



# Pillar 3 Disclosures

For the year ended  
31 December 2022



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## 1. Introduction

In this document Coventry Building Society ('the Society') has set out its Pillar 3 disclosures as at 31 December 2022 in accordance with the Disclosure (CRR) Part of the Prudential Regulation Authority (PRA) Rulebook. This includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II.

This report includes specific templates that are required to be disclosed on a quarterly, semi-annual and annual basis for large and listed institutions.

The Society has not omitted any disclosures on the basis of materiality, proprietary or confidentiality (See Article 432 of the UK Capital Requirements Regulation (CRR)).

Rows in which there is no data to report or zero values, have been excluded from the templates disclosed.

The information presented in this Pillar 3 report is not required to be, and has not been, subject to an external assurance process.

## 2. Key metrics and overview of risk weighted exposure amounts

### 2.1. Template UK KM1 – Key metrics

The following table details the Society's own funds, key capital metrics and Pillar 1 liquidity coverage ratio as at 31 December 2022 and those metrics previously disclosed as at 30 September 2022, 30 June 2022, 31 March 2022 and 31 December 2021.

Note that the capital values presented here are on a transitional basis whereas the Society's Interim Financial Statements and the Financial Statements included in the Annual Report and Accounts are presented on an end-point basis (i.e. assuming all transitional arrangements have finished, including IFRS 9 transitional relief).

		31 December 2022	30 September 2022	30 June 2022	31 March 2022	31 December 2021
		£m	£m	£m	£m	£m
	<b>Available own funds (amounts)</b>					
1	Common Equity Tier 1 (CET1) capital <sup>1</sup>	2,171	1,980	2,002	1,879	1,924
2	Tier 1 capital	2,586	2,395	2,417	2,294	2,355
3	Total capital <sup>2</sup>	2,586	2,395	2,417	2,294	2,361
	<b>Risk-weighted exposure amounts</b>					
4	Total risk-weighted exposure amount <sup>3</sup>	7,913	6,680	6,682	6,753	5,306
	<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>					
5	Common Equity Tier 1 ratio (%)	27.4%	29.6%	30.0%	27.8%	36.2%
6	Tier 1 ratio (%)	32.7%	35.9%	36.2%	34.0%	44.4%
7	Total capital ratio (%)	32.7%	35.9%	36.2%	34.0%	44.5%
	<b>Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>					
UK 7a	Additional CET1 SREP requirements (%)	1.5%	1.6%	1.6%	1.2%	1.5%
UK 7b	Additional AT1 SREP requirements (%)	0.5%	0.5%	0.5%	0.4%	0.5%
UK 7c	Additional T2 SREP requirements (%)	0.7%	0.7%	0.7%	0.5%	0.7%
UK 7d	Total SREP own funds requirements (%)	10.7%	10.8%	10.8%	10.1%	10.7%
	<b>Combined buffer requirement (as a percentage of risk-weighted exposure amount)</b>					
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Institutions specific countercyclical capital buffer	1.0%	0.0%	0.0%	0.0%	0.0%
11	Combined buffer requirement (%)	3.5%	2.5%	2.5%	2.5%	2.5%
UK 11a	Overall capital requirements (%)	14.2%	13.3%	13.3%	12.6%	13.2%
12	CET1 available after meeting the total SREP own funds requirements (%)	16.7%	18.8%	19.2%	17.7%	25.5%
	<b>Leverage ratio</b>					
13	Leverage ratio total exposure measure <sup>4</sup>	49,669	48,128	48,306	47,786	48,472
14	Leverage ratio	5.2%	5.0%	5.0%	4.8%	4.8%

Table 1 UK KM1 – Key capital metrics

<sup>1</sup> Available own funds as at 31 March 2022 and 30 September 2022, do not include unverified profits generated in the first and third quarter of 2022 respectively. Profits were verified as at 30 June 2022 and 31 December 2022 and are therefore included in these periods.

<sup>2</sup> The Society holds instruments (£5m) which were eligible tier 2 capital in 2021 but are no longer eligible in 2022 due to changes in regulation.

<sup>3</sup> This amount includes the impacts of the Post Model Adjustments (PMAs) described in the Key metrics section.

<sup>4</sup> The UK leverage ratio includes a restriction on the amount of Additional Tier 1 capital and excludes claims on the central bank with a maturity of no longer than three months from the calculation of leverage exposures, in line with the UK Leverage Regime. The 31 December 2021 comparatives are shown as if under the UK Leverage Regime.

		31 December 2022	30 September 2022	30 June 2022	31 March 2022	31 December 2021
		£m	£m	£m	£m	£m
<b>Liquidity coverage ratio</b>						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	7,609	7,512	7,150	7,020	6,885
UK 16a	Cash outflows - Total weighted value	3,677	3,708	3,811	3,909	3,965
UK 16b	Cash inflows - Total weighted value	222	215	216	219	200
16	Total net cash outflows (adjusted value)	3,455	3,493	3,595	3,690	3,765
17	Liquidity coverage ratio (%) <sup>5</sup>	221.0%	216.1%	200.2%	191.4%	182.6%

Table 2 UK KM1 – Key liquidity metrics

The Society's capital position remains strong with a Common Equity Tier 1 (CET1) ratio of 27.4% (31 December 2021: 36.2%) compared to an overall capital requirement of 14.2% (31 December 2021: 13.2%).

The Society's available own funds have increased during the year primarily driven by profits which are verified as at 30 June 2022 and 31 December 2022. There were minor reductions in own funds during the first quarter, due to the end of transitional arrangements (subordinated debt and permanent interest bearing shares no longer being eligible capital instruments) and the impact of our updated expected credit losses (ECL) model.

The risk weighted exposure amount £7,913m (31 December 2021: £5,306m) has increased in 2022 due to an update in the IRB modelling approach following regulatory changes from 1 January 2022. The Society has applied a post model adjustment that reflects the update in loss given default and the cyclical nature of the probability of default.

The Society is not currently bound by regulatory leverage ratios but expects leverage will be its binding constraint in the future. The Society's leverage ratio increased slightly to 5.2% (31 December 2021: 4.8%) driven by the increase in capital resources in the year. The leverage ratio and corresponding leverage ratio total exposure measure excludes qualifying central bank claims in line with the UK leverage regime which became applicable from 1 January 2022. The 31 December 2021 comparatives have been calculated as if under the UK leverage regime.

The Society's liquidity position is also strong as at 31 December 2022 with a 12-month average liquidity coverage ratio of 221.0% (31 December 2021: 182.6%). Note the liquidity position reported in the ARAs is not a 12 month average but is reported as at 31 December 2022. The average liquidity coverage ratio has increased predominantly due to an increase in cash held in the Bank of England reserve account.

Per PS22/21 'Implementation of Basel Standards', disclosures for the Net Stable Funding Ratio (NSFR) are effective from 1 January 2023 and beyond and therefore have not been disclosed here.

<sup>5</sup> The liquidity coverage ratio is calculated as a 12 month average.

## 2.2. Template UK OV1 - Overview of risk weighted exposure amounts

The table below details risk weighted exposure amounts (RWEAs) and the respective own funds requirements as at 31 December 2022, and the RWEAs previously disclosed as at 30 September 2022. Own funds requirements are calculated as 8% of the RWEAs.

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		31 December 2022	30 September 2022	31 December 2022
		£m	£m	£m
1	Credit risk (excluding CCR)	7,060	5,962	565
2	Of which the standardised approach	205	183	16
3	Of which the foundation IRB (FIRB) approach	75	79	6
5	Of which the advanced IRB (AIRB) approach <sup>6</sup>	6,780	5,700	542
6	Counterparty credit risk - CCR	77	77	6
7	Of which the standardised approach	18	19	1
UK 8a	Of which exposures to a CCP	3	2	0
UK 8b	Of which credit valuation adjustment – CVA	48	51	4
9	Of which other CCR	8	5	1
16	Securitisation exposures in the non-trading book (after the cap)	9	5	1
18	Of which SEC-ERBA (including IAA)	9	5	1
23	Operational risk	767	636	61
UK 23b	Of which standardised approach	767	636	61
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information) <sup>7</sup>	12	9	1
29	<b>Total</b>	<b>7,913</b>	<b>6,680</b>	<b>633</b>

Table 3 UK OV1 – Overview of risk weighted exposure amounts

## 2.3. Template UK INS1 - Insurance participations

The Society has no own funds instruments held in insurance or re-insurance undertakings, neither are there any insurance holding companies not deducted from own funds.

## 2.4. Template UK INS2 - Financial conglomerates information on own funds and capital adequacy ratio

The Society is not part of a financial conglomerate.

## 2.5. Table UK OVC - ICAAP information

### 2.5.1. Approach to assessing the adequacy of the internal capital

The Society performs an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The ICAAP is approved by the Board following recommendation by Board Risk Committee.

The Society's ICAAP compares the amount of capital the Society holds against the capital required to mitigate several risks. The assessment also ensures the Society remains above its risk appetite after applying some stress scenarios.

<sup>6</sup> See Table 23 Template UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach for further details.

<sup>7</sup> Row 24 is for information only and the value is excluded from the total in row 29.

Capital risk arises when there are insufficient capital resources to support the Society's strategic objectives and plans, or to meet external stakeholder requirements and expectations. This could arise due to a crystallisation of risks depleting capital resources, or an increase in risk or growth, or changing regulatory requirements or economic conditions, which increase capital requirements, or erode capital resources.

The Society assesses its capital adequacy both as a 'going concern' and as a 'gone concern'.

- 1) The '**going concern**' assessment is against two key measures:
  - a) The risk-based measure; and
  - b) the leverage ratio backstop measure which is not risk sensitive.
- 2) The Society assesses its capital adequacy requirements to recapitalise a firm in recovery/resolution as a '**gone concern**' under the minimum requirement for own funds and eligible liabilities (MREL).

To ensure that the Society would have enough capital in a stress (post management actions) scenario, two prescribed stress scenarios are applied to the Strategic Plan using assumptions that are based on Bank of England (BoE) defined stress scenarios.

The following metrics are assessed for each scenario:

- Profit before tax;
- Own funds risk-based capital adequacy;
- UK Leverage non-risk-based capital adequacy; and
- binding MREL.

The following risks are assessed in the current ICAAP:

- retail credit risk;
- concentration risk;
- Interest rate risk in the banking book;
- operational risk including conduct and model business risk;
- wholesale credit risk;
- pension obligation risk;
- model risk;
- liquidity risk;
- market risk;
- residual risk,
- securitisation risk;
- risk of excess leverage;
- group risk; and
- reputational risk.

As at 31 December 2022 the Society is in the middle of performing its next ICAAP which will be approved in the first quarter of 2023.

### **2.5.2. The result of the internal capital adequacy assessment process**

The Society has not received any demand from the Prudential Regulation Authority to disclose the result of the ICAAP.

### **3. Risk management objectives and policies**

#### **3.1. Table UK OVA - Institution risk management approach**

##### **3.1.1. Management approved risk statement**

The Society's risk management objectives are to:

- Identify risks to the Strategic Plan and to the Society's objectives;
- assess risk exposures by impact and likelihood; and
- respond to risks by evaluating them against the Society's risk appetite, formulating associated management responses and monitoring progress against agreed management action plans.

The Society operates a simple business model. One of its key principles is to stay safe and secure by taking risks it understands and can manage. It manages risk through its Enterprise Risk Management Framework (ERMF). The ERMF sets out the Board's approach to managing and overseeing risk by:

- Defining risk strategy;
- risk appetite;
- governance and control; and
- risk management in light of the Society's strategy.

Risks are identified, assessed, managed, monitored, escalated and reported in accordance with the requirements of the ERMF. Management information captures risk metric information against risk indicators, triggers and limits as appropriate.

##### **3.1.2. Risk governance structure**

The Society has a number of committees which oversee and monitor risk as set out below. The Board delegates to the Board Risk Committee (BRC) oversight of the Society's risk management arrangements as a whole. The Chief Risk Officer (CRO) has an independent reporting line directly to the Chair of the BRC in addition to reporting to the Chief Executive.

The Internal Audit function provides independent assurance, and the Chief Internal Auditor has an independent reporting line to the Chair of the Board Audit Committee (BAC).



# The Board

## Board Risk Committee (BRC)

### Chair: Non-Executive Director

- Oversees the management of current and potential risk exposures.
- Evaluates the design and completeness of the Society's Enterprise Risk Management Framework with reference to risk strategy, culture, and principles.
- Reviews key risk policies and the principle risk appetite statements, recommending these to the Board for approval.
- Oversees the Society's Risk and Compliance functions, including their independence.

## Board Audit Committee (BAC)

### Chair: Non-Executive Director

- Reviews the adequacy of internal control and risk management processes.
- Monitors the integrity of financial statements.
- Monitors the integrity of external auditors.
- Receives reports from and scrutinises the activities of the Internal Audit function.

## Chief Executive Officer

## Executive Risk Committee (ERC)

### Chair: Chief Risk Officer

- Oversees and monitors strategic risk.
- Ensures that risk is being identified and managed efficiently across the Society.
- Exercises executive risk oversight for each of the Society's principal risks.
- Ensures that the Society's Risk Management Framework remains effective.
- Considers any emerging risks which may impact the Society's Strategic Plan.
- Considers reports from the various Risk Committees and Chief Risk Officer. However, these reports are also submitted directly to BRC to ensure independent non-executive committee oversight of the Society's risk exposures.

## Asset and Liability Committee (ALCO)

### Chair: Chief Financial Officer

- Oversees the balance sheet risks faced by the Society.
- Oversees market risk, treasury credit risk, and liquidity and funding risk.
- Ensures the robustness of capital and liquidity stress testing.
- Oversees financial model risk management.
- Oversees prudential regulatory risk and treasury conduct risk.

## Conduct Risk and Compliance Committee (CRCC)

### Chair: Head of Conduct Risk

- Oversees and monitors the Society's delivery of good customer outcomes consistent with the conduct risk appetite statement approved by the Board.
- Oversees the management of conduct risk and the Society's compliance with applicable conduct regulation.

## Model Risk Committee (MRC)

### Chair: Chief Financial Officer

- Oversees the management of model risks faced by the Coventry Building Society Group.
- Ensures that exposure to the risk remains within the Board's stated risk appetite for model risk.
- Responsibility for oversight of the Society's IRB rating system.

## Operational Risk Committee (ORC)

### Chair: Chief Customer Officer

- Provides primary oversight of all operational risk categories.
- Ensures compliance with limits approved by the Board.
- Oversees prudential regulatory risk and treasury conduct risk.

## Retail Credit Committee (RCRC)

### Chair: Head of Retail Credit Risk

- Monitors the management of retail credit risk across the Society and the performance of the mortgage book to ensure compliance with risk limits approved by the Board.

### **3.1.3. Adequacy of the risk management arrangements**

In line with the Society's risk management objectives, risk strategy, risk appetite and in 3.1 above

The ERMF is approved annually by the Board and continues to operate effectively. The Society will continue to enhance the ERMF as required to ensure it identifies and manages risk within its low risk tolerance.

### **3.1.4. The scope and nature of risk disclosure and/or measurement systems**

Risk is managed through appropriate measurement and tracking via such tools as Board Limits and Key Risk Indicators, appropriate management information (MI) and results of key annual requirements such as Stress Testing. These provide a view on where the Society currently sits against its risk appetites and will help determine if action is required, or where capacity lies to undertake further related activity. Additionally, consolidation of the risk positions, via these measures, are reported into the Society's key committees, allowing the leadership to understand the overall position and take appropriate actions as determined. The Society will also consider appropriate MI to such as updates on emerging risks, outputs from Internal Audit and report on risk events. Risk events are recorded and managed on the Society's risk management system – CORE.

### **3.1.5. Strategies and processes to manage risks**

The principal categories of risk to which our business model is inherently exposed to are set out below. These risk categories are managed through the Society's Enterprise Risk Management Framework (ERMF).

<b>Risk categories</b>	<b>Mitigation</b>
<b>RETAIL CREDIT RISK</b> The risk of loss to the Society if borrowers do not meet their contractual payments in full and/or on time.	We operate robust underwriting and affordability assessments which, together with appropriate credit policies, results in the Society lending responsibly and remaining low risk.
<b>TREASURY CREDIT RISK</b> The risk that the Society's wholesale creditors are unable to meet their financial obligations or that the underlying value of the wholesale asset suffers due to changes in creditworthiness of the counterparty.	We operate under a treasury risk management framework reviewed annually by the Board which limits the size and breadth of exposures to good quality counterparties with a low risk of failure.
<b>MARKET RISK</b> The risk of a reduction in earnings and/or value as a result of financial market movements.	We operate within Board approved limits and use interest and foreign exchange rate swap agreements to mitigate the impact of changes in interest rates and foreign exchange rate.
<b>LIQUIDITY AND FUNDING RISK</b> The risk of insufficient funds to meet obligations falling due or the inability to access funding at reasonable cost or risk.	We hold sufficient liquidity to withstand a severe but plausible stress and operate within limits set by the Board. We maintain a diversified funding base to avoid any overreliance on any funding source, type or term.
<b>CAPITAL RISK</b> The risk that the Society has insufficient capital resources to absorb losses in benign or stressed macroeconomic conditions, fails to meet regulatory or external expectations, or has insufficient financial resources to recapitalise in the event of resolution.	The Society holds sufficient capital to withstand a severe but plausible stress, and mitigate risks identified through the annual ICAAP process. Risk appetite limits are set to ensure that the Society always maintains compliance with regulatory minima, with Early Warning Indicators in place to identify periods of severe stress as part of the Recovery Planning process.
<b>CONDUCT RISK</b> The risk that the Society's activities fail to deliver good customer outcomes.	We place good customer outcomes at the heart of our decision making. In line with Putting Members First, this reduces conduct risk. This ethos is embedded in product design, services, and people and communication strategies.
<b>OPERATIONAL RISK</b> The risk of loss arising from inadequate internal processes, people and systems, or from external events. This includes both legal and regulatory risk.	We actively identify, assess and manage the operational risks to which the Society is exposed. During 2022 we continued to enhance our operational risk management framework to enable the Society to manage operational risk effectively. We have built in business continuity capability and have undertaken work to understand the key services to ensure operational resilience. We closely monitor the regulatory environment to assess and manage the impact of upcoming regulatory change.
<b>MODEL RISK</b> The risk of an ineffective or incorrectly interpreted model leads to a loss, reputational damage or regulatory censure.	We operate robust model governance protocols including sensitivity analysis on key assumptions, independent model validation and regular model monitoring. We are enhancing our approach to data governance.
<b>STRATEGIC RISK</b> The risk that the business model or strategy becomes inappropriate given changes to macroeconomic, geopolitical, regulatory (including climate change) or other factors (including changing customer behaviour and expectations in an increasingly digital world).	We have a simple business model which focuses on well understood opportunities. We have a robust strategic planning process which includes capital and liquidity stress testing. The strategic planning assumptions are regularly reviewed to ensure these continue to focus on risks which could become threats to the business model over the medium to long term.

