects this low risk position and protects our business model from potential market or house price disruption.

Central to our mortgage growth is the strength of our intermediary partnerships. We believe borrowers should have the opportunity to receive independent advice when they take out a mortgage and we are an advocate of mortgage brokers who provide this. In turn, we work tirelessly to improve our service to brokers and their clients. In 2018, we received the Financial Adviser Five Stars award, the highest accolade for mortgage servicing, for the third year running, and we were ranked first for broker satisfaction in the wide-ranging Charterhouse annual research. We were also ranked first by Fairer Finance for mortgages, on the basis of trust, customer happiness, transparency and complaint handling.

Intrinsically we need to balance the needs of our savings and mortgage members. Interest rates in the savings market have been stubborn and moved little following two increases in the Bank of England Base Rate. We have continued to pay significantly higher savings rates to our members than the market average, which demonstrates both the strength of our business and our clear focus on Putting Members First.

In 2018, the average savings rate we paid was 1.50%, nearly double the market average of 0.78%[2]. In simple terms this means we paid an additional £227 million in interest than if we had simply matched the market average[2]. This is a further increase on the premium we have provided over many years. This consistently good value has helped us to grow savings balances by 7% in 2018, over two and a half times the market growth[1].

In addition, we have delivered award-winning service to savers. In 2018, this combination of superior long-term value and great service resulted in the Society being awarded the status of Which? Recommended Provider for Savings accounts once again, one of only five providers to receive this endorsement. Fairer Finance also ranked us first amongst savings providers, for the third year running.

This independent recognition is matched by research which shows that more than 8 out of 10 members are happy to recommend us to others[9], and our overall Net Promoter Score, already exceptionally high in the industry, increased further from +72 to +75[3].

At the heart of our great service delivery is our people. They share our mission of Putting Members First. I believe it is our record of consistently putting this into practice that explains the trust and engagement of colleagues at the Society. In 2018, 92% of colleagues said they were proud to work for the Society and we were again rated one of the 100 Best Companies to Work For in the UK. Whilst we work extremely hard to recruit, retain, develop and support people who want to do the right things for our members, they repay this investment many times over to the benefit of our members.

Our employees are also the driving force behind our support for communities; it is no surprise that people who are motivated to do the right things for members and demonstrate the Coventry CARES values also want to use their enthusiasm and skills to benefit charities, schools and community groups. Last year, amongst many highlights, we were awarded the Business in the Community Responsible Business Award for Educational Partnership, for our programme helping Coventry school students prepare for the world of work.

Nearly 80% of Society employees actively supported our commitment to our communities during the year, helping over 250 local and national organisations.

To sustain our great service record in the future, we have stepped up investment in our distribution, technology and infrastructure to meet the changing expectations of our members.

Our members tell us that they are already seeing the benefit of our branch redesign programme, with seven branches completed during 2018. This is a major investment for us and one which confirms both our commitment to the branch network and our understanding that what members want from their branch above all is a reassuringly human place to talk to our people. We will continue the roll out of the redesign in 2019.

We recognise and anticipate an evolving savings marketplace with new service providers emerging. We have taken an important step in this area by partnering with Hargreaves Lansdown, which offers a new way for customers to open and service our products. In 2018, we offered fixed rate bonds on their Active Savings platform and in 2019, became the first provider to offer easy access savings accounts.

We are progressing projects enhancing our technology to improve resilience, service flexibility and functionality. The work to update our data centres is progressing well with the first migrations taking place during 2018 in line with our plans. During 2018, we also completed upgrades to our telephony and credit assessment systems. However, the detailed design work on upgrading our core technology platform has indicated that this programme will be more technically complex than originally envisaged. As a result, we are replanning this activity in order to reduce the risk and future cost of the programme whilst still meeting our objectives. We are committed to doing the right thing for our members, taking stock at this early stage rather than ploughing ahead with the original plan.

We have a strong track record of being the most cost-efficient building society in the UK and aim to maintain this during this period of strategic investment. In 2018 our overall management expense ratio was 0.50% (2017: 0.42%)[4]. Excluding the significant increase in strategic investment, the ratio has remained consistent at 0.41%[5], demonstrating our continued focus on running an efficient business which allows us to return superior value to members.

