Coventry Building Society
2020 half year results

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Overview

Simple business model

- Providing simple, transparent retail savings products which offer long term value.
- 2nd largest Building Society and 8th largest lender in UK.
- Helping customers own residential properties through low risk mortgage lending primarily through intermediaries.
- Ensuring operations are cost efficient, allowing the Society to pay above market interest rates to savers.
- Strategically investing in the future whilst maintaining capital strength.
- Underpinned by our CARES values which shapes decision making and focus on putting members first.

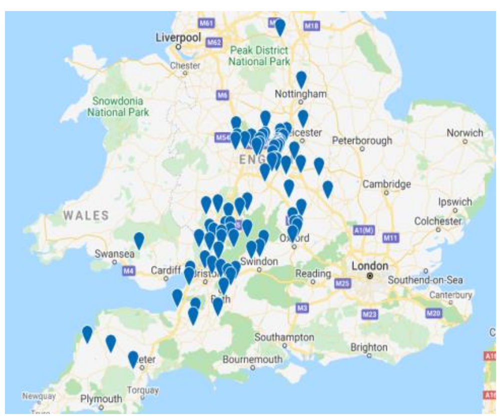
Low risk

- Low LTV lending provides resilience the market deteriorates.
- Mortgage and savings rates remain competitive supported by low levels of operating costs, arrears and conduct provisions.
- National distribution of savings and mortgage avoids geographical concentration.

Member Focus

- Returned £103m of value to members in the first half of 2020 through competitive savings rates[1].
- Branch network consisting of 69 branches to service our members.
- Continuing to invest in the branch network is a key part of our strategic plan, alongside developing digital options.

Branch Network[2]



Assets *(Use of Funds)*

- Residential Mortgage Loans *85%*
- Liquid assets *(Including deposits with central bank)* 13%
- Other 2%

Liabilities *(Source of Funds)*

- Retail funding *70%* — *Required to be ≥ 50% Under the Building Societies Act*
- Wholesale Funding *24%*
- Reserves 4%
- Other *2%*

Total £50.4bn

1 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. Including agencies

Covid-19 Impact

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Impact on the business

- Covid-19 has had a significant impact on the globe and the Society is no exception.
- Business has adapted to continue to support members and colleagues through this difficult period.
- The implications of the pandemic have reached all areas of the Society and presented both opportunity and challenge for the organisation.

Our Members

- Kept over 90% of our branches open throughout the lockdown, and implemented full social distancing measures from the day after lockdown was announced.
- Supported over 37,000 members who have experienced mortgage payment difficulties by granting payment holidays.
- Implemented flexible working practices and provided further training to employees to enable tailored support to members.
- Served more than 280,000 members since the beginning of the lockdown.
- Average call waiting times at the peak of the lockdown of around 3 minutes[1].

Our People

- Enabled 60% of our employees to work from home since the end of March, upgrading our network capacity to support more effective remote working, and introducing new technology to allow colleagues to stay connected.
- Extended carer's leave to three weeks for all colleagues to enable them to support their loved ones – so far over 14,000 hours have been used.
- Created cross trained member focused teams to improve delivery to members e.g. for mortgage payment holidays.
- Additional training and support available, whilst ensuring safe distancing for those who have remained in our offices and branches.
- No employee has been furloughed at the Society.

Our Performance

- Delivered a resilient operational and capital performance in the first six months of the year despite a challenging environment.
- Maintained strong service levels, delivered considerable technology change, continued to grow and maintained our capital position.
- Society predicting material impact on economy which is increasing expected credit losses although actual arrears levels have remained low.
- As a result, short term financial performance has been impacted and profitability is lower year on year.
- Mortgage margins have rebounded since lockdown easing supporting future NIM growth.

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

Safe and secure for our members

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31.7%

Capital strength
Common Equity Tier 1 ratio

4.5%

Leverage ratio

- We continue to remain safe for our members whilst delivering member value of £103m.
- The Society has one of the highest CET1 ratios of the top 20 lenders.
- Our aim is to only retain the profits needed to maintain capital ratios.
- CET1 ratio at 31.7%, significantly above the regulatory minimum set at 11.2%.
- Leverage ratio has increased to 4.5% due to the lower growth in the mortgage book.

200%

Liquidity strength
Liquidity coverage ratio

- Strong liquidity protecting against economic uncertainty.
- Increase in contingent liquidity supporting Bank of England drawdown schemes.
- The availability of TFSME has allowed us to reduce excess liquidity and still remain well above both internal risk appetite and regulatory minimum.
- TFSME scheme drawings of £1.5bn as at 30 June 2020, replacing some retail funding.
- UK prime master issuer RMBS deal issued in July providing extra £350m of funding.

Mortgage growth and Payment Holidays

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2.0%

Mortgage balances have increased by £0.8bn to £43.0bn

- 8th largest lender in the UK, originating 3% of overall lending.
- Applications subdued in line with market demand during Covid-19, however recent signs show resilience in the market.
- More than double the rate of growth of the rest of the market.
- Selectively increased loan to value new product offering post lockdown measures.
- Mortgage margins have increased, supporting NIM growth in the future.

Payment Holidays

- 37,000 payment holidays were taken on mortgage accounts, of which 34,000 were active at 30 June 2020.
- Equates to 14% of the total book by value.
- More holidays granted in the Owner Occupied book of 16.0% versus Buy To Let 10.5%, highlighting the resilience in the BTL book.
- Of the payment holidays which ended before 31 July 2020; 19% of customers have extended their payment holiday and 80% have commenced repayments.

Impact on Net Interest Margin and Profits

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72bps
Net Interest Margin

- NIM fell due to decision to reprice savings on a measured basis over May to July to balance member interest and operational capacity post repricing of balance sheet on Base Rate fall to 0.10%.
- NIM in H1 reduced by 11 bps, 10 bps was due to the impact of Base Rate cut.
- Run NIM in June was 79 bps and increasing.
- Savings book re-pricing, and current mortgage margins indicate FY NIM closer to 2019 levels, if Base Rate remains unchanged.

£22m
Profit Before Tax

- The fallout from the pandemic on the economy has affected profitability in H1.
- Set aside £39m of provisions for Expected Credit Losses as a realistic amount to cover future credit losses given a very uncertain economic outlook.
- Repricing of the balance sheet with phased reductions in savings rates, following the Base Rate cut, reduced income by £23m.
- Profitability maintained capital levels, whilst returning £103m to members.

Managing member value

We paid

1.33%

average interest on savings

Market average[1]

0.76%

interest on savings

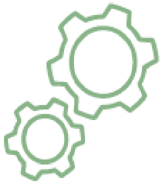
- Savings rates were 57bps above the market average in the first six months of the year.
- Equates to £103m in additional member value close to 2019 levels (£227m FY 2019).
- Average savings rate paid to members on savings book is now 1.05%[2].

Saving balances have decreased by £0.8bn to £35.4bn

- The Society prefunded in late 2019 for planned mortgages in 2020 and ahead of Brexit.
- Reduced demand for lending due to Covid-19 and the availability of TFSME, reduced requirements for retail acquisition.
- After modest outflows in very early days of the lockdown, savings balances have seen small inflows.
- Retention on fixed rate maturities has been high despite rate reductions, reflecting the value in the savings rates offered and member loyalty.

1 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. As at July 31st 2020.

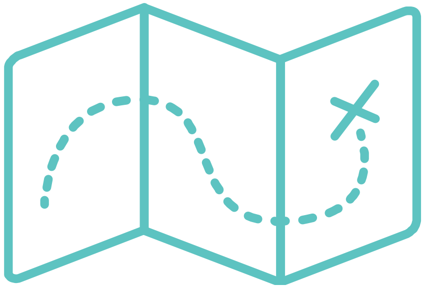
Continuing to invest for the future



0.47%

Total costs as a percentage of average assets

- Spending our members' money wisely and retaining our low cost advantage continues to be central to our strategy.
- One of the lowest Manex ratios in the peer group.
- Simple business model, drives 0.31% operational run cost.
- 0.47% including our investment in change which has largely continued during Covid-19 where it has been safe to do so.
- Taking a long term view when making investment decision allows us to remain cost efficient for the future.



Strategic Change Journey

- Strategic change programme reviewed in the light of Covid-19, focus on safe delivery and responding to needs for remote access and working.
- Planned initiatives continue with a change in pace:
    - 3 more branches upgraded in Q1, remaining re-design paused until it is safer to complete.
    - Core technology platform has continued, with the main focus our mortgage origination system.
    - Enhanced data infrastructure has continued at a slower pace than planned, work will continue in H2.
    - Stronger Customer Authentication to comply with Payment Services regulation completed in line with expectations. Will be leveraged as the first part of improving digital offering to members.

