News release

31 July 2024

A strong first half performance for the Society, where we continued to grow savings and mortgages in a disciplined way, whilst delivering outstanding value and service to our members. We further enhanced our capital base which is providing the foundation for investment and future growth.

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

"I am delighted to report that the Society has continued its sustained record of delivery in the first six months of the year. We have grown mortgages and savings in a market where economic uncertainty persists and continued to offer great value products and exceptional service to our members. The Society has recorded a strong financial performance in the first half of 2024 and further enhanced our capital position. We are making good progress to complete the acquisition of The Co-operative Bank in the first quarter of 2025."

Growing mortgages and savings

- **Mortgage balances grew by £1.1bn (2.2%) to £51.4bn.** The growth in mortgage balances is due to a robust mortgage pipeline, improved retention and has been supported by a conscious and disciplined approach to lending that reflects current market conditions and the needs of our members.
- **Savings balances grew by £1.2bn (2.6%) to £48.8bn**. We have grown savings by offering competitive products, underpinned by exceptional service and we continue to pay higher savings rates than the market average, increasing the premium paid to members from £163m to £195m[1], which equates to an additional 0.87% in interest (H1 2023: 0.79%).

Strong financial performance

- **Profit before tax of £159m** (H1 2023: £269m). Whilst a decrease on prior year, this is in line with expectations following an exceptional operating environment in 2023. Net interest margin reduced to 1.05% (H1 2023: 1.34%) as base rates stabilised, retail savings competition increased and mortgage customers repriced to lower margin products.
- **Continued low arrears with only 0.31% of mortgages more than 3 months in arrears (FY 2023: 0.26%).** The credit quality of our book remains resilient and our arrears are a third of the industry average[2].
- A highly successful and oversubscribed **issuance of £665 million Additional Tier 1** capital was completed in June which further strengthens the balance sheet ahead of the planned Co-operative Bank acquisition.
- **The Society's leverage ratio increased to 5.6%** (FY 2023: 5.4%) with the continued strong profitability enhancing our capital position. The Common Equity Tier 1 (CET 1) ratio is broadly stable at 28.9% (FY 2023: 29.1%) and remains significantly above statutory requirements.

Delivering on our service promise whilst continuing to invest for the future

- **Industry leading customer service** with Net Promoter Score improving to +79 (FY 2023: +76) and the continued investment in our people and technology helping to reduce average call answering time from 105 to 62 seconds. Recognised by Fairer Finance for outstanding mortgage and savings customer experience receiving gold ribbons in both categories.
- **Invested £43m in H1 2024** with considerable progress on the digitalisation of our savings propositions, most notably our successful app launch and self-service options for members with maturing accounts. We continue to transform our technology infrastructure and operational and financial resilience.

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- In May we **signed a share purchase agreement for the acquisition of The Co-operative Bank** which is expected to complete in Q1 2025[3]. This will increase both the Group's mortgage and savings presence and extend the Society's propositions into the personal current account and business banking markets.

Supporting colleagues and the communities we serve

- Continued to **support our communities with over £1.5m of investment** in the first half of 2024 (H1 2023: £1.3m), helping to support local partners and building on our relationship with Centrepoint.
- **Improved our ranking in the Great Place to Work table of super large organisations from 13 to 11**, as well as being recognised as one of the best places to work for women and for wellbeing.

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts, excluding current accounts and offset savings, for the first five months of the year (H1 2023: five months).
2. Based on UK Finance Q1 2024 published data
3. Subject to regulatory approvals