In 2018, profit before tax was £202 million (2017: £243 million) maintaining our risk based capital measure at 35.5% (2017: 34.9%), the highest reported of any top 20 lender[7].

Looking forward we will need to continue to deliver despite market uncertainties, balancing the ongoing pressure on mortgage margins with continued rising member expectations and our own investment agenda. However, I am confident that the Society's financial strength, flexibility and low risk, low cost business model will continue to support our success in the short and long term.

Central to this is our clarity of purpose. I have mentioned the importance of Putting Members First on many occasions. It will continue to guide our progress going forward.

1. Source: Bank of England.
2. Based on the Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits 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.
4. Administrative expenses, depreciation and amortisation/Average total assets.
5. Administrative expenses, depreciation and amortisation less increase in strategic investment costs compared to 2017/Average total assets.
6. Source: Percentage of mortgages in arrears by 2.5% or more – Prudential Regulation Authority latest available information at 30 September 2018.
7. Common Equity Tier 1 ratio for the UK Finance 2017 top 20 mortgage lenders (balance outstanding) – latest published CET 1 data as at 28 February 2019.
8. Indexed loan to value weighted by balance.
9. Source: Average number of members scoring 9 or 10/10 across 6 surveys totalling 48,922 responses.

News release

COVENTRY Building Society

Financial Review

During 2018, the Society has delivered a robust financial performance whilst continuing to grow both mortgages and savings balances. We delivered in line with our commitment to retain only the profit we need to maintain capital ratios, whilst investing to improve services and providing favourable pricing for members. In 2018, this meant we returned £227[1] million of value to savings members, compared to £210 million in 2017.

Income Statement

Overview

In 2018, statutory profit before tax has decreased by 17% to £202 million (2017: £243 million). The decrease is primarily driven by a £41 million increase in costs relating to the Society's strategic investment programmes. Without this additional cost, profit before tax is broadly in line with 2017, reflecting growth in net interest income which covers the 8% increase in business as usual run costs[2]. We have continued to pay above market savings rates, increasing value returned to members to £227 million[1] (2017: £210 million).

Net interest income has increased to £426 million (2017: £411 million), reflecting growth in both mortgages and savings balances despite an increasingly price competitive mortgage market. The continued pressure on mortgage margins, combined with our commitment to paying superior interest rates to savings members, has resulted in a decline in the net interest margin[3] during the year.

The substantial increase in strategic investment spend has resulted in an increased cost to mean asset ratio of 0.50%[4] (2017: 0.42%). Without this additional investment, the 'run cost' ratio would have been 0.41%[5] (2017: 0.42%), reflecting the continued efficiency of our core operations and our focus on maintaining our low cost advantage.

Each year we retain sufficient profit to maintain our capital position. Our risk adjusted capital ratio (Common Equity Tier 1) has been broadly maintained during 2018 at 35.5% (2017: 34.9%). A summarised Income Statement is set out below.

	2018 £m	2017 £m
Net interest income	**425.8**	411.0
Other income	**(1.2)**	5.1
Losses on derivatives and hedge accounting	**(0.3)**	(0.3)
Total income	**424.3**	415.8
Management expenses	**(221.7)**	(167.9)
Impairment credit/(charge)	**0.4**	(0.2)
Provisions	–	(3.5)
Charitable donation to Poppy Appeal	**(1.4)**	(1.5)
Profit before tax	**201.6**	242.7

In previous years underlying profit, representing management's view of underlying performance, was also presented to aid comparability across reporting periods. As the adjustments to statutory profit to calculate underlying profit are no longer material, underlying profit has not been reported.

Net interest income

Net interest income in 2018 was £426 million, £15 million higher than in 2017 as a result of growth in the Balance Sheet, partly offset by a decrease in the net interest margin.

Net interest margin has decreased by six basis points to 0.96% in the year to 31 December 2018 as we continued to pay above market rates to savers despite market pressures on mortgage pricing. This margin has been sufficient to fund expenditure and support capital.

	2018 £m	2017 £m
Net interest income	**426**	411
Average total assets	**44,322**	40,434
	%	%
Net interest margin	**0.96**	1.02

In 2018, net interest income included a gain of £15 million relating to the sale of a £351 million buy to let loan portfolio which improved net interest margin by three basis points in the year.