Financial Year 2019

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Income Statement

£m	HY 2020	HY 2019	2019
Interest Receivable and Similar Income	438.3	501.7	1010.5
Interest Payable and Similar Charges	(260.0)	(300.6)	(613.8)
Net Interest Income	178.4	201.1	396.7
Other Income	(0.6)	1.1	0.1
Net Gains/Losses from Derivatives	1.2	(12.4)	(17.2)
Total Income	**179.0**	**189.8**	**379.6**
Management Expenses	(117.2)	(113.3)	(229.1)
Operational Run Costs	(77.7)	(71.8)	(149.1)
Change Spend and Depreciation	(39.5)	(41.5)	(80.0)
Expected Credit Loss charge	(39.4)	(1.2)	(2.1)
Provisions for liabilities and Charges	(0.5)	-	-
Charitable Donation (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 Period	**18.7**	**60.6**	**121.7**

Balance Sheet

£m	HY 2020	HY 2019	2019
Liquidity	6,444	7,575.6	6,854.7
Loans and Advances to Customers	43,030.0	40,586.5	42,234.7
Derivative financial instruments	710.9	417.8	287.6
Intangible and tangible assets	109.3	111.9	111.0
Other Assets	65.8	42.3	42.8
Total assets	50,360.0	48,734.1	49,530.8
Shares	35,438.6	35,158.7	36,238.1
Wholesale Funding	11,926.6	10,906.0	10,605.4
Derivative financial instruments	714.9	314.0	325.8
Other Liabilities	66.0	106.1	91.6
Subordinated Liabilities	25.5	25.5	25.5
Subscribed capital	41.6	41.6	41.6
Members' interests and Equity	2,146.8	2,182.2	2,202.8
Total Liabilities & Equity	**50,360.0**	**48,734.1**	**49,530.8**

Overall mortgage portfolio

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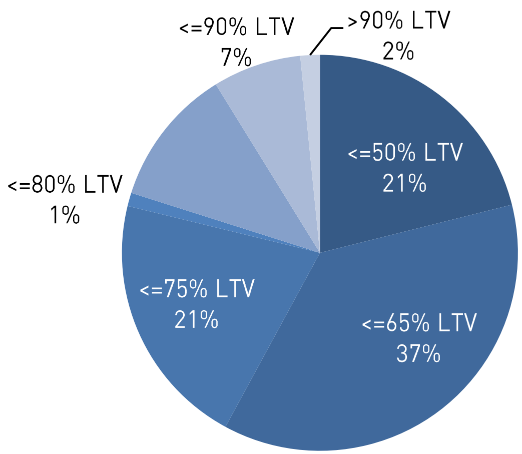
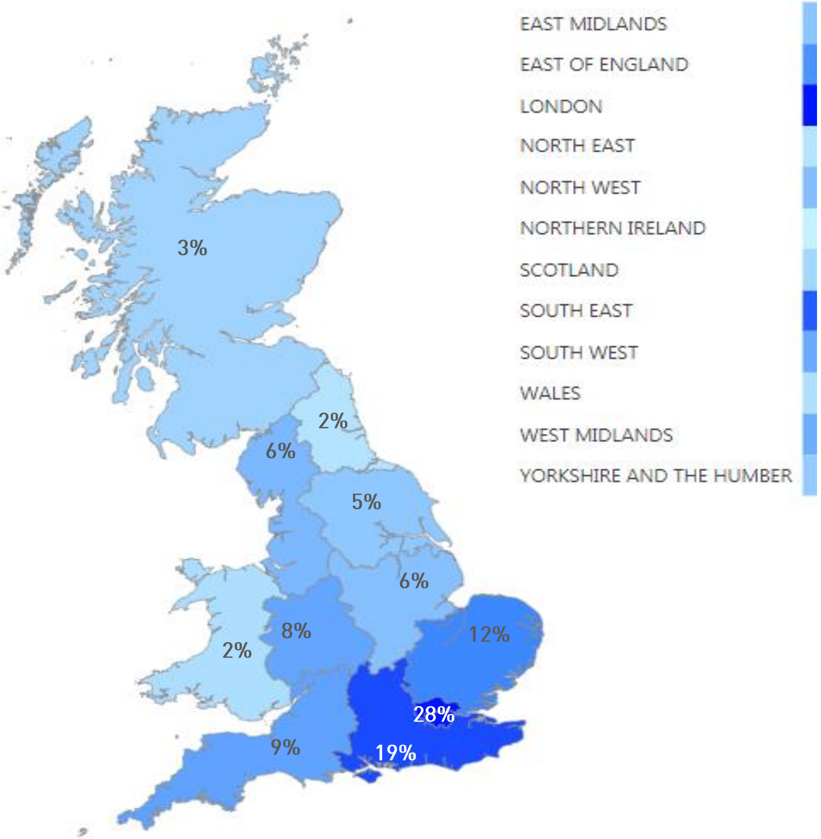
Whole book position

- Currently 60.2% of the loan book is Prime Owner Occupied, 39.1% Buy to let and 0.7% other.
- No sub-prime, commercial or second charge lending.
- Legacy commercial book currently £1.9m in run off and negligible levels of unsecured lending (Q2 2020: £18.6m, Q4 2019: £20.1m).
- Balance weighted average indexed LTV 54.4% as at June 2020.
- 97% of the overall book has an indexed LTV of 85% or less as at 30 June 2020.
- Intermediary distribution creates geographic diversification of the mortgage book and regular demand for lending.

Total book LTV



Geographical distribution by Value

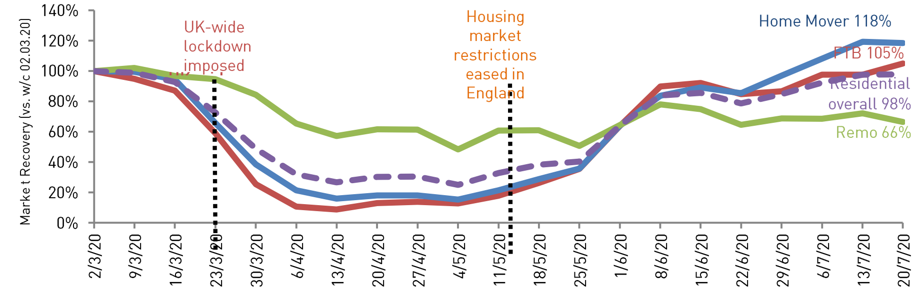


Mortgage Demand

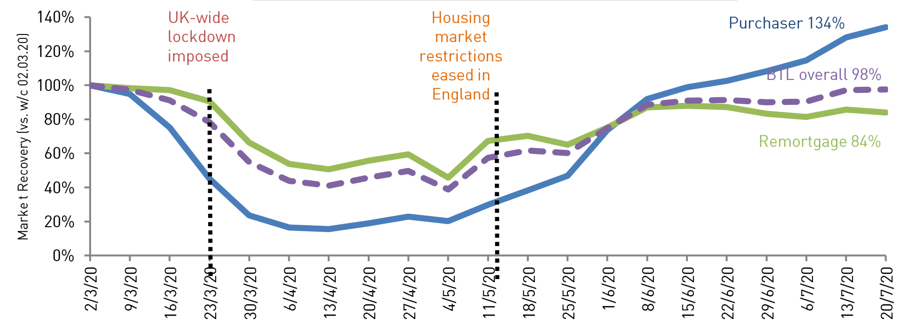
COVID-19 Impact

- An easing of the Brexit stalemate led to a mini market revival, before coming to an end as a result of lockdown.
- O/O market contracted to less than a third of its pre-COVID size in April, with First Time Buyers hit hardest, whilst BTL more than halved.
- Easing of housing market restrictions accelerated the gradual recovery in May, with market sizes now back to 84% (O/O) and 88% (BTL) of pre-COVID levels for mortgage applications.
- Pent-up demand driving recovery, with less certainty on the longevity of renewed activity.
- Lockdown continues to impact completion activity, both in customer behaviour and valuations, with remortgages more resilient.
- Initially, lenders retrenched on LTV to c.60%, since then the LTVs have begun to increase.
- The Society has re-entered the 90% LTV market on two separate occasions as it offers good risk reward with margins c.2.9%. Exposure has been tranche sized managed with both being used up quickly.
- Customer pay rates remain relatively unchanged in lower LTVs despite a reduction in swap pricing improving margins.
- Mortgage application margins have increased up to 50bps from March levels showing the improvement going forward.