News release

COVENTRY Building Society

Financial Review

Income Statement

	Period to 30 June 2024 Unaudited £m	Period to 30 June 2023 Unaudited £m	Year ended 31 Dec 2023 Audited £m
Interest receivable	**1,656.0**	1,346.4	2,992.5
Interest payable	**(1,326.4)**	(942.5)	(2,225.3)
Net interest income	**329.6**	403.9	767.2
Other income and charges	**(2.8)**	(2.0)	(5.2)
(Losses)/gains on derivative financial instruments	**(10.5)**	24.6	30.3
Total income	**316.3**	426.5	792.3
Management expenses	**(171.3)**	(146.8)	(311.9)
Impairment release/(charge)	**13.8**	(11.1)	(6.9)
Profit before tax	**158.8**	268.6	473.5
Tax	**(35.6)**	(63.4)	(122.4)
Profit for the financial period	**123.2**	205.2	351.1

Net interest income for the six month period to 30 June 2024 was £330 million (30 June 2023: £404 million). The overall decrease in net interest income of £74 million compared to the June 2023 period contributed to a reduced net interest margin of 1.05% (30 June 2023: 1.34%), as base rates stabilised, retail savings competition increased and mortgage customers repriced to lower margin products.

Interest receivable on mortgages increased by £236 million, driven by both higher asset balances as well as higher rates. A further increase of £49 million in interest receivable arose from other liquid assets.

Interest payable on retail savings increased by £412 million following the increase in deposit balances and higher average rates paid on balances. Throughout the period, the Society continued to pay above average savings rates, returning £195 million (H1 2023: £163 million) in member value[1] compared to market average rates. This was offset by a reduction of £50 million to interest payable on savings and wholesale hedged derivatives.

Gains on derivative financial instruments

The Society uses derivative financial instruments to manage interest rate and currency risks arising from its fixed mortgage and savings activity and from non-sterling and fixed rate wholesale issuances.

The Society applies hedge accounting where possible and its approach continued to be effective throughout the period. The loss in the first half of the year of £11 million (30 June 2023: £25 million gain) reflects the unwinding of previous gains, as expected due to the nature of hedge accounting.

Management expenses including depreciation and amortisation for the period were £171 million (30 June 2023: £147 million). The rise in costs of £24 million was due to one off costs of £14 million relating to the acquisition of The Co-operative Bank, the new Bank of England levy included as a £7 million cost to the Society and the impact of inflation on both employee costs and third party costs.

Our strong financial performance has allowed the Society to continue with its significant investment programme. The total spend on investment, including capital expenditure, of £43 million (30 June 2023: £44 million) has been focused on activity to modernise our services, with great progress on our digital roadmap and new mortgage sales platform. In addition, we continue to make improvements to operational resilience and have further achieved some significant milestones in our finance transformation programme.

The cost to income ratio has increased to 54%[2] (30 June 2023: 34%) reflecting the expected reduction in income relative to our cost base in the period and the impact of one-off acquisition costs. Excluding the acquisition-related costs, our cost to income ratio would be 50%. We continue to demonstrate effective management of our operating cost base with just a 2% increase when excluding the acquisition-related costs and new levy.

The cost to mean assets ratio of 0.55%[3] has also increased in the first six months of 2024 (H1 2023: 0.49%) but is expected to remain among the lowest in the building society sector[4].

Provision for expected credit losses

The performance of our mortgage book has remained resilient alongside the changing economic outlook, as interest rates, inflation and house prices all begin to stabilise. The Society has updated its economic scenarios to account for this, which has modestly reduced Expected Credit Losses (ECLs) recognised in the period.

Whilst a deliberately cautious approach to estimating ECLs continues to be applied, the cost of living post model adjustment has been reduced by £12 million, reflecting resilient credit quality and only a modest increase in arrears levels. The prolonged period of consumer pressures not resulting in the expected levels of borrowers requiring extra help over the period has led to a reduction in the ECL provision to £28 million in the period, (31 December 2023: £43 million), with a release of £14 million recognised in the Income Statement (30 June 2023: charge of £11 million).

Of the total expected credit loss provision, £11 million (31 December 2023: £24 million) relates to PMAs where core models do not fully reflect the risk of expected credit loss given the market environment. These adjustments related predominately to the cost of living PMA, alongside smaller adjustments for risks that cannot easily be modelled, such as fraud.