In 2017, net interest margin included a £13 million gain relating to the release of fair value adjustments which arose on the merger with the Stroud & Swindon Building Society. This improved net interest margin in 2017 by three basis points.

Our comparatively low net interest margin demonstrates that we are able to realise value from our strategy to be both low risk and cost efficient, whilst paying above market rates to members.

We believe it is likely that that there will be a further modest decrease in the net interest margin in 2019 as a consequence of continuing pricing pressure in the mortgage market and our commitment to protect savings rates as far as possible.

Other income

Other income relates to fees and commissions paid and received by the Society in addition to income from its small number of investments in equity shares. In 2018, other income was a charge of £1 million, £6 million lower than in 2017, as a result of lower general insurance fee income and the inclusion in 2017 of a £5 million gain on the sale of the Society's equity investment in Vocalink Holdings Limited.

Other income is not a strategic priority for the Society and is likely to remain immaterial to our results.

Derivatives and hedge accounting

The Society uses derivative financial instruments solely for risk management.

Income statement volatility arises as a result of the hedge accounting rules. This volatility is largely timing and does not reflect the economic reality of the hedge.

Management expenses

Management expenses increased to £222 million (2017: £168 million) reflecting a £41 million increase in strategic investment spend compared to 2017 which we consider to be a reasonable benchmark year. In addition to this there has been a £13 million increase in business as usual run costs to support growth.

During the year we have invested in change programmes such as upgrading digital, print and telephony capabilities and implementing new regulation such as the Payment Services Directive requirements. The increase in strategic spend over 2017 reflects three key investments:

- Branch redesign: seven branches, or 10% of our total estate, have been remodeled as planned during the year. The redesign is proving popular with members and branch colleagues alike. In 2019 we will continue to roll out the new design to further branches.

- Enhanced data infrastructure: good progress has been made on the project to enhance the Society's data centres capability, with the first migrations taking place during 2018 in line with plans.
- Core technology platform upgrade: during 2018, we progressed detailed design and analysis for the work to upgrade our core technology platform. The analysis has identified that if we want to maintain and increase service flexibility this programme is likely to be a bigger endeavour for the Society than originally indicated and we are currently reviewing options to deliver on our objectives whilst reducing the cost and risk of the upgrade. The replanning has been recorded as an operational risk event and we have shown our performance against the investment programme delivery measure as below target for variable pay purposes, underlining the conservative risk tolerance and prudence of the Society.

Taken together, these programmes represent a substantial investment in ensuring we remain able to meet members' future needs and we expect investment costs to remain significant in 2019.

The increase in business as usual run costs of £13 million largely related to employee wage inflation, a 7% increase in headcount to support business growth and the increased cost of running the Society's IT systems reflecting both rising regulatory requirements and customer expectations.

As a result of the substantial strategic investment spend, the Society's cost to mean asset ratio has increased to 0.50%[4] (2017: 0.42%). The business as usual ratio (without the increase in strategic investment) was stable at 0.41%[5] (2017: 0.42%).

For over 10 years the Society has achieved the lowest reported cost to mean asset ratio in the UK building society sector, reflecting a consistent focus on spending members' money wisely. We expect to maintain our low cost position even with the planned additional investment activity. Our ability to manage costs effectively as we grow continues to represent a significant competitive advantage.

Arrears and impairment charge

2018 saw continued low impairments and a reduction in arrears. This reflects our low risk lending which has never included commercial or second charge lending[6], and a negligible exposure to unsecured lending (0.06% of total loan book in 2018).

There was an impairment credit of £0.4 million in 2018 (2017: £0.2 million charge). This impairment credit reflects an improving arrears position and continuing favourable economic conditions. The UK economy has seen continued moderate house price growth overall, falling unemployment and prolonged low interest rates. IFRS 9, which we implemented on 1 January 2018, requires us to factor forward looking assumptions into impairment provisions. In light of uncertainty over Brexit and the wider global economy, we have moderated our views of forward looking economic scenarios and increased the weighting of our downside IFRS 9 scenario. This increased our impairment provision by £1 million, which is included in the £0.4 million credit.

Impairment losses before recoveries in the year were £2.1 million (2017: £1.9 million) and total impairment provisions at 31 December 2018 of £11.6 million represent 5.5 years loss coverage. In 2017, impairment provisions included £2.5 million relating to a very small number of specific cases which have been positively resolved in the year. Provisions at 31 December 2017, excluding these cases, represented 5.8 years loss coverage.