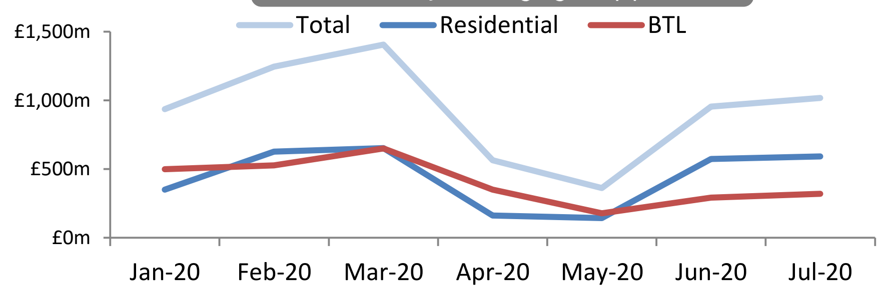
Residential Mortgage Apps



Buy To Let Mortgage Apps

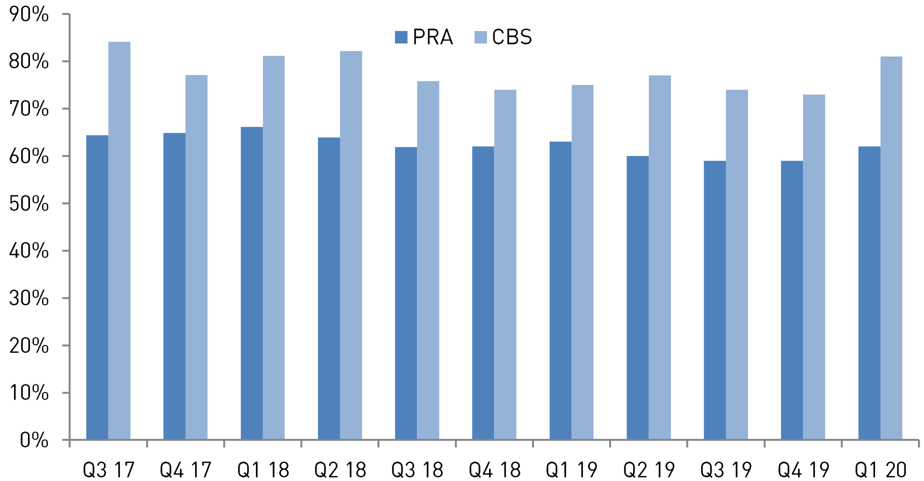


Society Mortgage Apps

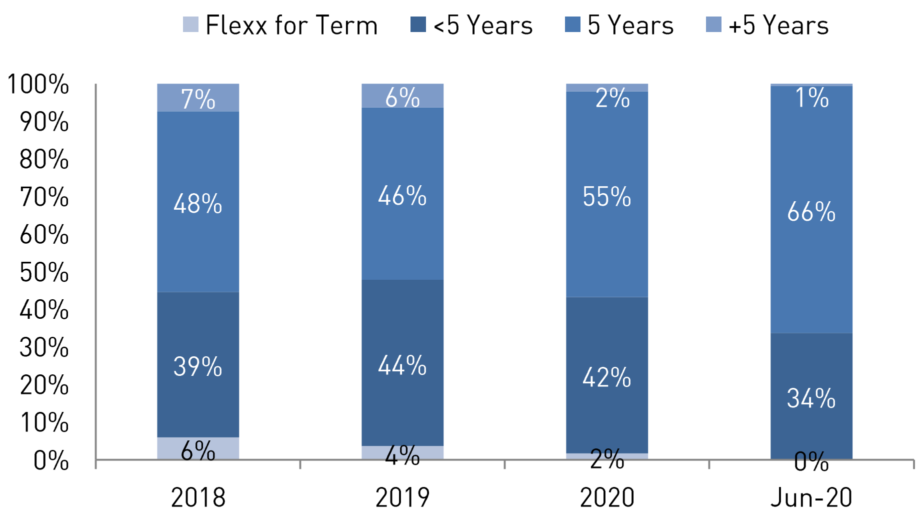


2020 Originations

Gross Lending ≤ 75% LTV



Product mix



Low risk

- 80% of lending has been at LTVs of 75% or below, in comparison to the market average of 61% for the first quarter of 2020.
- In H1 2020 circa 62% of all buy-to-let lending was originated at 65% LTV or less.
- Majority of the UK mortgage market is introduced via intermediaries (e.g. independent financial advisors, mortgage brokers, estate agents).
- The Society maintains a great relationship with broker network through efficient operations, service pledges and absence of competing 'direct' product range.
- Crucially, all underwriting and servicing is performed by Coventry. There is no 'packaging'; the intermediary acts solely as an introducer.
- We selectively offered 90% products, for a short period, to support the recovery of the mortgage market.
- Trend to towards long term fixed rates has continued with 5 year fixes being most popular.

Arrears levels remain low

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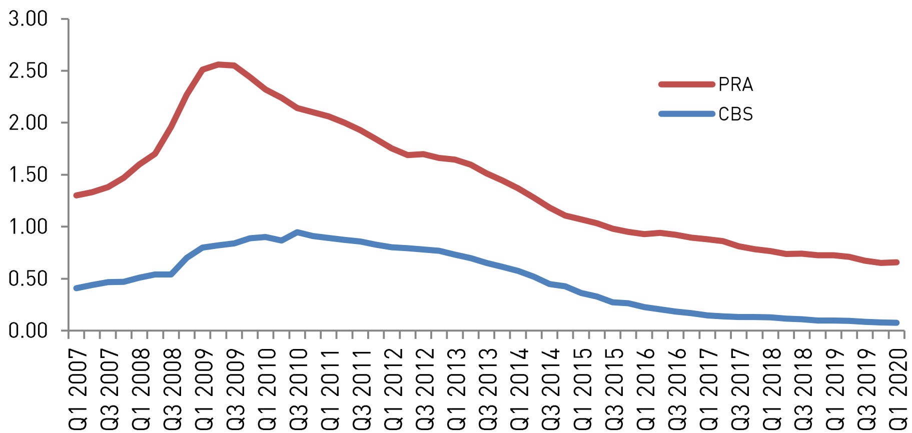
CBS vs PRA >2.5% balance in arrears [1]



Very low arrears

- Arrears levels consistently below industry averages - 0.18% of accounts > three months in arrears (Industry average 0.74%(Q1 2020)).
- Arrears very rarely capitalised - no cases so far in 2020 versus 1907 for the industry as a whole up to the end of Q1 2020.
- At 30 Jun 2020, only 25 properties were in possession, out of a total of c.292k mortgages; 7 are legacy products, 3 standard owner occupier and 15 Buy to Let.
- Impairment charges in the between 2008 and 2012 averaged c. 8 bps per year – 55% on legacy products.

Accounts & balances in arrears [2]

Accounts in arrears	**Group 30 Jun 2020 %**	**UK Finance 31 Mar 2020[1] %**	Group 30 Jun 2019 %	UK Finance 30 Jun 2019 %	Group 31 Dec 2019 %	UK Finance 31 Dec 2019 %
Greater than three months	**0.18**	**0.74**	0.16	0.78	0.16	0.72
Greater than six months	**0.08**	**0.43**	0.06	0.47	0.06	0.43
Greater than one year	**0.02**	**0.22**	0.01	0.24	0.01	0.22
In possession	**0.01**	**0.03**	0.01	0.03	0.01	0.02

	Gross balance 30 Jun 2020 £m	**Arrears balance 30 Jun 2020 £m**	Gross balance 30 Jun 2019 £m	Arrears balance 30 Jun 2019 £m	Gross balance 31 Dec 2019 £m	Arrears balance 31 Dec 2019 £m
Greater than three months	**61.8**	**2.0**	54.7	1.8	54.0	1.7
Greater than six months	**27.8**	**1.3**	21.8	1.0	22.3	1.0
Greater than one year	**7.8**	**0.5**	4.8	0.3	5.1	0.4
In possession	**5.4**	**0.3**	5.2	0.4	4.6	0.2
Total	**102.8**	**4.1**	86.5	3.5	86.0	3.3

1. Source PRA 2. Source UK finance as at 31 March 2020

Payment Holidays

Payment Holidays

- 37,000 payment holidays have been taken to 30th June equating to 13.8% of the book, c 34,000 were still active at 30th June.
- Payment holidays have been and remain available to borrowers experiencing Covid-19 related issues .
- Payment holiday defer payments due without creating arrears or deterioration of Credit Bureau records.
- There are no fees for Payment Holidays granted although interest will continue to be charged.
- In line with market practice the Society does not seek evidence to support the holiday request but may investigate circumstances to establish the best support option. Customers can choose to discuss their circumstance in more depth if preferred.
- The Society proactively engages borrowers before expiry of their payment holiday to understand their on-going situation, making Borrowers aware of their future options and support.
- Online tools have been developed to support application and extension of payment holidays and to research budgeting options, free debt advice and other options available.
- Most popular option for ending a payment holiday is to capitalise arrears and repay over the existing contractual term, alternative arrangements may be possible subject to review between the Society and borrower.
- Personalised illustrations are provided as standard and Advice service is available to borrowers Society before taking / extending a holiday or on agreeing plans for the end of the payment holiday.
- Customers who were previously in arrears will be contacted directly to discuss their options.
- Repossession and Litigation moratorium applies until 31st October 2020 meaning no new instructions will be issued or existing cases progressed. This has resulted in c.35 cases not moved into possession and cases existing at March have not been progressed. At June 30t h 25 cases were in possession.
- Of the payment holidays which ended before 31 July 2020; 19% of customers have extended their payment holiday and 80% have commenced repayments.

30 June 2020[1]	% of Accounts	% of Balance
Total Book	11.5%	13.8%
Owner Occupier	13.2 %	16.0%
Buy to Let	9.0%	10.5%

1. The amount of payment holidays currently being taken. An additional 1.4% of the total book had been granted a payment holiday, but was not outstanding

Covid-19 ECL Post Model Adjustment

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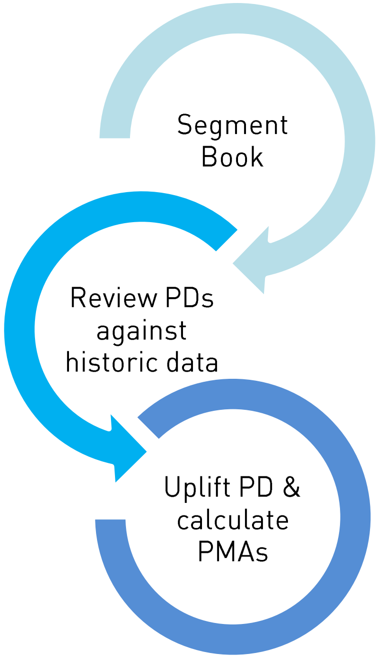
Judgements applied

- Reflecting the inherent uncertainty of Covid -19 on the wider economy, ECL charge includes a significant Post Model Adjustment of £33m.
- PMA captures potential deterioration that will not be reflected in existing models.
- Approach to PMA:
    - Segment the book to reflect existence of payment holidays, extension of holidays and other indicators of higher risk including external credit bureau data.
    - Reviewed historic PDs to derive potential ranges of PD uplift – PDs were uplifted for higher risk groups by 5.6% on average but uplifts range from 4.8% to 15.4%.
    - PMA calculated and subject to Alternative Economic Scenario sensitivity.
- PMA based 100% on central Covid scenario was £16.6m, applying alternative economic scenarios increases this to £33m.
- Additional indicator of Significant Increase in Credit Risk for staging to cover:
    - Loans where there has been a payment holiday and either that holiday was extended or there are further external indicators of credit deterioration.
- Resulted in 4.3% of loans being moved to stage 2.
- By 2020 year end reporting we will have a clearer view of economic environment and impact of unwind of payment holidays.