Table 4 Principal Risks

### 3.1.6. Risk disclosure and measurement systems

Risk disclosure allows the Society to maintain an up-to-date view on the position and health of the business through the accurate measurement of its principal risks. It also allows for appropriate dissemination of this information to the Society's leadership team in order to allow for appropriate management action to be discussed and taken. Additionally, the Society has a regulatory requirement to provide certain information to its regulators and timely, accurate data is vital to providing these disclosures. Further, management of risk events through the

CORE management system, allows for up-to-date action tracking and monitoring of the event, any mitigating or corrective action, as well as updates on impacts caused by any associated event.

### 3.1.7. The strategies and processes to manage, hedge and mitigate risks, and the monitoring of the effectiveness of hedges and mitigants

#### Risk Strategy

The Board sets the Society’s risk strategy and risk management approach. The strategy includes establishing a robust risk culture, setting the Board’s risk appetite and ensuring that the ‘three lines of defence’ model operates effectively. This model is recognised as an industry standard for risk management. The key accountabilities of the three lines of defence within the Society are set out below:

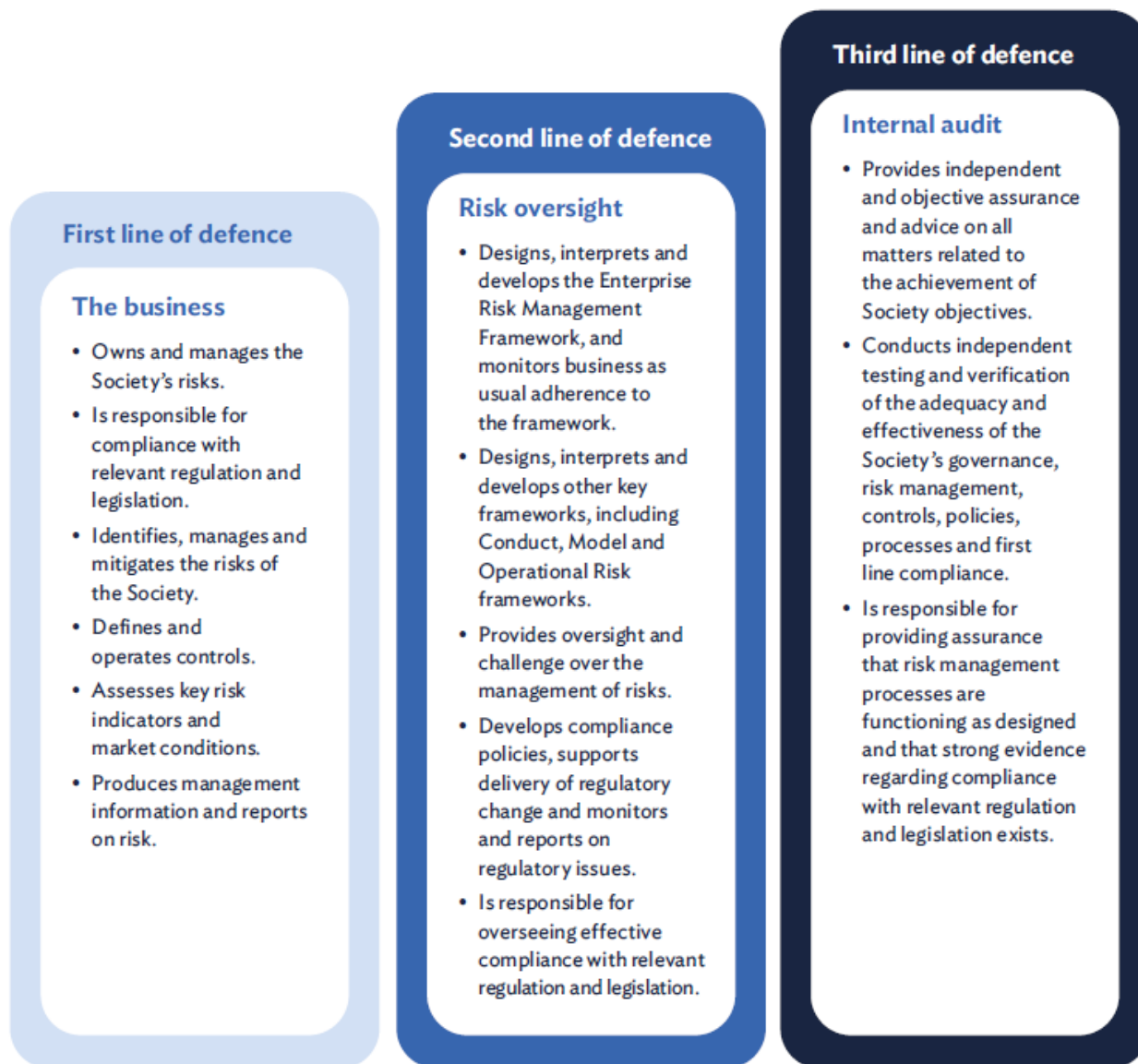


Figure 2 Three lines of defence

#### Risk Culture

Risk culture is reflected in the behaviour and approach of the Board and all employees to risk awareness, risk taking and risk management. A strong risk culture helps the Society to achieve its strategy within acceptable risk levels.

The Society's risk culture is built on the following four elements:

- **Tone from the top** - the Board and executive management act, and encourage employees to act, with openness and integrity, especially in the fair treatment and duty to members. Employees are encouraged to report observed non-compliance, risk incidents and 'near misses.'
- **Accountability** - employees understand both the core values of the Society and its approach to risk. Where individuals have specific risk management responsibilities, these are included within role profiles and objectives, and employees understand they will be held accountable for their actions and risk-taking behaviours. Substantially all Society roles are covered by the 'Strengthening Accountability in Banking' regulatory framework, which sets standards for those working in financial services.
- **Effective communication and challenge** - a sound risk culture should promote an environment of open communication and effective challenge in which decision-making processes encourage a broad range of views, allow for testing of current practices, stimulate a constructive critical attitude among staff, and promote an environment of open and constructive engagement throughout the Society. The Society has embedded an enhanced and effective Whistleblowing policy with supporting procedures.
- **Incentives** - the Society makes sure that its performance management and reward frameworks are effectively designed and embedded to promote its desired risk management behaviours and attitudes. In particular, the Society does not pay any sales incentives to employees. The Society undertook a risk culture review during 2022 with the results reported to the Board Risk Committee. The review concluded there is a strong risk culture embedded across the Society.

### **Board Risk Appetite**

The Board articulates the risks it is willing to take in delivering the Strategic Plan through its risk appetite statements which create a framework for business decision making.

Our approach to risk and risk appetite is to achieve operational, conduct and prudential resilience that protects the long-term interests of our membership and the Society, and reflects our market role in supporting economic growth and financial stability.

The Society's Board Limits are calibrated to achieve these outcomes and reflect a generally lower risk appetite than other market participants reflecting our more leveraged, focused business model and our lower access to external capital due to our mutual ownership model.

The Executive Risk Committee (ERC), the Board Risk Committee (BRC) and the Board all review performance and adherence to Board limits.

### **Stress Testing and Planning**

Stress testing, for both internal and external shocks, is used to understand the potential impact of risks crystallising and options to manage them. This includes scenario and contingency planning.

Stress testing is a key part of the Society's capital and liquidity assessments and allows the Board to be satisfied that the Society has sufficient capital and liquidity resources even under a range of severe forward-looking scenarios. This is completed through the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). More detail on these processes are set out in the sections that follow covering capital, and liquidity and funding risk.

## 3.2. Table UK OVB - Disclosure on governance arrangements

### 3.2.1. Members of the management body, their directorships, knowledge, skills and expertise

#### **David Thorburn - (appointed in April 2022) – Chair of the Board**

Chair of the Board and the Nominations & Governance Committee, and member of the Remuneration and Non-Executive Directors' Remuneration Committees.

##### *Knowledge, skills and expertise*

Over 40 years' experience in the banking industry, including four years as Chief Executive of Clydesdale and Yorkshire Banks. Former Non-Executive Director at Barclays Bank UK PLC where he chaired the Board Risk Committee. Former External Member of the Bank of England's Prudential Regulation Committee. Former Independent Non-Executive at Ernst & Young LLP and Chair of its Audit Committee. Former Board member of the British Bankers' Association and Chair of the Confederation of British Industry in Scotland. Past President of the Chartered Institute of Bankers in Scotland.

##### *External appointments*

Independent Non-Executive at EYGS LLP and Chair of the Chartered Banker Institute 2025 Foundation

#### **Steve Hughes - (appointed in April 2020) – Chief Executive and Executive Director**

Chair of the Non-Executive Directors' Remuneration Committee.

##### *Knowledge, skills and expertise*

Steve has broad transformation, financial and operational experience in senior and board level roles within financial services and consumer goods sectors. Before joining the Coventry, Steve had been Chief Executive of Principality Building Society, and Finance Director of the Lloyds Banking Group General Insurance businesses. Passionate about leadership, he has a strong belief in the benefit of the mutual model and is positive about the role a responsible business can have on society, as well as supporting colleagues to be the best they can be.

##### *External appointments*

Non-Executive Director on the main board of UK Finance and Chair of the audit and risk committee of UK Finance. Member of the BSA council. Advisory board member of the Money and Pension Service, and member of the Payments Advisory Board for the Pennies Foundation.

#### **Iraj Amiri – (appointed in June 2018) – Independent Non-Executive Director**

Chair of Board Audit Committee and member of Board Risk Committee.

##### *Knowledge, skills and expertise*

Partner with Deloitte for over 20 years, leading its national internal audit group and serving clients in the financial, retail and public sectors. Global Head of Internal Audit for Schroders Plc for over 10 years. Carried out numerous reviews of major financial institutions including banks, building societies and insurance companies. Fellow of the Institute of Chartered Accountants in England and Wales, a past Fellow of the Royal Statistical Society and was a member of the Internal Audit Task Force of the Institute of Chartered Accountants in England and Wales for a number of years. Member of the Regulatory Decisions Committee at the Financial Conduct Authority for six years.

##### *External appointments*

Chair of the Audit and Risk Committee at the Development Bank of Wales Plc and Non-Executive Director. Chair of the Audit Committee and member of the Risk Committee at Aon UK Limited and Non-Executive Director of Eurocell plc

#### **Catherine Doran - (appointed in August 2016) – Independent Non-Executive Director**

Member of the Board Risk Committee, Nominations & Governance Committee and the Remuneration Committee.

##### *Knowledge, skills and expertise*

Previously Chief Information Officer of Royal Mail plc responsible for devising and delivering the IT strategy to support the business transformation agenda. Director at Network Rail Limited, leading a company-wide transformation programme. Other senior roles include BT, NatWest and Capital One.

*External appointments*

Non-Executive Director of Clearbank Limited.

**Peter Frost - (appointed in November 2012) – Chief Customer Officer and Executive Director**

*Knowledge, skills and expertise*

Over 30 years' experience working in the UK retail financial services sector, including serving as Operations Director of UK Retail Operations at Barclays Bank. Non-executive roles at Vaultex and Intelligent Processing Solutions. Chief Customer Officer, responsible for managing our day-to-day operations including our Customer Operations and Branch Network.

*External appointments*

Chair of Governors of Little Heath Primary School, Coventry.

**Jo Kenrick - (appointed in November 2017) – Deputy Chair of the Board and Senior Independent Director**

Chair of the Remuneration Committee. Member of the Nominations & Governance Committee and Board Audit Committee.

*Knowledge, skills and expertise*

Early career at Mars confectionery, Pepsi, and Asda, followed by executive roles at Camelot Group plc, B&Q plc and Homebase Limited. CEO of Start, a Prince of Wales charitable initiative. Previous Board member at Principality Building Society and Safestore Self Storage Ltd.

*External appointments*

Non-Executive Director and Chair of the Remuneration Committee at Dŵr Cymru Welsh Water. Non-Executive Director and Chair of Remuneration Committee at Sirius Real Estate, Chair of PayM and of the Current Account Switch Service for Pay.UK.

**Shamira Mohammed - (appointed May 2019) – Independent Non-Executive Director**

Member of the Board Audit Committee.

*Knowledge, skills and expertise*

Chartered Accountant with over 20 years' experience within the financial services sector. Currently, Group Chief Accounting Officer at Athora, an insurance and reinsurance group focused on the pensions and insurance market. Previous executive roles at Aviva plc and Phoenix Group plc including Finance Director for the Phoenix Life Division and Finance Acquisition Director.

*External appointments*

Group Chief Accounting Officer of Athora.

**Brendan O'Connor - (appointed January 2021) – Independent Non-Executive Director**

Member of the Remuneration Committee and Board Risk Committee.

*Knowledge, skills and expertise*

Over 35 years' experience at Allied Irish Bank including Head of its Global Treasury Services, Head of Corporate Banking International and Head of Business Banking. Most recently on the AIB Group leadership team as Head of Financial Solutions Group before becoming CEO of AIB UK plc in 2015.

*External appointments*

Non-Executive Directors for Ford Credit Europe Bank plc.

**Lee Raybould - (appointed in April 2021) – Chief Financial Officer and Executive Director**

Member of the Non-Executive Directors' Remuneration Committee.

*Knowledge, skills and expertise:*

Qualified as a chartered certified accountant in 1997 and with over 30 years' experience in the building society sector including 24 years at Nationwide Building Society spanning finance, product, strategy and most recently as Chief Data Officer and a member of the Executive Committee.

**Martin Stewart - (appointed September 2018) – Independent Non-Executive Director**

Chair of Board Risk Committee, member of Board Audit Committee and Nominations & Governance Committee.

*Knowledge, skills and expertise*

Wide-ranging experience within the financial services sector. Director of Banks, Building Societies and Credit Unions at the Bank of England and Head of UK Banks and Mutuals at the Financial Services Authority (now Financial Conduct Authority). 10 years in various senior roles at Yorkshire Building Society.

*External appointments* include Chair of Northern Bank Ltd (Danske Bank UK), Advisory Board Member of OakNorth Bank plc and a visiting professor of the London Institute of Banking & Finance.

**3.2.2. The Board recruitment policy**

The Board goes through an extensive and rigorous recruitment process to select new board members with the right professional experience to enhance its capability.



### **3.2.3. The Board diversity policy**

The Board are committed to diversity; achieving diversity in our leadership remains a key focus for the Board. Diversity and inclusion are intrinsic to the Society's values and purpose. A key strategic priority for the Society is to create an inspiring place to work which better reflects the diversity of its city and communities. The Society's approach to gender and diversity will continue to be a key factor in achieving this. As part of its remit, the Board oversees the implementation of the Society's diversity and inclusion strategy and objectives.

### **3.2.4. Board Risk Committee**

The Society has a Board Risk Committee (BRC), which is chaired by Martin Stewart and is a sub-committee of the Board and the most senior risk committee within the Society. It has delegated authority from the Board and assists the Board in fulfilling its oversight responsibilities for risk management across the Society.

Its responsibilities include the following:

- Providing oversight and advice to the Board in relation to current and potential future risk exposures of the Society and risk strategy, including determination of risk appetite and the effectiveness of the Society's framework for managing risk.
- Promoting a risk culture that puts Members First within the Society and overseeing implementation and maintenance of the Society's Enterprise Risk Management Framework (ERMF).
- Reviewing key risk policies and frameworks, including key risk appetite statements.
- Ensuring the Executives are held to account to identify, assess and manage risks in accordance with the requirements of the ERMF.
- Monitoring risks on behalf of the Board.

Board Risk Committee met six times in 2022.

### **3.2.5. Information flow on risk to The Board**

As shown in Figure 1 above the Society operates an Executive Risk Committee (ERC) which reports to the Chief Executive Officer. The Executive Risk Committee has a number of sub-committees; Assets and Liabilities Committee (ALCo); Conduct Risk and Compliance Committee (CRCC); Operational Risk Committee (ORC); Retail Credit Committee (RCRC) and Model Risk Committee (MRC). Information flows through this committee structure to the Board Risk Committee and ultimately the Board.

The Board Risk Committee considered a consolidated risk report from the Society's Chief Risk Officer (CRO) at each meeting. These reports highlighted key and emerging risks for consideration by the Committee.

## 4. Disclosure of the scope of application

The scope of accounting consolidation and the scope of regulatory consolidation are exactly the same so the carrying values as reported in published financial statements and under scope of regulatory consolidation have been reported in one column in line with the guidance ANNEX VI – Instructions for disclosure of information on the scope of application of the regulatory framework.

### 4.1. Template UK LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

		Carrying values as reported in published financial statements and under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset classes according to the balance sheet in the published financial statements	£m	£m	£m	£m
1	Cash and balances with the Bank of England	7,792	7,792	-	-
2	Loans and advances to financial institutions	623	623	-	-
3	Debt securities	1,595	1,595	-	-
4	Loans and advances to customers	48,014	48,014	-	-
5	Hedge accounting adjustment	(1,595)	(1,595)	-	-
6	Derivative financial instruments	2,278		2,278	-
7	Investment in equity shares	6	6	-	-
8	Current tax assets	21	21	-	-
9	Intangible assets	43		-	43
10	Property, plant and equipment	63	63	-	-
11	Prepayments and accrued income	24	24	-	-
12	Pension benefit surplus	3	-	-	3
	<b>Total assets</b>	<b>58,867</b>	<b>56,543</b>	<b>2,278</b>	<b>46</b>

Table 5 UK LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement asset categories with regulatory risk categories

		Carrying values as reported in published financial statements and under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by liability classes according to the balance sheet in the published financial statements	£m	£m	£m	£m
1	Shares	42,288	-	-	42,288
2	Deposits from banks	7,543	-	-	7,543
3	Other deposits	5	-	-	5
4	Amounts owed to other customers	416	-	-	416
5	Debt securities in issue	5,243	-	-	5,243
6	Hedge accounting adjustment	(453)	-	-	(453)
7	Derivative financial instruments	627	-	627	-
8	Deferred tax liability	112	-	-	112
10	Accruals and deferred income	50	-	-	50
11	Other liabilities	31	-	-	31
12	Provisions for liabilities and charges	0	-	-	0
13	Subordinated liabilities	15	-	-	15
14	Subscribed capital	42	-	-	42
15	General reserve	2,251	-	-	2,251
16	Other equity instruments	415	-	-	415
17	Fair value through other comprehensive income reserve	5	-	-	5
18	Cash flow hedge reserve	277	-	-	277
	<b>Total liabilities</b>	<b>58,867</b>	<b>-</b>	<b>627</b>	<b>58,240</b>

Table 6 UK LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement liability categories with regulatory risk categories

#### **4.2. Template UK LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

There are no differences between the regulatory exposure amounts and the carrying values in the financial statements.