The impact of implementing IFRS 9 has not been significant for the Society, as a result of our high credit quality, low risk mortgage lending and the favourable economic conditions. The IFRS 9 impairment provision on loans and advances to customers on 1 January 2018 was £0.1 million less than the reported IAS 39 impairment provision at 31 December 2017. In addition, the impact of IFRS 9 transition on regulatory capital is negligible.

IFRS 9 requires the loan book to be split into 'stages' which identify whether the loan quality is performing (stage 1), deteriorating (stage 2) or in default (stage 3). At 31 December 2018, over 96% of our loans were performing and 2.9% of loans were classified as stage 2 (deteriorating). Of the loans in stage 2, which broadly represent loans that do not meet our current very prudent underwriting standards, all but £86 million (or just 0.2% of all loans) were paid up to date at the year end. Only 0.5% or £209 million of loans were classified as stage 3 (default). The definition of default under IFRS 9 is much wider than the definition of impaired loans under IAS 39 and only £68 million, less than 0.2% of loans would have been identified as impaired under IAS 39 (2017: £79 million, 0.2%).

Provisions

Provisions for liabilities and charges have reduced to £nil (2017: £3.5 million) as a result of a £1.0 million credit for Financial Services Compensation Scheme (FSCS) fees and a further £0.5 million credit for other regulatory provisions offset by a £1.5 million increase in the provision for Payment Protection Insurance (PPI) ahead of the claims deadline in 2019.

Charitable donation to the Poppy Appeal

The Society donated over £1 million to The Royal British Legion's Poppy Appeal during the year, which is consistent with 2017, bringing the total donated over the Society's 10 year relationship with the Legion to over £16 million.

Taxation

In 2018, the corporation tax charge was £46 million (2017: £58 million), an effective tax rate of 22.6% (2017: 23.9%). This is significantly above the statutory corporation tax rate of 19.0% (2017: 19.25%) due to a charge of £8 million (2017: £11 million) in respect of the 8% surcharge on the profits of banking companies.

Balance sheet

Overview

Mortgage balances and liquidity have grown during the year by £3.4 billion and £0.2 billion respectively. This was funded by increases in retail and wholesale funding of £2.3 billion and £1.2 billion respectively.

	2018 £m	2017 £m
Assets		
Loans and advances to customers	**39,264.6**	35,930.9
Liquidity	**6,401.9**	6,209.5
Other	**404.4**	432.1
Total assets	**46,070.9**	42,572.5
Liabilities		
Retail funding	**33,281.6**	31,035.7
Wholesale funding	**10,313.7**	9,127.3
Subordinated liabilities and subscribed capital	**67.1**	67.1
Other	**288.1**	366.4
Total liabilities	**43,950.5**	40,596.5
Equity		
General reserve	**1,693.5**	1,553.1
Other equity instruments	**396.9**	396.9
Other	**30.0**	26.0
Total equity	**2,120.4**	1,976.0
Total liabilities and equity	**46,070.9**	42,572.5

Loans and advances to customers

Our lending strategy remains focused on high quality, low loan to value loans within the prime residential market. These loans are primarily distributed through third party intermediaries, giving the Society a regionally diverse mortgage portfolio in a cost-effective manner.

In 2018, we advanced £8.9 billion of mortgages, (2017: £8.6 billion) and mortgage balances grew by £3.4 billion (2017: £3.0 billion) increasing our market share of stock to 2.8%[7] (2017: 2.6%). The year-on-year growth in mortgages of 9.3% was significantly above mortgage market growth of 3.0%[7].

New lending continued to be supported by strong remortgage levels overall, with buy to let remortgages at 77% (2017: 79%) of new buy to let lending. New lending for owner-occupier house purchases was resilient at 55% of owner-occupier lending (2017: 53%).

The balance weighted indexed loan to value of the mortgage book at 31 December 2018 was broadly unchanged at 54.6% (2017: 53.9%). Arrears continued to improve, remaining significantly better than the industry as a whole. As at 31 December 2018, 0.10% of mortgage balances were 2.5% or more in arrears (2017: 0.13%) compared to the latest available industry average of 0.74%[8].