	Low Indicators	High Indicators
Never taken a payment holiday	£31.8bn	£4.7bn
Taken payment holiday but not extended	£4.5bn	£1.1bn
Extended payment holiday	£0.6bn	£0.2bn

IFRS 9 stage balances

IFRS stage balances

- In addition to our normal staging criteria we have treated those cases where a Covid-19 related payment holiday has been taken as stage two loans if either the payment holiday has been extended beyond its original three month period or if external credit data indicates a deteriorating in credit quality.
- The remaining payment holiday cases have been left in stage 1. This change in criteria meant that 4.3% of loans have been reclassified into Stage 2 but despite this 92.7% of the book remains in Stage 1.
- We expect that Covid-19 payment holidays will largely be completed by the time of be reported in our full year results and we will then be in a better position to assess the extent to which relevant accounts have resumed a normal level of payment and which are exhibiting credit stress.

As at 30 June 2020	Stage 1 'Performing' £m	Stage 2 'Deteriorating' COVID-19 SICR PMA £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Impairment £m	Total £m
Residential mortgages								
Residential mortgages Owner-occupier	23,160.8	1,285.9	563.0	69.3	59.9	64.7	(29.9)	25,173.7
Residential mortgages Buy to let	16,631.4	545.1	324.5	42.1	21.1	24.6	(18.7)	17,570.1
Total traditional residential mortgages	39,792.2	1,831.0	887.5	111.4	81.0	89.3	(48.6)	42,743.8
Non-traditional mortgages								
Residential near-prime	23.2	5.2	11.7	1.4	5.1	10.3	(0.4)	56.5
Residential self-certified	52.7	13.9	60.4	3.8	8.7	8.9	(0.8)	147.6
Commercial lending	-	-	1.5	-	0.4	-	(0.4)	1.5
Total non-traditional mortgages	75.9	19.1	73.6	5.2	14.2	19.2	(1.6)	205.6
Unsecured loans	15.5	-	2.4	0.3	0.2	0.2	(1.0)	17.6
Mortgage pipeline	-	-	-	-	-	-	(0.1)	(0.1)
Total gross loans	39,883.6	1,850.1	963.5	116.9	95.4	108.7	(51.3)	42,966.9
	%	%	%	%	%	%		
Total gross loans	92.7	4.3	2.2	0.3	0.2	0.3		

IFRS 9 Alternative economic scenarios and sensitivities

COVENTRY Building Society

Alternative scenarios used

- The calculation of ECLs both incorporate forward looking information and therefore require significant estimation techniques.
- The Society has used alternative economic scenarios to assess ECLs for its core owner-occupier and buy to let portfolios which represent over 99% of total loans and advances to customers.
- In response to Covid-19, a new base scenario has been developed along with a new downside scenario reflecting a prolonged slowdown as a result of the pandemic.
- The previous severe downside and upside scenarios have been updated from 2019 year end, particularly for a worsened expectation of unemployment in the severe downside scenario.
- The ECL calculation is particularly sensitive to changes in the following assumptions in each scenario:

  Unemployment rate, given its impact on borrowers' ability to meet their loan repayments.

  House Price Index (HPI), given the significant impact it has on mortgage collateral valuations.
- The Society has also considered the Bank of England Illustrative scenario for economic outlook published in May, if ECLs had been calculated using those assumptions it would have been £21.3m less than reported.

Alternative scenarios used

		30 June 2020			30 December 2019		
		Weighting	Unemployment%	HPI %	Weighting	Unemployment%	HPI %
Base case	2020	60%	9.0	(6.1)	60%	4.1	(0.9)
	2021		7.5	(5.0)		4.2	-
Downside	2020	20%	12.0	(12.0)	26%	5.1	(4.0)
	2021		9.5	(8.5)		6.0	(3.7)
Severe Downside	2020	20%	12.0	(14.2)	12%	7.2	(8.8)
	2021		9.2	(18.7)		9.2	(18.4)
Upside	2020	0%	3.8	2.3	2%	3.8	2.6
	2021		3.7	4.0		3.7	4.0

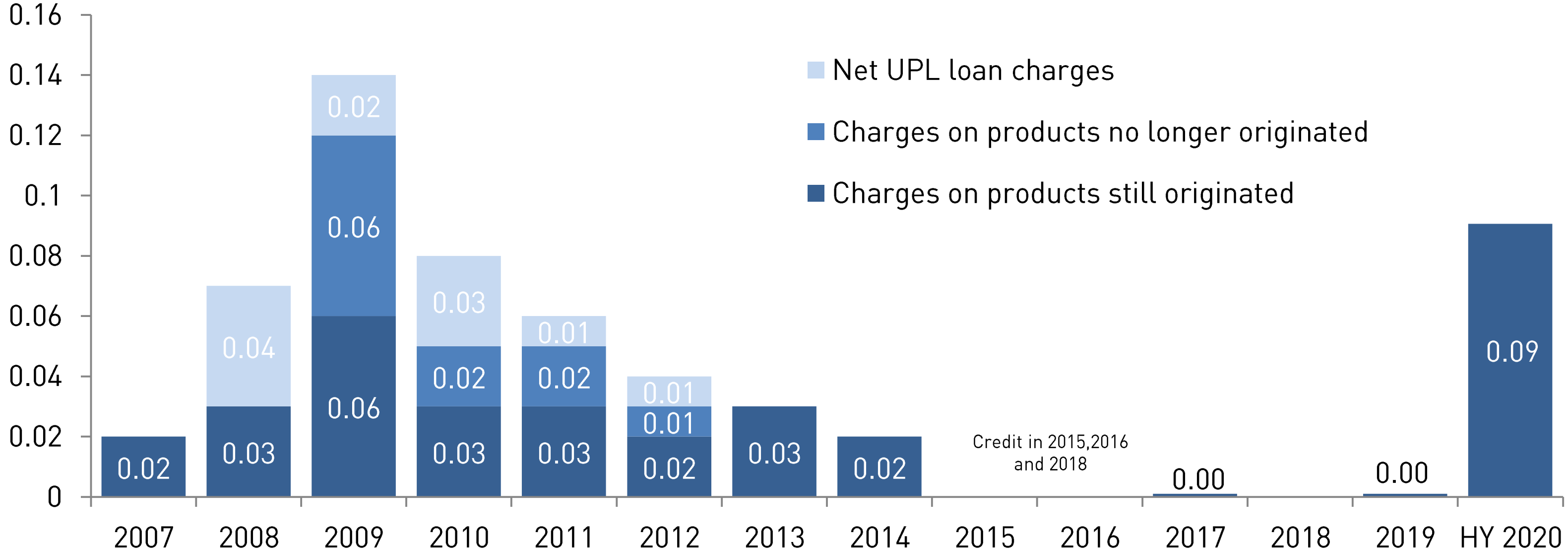
Impacts on provision

	30 June 2020		31 December 2019	
Scenario	IFRS 9 Provision £m	(Decrease)/ increase %	IFRS 9 Provision £m	(Decrease)/ increase %
IFRS 9 weighted average	51.3	-	12.0	-
Base scenario	26.0	(49.3)	10.4	(13.3)
Downside scenario	62.2	21.2	11.1	(7.5)
Severe downside scenario	100.9	96.7	22.7	89.2
Upside scenario	6.3	(87.7)	9.5	(20.8)

Provisions and coverage of credit losses

COVENTRY Building Society

Provision coverage as % of loans



Provision and coverage

- Due to the unprecedented nature of the Covid-19 it is difficult to predict future arrears levels, meaning there is significant judgement applied to calculate ECLs this year.
- Included within the ECL provision of £51.3 million (2019: £12.0 million) is £37.1 million (2019: £4.0 million) relating to post model adjustments (PMAs).
- The substantial increase relates to a PMA of £33m for potential further credit losses as a result of the impact of Covid-19 which has not yet been identified within the Society's impairment models.
- A new Covid base case and downside scenario based on a prolonged shutdown scenario has been included. Upside scenario weighted at zero. Change in scenarios and weighting increases ECLs by £5 million.
- On Unsecured Personal Loans(UPLs) there has been an increased provision of £0.7m taking total impairment to £1m
- Total provision coverage has been increased to 27.0 times the gross losses before recoveries in the last 12 months. This represents overall coverage of 12 basis points.