#### **4.3. Template UK LI3 - Outline of the differences in the scopes of consolidation (entity by entity)**

There are no differences between the scopes of consolidation.

##### **4.3.1. Impediment to the prompt transfer of own funds or to the repayment of liabilities within the group**

There are no current or expected material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities between the Society and its subsidiaries.

##### **4.3.2. Subsidiaries not included in the consolidation with own funds less than required**

There are no subsidiaries that are not included in the consolidation.

##### **4.3.3. Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR**

The Society uses the Individual consolidation method in accordance with Article 9 of the CRR and reports to the PRA on both a UK Consolidation basis and a Solo-consolidated basis.

##### **4.3.4. Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation**

There are no subsidiaries that are not included in the consolidation.

#### **4.4. Template UK PV1: Prudent valuation adjustments (PVA)**

The Society uses the Simplified Approach for Additional valuation adjustments calculation (AVA) not the Core Approach so does not disclose Template UK PV1.

## 5. Disclosure of own funds

The template below shows the composition of the Society's own funds as at 31 December 2022.

### 5.1. Template UK CC1 - Composition of regulatory own funds

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		31 December 2022	
		£m	
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
2	Retained earnings	2,017	E1
3	Accumulated other comprehensive income (and other reserves)	248	E3
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	258	E1
<b>6</b>	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>2,523</b>	
7	Additional value adjustments (negative amount)	(2)	
8	Intangible assets (net of related tax liability) (negative amount)	(40)	A3
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(277)	E3
12	Negative amounts resulting from the calculation of expected loss amounts	(33)	
15	Defined-benefit pension fund assets (negative amount)	(2)	A3
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	2	
<b>28</b>	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(352)</b>	
<b>29</b>	<b>Common Equity Tier 1 (CET1) capital</b>	<b>2,171</b>	
<b>Additional Tier 1 (AT1) capital: instruments</b>			
30	Capital instruments and the related share premium accounts	415	E2
<b>36</b>	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>415</b>	
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>			
<b>44</b>	<b>Additional Tier 1 (AT1) capital</b>	<b>415</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>2,586</b>	
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>2,586</b>	
<b>60</b>	<b>Total Risk exposure amount</b>	<b>7,913</b>	

Table 7 UK CC1 Composition of regulatory own funds – CET1 and AT1

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		31 December 2022	
		£m	
<b>Capital ratios and buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	27.4%	
62	Tier 1 (as a percentage of total risk exposure amount)	32.7%	
63	Total capital (as a percentage of total risk exposure amount)	32.7%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	9.5%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	1.0%	
67	of which: systemic risk buffer requirement	0.0%	
UK 67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%	
68	<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)</b>	<b>21.4%</b>	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	5	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	3	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	41	

Table 8 UK CC1 Composition of regulatory own funds – Ratios

**5.2. Template UK CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements**

		Balance sheet as in published financial statements and under regulatory scope of consolidation	Reference
		31 December 2022	
		£m	
1	Loans and advances to customers	48,014	A1
2	Liquidity	10,010	A2
3	Other	843	A3
	<b>Total assets</b>	<b>58,867</b>	
1	Retail savings	42,288	L1
2	Wholesale funding	13,207	L2
3	Subordinated liabilities and subscribed capital	57	L3
4	Other	367	L4
	<b>Total liabilities</b>	<b>55,919</b>	
1	General reserve	2,251	E1
2	Other equity instruments	415	E2
3	Other	282	E3
	<b>Total shareholders' equity</b>	<b>2,948</b>	

*Table 9 Reconciliation of regulatory own funds to balance sheet in the audited financial statements*

### 5.3. Template UK CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

		Qualitative or quantitative information
		31 December 2022
1	Issuer	Coventry Building Society
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS1961836712
2a	Public or private placement	Public
3	Governing law(s) of the instrument	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	Yes
<b>Regulatory treatment</b>		
4	Current treatment taking into account, where applicable, transitional CRR rules	AT1
5	Post-transitional CRR rules	AT1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	AT1
7	Instrument type (types to be specified by each jurisdiction)	Perpetual Capital Security
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	415
9	Nominal amount of instrument	415
UK-9a	Issue price	100
UK-9b	Redemption price	100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	02/04/2019
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	18/09/2024; par regulatory / tax call
16	Subsequent call dates, if applicable	5 yearly

Table 10 UK CCA: Main features of regulatory own funds instruments and eligible liabilities instrument part 1



		Qualitative or quantitative information
		31 December 2022
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.875%
19	Existence of a dividend stopper	N/A
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	non-cumulative
23	Convertible or non-convertible	Convertible
24	If convertible, conversion trigger(s)	Contractual - CET1 ratio falling below 7%
25	If convertible, fully or partially	Fully
26	If convertible, conversion rate	One for every £67 held
27	If convertible, mandatory or optional conversion	Mandatory
28	If convertible, specify instrument type convertible into	Core Capital Deferred Shares
29	If convertible, specify issuer of instrument it converts into	Coventry Building Society
30	Write-down features	Contractual: none; statutory: via bail in
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination (only for eligible liabilities)	N/A
UK-34b	Ranking of the instrument in normal insolvency proceedings	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Sub debt
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
37a	Link to the full term and conditions of the instrument (signposting)	Further information on Perpetual Capital Securities and PIBS is available on the Society's website ( <a href="http://www.coventrybuildingsociety.co.uk">www.coventrybuildingsociety.co.uk</a> ). Further information on the immaterial Tier 2 subordinated debt is available on request.

Table 11 UK CCA: Main features of regulatory own funds instruments and eligible liabilities instruments part 2

## 6. Disclosure of countercyclical capital buffers

### 6.1. Template UK CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer and UK CCyB2 - Amount of institution-specific countercyclical capital buffer

The countercyclical buffer is an additional requirement introduced by CRD IV, calculated by applying a weighted average of country countercyclical buffer rates based on the geographical distribution of relevant exposures to the overall capital requirements of the Society. The following templates disclose information relevant for the calculation of the countercyclical buffer as at 31 December 2022 in accordance with Regulation (EU) 2015/1555 on a consolidated basis.

In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Society's aggregate risk weighted exposures, all exposures have been allocated to the UK. Exposures are as defined in Regulation (EU) 2015/1555 and in particular exclude exposures to sovereigns and supranationals.

		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
<b>£m</b>														
010	<b>Breakdown by country:</b>													
	United Kingdom	608	48,984	-	-	93	49,685	563	-	1	564	7,051	100%	1%
020	Total	608	48,984	-	-	93	49,685	563	-	1	564	7,051	100%	-

Table 12 UK CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

The Society is subject to an institution specific countercyclical capital buffer as shown in the table below.

		£m
1	Total risk exposure amount	7,913
2	Institution specific countercyclical capital buffer rate	1.0%
3	Institution specific countercyclical capital buffer requirement	79

Table 13 UK CCyB2 - Amount of institution-specific countercyclical capital buffer

## 7. Disclosure of liquidity requirements

### 7.1. Table UK LIQA - Qualitative information on liquidity risk management

Liquidity risk is the risk that the Society has insufficient funds to meet its obligations as they fall due. Funding risk is the risk of the inability to access funding markets or to do so only at excessive cost. Liquidity risk is difficult to fully eliminate as the Society's business model is to transform on-demand and relatively short-dated retail deposits to contractually much longer-term mortgage lending (maturity transformation).

#### 7.1.1. Strategies and processes to manage liquidity risk

The Society has articulated its strategy for managing liquidity risk as:

- A clear and appropriate internally defined liquidity risk appetite which is prudent and ensures the Society remains a going concern post stress,
- a diversified funding model maintaining active retail and wholesale franchises within regulatory constraints,
- reviews that the strategic plan ensures adequate liquidity is maintained,
- maintaining a High Quality Liquid Asset portfolio, with constituent portfolios aligned to risk appetite, and
- an operational liquidity buffer to provide adequate coverage for forecasting uncertainties, with the ability to fund short term liquidity gaps through:
  - Retail Acquisition,
  - Bank of England SMF Liquidity Operations (e.g., indexed long-term repo).

The strategy is augmented with sound risk management practices and metrics outlined within the ILAA.

#### 7.1.2. Liquidity risk management

Day-to-day responsibility for liquidity management is delegated to the Chief Financial Officer and Treasurer with oversight by ALCo, BRC and the Board. A sub-committee of ALCo called Liquidity Management Committee (LMC) acts as a conduit for analysis and proposals to promote detailed challenge at working level prior to any progression to ALCo. The Financial and Enterprise Risk function is responsible for oversight and provides insight into key capital, liquidity and interest rate risk in the banking book (IRRBB).

#### 7.1.3. The centralisation of liquidity management and interaction between the group's units

Liquidity risk is managed on a Group basis (including all subsidiary entities) with day-to-day responsibility delegated to the Chief Financial Officer and Treasurer with oversight by ALCo, BRC and the Board.

#### 7.1.4. Liquidity risk reporting and measurement systems

The Liquidity Planning team within Treasury report the daily measurement of all relevant liquidity and funding measures, commercial cash flows and applicable risk exposures. This is supplemented by a detailed weekly reporting pack and a rolling forecast which considers the variance in performance versus plan – in addition to all other relevant liquidity and funding metrics.

#### 7.1.5. Hedging and mitigating liquidity risk

The Society holds sufficient liquidity to withstand a severe but plausible stress and operate within limits set by the Board. Business as usual and stressed liquidity requirements (including asset encumbrance) are forecast over the strategic plan and periodically updated to ensure the prevailing strategy remains suitable. Ad hoc stress testing is also performed to identify any new risks and to skew specific existing risks in developing the Society's understanding of its balance sheet

The Society maintains a diversified funding base to avoid any overreliance on any funding source, type or term. As a building society, a large proportion of the Society's funding comes from retail savings deposits however these are managed by monitoring relevant concentrations including by product type and customer activation (e.g. term/bonus maturity). The Society wholesale's funding is also diversified to consider these factors and to utilise both owner-occupied and buy to let mortgage assets to increase contingent drawing capacity.

The Society employs monetisation testing of its liquidity security portfolio to ensure channels remain open to the Society and to minimise negative signalling from these activities.

#### **7.1.6. The Society's contingency funding plans.**

The Society's contingency funding plan is incorporated in its Recovery Plan ('RP'). The RP includes:

- Early Warning Indicators ('EWIs') and Invocation Triggers Points ('ITPs') which identify risk factors that forewarn of future liquidity stress events. EWIs are particularly calibrated at an early stage so that preventative measures can be taken, although invocation of the Recovery Plan is not a requirement. The RP includes a detailed explanation of the EWIs and ITPs that are in place.
- An identified selection of available recovery options to mitigate the impact of a liquidity stress. These sources are updated and validated annually with any significant changes reported to, and agreed by, ALCo. In the event of a stress, the sources will be updated on request to support ongoing decision-making.
- An analysis detailing the Society's Total Recovery Capacity, representing the benefit available from deploying Recovery options and the ensuing impact of deploying these options in a range of scenarios.
- An effective plan of action to equip senior management and the Board with the most effective responses to a stress event, along with delivery of appropriate management information that is both relevant and timely.
- Clear allocation of roles and responsibility, with the names and contact details of members of the team responsible for implementation.
- Guidance on communication with key external stakeholders so that the reputational risks of the Society can be managed.

The Recovery Plan is regularly updated to ensure that it remains relevant and operationally robust.

#### **7.1.7. Liquidity risk stress testing**

The Society assesses the adequacy of its liquidity resources through a process of stress testing and scenario testing. These internally defined tests complement the regulatory Liquidity Coverage Ratio and allow the Society to prove it meets the Overall Liquidity Adequacy Rule (OLAR) as specified under the ILAA rules.

Regular liquidity stress testing is performed by Treasury and is reported monthly to ALCo. The stress testing analysis is performed daily and reviewed by senior management, whilst also being incorporated into the daily liquidity risk report to evidence compliance with the Liquidity Risk Appetite. In order to identify and analyse the Society's risk exposures outside of the regular stress testing, Treasury undertake an alternative stress tests every twelve months, with the results presented to ALCo. This supplements the stress testing undertaken in the Recovery Plan, Reverse Stress Testing and as part of the annual ILAAP.

The liquidity stress tests described in this section incorporate the on and off-balance sheet risks of the Society's business model, with reference to the fourteen liquidity risk drivers specified under the ILAA rules. The results of the stress tests determine the required level of liquidity the Society must hold, both on a current and forecast basis.

The structure of the stress tests is defined by the Society and agreed as a core part of the Society's Liquidity Risk Appetite (LRA). The ILAA and the LRA was last approved by Board in January 2023.

The liquidity risk drivers detailed in the ILAA rules are set out below. In this section, the assumptions used in the Society's assessment of these risk drivers are set out. These assumptions have been previously approved by ALCo and BRC, and form part of the ILAA document and process approved by Board.

The ILAA rules require the Society to undertake stress testing based on four scenarios:

- Firm-Specific stress;
- Cyber stress;
- Market-Wide stress; and
- Combined stress.

The Combined stress test is the most severe of these three tests and is currently used within the Society's Liquidity Risk Appetite for all periods (7, 30 and 90-day stress) and models the simultaneous impact of :

**Firm-Specific Liquidity Stress** – an unforeseen Society specific liquidity stress event affecting both wholesale lenders and retail depositors. This results in large retail withdrawals in the short-term and a lowered ability to raise new funding. A higher volume of maturing wholesale deposits is required to be repaid, and the Society's rating is impacted by two notches from both rating agencies, triggering additional contractual liquidity requirements; and

**Market-Wide Liquidity Stress** – an unforeseen sector-wide liquidity stress occurs which indirectly affects the Society. This is characterised by increased risk concerns amongst market participants and (less so) in retail depositors. Wholesale rollover is reduced as other market participants become more risk averse. This impairs the requirement to raise liquidity from the existing liquidity portfolio leading to increased collateral haircuts. Retail depositors also look to spread funds across a number of deposit takers to maximise their FSCS coverage but would not seek to take savings out of the system altogether. The scenario is cognisant of developments in the FSCS scheme since 2008, and in the Bank of England sterling monetary framework.

The Combined liquidity stress takes the Society's latest liquidity position and calculates the survival period after applying all elements of the stress. Survival under this stress scenario is defined as:

- Holding sufficient cash to meet both the outflows of the first 7 days and the stressed intra-day liquidity requirement,
- holding sufficient HQLA to meet the outflows of the first 30 days of a stress plus the survival point at the end of the 30 days, and
- total liquidity resources to meet further outflows up to a 90-day horizon and to meet the survival point at the end of this period.

#### 7.1.8. The adequacy of liquidity risk management arrangements

The Society has a robust policy framework in place to manage liquidity and funding risks. The ILAAP is the key document that supports this framework. The Society's ILAAP is approved by the Board on an annual basis and demonstrates compliance with PRA Rulebook following review by second line. The Society complies with the required liquidity systems and controls as evidenced within the ILAA.

#### 7.1.9. Management approved liquidity risk statement

The Society's management of liquidity and funding risk is designed to ensure the Society remains a going concern both during and at the conclusion of any stress and retains the confidence of external shareholders. This is reflected through the Society's risk appetite which is:

- The Society will be able to survive the first seven days of an applicable stress solely with balances held with the Bank of England;
- the Society will maintain sufficient High Quality Liquid Assets in order to maintain an acceptable LCR ratio throughout the 30-days of an applicable stress scenario;
- the Society will maintain sufficient liquidity resources, including prepositioned contingent funding capacity, in order to maintain an acceptable LCR % during the first 90 days of a combined stress;
- through management action, the Society intends to always remain above regulatory minima; and
- no more than 25% of the Society's funding will be through wholesale funding (as % of SDLs, excluding central bank funding).

## 7.2. Template UK LIQ1 - Quantitative information of LCR

The LCR is designed to ensure that institutions hold a sufficient reserve of HQLA to allow them to survive a period of significant liquidity stress lasting 30 calendar days.

		Total unweighted value (average) £m				Total weighted value (average) £m			
UK 1a	Quarter ending on (DD Month YYYY)	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22
UK 1b	Number of data points	12	12	12	12	12	12	12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA)					7,609	7,512	7,150	7,020
<b>CASH – OUTFLOWS</b>									
2	Retail deposits and deposits from small business customers, of which:	40,760	40,354	40,005	39,746	2,286	2,415	2,483	2,487
3	<i>Stable deposits</i>	18,699	18,581	18,319	17,783	935	929	916	889
4	<i>Less stable deposits</i>	10,866	11,814	12,378	12,532	1,351	1,486	1,567	1,598
5	Unsecured wholesale funding	228	311	416	522	166	239	325	423
7	<i>Non-operational deposits (all counterparties)</i>	154	271	408	505	92	199	317	405
8	<i>Unsecured debt</i>	74	40	8	18	74	40	8	18
9	<i>Secured wholesale funding</i>					61	59	44	25
10	Additional requirements	464	296	266	261	464	296	266	261
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	451	251	225	213	451	251	225	213
12	<i>Outflows related to loss of funding on debt products</i>	13	45	41	48	13	45	41	48
14	Other contractual funding obligations	34	30	29	50	11	8	8	29
15	Other contingent funding obligations	2,913	2,827	2,726	2,685	688	690	685	683
16	TOTAL CASH OUTFLOWS					3,677	3,708	3,811	3,909
<b>CASH – INFLOWS</b>									
17	Secured lending (e.g. reverse repos)	58	39	12	6	0	0	0	0
18	Inflows from fully performing exposures	274	267	268	269	216	209	209	211
19	Other cash inflows	6	6	6	7	6	6	6	7
20	TOTAL CASH INFLOWS	338	312	286	283	222	215	216	219
UK-20c	<i>Inflows subject to 75% cap</i>	338	312	286	283	222	215	216	219
<b>TOTAL ADJUSTED VALUE</b>									
UK-21	LIQUIDITY BUFFER					7,609	7,512	7,150	7,020
22	TOTAL NET CASH OUTFLOWS					3,455	3,493	3,595	3,690
23	LIQUIDITY COVERAGE RATIO					221.0%	216.1%	200.2%	191.4%

Table 14 UK LIQ1 - Quantitative information of LCR

### **7.3. Table UK LIQB on qualitative information on LCR, which complements template UK LIQ1**

#### **7.3.1. The main drivers of LCR**

Retail deposits are the main driver of the LCR requirement, representing 62% of the total average weighted cash outflows at 31 December 2022. Periodic changes in the retail savings requirement result from the maturity of term deposits falling into the LCR stress window or relative changes in Society savings rates versus the market.

#### **7.3.2. Changes in the LCR over time**

The Society reported a point-in-time LCR of 195% as at 31 December 2022 (2021: 187%) which is significantly above the regulatory requirement. The average LCR stated in Template UK LIQ1 also shows a relative increase over the year as the Society has acquired a higher proportion of fixed rate products that has reduced the proportionate retail requirement over the year, thereby increasing the net surplus. The Society's margin requirement calculated through the historic look back approach has increased in 2022 as swap rates increased although is surpassed in the calculation by the mortgage pipeline requirement.