Our performance in 2018 continued our strategy of sustainable growth without increasing our very low risk lending profile. We continue to support members in owning their homes; a robust performance despite the price competitive mortgage market throughout the year.

Liquidity

On-balance sheet liquid assets have remained broadly stable at £6.4 billion (2017: £6.2 billion). The Liquidity Coverage Ratio (LCR) at 31 December 2018 was 202% (2017: 208%), considerably above the minimum regulatory requirement.

Liquid assets are held in deposits at the Bank of England and UK Government investment securities. This means that asset quality remains very high with 95% of the portfolio rated Aaa–Aa3 (2017: 96%). 98% of liquid assets are held in UK sovereign or UK financial institutions (2017: 99%).

Included in liquid assets are £0.9 billion of assets held at Fair value through other comprehensive income (FVOCI) as they are held to collect cash flows and to sell as appropriate. FVOCI assets are marked to market with any changes in fair value recorded through other comprehensive income. As at 31 December 2018, the balance on the FVOCI reserve was a £6 million gain, net of tax (2017: £6 million gain, net of tax[9]).

Retail funding

Retail savings increased in the year by £2.3 billion to £33.3 billion (2017: £31.0 billion), representing growth of 7.2%, compared to market growth of 2.8%[7]. The Society's savings market share increased to 2.5%[7] (2017: 2.4%).

The Society has continued to support the cash ISA market with competitive rates of interest, increasing our share of this market to 5.4%[7] (2017: 5.1%).

We opened over 176,000 new savings accounts in the year (2017: 145,000), with over 84% of mortgage loans funded by retail savings (2017: 86%).

The growth in savings reflects the quality of our products and service and the superior interest rates we pay compared to the market average. We are focused on providing superior returns to savers as far as we can despite the availability of cheaper funding from wholesale markets. In 2018, our interest rates meant that we returned £227[1] million of value to savings members compared to market average rates, an increase of 8% on 2017 (£210 million).

Wholesale funding

We use wholesale funding to make our funding more diverse. This reduces risk and also lowers the overall cost of funding, both of which benefit members.

In 2018, we issued the first five year covered bond in the UK which was linked to SONIA[10], raising £500 million of funding. This, combined with Term Funding Scheme (TFS) drawdowns of £1.3 billion, increased on-balance sheet wholesale funding to £10.3 billion (2017: £9.1 billion) net of a £750 million covered bond maturity in April 2018.

Equity

It is important for us to grow equity to provide the capital we need to support growth.

The Society's equity is predominantly made up of its general reserve and Additional Tier 1 capital. The Society's total equity increased by £0.1 billion to £2.1 billion, reflecting retained profits generated during the year.

Regulatory capital

We hold capital to protect members against future losses. As we grow our mortgage book the amount of capital we need to hold to meet the Capital Requirements Directive (CRD) IV increases.

The Society's CRD IV capital position[11] as at 31 December 2018 is summarised below. During the year capital available for CET 1 or 'capital resources' increased by £143 million, primarily driven by profit after tax of £156 million.

Despite mortgage growth of 9.3%, our risk based capital requirements, or risk weighted assets, have only increased by 8.0% as a result of book quality improvements reflecting an increase in house prices and lower arrears.

The net impact is that our Common Equity Tier 1 (CET 1) ratio has been maintained at 35.5% (2017: 34.9%).

We are not currently bound by regulatory leverage ratios but we monitor leverage ratios on both a CRR[12] and UK basis. The UK ratio differs from the CRR basis in that it includes a restriction on the amount of Additional Tier 1 capital that can be included in leverage capital and excludes central bank reserves from leverage exposure.

Both the CRR and UK leverage ratios have been maintained at 4.2% and 4.6% respectively (2017: 4.3% and 4.6% respectively). This is because the increase in available capital was matched by the increase in leverage ratio exposures (non-risk based) largely driven by growth in the mortgage book.

	End-point 31 Dec 2018 £m	End-point 31 Dec 2017 £m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	**1,614.8**	1,471.6
Total Tier 1 capital	**2,011.7**	1,868.5
Total capital	**2,011.7**	1,910.0
Risk weighted assets	**4,548.5**	4,213.1
Capital and leverage ratios:	**%**	%
Common Equity Tier 1 (CET 1) ratio	**35.5**	34.9
CRR leverage ratio[1]	**4.2**	4.3
UK leverage ratio[2]	**4.6**	4.6

1. The CRR leverage ratio is calculated in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation.
2. The UK leverage ratio includes a restriction on the amount of Additional Tier 1 capital and excludes central bank reserves from the calculation of leverage exposures.