Owner Occupier Performance

COVENTRY Building Society

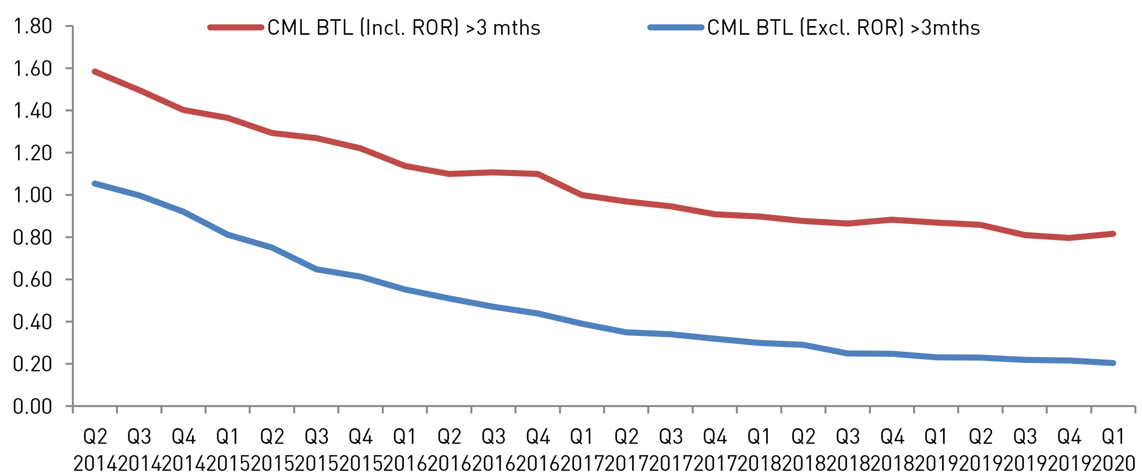
Coventry OO Prudent approach

- Focus on mass market lending to prime borrowers, with excellent credit .
- Maximum age at maturity of 75.
- No self-certified lending.
- Combination of remote physical valuations however, for remote valuations a number of conditions need to be met for it to be used for a property.
- Prudent basis of including income in affordability vs the market and interest rates are stressed to 6.99%.
- Regular overtime, shift allowance or commission are accepted at 50% and bonuses are not an acceptable source of income.
- 100% of furloughed income accepted but lending restricted to 65% LTV.
- Lending at higher income multiples is significantly lower than the industry average and 60% of lending is at <= 85% of the maximum affordable loan amount.
- Regionally diverse book reduces concentration risks.
- Certain additional restrictions have operated through Covid-19 lockdown including restrictions on income such as no additional income being considered for a period.

Interest Only OO loans

- Small legacy owner occupied interest only book.
- Focus on how borrowers repay loans after the typical 25 years contractual term.
- As at 30 June 2020 the number of interest only loans was 5.8% of the OO book, down from 34.8% at 31 December 2011, when the Society stopped lending.
- Only 14 interest only owner occupier mortgages with a LTV greater than 75% were >6 months beyond their scheduled term end date as at 30th June 2020.
- Board approval to re-enter IO market later in 2020 for low LTVs.

Owner Occupied Arrears >3 months[1]



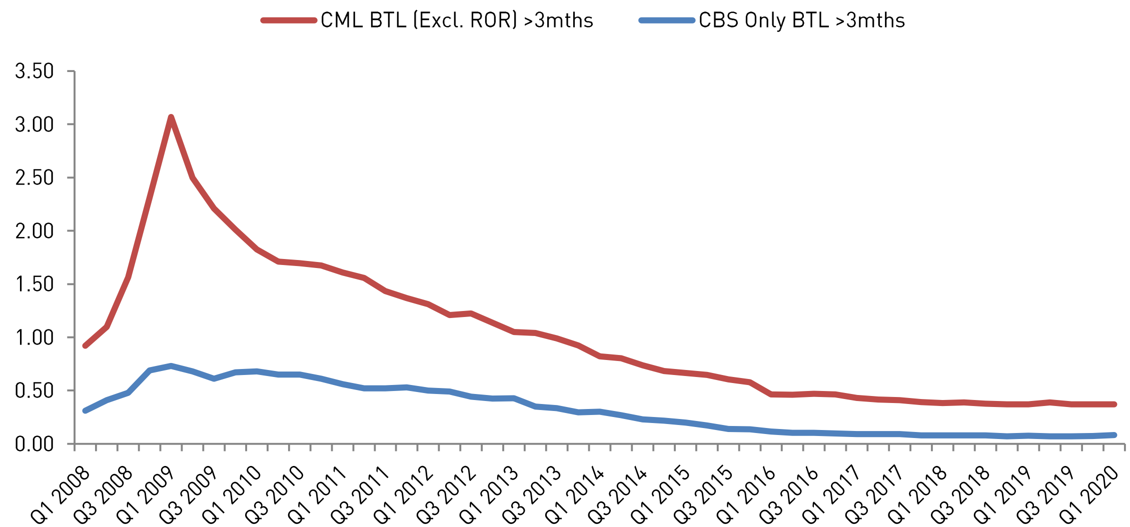
1. Source CML

Buy to Let Performance

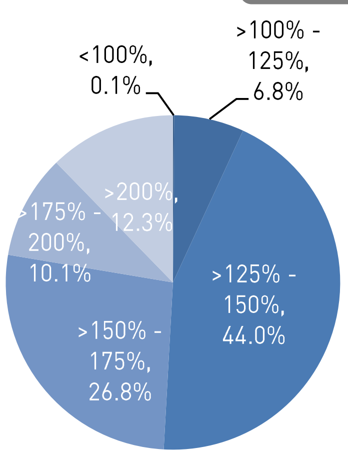
Coventry BTL Experience

- Arrears and impairment levels historically very low.
- Less Covid-19 payment holidays granted to Buy to Let borrowers than Owner Occupied.
- BTL lending more resilient than owner occupier lending during the Global Financial crisis: peak > 3 months arrears of 0.73% vs 1.34% for OO.
- 6 losses on £27bn of BTL lending originated since 2010 with total losses £74k.
- Approximately 67% BTL lending is on houses, with 33% on flats.
- BTL demographic is older than OO.
- 30 June 2020 BTL experience:
  - 15 properties in possession from a book of ~120,000 mortgages.
  - Balance weighted average LTV of 55.3%.
  - 0.09% loans >3 months in arrears (including possessions), half overall arrears level on total book.
  - Only 3.7 %of borrowers have more than two BTL loans with the Society (maximum 5 properties).

Coventry vs. UKF >3mths buy-to-let arrears (incl. possessions)[1]



Interest Coverage Ratio (ICR)



- 99.9% of accounts, have > 100% ICR based solely on rental income.
- ICR calculation assumes minimum interest rate of 5%. – most loans significantly lower, so actual ICR likely to be considerably higher.
- Prudent assumptions regarding rental voids, rent increases etc. used.
- Actual indexed ICR for 30 June was 175.2%.

1. Source CML

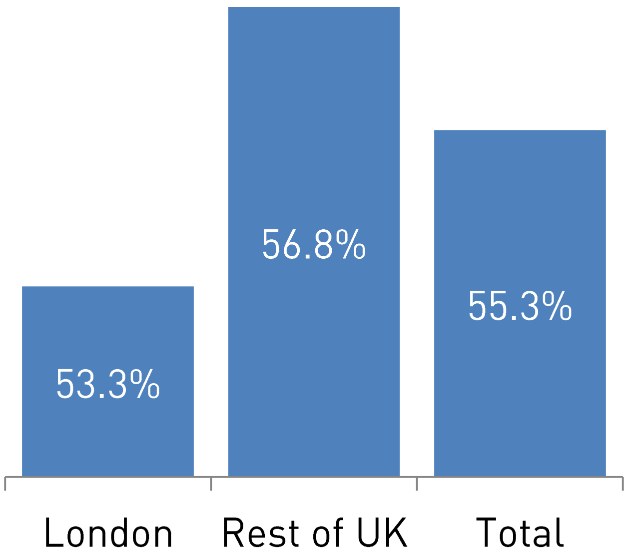
Buy to Let criteria

COVENTRY Building Society

BTL prudent criteria

- Properties must be readily saleable into the owner occupier market.
- 100% subject to physical valuations - during lockdown BTL valuations were conducted remotely for a short period but LTV for new purchase using remote valuations was capped at 50% with additional caps on loan size.
- Maximum of 5 properties with the Coventry and an aggregate loan limit of £2,000,000.
- 50% maximum LTV on new build flats.
- Minimum rental coverage of 125% for basic tax payers and 145% for higher rate tax payers.
- The Society does not lend on Studio and High Rise Flats (above ten storeys).
- No top slicing on affordability calculations.

Balanced weighted average LTV



Portfolio Landlords

- Portfolio landlord regulation introduced in 2017.
- In addition to BTL criteria, further policies apply.
- Assessment of geographical concentration of landlords portfolio.
- Portfolio maximum LTV of 65% across all properties within the portfolio.
- The whole portfolio minimum ICR of 125%, with no individual property with ICR <100%.
- The proportion of portfolio landlords is c.20% of new business.

London experience

- Almost 44% of all BTL balances are in London compared to 28% of overall book.
- Up to 75% LTV loan size is capped at £750k and above 75% is capped at £350k. - See email from lending.
- Coventry does not lend on mandatory licensed HMO properties.
- Severe stress testing carried out on our London BTL book, showed strong resilience.
- Lower arrears than the rest of the country with only 5bps >3 months in arrears (9bps national average).