#### **7.3.3. The concentration of funding sources**

The Society's retail deposit base was £42 billion as of 31 December 2022 (2021: £40 billion), which represents 76% (2021: 77%) of the Society's liabilities (excluding capital). The Society held £13 billion (2021: £12 billion) of wholesale funding; 94% (2021: 93%) of this funding was from longer-term sources such as covered bonds, medium-term notes, residential mortgage-backed securities and the Bank of England's TFSME. The relatively large size of long-term wholesale funding deals and their typical structure as bullet maturity creates re-financing risk. As such wholesale maturities are monitored and spread to avoid concentrations.

#### **7.3.4. The composition of the Society's liquidity buffer**

The Society's liquidity buffer is predominantly composed of the Bank of England Reserve Account with the remainder being a mix of high quality debt security assets including UK Gilts, covered bonds, mortgage back securities and debt issuance from supranationals.

#### **7.3.5. Derivative exposures and potential collateral calls**

The Society only undertakes derivative trades with external counterparties where a Credit Support Annex (CSA) is in place. Under the terms of a CSA, the Society typically posts and receives collateral with counterparty banks (including its central clearing brokers) that offset the net mark-to-market position of derivatives with the counterparty. These arrangements are effective in mitigating the credit risk incurred in derivatives but create a potential liquidity requirement via initial margin and variation margin calls.

Following recent increases in swap rates, the Society received a large balance of variation margin in 2022 as a result of the positive mark-to-market of its derivative portfolio. This has led to an increase in the liquidity requirement within the Historic Look Back Approach.

#### **7.3.6. Currency mismatch in the LCR**

The Society does not report in any material currencies other than Sterling.

### **7.4. Template UK LIQ2: Net Stable Funding Ratio**

Per PS22/21 'Implementation of Basel Standards', disclosures for the Net Stable Funding Ratio (NSFR) are effective 1 January 2023 and beyond.

## 8. Disclosure of credit risk quality

### 8.1. Table UK CRA: General qualitative information about credit risk

#### 8.1.1. Management approved credit risk statement

The Society has credit risk exposures related to its retail portfolio of owner-occupier and buy to let mortgages and its treasury activities.

The Society provides low risk, high quality owner-occupier and buy to let mortgage products secured by immovable property within the UK.

The Society has a low appetite for treasury credit risk and restricts exposures to good quality counterparties with a low risk of failure. Treasury investments in financial institutions are predominantly with highly rated UK banks and systemically important international institutions in addition to multilateral development banks (MDBs), such as the European Investment Bank. The Society also invests in covered bonds and residential mortgage backed securities (RMBS).

#### 8.1.2. Criteria and approach for defining credit risk management policy

Credit risk in the Society's mortgage book only crystallises in the event that a borrower is unable to repay the mortgage and, as a result, the property on which the mortgage is secured has to be repossessed and sold at a price which is insufficient to allow the borrower to repay the loan.

The Board sets prudent credit risk limits within the context of the Society's overall risk appetite, and these are reflected in the Society's lending policy and credit controls.

All mortgage applications are assessed against the Society's lending policy criteria to ensure consistent credit decision making, and lending within the Society's credit risk appetite. This assessment uses stressed interest rates to ensure affordability even if interest rates increase. Assurance that lending decisions are robust and within the Society's policy is provided through the three lines of defence model.

All underwriting is done by the Society and its key lending criteria include:

- Prudent loan to value limits;
- a requirement that buy-to-let loans are against properties which are readily saleable into the owner-occupier market; and
- restrictions on the maximum number of properties in buy to let portfolios.

The Society ensures that there is no over-exposure to any geographical region or counterparty and that its mortgage portfolio as a whole can withstand a range of macroeconomic and specific stress scenarios.

The Society continues to focus on low risk, high quality owner-occupier and buy to let mortgages. Non-traditional mortgage lending outside these core segments was discontinued in 2008.

Buy to let lending continues to be provided mainly on an interest only basis reflecting the underlying investment nature of buy to let properties which can be sold to repay the capital amount. Interest only lending was 5.3% of the owner-occupier portfolio at 31 December 2022 (2021: 4.9%) with an average loan to value of 32.4% (2021: 34.1%).

#### 8.1.3. Credit risk management

The Retail Credit Risk Committee (RCRC), Board Risk Committee (BRC), and ultimately the Board oversee the Society's management of retail credit risks, supported by a specialist first line retail credit risk department reporting to the Chief Commercial Officer and Retail Credit Risk Measurement department reporting Chief Risk Officer. The 2nd line of defence also has in place an independent Retail Credit Risk Oversight Team. The Retail Credit Risk department is responsible for all aspects of analysing and reporting on the performance of the loan portfolio and for maintaining and updating the Society's Lending Policy and its implementation in the Society's



decisioning systems. The department works closely with stakeholders across the Society, for example in product design and distribution, to ensure that the evolution of the Society's Lending Policy both meets commercial requirements with regard to income and margin and risk appetite limits as set and agreed by the Board.

The Model Risk Committee (MRC) and ultimately Board Risk Committee oversee the management of model risk and is the governing committee with oversight over credit model development and deployment in the business, for example with respect to the development of application and behavioural scorecards, capital (IRB) models for regulatory capital calculations, and IFRS 9 models for Expected Credit Loss calculations.

It is supported by a specialist Risk Measurement function that reports to the Chief Risk Officer. The Risk Measurement function comprises of a Model Development team that builds all the retail credit models and a Capital and Impairment team that executes the models, generates and reports on impairment provisions and capital calculations, undertakes credit model performance reporting, and is responsible for regulatory reporting of capital and impairment.

#### **8.1.4. Credit risk reporting and measurement systems**

Credit Risk reporting and measurement is conducted from a dedicated analytics and data platform. The system consists of a credit risk data warehouse that contains both derived and raw data that is sourced from core Society data tables in a fully governed environment, and analytical tools to extract, manipulate, and report on the data. The data warehouse and analytical tools sit on a dedicated platform of servers and storage, overseen and managed by a team of data engineers and platform administrators.

Credit models are built using the data in the credit risk data warehouse and are executed in the credit risk platform. The outputs of the models are used for a variety of purposes including regulatory capital and impairment provision calculations. All regulatory and accounting reporting of credit model outputs are also sourced from the data warehouse.

The credit risk data warehouse is also used as the source of portfolio analytics and reporting to senior risk committees and for external reporting and disclosures.

#### **8.1.5. Hedging and mitigating credit risk**

The Society does not employ credit risk mitigation (CRM) techniques in relation to retail credit risk apart from taking a first legal charge on each property being offered as security for a mortgage.

All properties taken as security are valued at the outset of the loan and when any further advance is made during the lifetime of the loan.

The initial valuations of properties are determined by the Credit Risk function using a variety of techniques. These techniques include internal physical inspection with written reports by a qualified Royal Institutions of Chartered Surveyors (RICS) surveyor as well as Automated Valuation Models or desktop valuations. The credit risk function oversees the techniques used, and independently assesses the accuracy of valuations which are performed.

Regular reviews of the appropriateness and accuracy of the various valuation methods used by the Society are undertaken, to ensure these remain appropriate.

Assumptions regarding realisation (or work-out) costs, the time it takes to effect repossession and sale, and the effect of forced sale on estimated property values are updated regularly and are used in the impairment model to determine the realistic value that could be achieved upon repossession and sale of a property.

#### **8.1.6. The relationships between credit risk management, risk control, compliance and internal audit functions**

As described above, retail credit risk and risk measurement are managed by functions reporting to the Chief Commercial Officer and Chief Risk Officer respectively and sit within the first line in the Society's three lines of

defence model.

The second line function, also reporting to the Chief Risk Officer, is responsible for independent review and challenge of the activities of the first line credit risk teams. Operating in accordance with the Society's Risk Management Framework, the second line provides evidence of review and challenge to the governance committees who must be satisfied those proposals made in the first line, for example with regard to lending policies and retail credit risk appetite (from the Retail Credit Risk team) and for new models or changes to models (from the Risk Measurement team), have been appropriately reviewed and any challenges have been satisfactorily addressed.

The Internal Audit function, reporting to the Chief Internal Auditor, forms the third line of defence and seeks evidence that there are appropriate controls in place to ensure that the first and second lines are operating in a manner consistent with the Society's Risk Management Framework. Internal Audit has open invitations to attend all relevant risk committees (RCRC, MRC, and any sub-committees thereof) and reports through to Board Audit Committee its opinion on how the first and second lines are complying with the requirements of the Risk Management Framework.

## **8.2. Table UK CRB: Additional disclosure related to the credit quality of assets**

### **8.2.1. 'Past-due' and 'impaired' exposures**

Under IFRS 9 the Society calculates impairment provisions on loans and advances to customers on an expected credit loss (ECL) basis and not on an incurred loss basis. ECL provisions are based on an assessment of probability of default, loss given default and exposure at default in a range of forward-looking scenarios.

IFRS 9 requires the Society to categorise customer loans into one of three stages at the balance sheet date. Assets that are 'performing' are shown in stage 1; assets where there has been a significant increase in credit risk since initial recognition or 'deteriorating' assets are in stage 2; and accounts which are credit impaired or in 'default' are in stage 3. Under IFRS 9, loans are generally treated as being in 'default' if they are three or more months in arrears, have been three or more months in arrears in the last 12 months or have other specific unlikelihood to pay indicators. Equity release loans are treated as being in default once the loan is 12 months past the contractual trigger event. IFRS 9 requires a 12-month ECL provision on all stage 1 assets and a lifetime ECL provision on all stage 2 and 3 assets.

The definition of default is aligned for accounting and regulatory purposes.

All exposures that are past due by more than 90 days are impaired.

### **8.2.2. Description of methods used for determining general and specific credit risk adjustments**

#### **Impairment on loans and advances to customers**

Under IFRS 9, impairment provisions or expected credit losses (ECLs) are required to be calculated on amortised cost, fair value through other comprehensive income assets and mortgage pipeline commitments.

For the Group substantially all ECLs relate to loans and advances to customers and the tables below provide additional information. Further information on the credit quality of these loans, including by IFRS 9 stage, is included in note 14 in Annual Report & Accounts 2022.

Given the low-risk nature of the Society's treasury assets, all have been assessed as performing throughout the period and therefore the resulting ECL is immaterial.

#### **Calculation of expected credit loss provisions under IFRS 9**

The Board Audit Committee continued to review the Society's IFRS 9 accounting policies during 2022 to ensure that they remain appropriate and reviewed the basis of calculating ECLs including the method for determining a

significant increase in credit risk and the application of post model adjustments to the overall ECL provision, including the potential impact of climate change on the Society's mortgage portfolio.

The calculation of ECLs for loans and advances to customers has continued to require a significant degree of management judgement due to the unprecedented impact of the uncertainty regarding the UK's economic volatility and inflationary pressures. The Board Audit Committee's role is to make sure that appropriate judgements are applied.

### **8.2.3. Forborne exposures**

The Society exercises forbearance if it is in the best interests of the borrower. Forbearance measures that the Society may offer are:

- arrangements, where monthly payments are maintained, and the arrears are repaid over a period;
- concessions, where the Society agrees to accept either the normal monthly payment with no contribution towards paying off the outstanding arrears, reduced payments, or in exceptional circumstances no repayments for a short period;
- mortgage term extensions to reduce the amount of the monthly payment as part of a longer-term solution; and
- a change of product which results in more sustainable monthly payments or a temporary transfer to interest only repayments.

On very rare occasions, arrears may be capitalised, or the Society may agree to change repayment mortgages to interest only terms for a temporary period as a means of exercising forbearance.

Where a loan is up to date, the Society may agree a short-term payment holiday as a way of allowing borrowers to resolve financial difficulties, in which case this is treated as a forbearance measure rather than as one where the borrower is using a product feature. Forbearance payment holidays are for a maximum of three months and are only given where the borrower can afford the post-holiday monthly repayments.

### 8.3. Template UK CR1: Performing and non-performing exposures and related provisions

The table below provides details of the credit quality of the Society's exposures including the related provisions.

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		£m	£m
Cash balances at central banks and other demand deposits	7,773	7,773	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	48,467	44,004	4,463	206	4	202	(28)	(4)	(24)	(7)	(0)	(7)	-	47,739	199
<i>Credit institutions</i>	623	623	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	1	-	1	0	-	0	-	-	-	-	-	-	-	1	0
<i>Of which SMEs</i>	1	-	1	0	-	0	-	-	-	-	-	-	-	1	0
<i>Households</i>	47,842	43,380	4,462	206	4	202	(28)	(4)	(23)	(7)	(0)	(7)	-	47,738	199
Debt securities	1,595	1,595	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	1,020	1,020	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	482	482	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	93	93	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	2,317	2,315	2	0	-	0	1	1	0	0	-	0	-	21	0
<i>Households</i>	2,317	2,315	2	0	2	0	1	1	0	0	0	0	-	21	0
<b>Total</b>	<b>60,152</b>	<b>55,685</b>	<b>4,465</b>	<b>207</b>	<b>4</b>	<b>202</b>	<b>(27)</b>	<b>(4)</b>	<b>(23)</b>	<b>(7)</b>	<b>(0)</b>	<b>(7)</b>	<b>-</b>	<b>47,760</b>	<b>199</b>

Table 15 UK CR1: Performing and non-performing exposures and related provisions

#### 8.4. Template UK CR1-A: Maturity of exposures

The maturity profile of the Society's exposures is set out in the template below.

		Net exposure value					Total
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	
		£m	£m	£m	£m	£m	
1	Loans and advances	667	3,348	12,071	32,551	-	48,637
2	Debt securities	-	876	514	205	-	1,595
3	Total	667	4,224	12,585	32,756	-	50,232

Table 16 UK CR1-A: Maturity of exposures

#### 8.5. Template UK CR2: Changes in the stock of non-performing loans and advances and Template UK CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries

The Society is not required to disclose this template.

#### 8.6. Template UK CQ1: Credit quality of forborne exposures

The template below provides details of the credit quality of the Society's exposures including whether an exposure is forborne, defaulted or impaired.

		Gross carrying amount/nominal amount of exposures with forbearance measures (£m)				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (£m)		Collateral received and financial guarantees received on forborne exposures (£m)	
		Performing forborne	Non-performing forborne		On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures	
			£m	Of which defaulted					Of which impaired
010	Loans and advances	49	40	36	36	-	(1)	89	40
070	Households	49	40	36	36	-	(1)	89	40
100	Total	49	40	36	36	-	(1)	89	40

Table 17 UK CQ1: Credit quality of forborne exposures

#### 8.7. Template UK CQ2: Quality of forbearance

The Society is not required to disclose this template.

## 8.8. Template UK CQ3: Credit quality of performing and non-performing exposures by past due days

The template below provides details of the credit quality of performing and non-performing exposures by past due days.

		Gross carrying amount/nominal amount												
		Performing exposures			Non-performing exposures									Of which defaulted
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years		
			£m	£m		£m	£m	£m	£m	£m	£m	£m	£m	
005	Cash balances at central banks and other demand deposits	7,773	7,773	-	-	-	-	-	-	-	-	-	-	
010	Loans and advances	48,467	48,359	108	206	130	42	19	11	4	-	0	198	
040	<i>Credit institutions</i>	623	623	-	-	-	-	-	-	-	-	-	-	
060	<i>Non-financial corporations</i>	1	1	-	0	0	-	-	-	-	-	-	0	
070	<i>Of which SMEs</i>	1	1	-	0	0	-	-	-	-	-	-	0	
080	<i>Households</i>	47,842	47,734	108	206	130	42	19	11	4	-	0	198	
090	Debt securities	1,595	1,595	-	-	-	-	-	-	-	-	-	-	
110	<i>General governments</i>	1,020	1,020	-	-	-	-	-	-	-	-	-	-	
120	<i>Credit institutions</i>	482	482	-	-	-	-	-	-	-	-	-	-	
130	<i>Other financial corporations</i>	93	93	-	-	-	-	-	-	-	-	-	-	
150	Off-balance-sheet exposures	2,317			0								0	
210	<i>Households</i>	2,317			0								0	
<b>220</b>	<b>Total</b>	<b>60,152</b>	<b>57,727</b>	<b>108</b>	<b>206</b>	<b>130</b>	<b>42</b>	<b>19</b>	<b>11</b>	<b>4</b>	<b>-</b>	<b>0</b>	<b>198</b>	

Table 18 UK CQ3: Credit quality of performing and non-performing exposures by past due days

## 8.9. Template UK CQ4: Quality of non-performing exposures by geography

The Society is not required to disclose this template.

## 8.10. Template UK CQ5: Credit quality of loans and advances to non-financial corporations by industry

		Gross carrying amount			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
		£m	£m	£m	£m	£m
090	Accommodation and food service activities	1	-	-	1	-
<b>200</b>	<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>

Table 19 UK CQ5: Credit quality of loans and advances to non-financial corporations by industry

## 8.11. Template UK CQ6: Collateral valuation - loans and advances

The Society is not required to disclose this template.

## 8.12. Template UK CQ7: Collateral obtained by taking possession and execution processes

The Society is not required to disclose this template.

## 8.13. Template UK CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown

The Society is not required to disclose this template.

## **9. Disclosure of the use of credit risk mitigation techniques**

### **9.1. Table UK CRC – Qualitative disclosure requirements related to CRM techniques**

#### **9.1.1. On- balance sheet and off-balance sheet netting**

The Society may use on-balance sheet netting of mutual claims between itself and its counterparties as an eligible form of CRM. Netting is transactions between an institution and a single counterparty that are subject to a legally enforceable bilateral netting arrangement.

#### **9.1.2. Eligible collateral evaluation and management**

Credit risk is the likelihood of loss resulting from a borrower's failure to repay a loan or meet their contractual obligations. The Society does not employ CRM techniques on the retail credit front. The Society uses immovable property as collateral for the mortgage loans. In the instance of a default the Society realises the collateral through repossession and sale to pay off the outstanding balance in full (with any surplus returned to the borrower) or in part (if the realised sale proceeds are insufficient to pay back the outstanding balance).

#### **9.1.3. Information about market or credit risk concentrations within the credit mitigation taken**

A significant portion of exposures is to households via secured loans to prime owner-occupier borrowers and, on Buy to let (BTL) lending, largely to individual customers.

#### **9.1.4. A description of the main types of collateral taken by the Society to mitigate credit risk**

The Society's appetite for credit risk to such exposures is carefully defined to position the Society towards the prudent end of the market, with lending criteria that focusses on attracting customers of higher credit quality and good affordability as well as through lending on properties that meet well defined standards for type, construction, and saleability in the event of repossession. On BTL exposures the same property criteria apply which helps avoid overconcentration in rental only areas. The effectiveness of the Society's prudent risk appetite is demonstrated by the very low default experience and, where those small numbers of defaults do roll through to repossession and sale, on relatively low realised losses.