The ECL provision now equates to 0.05% of the overall mortgage book (31 December 2023: 0.08%), which is reflective of very strong credit quality with very low arrears and losses.

IFRS 9 requires loans to be assessed as 'stage 2' where there has been a significant increase in credit risk. Loans are held in stage 2 until such a time when they are considered to have 'cured' by performing for a sustained period of time, typically 12 months from the stage 2 trigger event. In the first six months of 2024, stage 2 accounts decreased to 9.8% (31 December 2023: 14.5%) driven by the reduction of the cost of living PMA, with fewer customers showing signs of payment hardship than initially expected. 89.6% of the mortgage book remains in stage 1 (31 December 2023: 85.0%).

Balance Sheet

	30 June 2024 Unaudited £m	30 June 2023 Unaudited £m	31 Dec 2023 Audited £m
Assets			
Loans and advances to customers	**51,397.4**	48,849.4	50,276.1
Liquidity	**10,579.4**	11,736.3	10,924.3
Other	**951.4**	1,071.3	1,262.3
Total assets	**62,928.2**	61,657.0	62,462.7
Liabilities			
Retail savings	**48,823.7**	45,460.7	47,582.3
Wholesale funding	**10,003.5**	12,380.6	10,845.5
Subordinated liabilities and subscribed capital	**57.0**	57.0	57.0
Other	**460.4**	577.1	738.3
Total liabilities	**59,344.6**	58,475.4	59,223.1
Equity			
General reserve	**2,662.4**	2,437.5	2,573.2
Other equity instruments	**691.9**	415.0	415.0
Other	**229.3**	329.1	251.4
Total equity	**3,583.6**	3,181.6	3,239.6
Total liabilities and equity	**62,928.2**	61,657.0	62,462.7

Loans and advances to customers

The Society's lending strategy remains focused on high quality, low loan to value owner-occupier and buy to let lending within the prime residential market, distributed mainly through mortgage intermediaries giving the Society a regionally diverse mortgage portfolio in a cost-effective way.

The Society manages its growth according to economic conditions, market pricing and funding conditions. The mortgage book has grown £1.1 billion to £51.4 billion (31 December 2023: £50.3 billion) in the first six months of the year. During the period, the Society advanced £3.5 billion of mortgages (30 June 2023: £4.0 billion) offset by redemptions as customers continue to look for rate certainty in a more volatile environment.

The balance weighted average indexed loan to value of the mortgage portfolio has seen a small decrease to 53.4% at 30 June 2024 (31 December 2023: 53.8%).

Despite the current economic conditions, the Society continues to have very low arrears with only 0.31% of mortgages more than three months in arrears (31 December 2023: 0.26%).

Liquidity

On-balance sheet liquid assets have decreased slightly to £10.6 billion (31 December 2023: £10.9 billion) and the Liquidity Coverage Ratio (LCR) at 30 June 2024 was 272% (31 December 2023: 227%), significantly in excess of the regulatory minimum.

Retail savings

The Society continues to be predominantly funded by retail savings, with balances of £48.8 billion at 30 June 2024 (31 December 2023: £47.6 billion) and growth of £1.2 billion in the first six months of the year, which is reflective of our focus on offering very competitive savings propositions for our members.

Wholesale funding

The Society uses wholesale funding[5] to provide diversification of funding by source and term, supporting growth and lowering risk by reducing the overall cost of funding. This benefits saving members through better savings rates and mortgage customers by enabling us to offer more competitive long-term rates. Wholesale funding in the period has remained broadly stable at £10.0 billion (31 December 2023: £10.8 billion).

The Society previously accessed the Bank of England's Term Funding Schemes with £5.25 billion drawn. Repayments of £0.5 billion have been made in the period and the outstanding drawings at 30 June 2024 are £2.95 billion (31 December 2023: £3.45 billion).