Margin management

COVENTRY Building Society

Margin management

- The Society's low cost operating model means that it can still operate effectively in a low margin environment whilst maintaining capital ratios and still returning value to members, albeit at lower levels than previously.
- During the first 6 months of the year profitability has been impacted by the reduction in the Base Rate by 0.65% in March.
- The a fall in earnings received on mortgages led to the difficult decision to reduce savings rates. The rate reductions were done on a measured basis over the period of May to July.
- As at June 2019, our run net interest margin was 79bps signalling the growth in NIM already.
- The increase in mortgage market demand, improved mortgage origination margins alongside the savings re-pricing implemented in July should see margin returning towards 2019 levels by the full year .
- The Society has administered rate products on both side of the balance sheet, which can be used to further manage **margins. 56 % and 17% of** variable savings and mortgages respectively.
- The measured actions we have taken following the base rate fall to support margin improvement for the full year are shown below.

11th March
Bank of England drops base rate 50bps, consequently SONIA rate drops

19th March
BoE drops rate by 10bps, SONIA reprice reduces hedged mortgages

1st April
Society reduces SVR and Base rate mortgage rates by 50bps

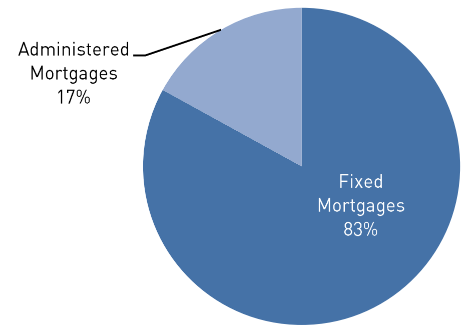
10th April
Society reduces rates on £11.6bn of savings balances

4th May
Rate reduction on £7bn of savings balances

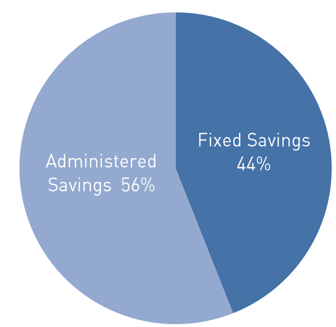
26th May
Further £0.8bn savings balances received a rate cut

July
Savings rate reduction on £11.6bn of balances

Administered mortgages



Administered Savings



Efficient cost model

COVENTRY Building Society

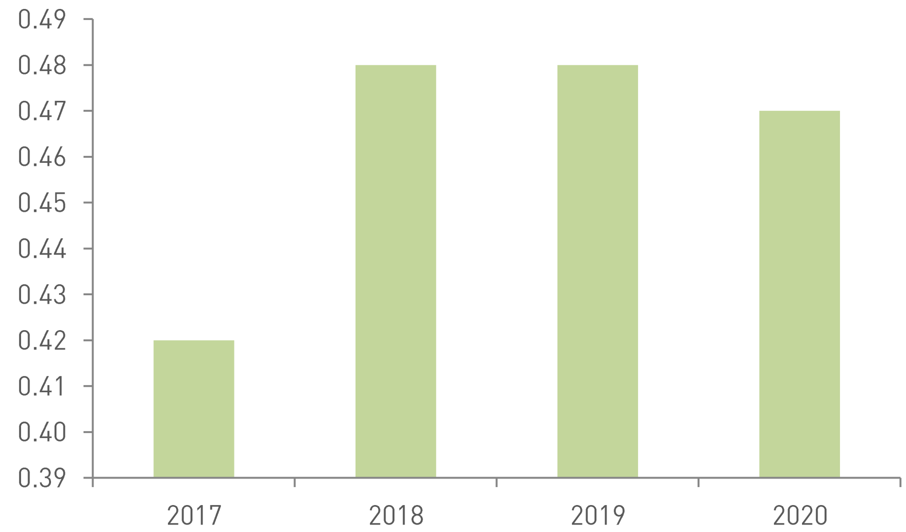
Strategic change journey

- We still remain committed to our four initiatives and in 2020 where its has been safe and possible to do so, we have continued our plans.
- Our Branch network re-design project has been delayed as we wanted to remain as accessible to our members as possible during Covid-19. This project has been delayed until safe to continue but before the pandemic hit, we completed 3 branches taking the total to 29.
- The enhanced data infrastructure project has continued in the first six months of the year, although at a slower pace than planned with the material work being completed for the second half of 2020.
- Our core technology platform upgrade has continued to progress this project during 2020 following a modular approach. During the first half of the year the main focus has been on upgrading our mortgage origination system which will digitise our mortgage origination process, improving both the efficiency and speed of processing mortgages and on upgrading our Oracle database.
- Stronger Customer Authentication to comply with Payment Services regulation will be leveraged as the first part of improving digital offering to members, project was completed as expected. Will be leveraged as part of extending digital access.

0.47%

Total costs as a percentage of average assets

Manex ratio %

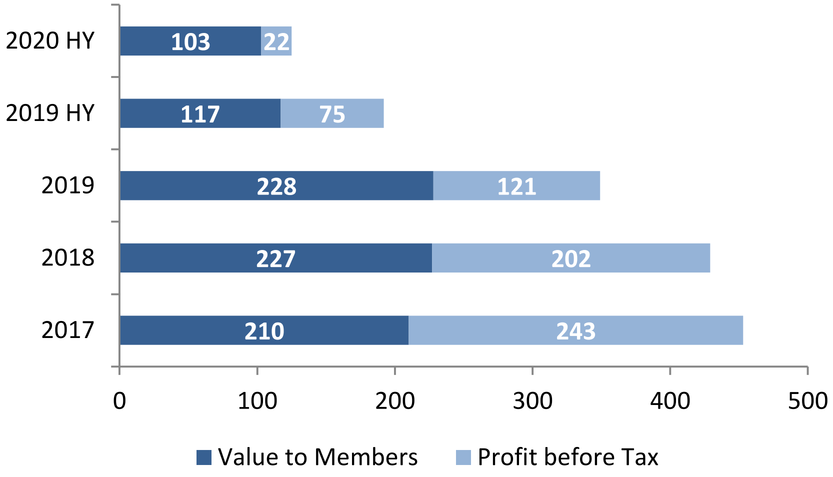


Low cost whilst investing

- Since 2017 investment on strategic change programmes has increased, however we still have one of the lowest manex ratios in the industry with a ratio of 0.47%.
- Low underlying costs of 0.31% are driven by simple business model, efficient distribution channels and high average account balances, with growth driving economies of scale.
- Long term view enables investment in future service despite margin pressure.

Retail Funding Acquisition

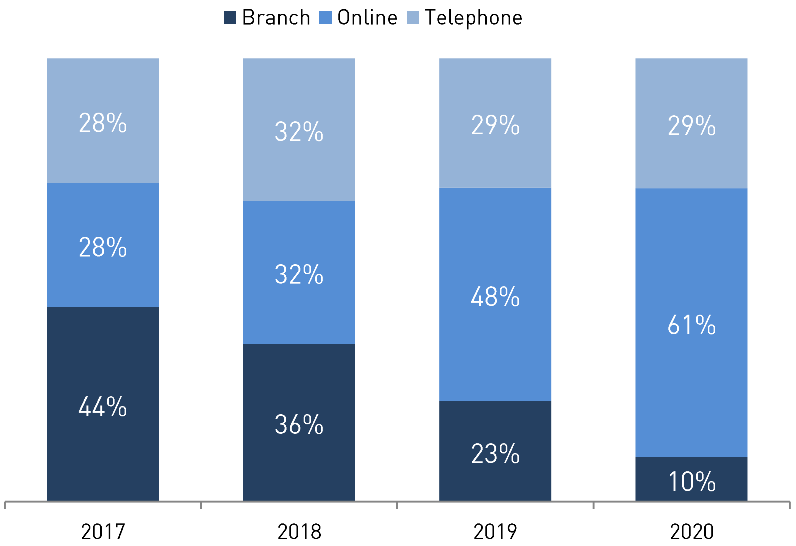
Total Value to Members



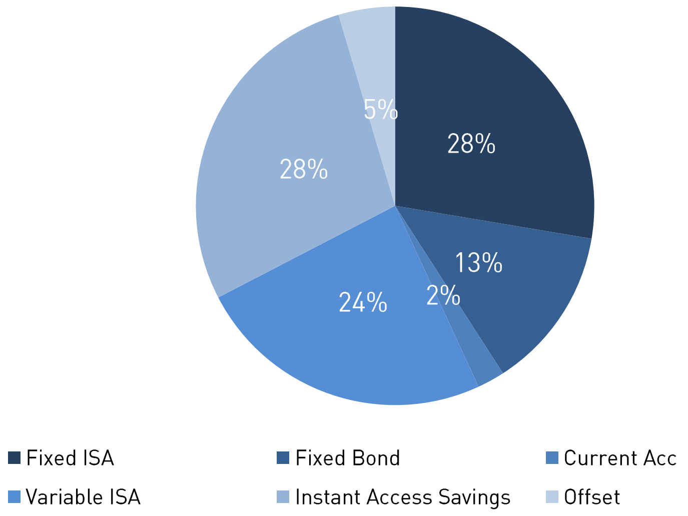
Retail Savings Focus

- In 2019 the Society prefunded for planned mortgages and Brexit uncertainty, the availability of TFSME and lower growth has meant a smaller requirement for retail funding in the last six months.
- Lending is primarily funded through retail deposits.
- The Society has paid above market rates on savings, in line with continued strategy of returning value to members and only retaining profits needed to maintain capital ratios and fund investment.
- Further products offered through Hargreaves Lansdown platform.