#### **9.1.5. Guarantees and credit derivatives**

During the year under review there were no guarantees or credit derivatives used as credit protection.



## 9.2. Template UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

The Society secures its mortgage loans by collateral but applies no other CRM techniques.

		Unsecured carrying amount	Secured carrying amount			
			Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives	
		£m	£m	£m	£m	£m
1	Loans and advances	8,507	47,938	47,938	-	-
2	Debt securities	1,595	-	-	-	-
<b>3</b>	<b>Total</b>	<b>10,102</b>	<b>47,938</b>	<b>47,938</b>	-	-
4	<i>Of which non-performing exposures</i>	206	199	199	-	-
5	<i>Of which defaulted</i>	0	191			

Table 20 UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

## 10. Disclosure of the use of the credit risk standardised approach (excluding counterparty credit risk and securitisation positions)

### 10.1. Table UK CRD – Qualitative disclosure requirements related to standardised model

#### 10.1.1. External credit assessment institutions (ECAIs) and export credit agencies (ECAs)

The Society uses Moody's credit ratings agency as their external credit assessment institution.

The Society uses the Standardised Approach (SA) for the exposure classes as shown in Table 22 below. The Society uses credit ratings published by Moody's for RMBS, covered bonds and institutions. Moody's is recognised as an eligible External Credit Assessment Institution (ECAI) for this purpose. The Society does not use ECAIs for other credit risk exposure classes under the SA and there has been no change in the Society's use of ECAI during the year.

Moody's issuer and issue credit ratings are mapped to the appropriate credit quality step and the appropriate risk weight is applied to the exposure as set out in Chapter 2 of Title II of Part Three CRR.

### 10.1.2. The association of the external ratings with credit quality steps

The following table shows the exposure values and rating associated with each credit quality step. There is no CRM applicable to these exposure values.

Credit Quality Step (CQS)	Moody's Rating	Risk Weight	Exposure Value	Capital Requirement	RWEA
		%	£m	£m	£m
<b>Retail mortgage backed securities (RMBS)</b>					
CQS1	Aaa - Aa3	10%	87	1	9
CQS1	Aaa - Aa3	20%	6	0	1
<b>Total RMBS</b>			93	1	10
<b>Covered bonds</b>					
CQS1	Aaa - Aa3	10%	269	2	27
CQS2	A1-A3	20%	53	1	11
<b>Total covered bonds</b>			322	3	38
<b>Financial institutions</b>					
CQS1	Aaa - Aa3	20%	73	2	23
CQS2	A1-A3	50%	54	0	2
<b>Total financial institutions</b>			127	2	25
<b>Total</b>			542	6	73

Table 21 Exposure values and rating associated with each credit quality step

### 10.2. Template UK CR4 – standardised approach – Credit risk exposure and CRM effects

The template below shows the exposures that the Society applies the standardised approach to, by exposure class.

Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density		
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)	
	£m	£m	£m	£m	£m	£m	
1	Central governments or central banks	8,700	-	8,700	-	-	0.0%
4	Multilateral development banks	159	-	159	-	-	0.0%
6	Institutions	91	-	91	-	18	20.0%
8	Retail	11	-	11	-	7	66.2%
9	Secured by mortgages on immovable property	209	0	209	0	74	35.3%
10	Exposures in default	16	-	16	-	16	101.5%
12	Covered bonds	322	-	322	-	38	11.7%
15	Equity	6	-	6	-	6	100.0%
16	Other items	46	-	46	-	46	100.0%
17	<b>TOTAL</b>	<b>9,560</b>	<b>0</b>	<b>9,560</b>	<b>0</b>	<b>205</b>	<b>2.1%</b>

Table 22 UK CR4 – standardised approach – Credit risk exposure and CRM effects

### 10.3. Template UK CR5 – standardised approach

The table below provides details of the applicable risk weights applied to each exposure by exposure class under the standardised approach.

	Exposure classes	Risk weight £m														Total £m	Of which unrated £m	
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%			Others
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m			£m
1	Central governments or central banks	8,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,700	-
4	Multilateral development banks	159	-	-	-	-	-	-	-	-	-	-	-	-	-	-	159	-
6	Institutions	-	-	-	-	91	-	-	-	-	-	-	-	-	-	-	91	-
8	Retail exposures	-	-	-	-	-	-	-	11	-	-	-	-	-	-	-	11	11
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	208	-	-	-	1	-	-	-	-	-	209	209
10	Exposures in default	-	-	-	-	-	-	-	-	16	0	-	-	-	-	-	16	16
12	Covered bonds	-	-	-	269	53	-	-	-	-	-	-	-	-	-	-	322	-
15	Equity exposures	-	-	-	-	-	-	-	-	6	-	-	-	-	-	-	6	6
16	Other items	-	-	-	-	-	-	-	-	46	-	-	-	-	-	-	46	46
<b>17</b>	<b>TOTAL</b>	<b>8,859</b>	<b>-</b>	<b>-</b>	<b>269</b>	<b>144</b>	<b>208</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>69</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,560</b>	<b>288</b>

Table 23 UK CR5 – standardised approach

## 11. Disclosure of the use of the IRB Approach to credit risk (excluding counterparty credit risk)

### 11.1. Table UK CRE - Qualitative disclosure requirements related to IRB approach

#### 11.1.1. The PRA's permission of the IRB approach

The Society uses the Internal Ratings Based (IRB) approach for most of its retail credit risk and capital management following approval from the PRA in 2008. The PRA approved the Society's implementation of new IRB models in 2020.

IRB models are used to calculate capital requirements for prime owner-occupier and buy to let mortgage exposures which account for over 99% of lending exposures.

For the remaining retail credit risk exposures on legacy closed products, the Society uses the standardised approach. The standardised approach uses capital risk weighting percentages set by CRD IV to calculate capital requirements. No new lending has been originated on these products for a few years however a drawdown facility is available for a small element of existing equity release customers.

The Society uses the following three internal rating models:

- Probability of Default model;
- Loss Given Default model; and
- Exposure at Default model.

#### **Probability of Default model**

In this model, credit scores are used to allocate exposures to risk grades. Once allocated to a risk grade, the probability of default (PD) model provides a "long-run" estimate of the PD for the grade i.e. the average PD across an economic cycle. It is this PD that is used in the capital calculation. There are separate scorecards for the buy-to-let and owner-occupier portfolios.

The credit scores of new applications generated by the application scorecards are determined using a combination of loan data, borrower credit details, and, in the case of the buy-to-let model, information about the rental property.

Behavioural scores are calculated using a combination of internal mortgage performance data together with regular updates of the borrower's credit behaviour with other lenders.

Depending on the length of time the account has been on the books, the application credit score, behavioural credit score, or a blend of the two is used to determine the risk grade for the account and therefore the long-run PD to be used in the capital calculation.

The PD model produces "hybrid" PDs that are a combination of point-in-time and through-the-cycle estimates of the probability of default for each risk grade. The current hybrid model was implemented into live use with regulatory approval at the end of 2020. We are currently updating the hybrid PD model to reflect new regulatory requirements that came into force at the beginning of 2022 via the updated Supervisory Statement SS11/13 and expect to make a submission to the regulators in early 2023. In common with several other IRB lenders who are similarly updating their models to comply the latest regulatory standards, we will be holding a post model adjustment (PMA) for anticipated additional RWAs that will be generated by the new models, which are expected to result in higher hybrid PDs than are currently being produced.

#### **Loss given default model**

The loss given default (LGD) model uses internal data and is calibrated to downturn economic conditions for use in the regulatory capital calculations.

The model assesses the likelihood of repossession once an account defaults, the forced sale discount that is likely to be experienced in selling a property from possession (the 'haircut') and, if repossessed, the likelihood and

amount of loss.

As with the update to the PD model that is currently being developed in response to new regulatory requirements, the LGD model suite is also being updated and will be submitted early in 2023 alongside the new PD model. As with the new PD model, the updated LGD models are expected to also result in increased RWAs, and a PMA is held for the anticipated increase at the end of 2022.

### **Exposure at default (EAD model)**

The exposure at default (EAD) model calculates the balance of accounts at the point of default using a combination of estimated time to default and the interest payments that will be missed. Consistent with the PD and LGD models, an amended EAD model is also being developed, for submission in early 2023 with the other IRB models. Any additional RWAs emanating from the updated EAD model will be captured within the LGD output so no separate RWA PMA is required for this model.

The combination of PD, LGD and EAD models is used to determine the expected loss and capital requirement for all mortgages within the retail IRB exposure class.

## **11.1.2. Rating systems and model development**

### **(i) The relationship between the risk management function and the internal audit function**

The risk management function comprises first and second line departments operating within the Society's three Lines of Defence model, whereby first line undertakes model development and change activities and the second line independently challenges and reviews those changes and developments. The internal audit function, as the third line of defence, then considers whether the second line has appropriately discharged its duties regarding independent review and challenge. The risk management function reports into the Chief Risk Officer whilst the internal audit function reports to the Chief Internal Auditor.

### **(ii) The rating system review**

Models within the rating system are subject to the governance requirements that are set out within the Board approved Model Risk Framework. New model developments and model changes must be reviewed by the independent second line function and approved for use by the governance committee (the Model Risk Committee) that is charged with overseeing model risk management at the Society. On an annual basis the models also undergo a first line annual review that considers ongoing model performance, adherence to evolving regulation, documentation requirements, consideration of previous independent review findings, and fitness-for-purpose. These first line annual reviews are then independently reviewed by the second line function and together, first and second line reviews are discussed at the governance committee which must re approve the use of the models on an annual basis.

### **(iii) Procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models**

Whilst both the model development and model review teams report to the Chief Risk Officer, they are led by separate function leaders. The independent model review team also documents its challenges and questioning of model developments. The independence is also demonstrated by the model development and validation teams separately providing reports and reviews to the Model Risk Committee. The Chief Risk Officer is responsible for ensuring that the two teams operate independently of each other.

### **(iv) The procedure to ensure the accountability of the functions in charge of developing and reviewing the models**

Accountability of the functions in charge of developing and reviewing models rests with different Heads of Departments who separately report to the Chief Risk Officer. The CRO holds overall responsibility for ensuring that accountabilities of the two areas are appropriately discharged.

### 11.1.3. The development, approval and changes of the credit risk models

The Chief Financial Officer holds Executive responsibility for the management of model risk, whilst oversight is provided by the Chief Risk Officer. Model risk is governed through Model Risk Committee (MRC), chaired by the CFO and includes in its membership the CRO and senior managers from the Retail Credit Risk, Risk Measurement, Financial Control, and Financial and Enterprise Risk functions, with Internal Audit also in attendance.

A key aspect when using internal rating models is establishing robust control and review mechanisms to effectively monitor and validate the models.

Model developments, model changes, and ongoing performance monitoring are undertaken in the first line by the Risk Measurement function, who is responsible for the methodology applied and the models themselves.

The second line risk function, Financial and Enterprise Risk (FER), independently reviews this work, and both first line model development and change activity and the second line opinion is presented to MRC for discussion and approval.

MRC's responsibilities in relation to IRB models include:

- Agreeing the scope and design of the models, including key assumptions and judgements;
- reviewing progress updates during model development;
- considering the results of independent second line model validation and confirming that the models are fit for purpose. The validation assesses the quality of data used in the model development and model documentation;
- reviewing ongoing model performance monitoring reports, to ensure that the models are operating as designed. If model performance deteriorates beyond expectation, a review of the model may be triggered which could result in a recalibration or redevelopment; and
- approving the submission of any new IRB models and material changes to existing models to the regulator.

As part of its third line responsibilities, Internal Audit undertakes an annual review of the effectiveness of the controls governing the use of IRB models.

The Chief Risk Officer also attests on an annual basis to compliance with IRB regulatory requirements.

The Society has a Board approved policy on model risk which sets out the minimum standards to be applied to mitigate risk. These standards are supported by controls and model requirements within a comprehensive Model Risk Framework which is reviewed by BRC annually and are designed to conform to the regulatory expectations for model risk management practices. Within this, the Society has a comprehensive model governance framework which sets out policies and statements that govern all models including the IRB models throughout their life cycle.

Techniques employed to manage model risk include:

- Independent model validation;
- governance around model assumptions and data;
- model overview statements which identify conditions when the models may fail;
- requirements on model development and documentation; and
- sensitivity analysis of key assumptions.

The Society categorises its models and complex calculators dependent on their criticality and complexity and the framework operates by way of increasing controls on more critical and more complex models.

#### **Model risk outlook**

During 2022, the IRB model suite has undergone a significant programme of redevelopment and recalibration in order to meet the new regulatory requirements and associated guidance that came into force on 1 January 2022 (for example, in the updated Supervisory Statement SS11/13). As at 31 December 2022, this work is substantially

complete and the new model suite will be submitted in early 2023 for regulatory approval.

#### 11.1.4. The internal ratings process by exposure class

**(i) the definitions, methods and data for estimation and validation of PD, which shall include information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods**

In accordance with regulatory requirements, the Society operates a hybrid PD model that is built on a combination of observed default rates and back-casted default rates that encompasses the downturn of the early 1990s. Observed default rates are available back to 2006 and, for periods earlier than that, the UK Finance arrears data series is used as an estimator for what the Society's default rates would have been, using various statistical techniques to capture the likely shape of the Society's back-casted default rate curve together with an appropriate margin of conservatism built into account for lack of historic internal data pre-2006.

The definition of default meets the requirements in the applicable regulatory guidance, with default being triggered once an account goes 3+ months in arrears or if a defined set of unlikelihood to pay indicators are met (these include certain forbearance measures such as the granting of concessionary terms or the distressed transfer to interest only terms). In addition, a "cure" period of 12 months is applied to ensure that a customer, once defaulted, demonstrates continued ability to service the loan before the account is returned to a non-defaulted status.

Any applicable regulatory floors are captured in the applied PD rates, where the modelled rate is above the floor.

The Society has sufficient history of defaults to not have to resort to using Low Default Portfolio techniques.

The hybrid PD model, being built using a combination of through-the-cycle average default rates and observed point-in-time default rates, has been consistently producing PDs for application in the regulatory capital calculation that are significantly above current observed default rates. This is to be expected given the current point in the economic cycle.

**(ii) where applicable, the definitions, methods and data for estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure**

The LGD models are calibrated to the experience of the last economic downturn, with model parameters such as in the Probability of Possession Given Default model then being uplifted to meet the regulatory guidance that LGD models must be downturn models that reflect a minimum level of house price fall that is in excess of that seen in the downturn. Various statistical techniques are used to generate the uplifts required to reflect the worse-than-actual downturn experience required, together with an appropriate margin of conservatism.

The Society has sufficient history of repossessions and losses to not have to resort to using Low Default Portfolio techniques.

The Society defines the period of the downturn that is being used to calibrate the models against but maintains an extended period post-downturn to ensure that sufficient time is available for workouts such that statistically robust models are built on observed resolution of post-default events (e.g. repossession or cure).

**(iii) where applicable, the definitions, methods and data for estimation and validation of credit conversion factors, including assumptions employed in the derivation of those variables**

The Society currently assumes a 100% credit conversion factor, which is applied to all applications where the Society has made an offer to advance a mortgage, as once a mortgage offer is made, the Society will not unilaterally withdraw the offer.

## **IRB model performance over time**

Back testing methodologies are applied to assess model performance. Results from this testing continues to show that models are conservative against actual outcomes.

For capital calculations, the PD and LGD models are calibrated to long run or downturn conditions respectively. This means that in current economic conditions the outputs of both models are significantly higher than actual outcomes.

The IRB models that were implemented at the 2020 year-end are built on a revised definition of default that, unlike with previous models, are calibrated to 90 days past due (previously 180 days) together with expanded unlikeliness-to-pay indicators.

The PD model has been directly calibrated to the long run average PD rather than on a point-in-time basis. The assessment of performance that has been made therefore compares actual default rates with the long run PD estimate. For comparison the prior year's performance on the same basis has been updated within the table below.

The Loss Given Default (LGD) model has been rebuilt, given that the new definition of default impacts all areas of loss given default. Cases which gave rise to a special provision i.e. on which the loss was the result of circumstances that could not be modelled (e.g. a boundary dispute where a large loss was incurred when a property was partly built on neighbouring land) have been excluded from the analysis.

### **11.1.5. Reporting related to credit risk models**

At each Board Risk Committee meeting, the Committee considered a consolidated risk report from the Society's Chief Risk Officer (CRO). In relation to credit risk models, the Committee reviewed the Model Risk Framework and Policy and recommended these to the Board for approval.

#### **Treatment of undrawn exposures**

At any point, the Society has a number of undrawn exposures that it assigns ratings to using the IRB rating system. These undrawn exposures relate to mortgage applications that have reached the 'offer' stage, where the Society has agreed to advance the funds, but completion of the mortgage has not yet taken place. An offer will generally only be cancelled if adverse information is received after the offer has been made or if it has not been taken up by the customer and hence expires. To assess credit risk, it is assumed that all offers will complete, and therefore a conservative conversion factor of 100% is assigned to these undrawn exposures.



## 11.2. Template UK CR6 – IRB approach – Credit risk exposures by exposure class and PD range

The table below analyses the credit risk exposures to which the IRB approach is applied by exposure class and PD range.