The PRA provides the Society with a Total Capital Requirement (TCR). In 2018, the Society was issued with a TCR, equating to 11.2% of risk weighted assets, or £511 million. This sets the minimum capital which the Society must hold under Pillar 1 and Pillar 2A requirements and is driven by both Balance Sheet growth and risk factors determined by the PRA. The Society comfortably meets this requirement using CET 1 capital alone.

Change of auditor

During 2018, we have completed a tender process for our external audit. This is in line with the regulatory requirement to change our current auditor, Ernst & Young LLP, no later than 2020. We propose to appoint PricewaterhouseCoopers LLP as auditor for the 2019 year end, subject to member approval at our AGM.

Outlook

This section considers the top and emerging risks which could impact the Society’s financial outlook.

The Society significantly increased its spend on strategic investment programmes in 2018. These programmes are more far reaching than any that the Society has undertaken previously and increase execution and cost risks. We are strengthening our risk management processes for change management programmes which will ensure change is both delivered safely, without disruption to core operations, and within expectations. These control processes include detailed feasibility work and testing before change is made and a focus on looking for options which reduce execution and cost risk. We are satisfied that we have set appropriate investment budgets within our Strategic Plan.

During 2018, we saw continued political and economic uncertainty coupled with modest economic growth. Against this backdrop, the Society has delivered a robust financial performance – continuing to grow mortgages and savings balances at a rate that exceeds the market.

Brexit, along with concerns about the global economy, has a limited direct impact on us outside of wholesale funding. However, the wider economic consequences will impact the Society. These impacts may result in a decline in consumer confidence and the extension of the low interest rate environment.

A persistent low interest rate can make it difficult to deliver attractive rates to savers whilst providing sufficient margin. During 2018, the Society has again delivered above market interest rates to savers whilst maintaining capital strength and providing good value mortgages. Our funding plans are kept under review and our track record of attracting both retail savings and well-priced wholesale funding means that we are well positioned to manage potential risks in this area.

News release

COVENTRY Building Society

We are expecting to enter a period of lower house price inflation and have already seen house price falls in parts of the London market. The Society's mortgage book is geographically spread which helps mitigate risk from a fall in London house prices. More importantly, the low risk lending policy and low loan to value of the mortgage book means that we expect to remain resilient to house price reductions. Our IFRS 9 analysis indicates that even if we calculated future expected credit losses on the basis of our most severe downside economic scenario, in line with the Bank of England stress tests, the impact on year end provisions would only be an incremental charge of £14 million.

The competitive mortgage market, coupled with potential for increased wholesale funding costs, means that we believe it is likely that there will be a further modest decrease in net interest margin.

Whilst the level of uncertainty and range of potential near-term economic outcomes has significantly increased, as a building society, without share price considerations to respond to, we can and do take a long-term view. We believe the fundamentals of the UK mortgage and savings market remain strong in the medium and long-term and we expect a continued demand for the good value, straightforward mortgages and savings products that the Society provides.

Our track record, together with cost-effective nationwide distribution and robust underwriting, gives us confidence that we can continue to grow without increasing the risk profile of our lending. This allows us to invest in building future service capability and resilience whilst delivering long-term value to members.

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1. Based on the Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits on the Society's mix of products.
2. Costs excluding the increase in strategic investment costs compared to 2017.
3. Net interest income/Average total assets.
4. Administrative expenses, depreciation and amortisation/Average total assets.
5. Administrative expenses, depreciation and amortisation less increase in strategic investment costs compared to 2017/Average total assets.
6. Other than as a result of small books acquired as part of the merger with Stroud & Swindon Building Society in 2010.
7. Source: Bank of England.
8. Source: Prudential Regulation Authority - latest available information at 30 September 2018.
9. Previous reporting periods this represented the Available-for-sale reserve.
10. Sterling Overnight Index Average.
11. Excluding any IFRS 9 transitional provisions which were negligible.
12. Capital Requirements Regulations.

For accounts or additional comment please contact: the press office on **0800 121 6868**

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