Savings Book Origination as at June 2020



Retail Product Breakdown as at June 2020



Prudent approach to liquidity

Liquidity

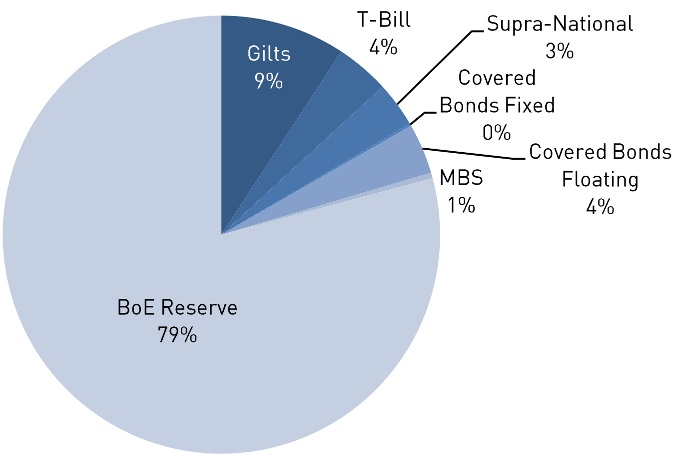
- Liquidity risk appetite includes requirement to survive a severe but plausible stress, a measure which is in excess of regulatory requirements.
- Over 90% of core liquidity is eligible as High Quality Liquidity Assets Buffer.
- Majority of liquid assets in UK Sovereigns with a small proportion in Supranational bonds, more recently the Society has invested in UK covered bonds and RMBS.
- Introduction of TFSME and lower lending in H1 has allowed the Society to reduce excess liquidity well within risk appetite.

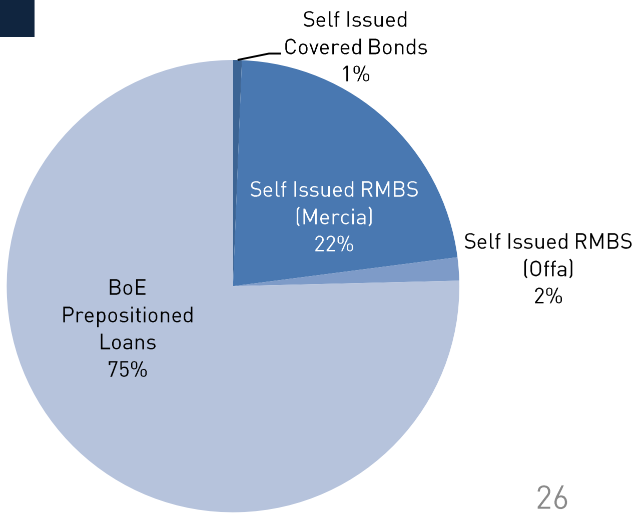
LCR / NSFR

- Liquidity considerably above the regulatory requirement. With an LCR of 200% at 30 June 2020.
- The NSFR was 125% as at 30 June 2020.
- The Loan to Deposit ratio was 117% reflecting the stable funding profile of the Society.
- Contingent liquidity was lower than last year end due to prepayment of pre-positioned mortgage collateral, this has been increased by £1bn in January 2020.

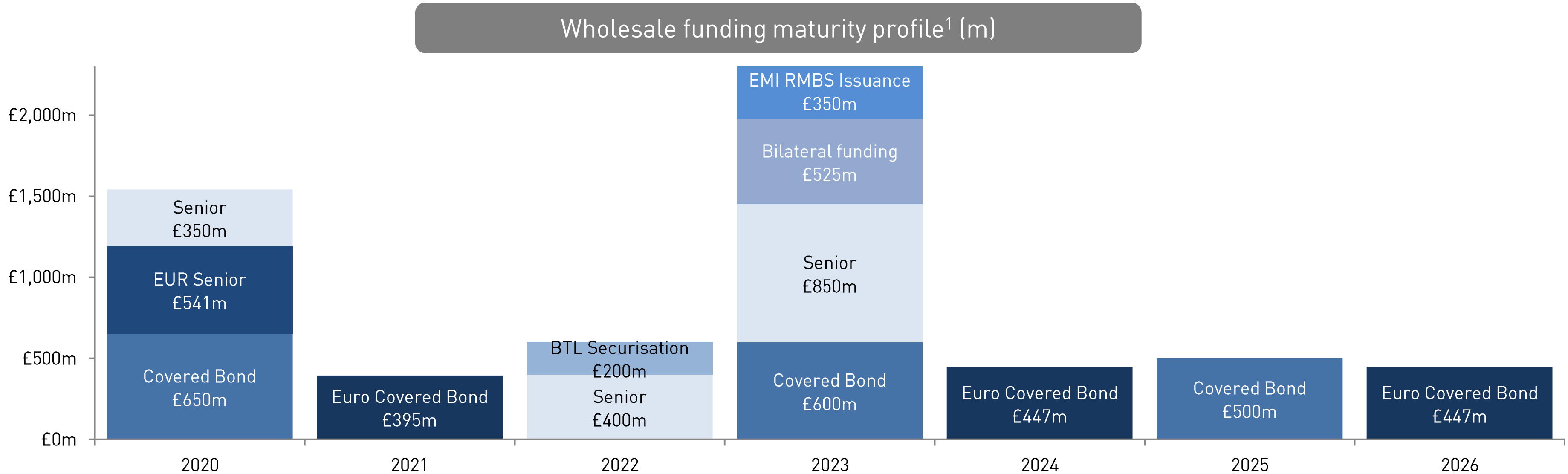
Core Liquidity

Contingent Liquidity





Wholesale funding franchise



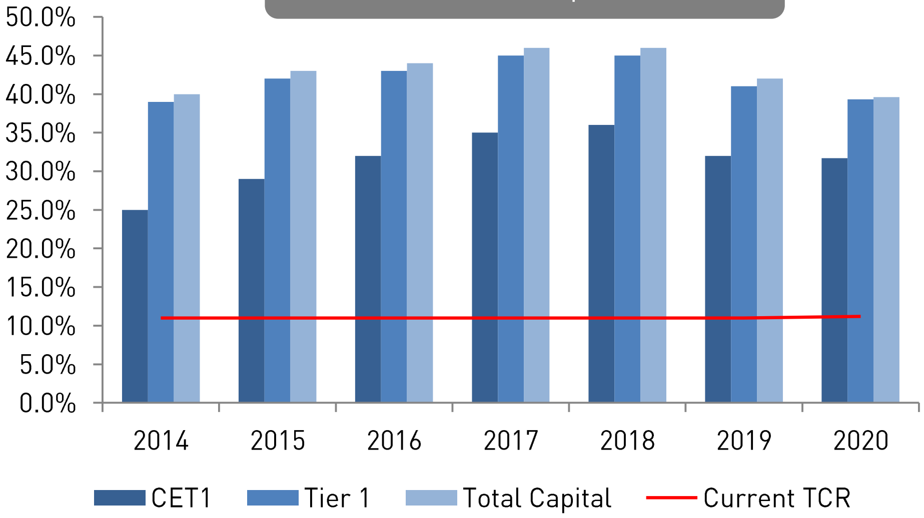
Funding Strategy

- Retail deposits are supplemented by a number of wholesale funding options, with a wholesale funding ratio 23.6% as at June 2020.
- The Society aims to limit maturity concentrations on wholesale issuances, including exposures on the TFS and TFSME which now total £4.25bn and £1.5bn respectively. The total allowance if only based on 10% of stock stands at £4.25bn for the new scheme.
- The Society has a number of wholesale funding programmes, and within 2020 completed a £500m Sonia linked Covered Bond in January and the inaugural issuance of the new Economic Master Issuer in July 2020. EMI is a programme structure unique to the Society, the first public issuance of £350m achieved pricing of Sonia +47bps with positive feedback from investors and peers alike.
- The Society has grown diversify in funding sources both in terms of asset class and currency and will seek to increase this as we continue to grow.

1. Excluding TFS and TFSME

Capital

CET1 and Total Capital Ratios



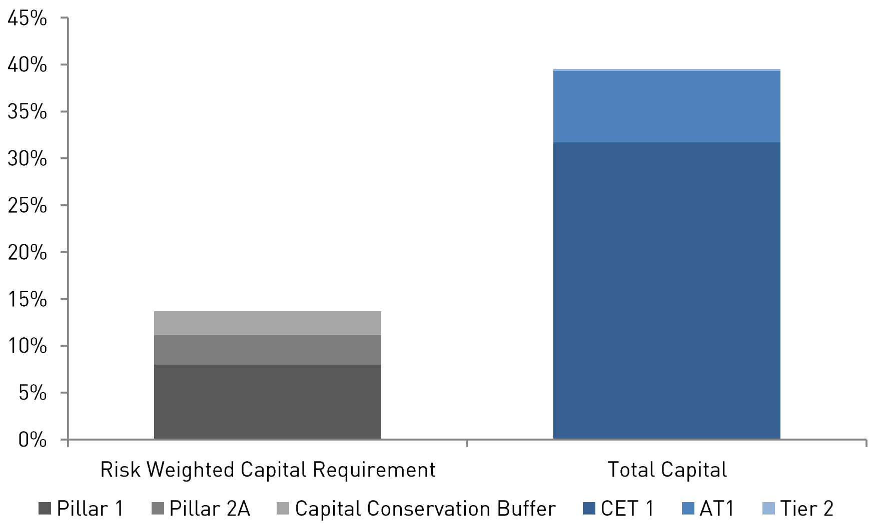
Regulatory Capital

- Coventry's total capital ratio is 39.6% [1] compared to an RWA-based capital requirement of 13.7% (TCR + Capital Conservation Buffer 2.5%) 25.9% buffer over TCR on RWA basis.
- The Society uses IRB models that are being updated to reflect the upcoming regulation and expects that on adopting the new models, its Risk Weighted Assets (RWAs) will increase and its CET 1 ratio will fall by between 3% and 5%. This arises because the Society's incumbent models already assess risk 'through the cycle' rather than solely on a 'point in time' basis.