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
		£m	£m	£m	£m	%	£m	%	Years	£m	%	£m	£m
<b>Exposure class Retail – non-SMEs - Secured by immovable property collateral</b>													
	0.00 to <0.15	26,061	1,245	0	27,306	0.1%	183,260	10.2%	-	2,092	7.7%	11	(3)
	0.00 to <0.10	5,509	616	0	6,125	0.1%	44,719	8.2%	-	365	6.0%	2	(0)
	0.10 to <0.15	20,552	629	0	21,181	0.1%	138,541	10.8%	-	1,727	8.2%	9	(3)
	0.15 to <0.25	102	5	0	107	0.2%	1,374	5.8%	-	8	7.3%	0	(0)
	0.25 to <0.50	16,416	805	0	17,221	0.3%	105,871	15.7%	-	2,577	15.0%	15	(12)
	0.50 to <0.75	47	-	-	47	0.7%	491	6.2%	-	5	11.1%	0	(0)
	0.75 to <2.50	2,130	186	0	2,316	1.4%	14,209	19.5%	-	866	37.4%	7	(4)
	0.75 to <1.75	2,087	185	0	2,271	1.4%	13,762	19.7%	-	856	37.7%	7	(4)
	1.75 to <2.5	43	1	0	45	2.0%	447	8.2%	-	10	22.0%	0	(0)
	2.50 to <10.00	983	73	0	1,056	4.5%	6,609	19.7%	-	715	67.7%	10	(3)
	2.5 to <5	728	62	0	790	3.6%	4,872	20.2%	-	505	63.9%	6	(2)
	5 to <10	255	11	0	266	6.9%	1,737	18.1%	-	210	79.1%	4	(1)
	10.00 to <100.00	296	3	0	299	40.8%	2,298	12.4%	-	210	70.1%	13	(2)
	10 to <20	109	1	0	110	15.1%	781	16.7%	-	108	97.8%	3	(0)
	20 to <30	2	-	-	2	25.8%	18	6.3%	-	1	44.1%	0	(0)
	30.00 to <100.00	185	2	0	187	56.1%	1,499	10.0%	-	101	54.0%	10	(1)
	100.00 (Default)	179	0	0	179	100.0%	1,448	6.9%	-	307	171.4%	3	(4)
	Subtotal (exposure class)	46,214	2,317	0	48,531	1.0%	315,560	12.8%	-	-	14.0%	59	(29)
	<b>Total (all exposures classes)</b>	<b>46,214</b>	<b>2,317</b>	<b>0</b>	<b>48,531</b>		<b>315,560</b>		-	<b>6,780</b>	<b>14.0%</b>	<b>59</b>	<b>(29)</b>

Table 24 UK CR6 – IRB approach – Credit risk exposures by exposure class and PD range

### 11.3. Template UK CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques

The template below provides details of the pre-credit derivatives risk weighted exposure amounts and actual risk weighted exposure amounts under the foundation IRB and advanced IRB valuation models.

		Pre-credit derivatives risk weighted exposure amount	Actual risk weighted exposure amount
		£m	£m
5	<b>Exposures under AIRB</b>	<b>0</b>	<b>6,780</b>
9	Retail	0	6,780
9.2	<i>of which Retail – non-SMEs - Secured by immovable property collateral</i>	0	6,780
10	<b>TOTAL (including FIRB exposures and AIRB exposures)</b>	<b>0</b>	<b>6,780</b>

Table 25 UK CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques

#### 11.4. Template UK CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques

The Society secures its mortgage loans by collateral but applies no other credit risk mitigation techniques.

A-IRB		Total exposures	Credit risk Mitigation techniques										Credit risk Mitigation methods in the calculation of RWEAs		
			Funded credit Protection (FCP)									Unfunded credit Protection (UFCP)		RWEA without substitution effects (reduction effects only)	RWEA with substitution effects (both reduction and substitution effects)
			Part of exposures covered by Financial Collaterals	Part of exposures covered by Other eligible collaterals	Part of exposures covered by Immoveable property Collaterals	Part of exposures covered by Receivables	Part of exposures covered by Other physical collateral	Part of exposures covered by Other funded credit protection	Part of exposures covered by Cash on deposit	Part of exposures covered by Life insurance policies	Part of exposures covered by Instruments held by a third party	Part of exposures covered by Guarantees	Part of exposures covered by Credit Derivatives		
4	Retail	48,897	0.0	249.6	249.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	6,780
4.2	<i>Of which Retail – Immoveable property non-SMEs</i>	48,897	0.0	249.6	249.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	6,780
5	<b>Total</b>	<b>48,897</b>	<b>0.0</b>	<b>249.6</b>	<b>249.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>6,780</b>

Table 26 UK CR7-A – IRB approach – Disclosure of the extent of the use of CRM techniques

### 11.5. RWEA flow statements of credit risk exposures under the IRB approach

The table below summarises the movements of RWEAs for credit risk exposures under the Internal Ratings Based (IRB) approach. Following guidance from the PRA this flow statement includes the post model adjustment applied to both our loss given default and probability of default models.

		Risk weighted exposure amount
		£m
1	<b>Risk weighted exposure amount as at the end of the previous reporting period</b>	5,700
2	Asset size (+/-)	227
3	Asset quality (+/-)	82
8	Other (+/-)	771
9	<b>Risk weighted exposure amount as at the end of the reporting period</b>	<b>6,780</b>

Table 27 UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach

### 11.6. Template UK CR9.1 – IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)

This template is not applicable to the Society.

## 11.7. Template UK CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale)

The table below analyses the back-testing of probability of default per exposure class based on a fixed PD scale for those exposures under the IRB valuation approach.

Exposure class	PD range	Number of obligors at the end of previous year		Observed average default rate (%)	Exposures weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			Of which number of obligors which defaulted in the year				
	0.00 to <0.15	180,133	93	0.05%	0.11%	0.11%	0.04%
	0.00 to <0.10	43,554	5	0.01%	0.05%	0.05%	0.02%
	0.10 to <0.15	136,579	88	0.06%	0.13%	0.13%	0.05%
	0.15 to <0.25	1,553	1	0.06%	0.20%	0.20%	0.19%
	0.25 to <0.50	99,320	144	0.14%	0.34%	0.34%	0.13%
	0.50 to <0.75	568	2	0.35%	0.68%	0.69%	0.19%
	0.75 to <2.50	12,406	64	0.52%	1.41%	1.41%	0.40%
	0.75 to <1.75	11,863	61	0.51%	1.40%	1.38%	0.40%
	1.75 to <2.5	543	3	0.55%	2.01%	2.04%	0.46%
	2.50 to <10.00	5,399	73	1.35%	4.45%	4.51%	1.53%
	2.5 to <5	3,955	40	1.01%	3.62%	3.61%	1.14%
	5 to <10	1,444	33	2.29%	6.89%	6.97%	2.46%
	10.00 to <100.00	2,273	423	18.61%	40.82%	45.80%	14.26%
	10 to <20	630	38	6.03%	15.08%	14.74%	5.26%
	20 to <30	10	1	10.00%	25.76%	25.68%	6.74%
	30.00 to <100.00	1,633	384	23.52%	56.09%	57.91%	18.44%
	100.00 (Default)	1,337			100.00%	100.00%	

Table 28 UK CR9 – IRB approach – Back-testing of PD per exposure class (fixed PD scale)

## 12. Disclosure of specialised lending and equity exposures under the simple risk weight approach

The Society does not offer specialised lending products.

## 13. Disclosure of counterparty credit risk

### 13.1. Table UK CCRA – Qualitative disclosure related to CCR

#### 13.1.1. Methodology used to assign internal capital and credit limits for counterparty credit exposures

The Society uses standardised risk weightings to assign capital to its counterparty credit exposures. Unless specified otherwise by the regulations, risk weights are applied with regard to the credit rating of the counterparty.

Credit limits are set using a framework that incorporates risk metrics and qualitative factors to determine the Society's maximum credit exposure to each counterparty. These factors include external ratings, type of entity, their relationship with the Society and size of the entity. This framework is reviewed annually with daily monitoring of the counterparty exposures and limits.

#### 13.1.2. Policies related to guarantees and other credit risk mitigants

The Society enters into derivative transactions for risk management purposes, and sale and repurchase transactions (repo) to manage liquidity and for long term funding. These transactions create counterparty credit risk via the risk of default by the derivative counterparty or the risk that cash received in a repo transaction is less than the market value of the asset.

The Society manages this risk by undertaking credit assessments of all counterparties and by exchanging collateral to mitigate any exposure. Daily collateralisation of repo transactions is carried out in accordance with the Global Master Repurchase Agreements to mitigate net exposure arising from changes in market value. Similarly, all derivatives have Credit Support Annexes (CSAs) in place to ensure they are collateralised to mitigate net mark-to-market credit exposures, subject to 'thresholds' and 'minimum transfer amounts'.

The Society has entered into International Swaps and Derivatives Association (ISDA) master netting agreements for all of its derivatives (other than swaps undertaken by Coventry Building Society Covered Bonds LLP and Coventry Godiva Covered Bonds LLP). These allow the Society to settle exposures 'net' in the event of a default or other predetermined event.

The Society is subject to mandatory central clearing of derivatives through a third-party regulated central clearing counterparty to reduce systemic and operating risk. Under this, collateral is exchanged on a daily basis. The Society may still enter into swaps that are not currently cleared by any of the central clearing houses, e.g. cross currency swaps; these are all subject to daily exchange of collateral to better manage counterparty risk.

The Society's covered bond programmes (Coventry Building Society Covered Bonds LLP and Coventry Godiva Covered Bonds LLP) and Economic Master Issuer plc enter into swaps under separate ISDA agreements. Each agreement includes a CSA which provides for collateralisation of the swap exposure. The derivative exposures can only be settled net following a default or other predetermined event, and therefore exposures are presented gross on the balance sheet. The Society has £0.6 million derivative net credit exposure (2021: £0.1 million) all £0.6 of which is with A1 rated institutions (2021: £0.1 million).

For regulatory capital purposes, the Society measures derivative counterparty credit exposure values using the counterparty credit risk mark to market method.

#### 13.1.3. Policies with respect to Wrong-Way risk

Wrong-way risk relates to the possibility that exposures to a counterparty increase as the credit quality of that counterparty deteriorates. This risk is commonly mitigated by Eligible Collateral Schedules across its derivative contracts that prohibit the use of debt securities by the Society or its counterparties in meeting its margin calls.

Where the Society engages in repo agreements using its own debt securities, specific terms are in place to manage the deterioration in value of these securities or in the downgrade of the Society.

#### 13.1.4. Collateral provided as a result of a credit rating downgrade

As at 31 December 2022, the Society would have to provide £630m of collateral if it was given a one notch downgrade in its credit rating.

### 13.2. Template UK CCR1 – Analysis of CCR exposure by approach

The table below provides details of the calculation of risk weighted exposure amounts for Counterparty Credit Risk by approach used.

		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
		£m	£m	£m		£m	£m	£m	£m
1	SA-CCR (for derivatives)	14	150		1.4	123	90	90	18
4	Financial collateral comprehensive method (for SFTs)					4,995	38	38	8
6	<b>Total</b>					<b>5,118</b>	<b>127</b>	<b>127</b>	<b>26</b>

Table 29 UK CCR1 – Analysis of CCR exposure by approach

### 13.3. Template UK CCR2 – Transactions subject to own funds requirements for CVA risk

Credit Valuation Adjustments (CVAs) reflect the adjustment of default risk-free prices of derivatives and securities financing transactions (SFTs) due to a potential default of the counterparty. The Society uses the standardised method to calculate CVA risk weighted exposure amounts.

		Exposure value	RWEA
		£m	£m
4	Transactions subject to the Standardised method	90	48
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	<b>Total transactions subject to own funds requirements for CVA risk</b>	<b>90</b>	<b>48</b>

Table 30 UK CCR2 – Transactions subject to own funds requirements for CVA risk

### 13.4. Template UK CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

The table below provides counterparty credit risk exposures by regulatory exposure class and risk weights based on standardised valuation approach.

	Exposure classes	Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
6	Institutions	-	-	78	-	127	1	-	-	-	-	-	205
11	<b>Total exposure value</b>	-	-	<b>78</b>	-	<b>127</b>	<b>1</b>	-	-	-	-	-	<b>205</b>

Table 31 UK CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

### 13.5. Template UK CCR5 – Composition of collateral for CCR exposures

The table below provides details of types of collateral received and posted within the derivative and securities financing transactions (SFTs) exposure calculation.

		Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
		Fair value of collateral received		Fair value of collateral posted		Fair value of collateral received	Fair value of collateral posted
		Segregated	Unsegregated	Segregated	Unsegregated		
		£m	£m	£m	£m	£m	£m
1	Cash	-	1,650	517	8	5,885	4
2	Debt	-	-	-	-	88	-
5	<b>Total</b>		<b>1,650</b>	<b>517</b>	<b>8</b>	<b>5,973</b>	<b>4</b>

Table 32 UK CCR5 – Composition of collateral for CCR exposures

### 13.6. Template UK CCR8 – Exposures to CCPs

The Society has some exposures to Central Counterparty Clearing Houses (CCPs). All the exposures are with Qualifying Central Counterparty Clearing Houses (QCCPs). The value and risk weighted value of those exposures are shown below.

		Exposure value	RWEA
		£m	£m
1	<b>Exposures to QCCPs (total)</b>		3
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	78	3
3	(i) OTC derivatives	78	3
7	Segregated initial margin	517	

Table 33 UK CCR8 – Exposures to CCPs



## **14. Disclosure on market risk**

### **14.1. Table UK MRA: Qualitative disclosure requirements related to market risk**

#### **14.1.1. Strategies and processes to manage market risk**

Market risk is the risk of a reduction in earnings and/or value resulting from adverse movements in financial markets. Market risk arises in the banking book as the Society does not hold a trading book. Interest rate risk in the banking book includes repricing, option and basis risk. The Society is also subject to credit spread risk in the banking book and foreign currency risk. The main source of market risk to which the Society is exposed to is repricing risk, which is the risk that interest rates change, and its assets and liabilities reprice on different dates, resulting in a negative impact. The Society manages repricing risk by limiting the exposure using both economic value and earnings sensitivity measures.

#### **14.1.2. Market risk management**

The Chief Financial Officer and Treasurer are responsible for managing and monitoring current and emerging market risks. This is overseen by the Market Risk Committee, Asset and Liabilities Committee (ALCo), Board Risk Committee (BRC) and the Board.

#### **14.1.3. Market risk reporting and measurement systems**

Market risk is managed by specifying risk tolerances and operating to these limits, using derivatives, such as interest rate swaps, or matching offsetting assets and liabilities. The Society maintains adequate margin capacity through administered rates, and invests its reserves and some of the low interest savings account balances in fixed rate assets to reduce income volatility

### **14.2. Table UK MRB: Qualitative disclosure requirements for institutions using the internal Market Risk Models**

Not applicable since the Society has no trading book.

## 15. Disclosure of exposures to securitisation positions

### 15.1. Table UK-SECA - Qualitative disclosure requirements related to securitisation exposures

The Society has securitisation exposures both as an originator of residential mortgages and an investor in traditional STS securitisation vehicles as shown in the tables below.

#### 15.1.1. Description of securitisation and re-securitisation activities

The Group has securitised certain mortgage loans by transferring the loans to structured entities controlled by the Group. These securitisations enable the issuance of debt to investors, who take security in the underlying assets as collateral. The structured entities are fully consolidated into the Group accounts and the Society has full control over the structured entities. Transfers of mortgage loans to the structured entities are not treated as sales and the loans are not derecognised but remain on the Society's Balance Sheet as the Society retains substantially all the risks and rewards of the mortgage loans. The proceeds received from the transfer of mortgage loans to structured entities are accounted for as a deemed loan from the structured entities and are disclosed as a form of funding.

The Group has also issued debt to be used as collateral for central government schemes or for use in sale and repurchase agreements (repos) and similar transactions. Some or all of the debt issuances may be retained by the Society.

#### 15.1.2. The type of risk the Society is exposed to in its securitisation and re-securitisation activities

To manage interest rate risk, the Society enters into derivative transactions with its structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. In accordance with IFRS 9, these internal derivatives are treated as part of the deemed loan and not separately measured at fair value because the relevant mortgage loans are not derecognised. All other derivatives relating to securitisations and covered bonds are explained in the Society's derivatives and hedge accounting policy.

#### 15.1.3. Securitisation risk-weighted exposure amounts

There are no specific capital requirements for the securitisation vehicles. As there has not been a transfer of significant credit risk, and as loans are not de-recognised and remain on the Society's balance sheet, the Society does not calculate risk weighted asset amounts for any positions it holds in its securitisations. Instead, risk weighted asset calculations are performed on the underlying mortgage assets remaining on the Society's balance sheet.

Purchased Securitisation exposures are risk weighted using the external ratings-based approach (ERBA) as per CRR article 264 derived from the revised securitisation framework fully in-force from 1 January 2020. All other credit exposures are risk weighted based on the standardised approach.

## 15.2. Template UK-SEC1 - Securitisation exposures in the non-trading book

The table below details the Society's securitisation exposures in the non-trading book.

		Institution acts as originator						Institution acts as sponsor				Institution acts as investor				
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS		of which SRT	of which SRT		STS	Non-STS			STS	Non-STS		
		£m	of which SRT	£m	of which SRT			£m			£m	£m			£m	£m
<b>1</b>	<b>Total exposures</b>	<b>2,066</b>	-	-	-	-	-	<b>2,066</b>	-	-	-	-	<b>87</b>	<b>6</b>	-	<b>93</b>
2	Retail (total)	2,066	-	-	-	-	-	2,066	-	-	-	-	87	6	-	93
3	residential mortgage	2,066	-	-	-	-	-	2,066	-	-	-	-	87	6	-	93

Table 34 UK-SEC1 - Securitisation exposures in the non-trading book

### 15.3. Template UK-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

		Exposure values (by RW bands/deductions)	Exposure values (by regulatory approach)	RWEA (by regulatory approach)	Capital charge after cap
		≤20% RW	SEC-ERBA (including IAA)	SEC-ERBA (including IAA)	SEC-ERBA (including IAA)
		£m	£m	£m	£m
<b>1</b>	<b>Total exposures</b>	93	93	9	1
2	Traditional securitisation	93	93	9	1
3	Securitisation	93	93	9	1
4	Retail underlying	93	93	9	1
5	Of which STS	87	87	9	1

Table 35 UK-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

### 15.4. Template UK-SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

Exposures securitised by the institution - Institution acts as originator or as sponsor				
		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			Of which exposures in default	
		£m	£m	£m
<b>1</b>	<b>Total exposures</b>	<b>2,066</b>	<b>2</b>	<b>0</b>
2	Retail (total)	2,066	2	0
3	residential mortgage	2,066	2	0

Table 36 UK-SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

## 16. Disclosure of operational risk

### 16.1. Table UK ORA - Qualitative information on operational risk

#### 16.1.1. Operational risk management

##### **Operational Risk Definition**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Society manages operational risks with the objectives of protecting members' interests and keeping the Society safe and secure.

##### **Operational Risk Management Framework**

The Society has an Enterprise Risk Management Framework (ERMF) which provides explanations as to its component parts and how these come together to enable the Society to identify and effectively manage all of its risks. The Society's high level risk strategy is defined in the ERMF.

The Society's Operational Risk Management Framework (ORMF) supports the overarching principles defined in the ERMF and describes its approach to the management of operational risk. Underpinning the Operational Risk Policy and Risk Management procedures, it consists of a number of elements to ensure there is a consistent approach to the identification, measurement and management of operational risk across the Society. The ORMF is subject to continuous improvement to ensure it remains fit for purpose and reflects the internal and external environment.

Operational risk is managed, reported and controlled across a number of sub-categories which is consistent with the Basel risk classifications, industry best practice and the Society's business model.

The operational risk profile is informed by Risk and Control Self-Assessments (RCSAs). RCSA owners are required to: identify and assess the potential impacts of risks on an inherent and residual basis; test the effectiveness of controls; and develop and implement action plans to address control weaknesses. For risks that are rated Amber or Red, RCSA owners must either take remedial actions to reduce the risks or accept the risk where remedial action is either not possible or appropriate due to practical or cost considerations.