Equity

In June 2024, the Society completed a new £665 million issuance of Additional Tier 1 (AT1) capital. This instrument has a first call date in 2029. At the same time, a tender for the existing 2019 AT1 instruments was made, resulting in the repurchase of £388 million of the £415 million existing AT1 capital balance. Therefore, the total AT1 Other Equity balance at 30 June 2024 is £692 million (31 December 2023: £415 million).

The remaining movement in the equity balance predominately reflects retained profit for the period of £123 million (30 June 2023: £205 million). Other movements include a negative movement of £22 million (30 June 2023: positive movement of £48 million) in the cash flow hedge reserve and £21 million distribution to Additional Tier 1 capital holders (30 June 2023: £14 million).

Capital Ratios

Unaudited	End-point 30 Jun 2024 £m	End point 30 Jun 2023 £m	End-point 31 Dec 2023 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**2,531.4**	2,357.0	2,475.5
Total Tier 1 capital	**3,223.3**	2,772.0	2,890.5
Total capital	**3,223.3**	2,772.0	2,890.5
Risk weighted assets	**8,758.5**	7,757.2	8,499.1
CRD V ratios	**%**	%	%
Common Equity Tier 1 (CET 1) ratio	**28.9**	30.4	29.1
Leverage ratio including central bank reserves and full AT1 capital amount	**5.2**	4.7	4.6
UK leverage ratio[6]	**5.6**	5.5	5.4

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

Leverage

We are not currently bound by regulatory leverage ratios, which measure Tier 1 capital against total exposures, including off-balance sheet items. The UK leverage ratio framework will apply to the Society at the point retail deposits exceed £50 billion at its annual reporting date. The Society's UK leverage ratio increased to 5.6% due to the increase in retained profits, and remains above the current regulatory expectation of 3.25% minima.

Capital

The capital ratios include additional risk weighted assets (RWAs) held for regulatory changes that are currently not reflected in the IRB models, as previously disclosed within the 2023 Annual Report & Accounts. The Society has submitted updated models to the PRA but has yet to receive approval for changes to its calculation of RWAs. When approval is granted, the final model output may vary from those calculated, impacting the capital ratios, effectively bringing forward some of the effect of increasing RWAs envisaged in Basel 3.1.

The increase in capital as a result of retained profits in the period has been offset by an increase in RWAs of 3%, resulting in a broadly stable CET 1 ratio of 28.9% at 30 June 2024. Our CET 1 ratio remains significantly ahead of the Total Capital Requirement for the Society which was 10.6% of risk weighted assets as at 30 June 2024.

From 2025, Basel 3.1 RWA floors are currently expected to be phased in and will reduce the Group's reported CET 1 ratio further, as they do not give full credit for the Group's very low risk mortgage book. Applying the Basel 3.1 RWA floors to the 30 June 2024 figures on a full transition basis would result in a CET 1 ratio of approximately 21.8%. The projected reduction in reported CET 1 measures has been included within the Society's financial plans, ensuring we remain safe and secure.

The capital disclosures above are on a Group basis, including all subsidiary entities. For regulatory purposes the Group also reports on an Individual Consolidated basis, which only includes those subsidiaries meeting particular criteria contained within CRD V. The Individual Consolidated CET 1 ratio on an end-point basis at 30 June 2024 is 0.2% higher than the Group ratio due to assets held by entities that sit outside of the Individual Consolidation, primarily those held by the Group's securitisation and covered bond entities.

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts and excluding current accounts, for the latest available data for the five months ended 31 May 2024.
2. Administrative expenses, depreciation and amortisation/ Total income.
3. Administrative expenses, depreciation and amortisation/Average total assets.
4. As at 30 July 2024 based on available market data.
5. Deposits from banks, Other deposits, Amounts owed to other customers and Debt securities in issue.
6. The UK leverage ratio includes a restriction on the amount of Additional Tier 1 (AT1) capital and excludes central bank reserves from the calculation of leverage exposures.

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Other Information

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

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

Forward Looking Statements

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