Capital and Reserves

- The Society's CET1 ratio remained broadly consistent at 31.7% as at 30 June 2020, remaining comfortably above requirements.
- Management overlay for Risk Grade Migration on some Payment Holiday cases impacted CET1 by 0.8%.
- The Society was issued with Total Capital Requirement (TCR) of 11.2% or £605m comprising Pillar 1 and Pillar 2A.
- Retained earnings (currently c. £1.78bn) are Coventry's primary source of CET1 capital.
- Internally generated capital is augmented by £415m of AT1 issuance, providing 83 bps uplift in leverage ratio.
- The whole loan sales of non-member buy to let mortgages to a third party in 2015 and 2018 provide further capital management options.

End-point Risk Weighted Capital Requirement

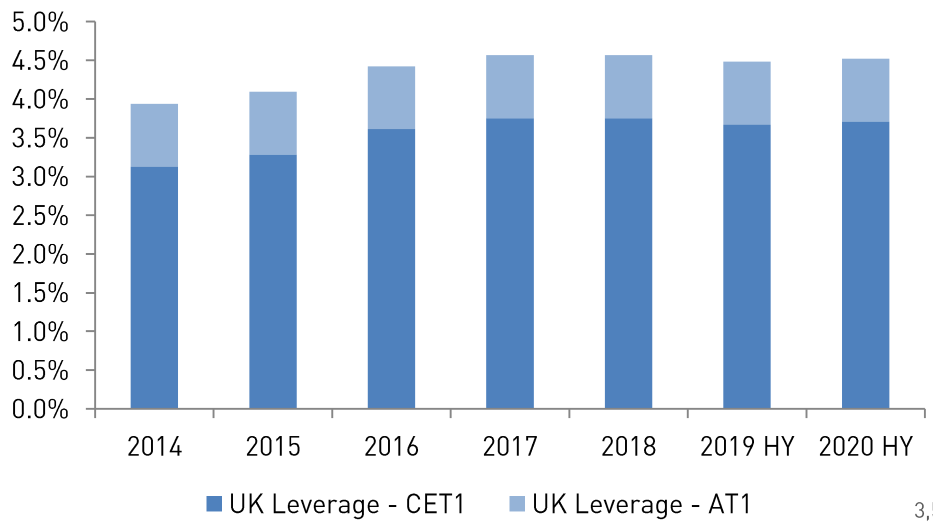


1. Reported on an end state basis

Leverage & MREL

COVENTRY Building Society

Leverage Ratio[1]



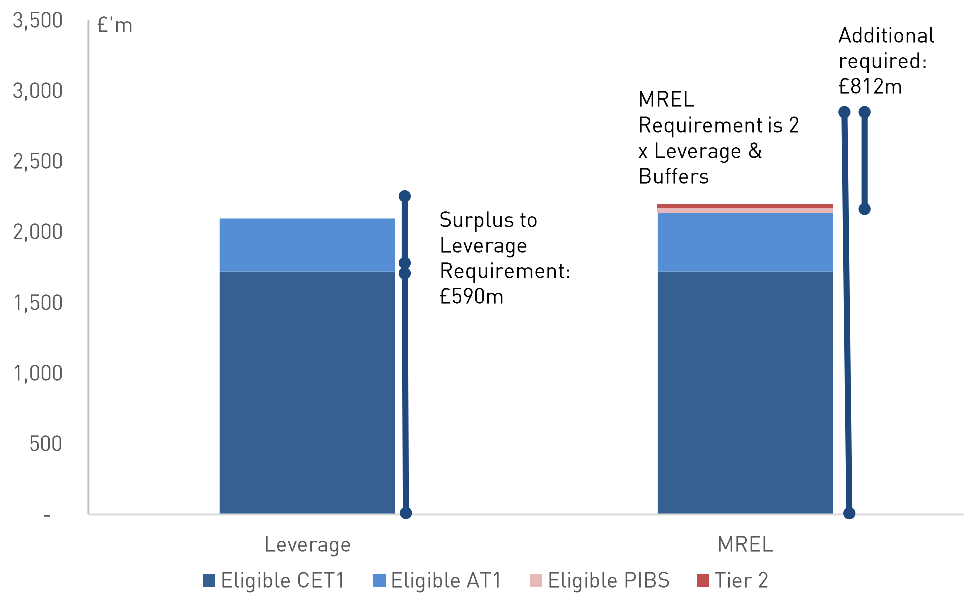
Leverage Ratio Framework

- The leverage ratio will become binding on all firms from June 2021 after CRR2 was enshrined in EU Law.
- The components of the UK leverage ratio framework are a minimum ratio of 3.25% (excluding Central Bank exposures below 3 months to maturity). The CCyB is set by the FPC and was reduced to 0% in March in response to the Covid-19 pandemic.
- The modified leverage ratio on a UK basis at 30 June 2020 is 4.5% (4.2% based on CRR leverage), comfortably above the 3.25% minimum level.

MREL

- Under the rules the Society met the interim MREL requirement of 18% of risk weighted assets by 1 January 2020. The indicative end-state MREL requirement for all firms will be twice the binding capital requirement; for the Society, this is currently two times Pillar 1 and Pillar 2a plus buffers, or 24.8% of risk weighted assets.
- The Society currently exceeds this constraint ,however, if these changes to a leverage binding constraint are implemented before 2022, the society will be required to raise just over £0.8bn in MREL funding.

MREL



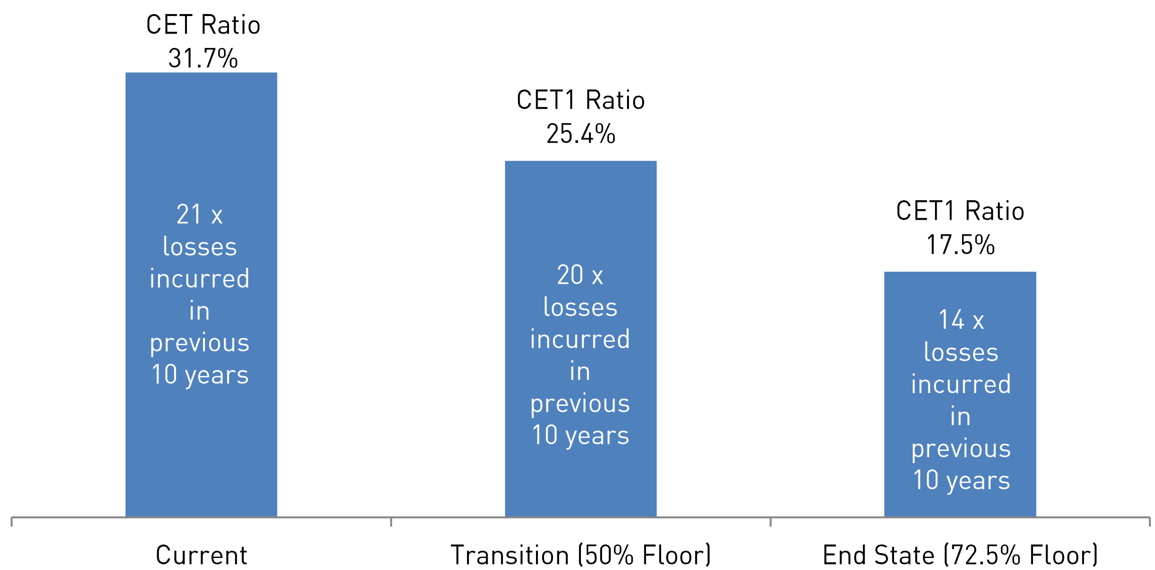
1. The BoE Modified calculation excluding central bank exposures less than 3 months

Basel IV Capital implications

Basel IV

- BCBS Paper released in December 2017 outlining Standardised Risk Weights and output floors that seek to remove variability in internal models (IRB).
- Regulation and implications still need finalising and have national discretion (especially in the treatment of differing mortgage types).
- Output floor is now phased in from 50% in 2023 to 72.5% in 2028, having been pushed back due to COVID-19.
- Assuming the implementation of 50% output floor, the CET1 ratio reduces materially but remains above 25%, reflecting the impacts of the flooring on a low risk business model.
- Surplus to regulatory minima remains considerable, equal to 14 times the actual credit losses experienced in the last 10 years, even after transition.

Surplus over Basel IV Requirement[1]



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

Contact us

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Useful links

- **Main website** http://www.coventrybuildingsociety.co.uk/
- **Financial results** http://www.coventrybuildingsociety.co.uk/your-society/financial-results.aspx

	Long term	Short term	Last credit opinion
Moody's	A2	P-1	Jan-20
Fitch	A-	F1	Jan-20