The Society monitors and reports its operational risk events to ensure control gaps are identified and remediated to reduce re-occurrence. Outputs from the risk event reporting and analysis help the Society identify and assess current and future risks.

##### **Operational Risk Management and Governance**

The Society adopts the three lines of defence framework to manage operational risks as described in Figure 2 Three lines of defence.

The management of operational risk is overseen by the Operational Risk Committee (ORC), which provides primary oversight of all operational sub-risk categories with further oversight provided by BRC and the Board. Operational risk sub-category owners are responsible for ensuring that a comprehensive pack of management information have been developed, established, monitored, and reported to ORC on a monthly basis.

The Financial Services sector faces multiple risk management challenges in the current climate, particularly in relation to legacy technology, cyber threat, statutory and regulatory reporting, people and external fraud. The Society continues to review and improve its control environment to mitigate these risks. The ever-increasing focus on operational resilience has also provided the Society with an opportunity to enhance its ability to prevent, respond, recover, and learn from operational disruption.

##### **Risk measurements**

The Society adopts the standardised approach for the purpose of calculating its Pillar 1 capital requirement for operational risk. The calculation uses net interest income averaged over a three-year period.

The Society also undertakes the Pillar 2A assessment, utilising historic internal loss event data and the outputs from scenario analysis. The outputs of the assessment are used to determine how much capital the Society should

hold for operational risk.

### 16.1.2. The assessment of minimum own funds requirements

The Society has adopted the Standardised approach to the assessment of minimum own funds requirements.

### 16.2. Template UK OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

Banking activities		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
		£m	£m	£m	£m	£m
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	405	474	656	61	767
3	<u>Subject to TSA:</u>	405	474	656		

Table 37 UK OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

## 17. Disclosure of remuneration policy

### 17.1. Table UK REMA - Remuneration policy

#### 17.1.1. The Remuneration Committee and Non-Executive Directors' Remuneration Committee

These disclosures are made in accordance with Article 450 of the CRR for the performance year ending 31 December 2022 and should be read in conjunction with the Directors Remuneration Report set out in the 2022 Coventry Building Society Annual Report and Accounts.

This section provides details of the remuneration of the Society's employees, including Material Risk Takers ("MRTs") for 2022 together with an explanation of the Society's remuneration policies, practices and governance.

MRTs are those individuals whose professional activities have a material impact on the Society's risk profile, based on, but not limited to, the qualitative and quantitative criteria set by the European Banking Authority (EBA) under Commission Delegated Regulation (EU) No 604/2014. We identify MRTs by reviewing their responsibilities within their role, applying the EBA Regulatory Technical Standards for the definition of MRTs for remuneration purposes and assessing the materiality of the impact a role would have on the risk profile of the Society.

During the year there were a total of 43 MRTs (2021: 53). Those identified as MRTs include, but are not limited to:

- Executive and non-executive directors of the Society and Senior Management (being the other members of the Executive Leadership Team, for the purposes of these disclosures);
- Other staff with key functional or managerial responsibility including senior managers of control functions such as audit and risk; and
- Other risk takers, whose professional activities could have a material impact on the Society's risk profile. The table below provides a breakdown of the number of individuals identified as MRTs by business area.

The Remuneration Committee consists exclusively of independent Non-Executive Directors and the Chair of the Board.

The members of the Committee are:

Current membership	Member since
Jo Kenrick <sup>8</sup>	2017
Gary Hoffman (until 28.04.22)	2018
David Thorburn (from 28.04.22)	2022
Catherine Doran	2016
Brendan O'Connor	2021

Table 38 Remuneration committee members

The Committee seeks input from the Chief People Officer, the Head of Reward and People Services and the Chief Executive, who are invited to attend meetings. The Chief Risk Officer and the General Counsel are invitees where appropriate. The Committee also benefits from specialist advice from its independent remuneration advisor (Deloitte LLP).

Representatives from the Society's Employee Forum were invited as part of a trial, to attend meetings to give employees of the Society a voice on the Committee. They do not have voting rights and cannot be present when the Committee is discussing remuneration subjects that could directly impact their remuneration (i.e. pay recommendations for individuals/groups of employees, or matters relating to variable pay).

The Committee ensures that the Society's remuneration policy and practices are effective, compliant and reflect the Society's purpose, values and strategy. The Committee met six times in 2022.

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<sup>8</sup> Chair of the Committee since 2018.

The Committee has overall responsibility for remuneration matters delegated to it by the Board. The Committee's role is to consider the Remuneration Policy and its application to all employees, with particular scrutiny given to the remuneration of executive directors and executive managers. The Policy is considered at least annually, or more frequently in the event of any significant change and is subject to an advisory vote every three years.

The Committee continually assesses the adequacy and effectiveness of the Policy.

All decisions about remuneration reflect the Society's mission, values and purpose. Decisions align with the approach taken for all employees and take account of the long-term sustainable success of the Society.

The Committee considers it essential that any variable pay awards are not excessive, and the maximum variable pay that can be awarded in a financial year is significantly below the cap set out in the CRR and Capital Requirements Directive V (CRD V).

The Society complies with the relevant requirements of the UK Corporate Governance Code in relation to determining executive director remuneration policy. These include ensuring clarity and transparency of policy and arrangements and simplifying remuneration structures, which were considered as part of the Remuneration Policy update. The Committee has also considered and mitigated any risks to ensure the Society doesn't incentivise the wrong type of behaviour.

The Committee's work has involved ensuring predictability in the remuneration structure; considering proportionate awards that reward good performance and aligning policy and practice to the Society's mission, values and strategy. The Committee considers that the Remuneration Policy has operated as intended in terms of the performance of the Society and the quantum of awards.

#### **17.1.2. The remuneration system for identified staff**

The Policy provides for three main elements of remuneration for employees, including MRTs:

- Base salary;
- benefits (e.g. pension and healthcare); and
- variable pay.

Salary levels for employees are reviewed annually, taking into account a number of factors including the scope and size of role; the skills, experience and responsibility of the role holder; the position of the role holder's salary against wider market rates of pay and their individual performance; equal pay principles, the society's financial performance and the economic environment.

Non-executive directors receive a base fee and an additional fee for chairing a committee and/or holding the position of Senior Independent Director or Deputy Chair of the Board. Reasonable expenses are reimbursed and paid in accordance with the Society's policy. These fees are the only element of remuneration and are set at a level that reflects the market and is sufficient to attract individuals with appropriate knowledge and experience to support the Society in achieving its strategic objectives. Fees are reviewed annually, taking into account market data, annual pay increases awarded to employees, the economic environment and the Society's performance.

The Board also established a Non-Executive Directors' Remuneration Committee to assist it in fulfilling its oversight responsibilities for the remuneration, expenses, gifts and hospitality of the Society's non-executive directors. This Committee typically meets once a year and its members comprise the Chair, Chief Executive, Chief Financial Officer and Chief People Officer.

The Society provides a competitive benefits package to all its employees to support their physical, mental and financial wellbeing. MRT's receive benefits that are in line with the external market. These include a company car or cash alternative, private medical insurance, health screening, permanent health insurance and life insurance. All employees receive permanent health insurance and life insurance and many also receive private medical insurance. MRT's do not receive any benefits that are unavailable to other senior managers within the Society.

The Society provides post-retirement financial security for all its employees at a cost that is sustainable for the Society over the long term and in line with market practice. All employees are eligible to join the Society's defined contribution pension scheme, receiving contributions of up to 10% (or 15% for members of the now closed defined



benefit pension scheme).

The Society currently operates two variable pay plans: the annual Success Share bonus and the Executive Variable Pay Plan (ExVPP). The annual Success Share bonus applies to all Society employees. Awards are made in cash and for executive directors and executive managers are subject to deferral and retention. The ExVPP is restricted to executive directors and executive managers only. Awards are made in cash and are again subject to deferral and retention.

Variable pay is determined according to the Society's performance using a balanced scorecard, which reflects a number of strategic performance measures agreed by the Board. These include growth, capital strength, costs, profitability, project delivery, ESG measures, control of risk, customer experience and employee engagement. These are considered alongside individual and business unit performance and conduct, and any other factors or events the Committee considers to be relevant. "Control functions" are defined under regulations as the People, Legal, Risk, Compliance and Internal Audit functions. For control functions, remuneration is not determined within the business unit alone in order to avoid conflicts of interest. The Remuneration Committee is responsible for setting and overseeing the remuneration for MRTs in the Risk and Internal Audit functions. As part of the annual pay review, salaries of senior employees in control functions are reviewed against peers who carry out similar roles in other organisations. Variable pay is determined by the same balanced scorecard used for all employees.

Guaranteed variable remuneration is only awarded in exceptional circumstances and would always be limited to new hires in the first year of service.

Payments on termination of employment are made in accordance with any contractual or other statutory entitlements (e.g. redundancy) and are made in a way that does not reward failure or misconduct and reflect performance over time.

#### **17.1.3. The criteria used for performance measurement and ex ante and ex post risk adjustment**

The Society currently operates two variable pay plans: the annual Success Share bonus and the Executive Variable Pay Plan (ExVPP). The annual Success Share bonus applies to all Society employees. Awards are made in cash and for executive directors and executive managers are subject to deferral and retention. The ExVPP is restricted to executive directors and executive managers only. Awards are made in cash and are again subject to deferral and retention.

Variable pay is determined according to the Society's performance using a balanced scorecard, which reflects a number of strategic performance measures agreed by the Board. These include growth, capital strength, costs, profitability, project delivery, ESG measures, control of risk, customer experience and employee engagement. These are considered alongside individual and business unit performance and conduct, and any other factors or events the Committee considers to be relevant.

#### **17.1.4. Description of the ways in which current and future risks are taken into account in the remuneration processes.**

Our approach to risk adjustment at a Society level provides for a discretionary assessment of 'ex ante' and 'ex post' risk adjustment, based on performance against our risk appetite as set out in the Society Plan, and taking into account any risk events during the year from a conduct, reputational, financial or operational perspective. In reaching its determination of an appropriate level of risk adjustment, the Remuneration Committee considers a range of factors, including evidence from the Board Risk Committee.

This includes an assessment of both current and future risk issues provided by the Board Risk Committee, supported by the risk management and compliance functions and, for our most senior leaders, any conduct issues on an individual basis provided by the Chief People Officer. Accordingly, the Committee has discretion to reduce performance pay in relation to risk-related or individual conduct related matters. For our most senior leaders variable pay is subject to risk adjustment through malus and clawback.

Malus applies to any payments under the annual Success Share bonus and ExVPP schemes. The Committee can decide to reduce or cancel any variable pay award before the payment has been made. This can include, but is not limited to, reasonable evidence of misbehaviour or material error by the recipient; the Society suffering a

material downturn in its financial performance or a material failure of risk management.

Clawback applies to payments under the annual Success Share bonus and ExVPP variable pay schemes, for up to seven years even if an individual leaves the Society's employment. The Committee may decide that an individual must repay part or all of a variable pay award after the payment has been made. This can include, but is not limited to, reasonable evidence of misbehaviour or material error by the recipient; the Society or function suffering a material failure of risk management; a material misstatement of the Society's financial results, such that the payment made under the variable pay arrangement was greater than it would have been.

#### **17.1.5. The ratios between fixed and variable remuneration set**

The Society believes it is essential that variable pay is not excessive, and all variable awards operate within the regulatory limit of 100% of fixed remuneration (base salary and benefits). The Society's variable pay awards in respect of the financial year are currently limited to a maximum total of 80% of base salary for executive directors, 50% for executive managers and 20% for all other employees, which is below the regulatory variable pay cap.

When reviewing the annual Success Share bonus and the ExVPP, the Remuneration Committee considers the Society's performance against a balanced scorecard as set out above. The Committee considers target ranges taking into account plan targets, market forecasts, credit and risk limits and maintaining long-term sustainability. The nature of the balanced scorecard and inclusion of these factors ensures that outperformance cannot be achieved through excessive risk taking and considers member outcomes. Both Plans are reviewed each year and the Committee has absolute discretion to adjust or recover awards if necessary, including withholding vested awards under malus arrangements and recovering payments made under clawback arrangements.

#### **17.1.6. The link between performance during a performance measurement period with levels of remuneration.**

For recipients of the ExVPP the performance metrics are split 70:30 between collective performance as determined by the outturn of the balanced score card, and individual performance as determined by the achievement of up to three strategically aligned individual goals. The individual goals are used to increase personal accountability for the delivery of key strategic targets.

#### **17.1.7. Adjustments to remuneration to take account of long-term performance.**

MRTs are subject to regulations, which may affect the structure of their pay. At the Society, most MRTs are currently exempt from the PRA Remuneration Code's requirements and are termed as "MRT's below the proportionality threshold". MRT's are exempt from the Code's requirements if:

- variable remuneration is no more than 33% of total remuneration;
- total remuneration is no more than £500,000; and
- variable pay is less than £44,000.

MRTs who qualify for the Executive Variable Pay Plan (our Executive Directors and Executive Managers are subject to the Remuneration Code's remuneration requirements.

The following rules apply to Executive Directors who are termed as "Higher paid MRTs":

- deferral of 60% of any variable remuneration over a period of 7 years;
- retention of 50% of variable remuneration for a further 12 months after vesting and payment in the form of an equivalent share like instrument; and
- consideration as to whether there is a need to reduce (malus) and/or require repayment (clawback) of variable remuneration in certain circumstances.

Executives who fall below the "Higher paid MRT" rule are termed "non-higher paid MRT's" and are subject to deferral of 40% of variable remuneration for a further period of 5 years from date of assessment and are subject to the rules on retention (50% of variable remuneration for a further 12 months), malus and clawback.

### 17.1.8. The main parameters and rationale for variable components and any other non-cash benefit.

Any retained variable pay will be made as a cash payment but may be subject to downward adjustment during the retention period. The Remuneration Code requires that 50% of variable pay is made in shares or, in the case of a non-listed business like the Society, an equivalent share-like instrument.

The Society's share-like instrument does not provide for any uplift in award; however, the award can be reduced if capital strengths and profit levels are not in line with plans. The plan is reviewed each year to ensure alignment to the strategic priorities and changes in regulation.

The Remuneration Committee monitors all awards made under our variable pay schemes to ensure adherence to regulatory requirements.

### 17.1.9. The remuneration of The Board

The table below shows the aggregate remuneration for MRTs by remuneration type.

### 17.2. Template UK REM1 - Remuneration awarded for the financial year

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
			£m	£m	£m	£m
1	Fixed remuneration	Number of identified staff	8	3	8	24
2		Total fixed remuneration	1	1	1	4
3		Of which: cash-based	1	1	1	3
9	Variable remuneration	Number of identified staff	8	3	8	24
10		Total variable remuneration	-	1	0	1
11		Of which: cash-based	-	0	0	1
12		Of which: deferred	-	0	0	-
UK-13b		Of which: share-linked instruments or equivalent non- cash instruments	-	1	0	-
17	Total remuneration (2 + 10)		1	2	2	4

Table 39 UK REM1 - Remuneration awarded for the financial year

### 17.3. Template UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

The table below details special payments made during the year ended 31 December 2022 to staff whose professional activities have a material impact on the Society's risk profile (identified staff).

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
		£m	£m	£m	£m
6	Severance payments awarded during the financial year - Number of identified staff	-	-	-	1
7	Severance payments awarded during the financial year - Total amount (£m)	-	-	-	0
8	Of which paid during the financial year (£m)	-	-	-	1

Table 40 UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

#### 17.4. Template UK REM3 - Deferred remuneration

The table below details the deferred remuneration payments made during the year ended 31 December 2022 or vesting in subsequent years.

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		£m	£m	£m	£m	£m	£m	£m	£m
8	Cash-based	1	0	-	0	-	-	0	-
10	Share-linked instruments or equivalent non-cash instruments	0	0	0	-	-	-	-	0
14	Cash-based	0	0	-	-	-	-	0	-
16	Share-linked instruments or equivalent non-cash instruments	0	0	-	-	-	-	-	0
<b>25</b>	<b>Total amount</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>0</b>

Table 41 UK REM3 - Deferred remuneration

#### 17.5. Template UK REM4 - Remuneration of 1 million EUR or more per year

The table below details the total remuneration package of 1 million euros or more per year.

	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
		£m
1	1 000 000 to below 1 500 000	1

Table 42 UK REM4 - Remuneration of 1 million EUR or more per year

**17.6. Template UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)**

The table below details information on remuneration of staff whose professional activities have a material impact on the Society's risk profile (identified staff).

		Management body remuneration			Business areas						-
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Total number of identified staff	-	-	-	-	-	-	-	-	-	43
2	Of which: members of the MB	8	3	11	-	-	-	-	-	-	-
3	Of which: other senior management	-	-	-	-	1	-	4	3	-	-
4	Of which: other identified staff	-	-	-	-	3	-	15	5	1	-
5	Total remuneration of identified staff (£m)	1	2	3	-	1	-	3	2	0	-
6	Of which: variable remuneration (£m)	-	1	1	-	0	-	0	0	0	-
7	Of which: fixed remuneration (£m)	1	1	2	-	1	-	3	1	0	-

*Table 43 UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)*

## 18. Disclosure on interest rate risk in the banking book

### 18.1. Table UK IRRBBA - IRRBB risk management objectives and policies

#### 18.1.1. A description of how the Society defines, measures, mitigates and controls IRRBB for the purposes of risk control and measurement

IRRBB is defined as the risk that changes in the general level of interest rates will cause variations in earnings in the near term and variations to the value of future cash flows in the longer term. The key sources of IRRBB that the Society is exposed to include repricing risk, basis risk, swap spread risk and option risk.

The Board has overall responsibility for determining the Society's appetite to market risks, including IRRBB. ALCo are responsible for managing market risk within this risk appetite framework which is supported by a suite of policies and limits.

The market risk of the Society is embedded within the governance structure of the Society, with market risk as a pillar to the enterprise-wide risk management framework. Market risk information is reported monthly to ALCo and Board Risk Committee. The first line management of market risk is through the Society's Treasury department, with second line responsibility within Prudential and Model Risk. The market risk framework and management are audited on a regular basis, completing the third line of defence approach.

#### 18.1.2. A description of the Society's overall IRRBB management and mitigation strategies

IRRBB is managed and mitigated by the Society through:

- Regular assessment and quantification of the sources of IRRBB;
- reporting of strategic and regulatory Board monitored risk limits, supported by a range of ALCo monitored risk indicators;
- adhering to approved hedging principles; and
- appropriate product design controls such as early-repayment charges and product offer-periods.

#### 18.1.3. The periodicity of the calculation of the Society's IRRBB measures, and a description of the specific risk measures that the Society uses to gauge its sensitivity to IRRBB

IRRBB exposures are measured on a monthly basis. The Society's key measures which are economic value of equity (EVE) and net interest income (NII) sensitivities are monitored alongside measures for basis risk, asset swap risk and structural interest rate risk. The regulatory prescribed Supervisory Outlier Tests (SOT) for EVE and NII are calculated and reported monthly.

#### 18.1.4. A description of the interest rate shock and stress scenarios that the Society uses to estimate changes in its economic value and in earnings

In line with regulatory requirements, EVE sensitivity is measured against six prescribed interest rate shocks;

- 250bps parallel shock up;
- 250bps parallel shock down;
- steepener shock;
- flattener shock;
- short rates shock up; and
- short rates shock down.

NII sensitivity is measure against two prescribed shocks;

- 250bps parallel shock up; and
- 250bps parallel shock down.

The Society also monitors EVE and NII sensitivities against  $\pm 100$ bps and  $\pm 200$ bps rate shocks, which form the key internal risk measures. NII sensitivities to a range of potential rate paths, based on the prevailing economic environment, is monitored monthly.

#### **18.1.5. Key modelling and parametric assumptions used in calculating change in economic value of equity ( $\Delta$ EVE) and change in net interest**

The key assumptions used in calculating change in EVE in Template UK IRRBB1 are:

- EVE sensitivities measure the difference in the value of assets and liabilities given today's market rates, and rates with a shock applied. The valuation differences come from the mismatches of the time of repricing of the Society's existing assets and liabilities, on- and off-balance sheet.
- The balance sheet runs off from the reporting date.
- Behavioural modelling is used to predict the expected run-off of fixed-rate mortgages and savings products that allow early repayment or early access.
- Commercial margins are excluded from cashflows.
- The Society's reserves are excluded. Non-maturing deposits that are deemed stable and rate-insensitive are assumed to reprice in line with associated hedging.
- An interest rate floor of -100bps is assumed, unwinding by 5bps per year for 20 years.

The key assumptions used in calculating change in NII Template UK IRRBB1 are:

- NII sensitivities measure the sensitivity of interest income to changes in interest rates, over a 12-month period.
- The balance sheet is static, modelled on like-for-like reinvestment.
- Commercial margins are included within cashflows.
- Changes in interest rates are passed on in full to applicable variable rate products, and no interest rate floors are assumed.

#### **18.1.6. Modelling assumptions**

For internal NII sensitivity measures, the Society uses a deterministic model which accounts for planned change or growth in the balance sheet over time, more likely, less severe interest rate shocks are assessed. An interest rate floor of -50bps is assumed, and it is assumed that retail product rates are floored at zero.

For internal EVE sensitivity measures, more likely, less severe shocks are assessed. It is assumed that the Society's reserves reprice in line with associated hedging. An interest rate floor of -50bps is assumed.

#### **18.1.7. Hedging IRRBB and the associated accounting treatment**

The Society uses derivative financial instruments (swaps) solely for risk management purposes to manage interest rate and currency risk arising from its fixed mortgage and savings activity, fixed liquid assets and from non-sterling and fixed rate wholesale funding. Where appropriate, natural offset between assets and liabilities are utilised.

The Society utilises structural hedging which refers to the assets or derivatives which are used to hedge the reserves of the Society and non-maturing deposits. This is primarily to mitigate potential volatility arising from these rate insensitive liabilities, and so to provide earnings stability.

The Society uses hedge accounting, applying the requirements of IAS 39, to reduce income statement volatility arising from fair value accounted derivatives. The Society's hedge accounting treatment is detailed within the

financial statements of the published accounts.

### 18.1.8. Average repricing maturity assigned to non-maturing deposits (NMDs).

The average repricing maturity assigned to NMDs is 2.15 years. This includes both stable rate-insensitive NMDs that are assigned a repricing profile and non-stable NMDs assumed to reprice overnight.

### 18.1.9. Longest repricing maturity assigned to NMDs.

The longest repricing maturity assigned to NMDs is 5.5 years.

## 18.2. Template UK IRRBB1 - Quantitative information on IRRBB

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the Society's capital and earnings arising from adverse movements in interest rates that affect the Society's banking book positions. The table below shows the impacts of a number of shock scenarios to the Economic Value of Equity and the Net Interest Income measures of interest rate risk in the banking book.

	In reporting currency	ΔEVE	ΔNII	Tier 1 capital
	Period	31 December 2022	31 December 2022	31 December 2022
		£m	£m	£m
010	Parallel shock up	(46)	71	
020	Parallel shock down	32	(59)	
030	Steeper shock	33		
040	Flattener shock	(41)		
050	Short rates shock up	(48)		
060	Short rates shock down	54		
070	<b>Maximum</b>	54	71	
080	<b>Tier 1 capital</b>			2,413

Table 44 UK IRRBB1 - Quantitative information on IRRBB



## 19. Disclosure on asset encumbrance

Some of the Society's mortgages or treasury assets are used to support collateral requirements for secured funding, central bank operations or third party repo transactions. Mortgages or treasury assets used in this way are referred to as encumbered. Encumbrance provides cheaper and more stable funding; however, it creates the risk that savings members and other senior unsecured creditors may be unable to benefit from the liquidation of encumbered assets in the event of insolvency of the Society and may risk bearing losses from a forced sale of the encumbered assets if the Society defaulted. While these risks are very remote, limits on encumbrance are set by the Board and encumbrance levels are managed within these limits.

In all the asset encumbrance disclosure templates, the values reflect the median of the sums of the four quarter end-of-period values over the previous 12 months as prescribed by the PRA and therefore differ from encumbrance disclosures in the Annual Report and Accounts that are based on year end balances. Note due to the use of median values the totals do not always agree to the sum of the rows below.

### 19.1. Template UK AE1 - Encumbered and unencumbered assets

The table below details the carrying amounts and fair values of encumbered and unencumbered assets and that portion of them that are Extremely High Quality Liquid Assets (EHQLA) and High Quality Liquid Assets (HQLA).

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	£m	of which notionally eligible EHQLA and HQLA	£m	of which notionally eligible EHQLA and HQLA	£m	of which EHQLA and HQLA	£m	of which EHQLA and HQLA
		£m		£m		£m		£m
<b>Assets of the reporting institution</b>	<b>15,673</b>	<b>608</b>			<b>40,705</b>	<b>702</b>		
Equity instruments	-	-	-	-	5	-	5	-
Debt securities	608	608	608	608	708	702	707	702
of which: covered bonds	-	-	-	-	240	240	240	240
of which: securitisations	-	-	-	-	34	28	33	28
of which: issued by general governments	608	608	608	608	275	275	275	275
of which: issued by financial corporations	-	-	-	-	433	426	432	426
Other assets	15,146	-			40,055	-		

Table 45 UK AE1 - Encumbered and unencumbered assets

## 19.2. Template UK AE2 - Collateral received and own debt securities issued

The following table details the fair values of encumbered and unencumbered collateral received or own debt securities issued and that portion of them that are Extremely High Quality Liquid Assets (EHQLA) and High Quality Liquid Assets (HQLA).

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		£m	£m	£m	£m
<b>130</b>	<b>Collateral received by the reporting institution</b>	-	-	77	77
160	Debt securities	-	-	77	77
190	of which: issued by general governments	-	-	77	77
<b>241</b>	<b>Own covered bonds and asset-backed securities issued and not yet pledged</b>			3,217	-
<b>250</b>	<b>TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED</b>	15,673	608		

Table 46 UK AE2 - Collateral received and own debt securities issued

## 19.3. Template UK AE3 - Sources of encumbrance

The following table shows the carrying amounts of selected financial liabilities and the corresponding sources of encumbrance other than covered bonds and securitisations encumbered.

		Matching liabilities, contingent liabilities or securities lent (£m)	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered (£m)
		£m	£m
<b>010</b>	<b>Carrying amount of selected financial liabilities</b>	<b>9,439</b>	<b>15,247</b>

Table 47 UK AE3 - Sources of encumbrance

#### 19.4. Table UK AE4 - Accompanying narrative information

The Society manages asset encumbrance in line with a series of Board limits and triggers. In recent years, the encumbrance framework has been extensively developed, in light of the encumbrance borne from its structured funding vehicles and BoE funding. These exposures are reviewed through three lens, external encumbrance, total encumbrance in business as usual, and total encumbrance in a stress. Alongside encumbrance, over-collateralisation is a key consideration in managing the Society's risk via the pledging of assets. This is also monitored in business as usual and estimated under a stress.

The Society has two covered bond programmes utilising both its owner occupied (Coventry Building Society Covered Bond LLP) and buy-to-let (Coventry Godiva Covered Bond LLP) loan portfolios. Coventry Godiva Covered Bond LLP allows the Society to indirectly utilise the buy-to-let portfolio at the Bank of England, an option not available with the raw loans. This provides additional contingent drawing capacity and allows the owner occupied portfolio to be used in the issuance of external secured funding.

## 20. Disclosure of the leverage ratio

### 20.1. Table UK LRA: Disclosure of LR qualitative information

#### 20.1.1. Managing the risk of excessive leverage

The UK leverage ratio framework only applies to banks and building societies with retail deposits of £50 billion or more or non-UK assets equal to or greater than £10 billion, neither of which measures currently applies to the Society. The Society nevertheless actively monitors its performance against the UK leverage ratio framework. The Society's focus on low-risk assets means that the leverage requirement will be more onerous and likely become the binding capital requirement on the Society once it is fully subject to UK leverage ratio framework.

The UK leverage ratio requires a minimum ratio of 3.25% calculated on the basis that exposures exclude central bank exposures with less than a 3-month maturity. Of this leverage requirement, a maximum of 25% may be met using high quality AT 1 capital.

There are two additional buffers; these are: a Supplementary Leverage Ratio Buffer (SLRB), which does not impact the Society, and a macro-prudential Countercyclical Leverage Buffer (CCLB). The levels of these buffers are set at 35% of the corresponding CET 1 buffers.

The CCLB is currently 0.4%, having increased in 31 December 2022, in line with the CCyB.

The Society has policies and procedures in place to manage the risk of excessive leverage through maintaining a prudent balance between the pace of growth and the pace of capital accumulation. This includes consideration through the ICAAP of the impact of stress events on leverage. This is explicitly incorporated into the Society's strategic planning process. ICAAP stress testing considers the impact of stress events on leverage.

#### 20.1.2. Factors that have impacted on the leverage ratio

The UK leverage ratio increased slightly to 5.2% (2021: 4.8%) driven by the increase in capital resources in the year. The Society expects leverage will be its binding constraint in the future.

### 20.2. Template UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

The table below details the movements between accounting assets and leverage ratio exposures.

		Applicable amount
		£m
1	Total assets as per published financial statements	58,867
8	Adjustment for derivative financial instruments	(2,105)
9	Adjustment for securities financing transactions (SFTs)	30
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	470
12	Other adjustments	(78)
13	<b>Total exposure measure</b>	<b>57,184</b>

Table 48 UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

### 20.3. Template UK LR2 - LRCom: Leverage ratio common disclosure

The leverage ratio is a non-risk weighted financial measurement that assesses the ability of a company to meet its financial obligations. The table below details leverage ratio exposures as at 31 December 2022 and those metrics previously displayed at 30 June 2022.

		Leverage ratio exposures	
		31-Dec-22	30-Jun-22
		£m	£m
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	56,491	54,239
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(1)	(2)
6	(Asset amounts deducted in determining tier 1 capital (leverage))	(74)	(116)
7	<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>56,414</b>	<b>54,121</b>
<b>Derivative exposures</b>			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	20	19
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	153	111
13	<b>Total derivatives exposures</b>	<b>173</b>	<b>130</b>
<b>Securities financing transaction (SFT) exposures</b>			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	94	66
16	Counterparty credit risk exposure for SFT assets	30	38
18	<b>Total securities financing transaction exposures</b>	<b>124</b>	<b>104</b>
<b>Other off-balance sheet exposures</b>			
19	Off-balance sheet exposures at gross notional amount	2,316	2,505
20	(Adjustments for conversion to credit equivalent amounts)	(1,846)	(1,997)
22	<b>Off-balance sheet exposures</b>	<b>470</b>	<b>508</b>
<b>Excluded exposures</b>			
<b>Capital and total exposure measure</b>			
23	<b>Tier 1 capital (leverage)</b>	<b>2,586</b>	<b>2,415</b>
24	Total exposure measure including claims on central banks	57,184	54,863
UK-24a	(-) Claims on central banks excluded	(7,513)	(6,555)
UK-24b	<b>Total exposure measure excluding claims on central banks</b>	<b>49,671</b>	<b>48,307</b>
<b>Leverage ratio</b>			
25	Leverage ratio excluding claims on central banks (%)	4.9%	5.0%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	5.2%	5.0%
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	5.2%	5.0%
UK-25c	Leverage ratio including claims on central banks (%)	4.5%	4.4%
26	Regulatory minimum leverage ratio requirement (%)	3.25%	3.25%

Table 49 UK LR2 - LRCom: Leverage ratio common disclosure

## 20.4. Template UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

The table below details the split-up of on balance sheet leverage ratio exposures excluding derivatives, securities financing transactions (SFTs) and other exposures that are exempt.

		Leverage ratio exposures
		£m
UK-1	<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>56,491</b>
UK-3	Banking book exposures, of which:	56,491
UK-4	Covered bonds	322
UK-5	Exposures treated as sovereigns	8,860
UK-7	Institutions	616
UK-8	Secured by mortgages of immovable properties	46,393
UK-9	Retail exposures	11
UK-11	Exposures in default	15
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	274

Table 50 UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

## 21. Attestation

The Chief Finance Officer (CFO) attests that the Society has made the disclosures required under the Disclosure (CRR) Part of the PRA Rulebook and in accordance with the Pillar 3 Disclosures Policy and internal processes, systems and controls.

## 22. Key elements of the Pillar 3 disclosures policy

The Society's Pillar 3 disclosures policy includes the following key elements:

1. an approval process for disclosures involving Senior Management; and
2. an approval process for omitted disclosures involving Senior Management.

## Appendix 1. Glossary

Abbreviation	Full Name	Description
AIRB	Advanced Internal Ratings Based	An approach to determining the capital requirement for a given exposure that allows institutions that have received supervisory approval to rely on their own internal estimates of risk components.
AT1	Additional Tier 1 Capital	Additional Tier 1 (AT1) capital consists of paid-up capital instruments and their associated share premium account.
CCF	Credit Conversion Factor	The Credit Conversion Factor converts an off-balance sheet exposure to its credit exposure equivalent.
CCP	Central Counterparty Clearing House	Institutions that take on counterparty credit risk between parties to a transaction and provide clearing and settlement services for trades in foreign exchange, securities, options, and derivative contracts.
CCR	Counterparty Credit Risk	The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
CET1	Common Equity Tier 1	Common Equity Tier 1 capital (CET1) is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
CRM	Credit Risk Mitigation	Credit risk mitigation is the attempt by lenders, through the application of various safeguards or processes, to minimize the risk of losing all of their original investment due to borrowers defaulting on their interest and principal payments.
CRR	Capital Requirements Regulation	The Capital Requirements Regulations 2013 (Statutory Instrument 2013/3115).
CVA	Credit Valuation Adjustment	Credit Valuation Adjustment reflects the adjustment of default risk-free prices of derivatives and securities financing transactions (SFTs) due to a potential default of the counterparty.
ERBA	External Ratings Based Approach	An approach to calculate capital requirements for securitisation exposures that are externally rated or for which an inferred rating is available.
EVE	Economic Value of Equity	The economic value of equity is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. Unlike earnings at risk and value at risk (VAR), an institution uses the economic value of equity to manage its assets and liabilities. It is a long-term economic measure used to assess the degree of interest rate risk exposure—as opposed to net-interest income (NII), which reflects short-term interest rate risk.
FIRB	Foundation Internal Ratings Based	An approach to determining the capital requirement for a given exposure that allows institutions that have received supervisory approval to rely on their own internal estimates of risk of default of the obligor, but estimates of additional risk factors are derived through the application of standardised supervisory rules.
HQLA	High quality liquid asset	Assets that can easily and immediately be converted into cash at little or no loss of value.
IAA	Internal Assessment Approach	An approach to calculate capital requirements for securitisation exposures in which an institution may use its internal assessments of the credit quality of its securitisation exposures.
ICAAP	Internal Capital Adequacy Assessment Process	The process that allows firms to assess their capital adequacy and requires them to have appropriate risk management techniques in place.
ILAAP	Internal Liquidity Adequacy Assessment Process	The process that allows firms to assess their liquidity adequacy and requires them to have appropriate risk management techniques in place.
IRB	Internal Ratings Based	An approach to determining the capital requirement for a given exposure that allows institutions that have received supervisory approval to rely on their own internal estimates of risk of default of the obligor, but estimates of additional risk factors are derived through the application of standardised supervisory rules.
MB	Management Body	The Society's Board
MDB	Multilateral development bank	A multilateral development bank is an international financial institution chartered by two or more countries to encourage economic development.
MREL	Minimum requirement for own funds and eligible liabilities	Minimum requirement for own funds and eligible liabilities is set by resolution authorities to ensure that a bank maintains at all times sufficient eligible instruments to facilitate the implementation of the preferred resolution strategy
NII	Net Interest Income	Net interest income is a financial performance measure that reflects the difference between the income from an institution's interest-bearing assets and the expenses associated with paying on its interest-bearing liabilities. It reflects short-term interest rate risk.
PMA	Post Model Adjustment	Adjustments applied when the Society considers that a modelled output is not sufficiently accurate or complete due to there being potential for additional risks that have not been identified or that cannot be adequately modelled.

QCCP	Qualifying Central Counterparty	A qualifying central counterparty (QCCP) is an entity that is licensed to operate as a CCP and is permitted by the regulator to operate as such with respect to the products offered.
RWEA	Risk Weighted Exposure Amount	The amount of the exposure value multiplied by the risk weight associated with the exposure.
SA-CCR	Standardised Approach to Counterparty Credit Risk	The Standardised Approach for Counterparty Credit Risk is a method applied to over-the-counter (OTC) derivatives, exchange-traded derivatives and long settlement transactions to calculate their capital requirement.
SFT	Securities financing transaction	Securities financing transactions allow institutions to use assets, such as the shares or bonds they own, to secure funding for their activities.
SOT	Supervisory Outlier Tests	Prescribed tests of IRRBB
SRT	Significant risk transfer	Term that indicates securitisation has been used as an effective credit risk transfer tool.
STS	Simple, transparent and standardised	Securitisations can be designated as simple, transparent and standardised (STS) where they meet certain criteria.
T2	Tier 2 capital	Tier 2 is designated as the second or supplementary layer of an institution's capital and is composed of items such as revaluation reserves, hybrid instruments, and subordinated term debt.



Coventry Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ([www.fca.org.uk](http://www.fca.org.uk)) and the Prudential Regulation Authority (firm reference number 150892).

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