ANNUAL REPORT & ACCOUNTS 2020

GIVING PEOPLE THE POWER TO BE BETTER OFF THROUGH LIFE

COVENTRY
Building Society

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We are a building society, providing savings and residential mortgage products to savers and borrowers across the UK. We remain as committed today to mutuality, and our belief in putting the interests of our members first, as when we were founded in 1884.

Visit us here **www.thecoventry.co.uk**

The photography in this Annual Report & Accounts features some of our amazing colleagues and members and our home in the City of Coventry.

The term 'Society' is used in this Annual Report & Accounts pages 01 to 181 to refer to the activities of the Society and its subsidiaries, except where the context indicates otherwise. Coventry Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (firm reference number 150892 www.fca.org.uk).

Principal Office: **Economic House, PO Box 9, High Street, Coventry CV1 5QN.**

STRATEGIC REPORT

THIS SECTION OUTLINES OUR 2020 PERFORMANCE IN THE CONTEXT OF OUR OVERALL BUSINESS MODEL.

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OUR PERFORMANCE HIGHLIGHTS

LONG-TERM MEMBER VALUE

WE PAID

1.18%

INTEREST ON SAVINGS

MARKET AVERAGE

0.63%

This is the equivalent of

£197m

of additional interest paid to members[1]

2019: £228m

GROWTH IN MORTGAGES AND SAVINGS

MORTGAGES

3.0%

(Market 3.0%[2])

2019: 7.6%
(Market 3.1%[2])

SAVINGS

5.3%

(Market 10.2%[2])

2019: 8.9%
(Market 4.1%[2])

MARKET-LEADING SERVICE

+73

NET PROMOTER SCORE[3]

2019: +74

97%

COMPLAINTS UPHELD

in the Society's favour compared to a UK financial services average of 51%[4]

2019: 97%

PEOPLE AND PURPOSE-LED

BEST COMPANY 2020

Best Companies Accreditation for workplace engagement[5]

2019: 3 Star

43%

of colleagues engaged in charitable or community activities

2019: 82%

OUR AWARDS

In 2020 we received external recognition for our products and services including:

RECOMMENDED MORTGAGE PROVIDER

Recommended Provider Which? Mortgages October 2020

SAVINGS CHAMPION BEST BUILDING SOCIETY

WINNER

FAIRER FINANCE – GOLD RIBBONS FOR SAVINGS AND MORTGAGES

AUTUMN 2020 Fairer Finance GOLD RIBBON CUSTOMER EXPERIENCE Savings Accounts

AUTUMN 2020 Fairer Finance 1ST PLACE GOLD RIBBON CUSTOMER EXPERIENCE Mortgages

We have a balanced set of key performance indicators (KPIs) that reflect our purpose of giving people the power to be better off through life. This purpose is supported by a resilient and sustainable financial performance.

CAPITAL RATIOS

33.0%
2019: 32.0%
COMMON EQUITY TIER 1 RATIO

4.6%
2019: 4.4%[6]
LEVERAGE RATIO

INCOME AND PROFITABILITY

£124m
2019: £147m
PROFIT BEFORE TAX

0.81%
2019: 0.83%
NET INTEREST MARGIN

COST EFFICIENCY AND INVESTING FOR THE LONG TERM

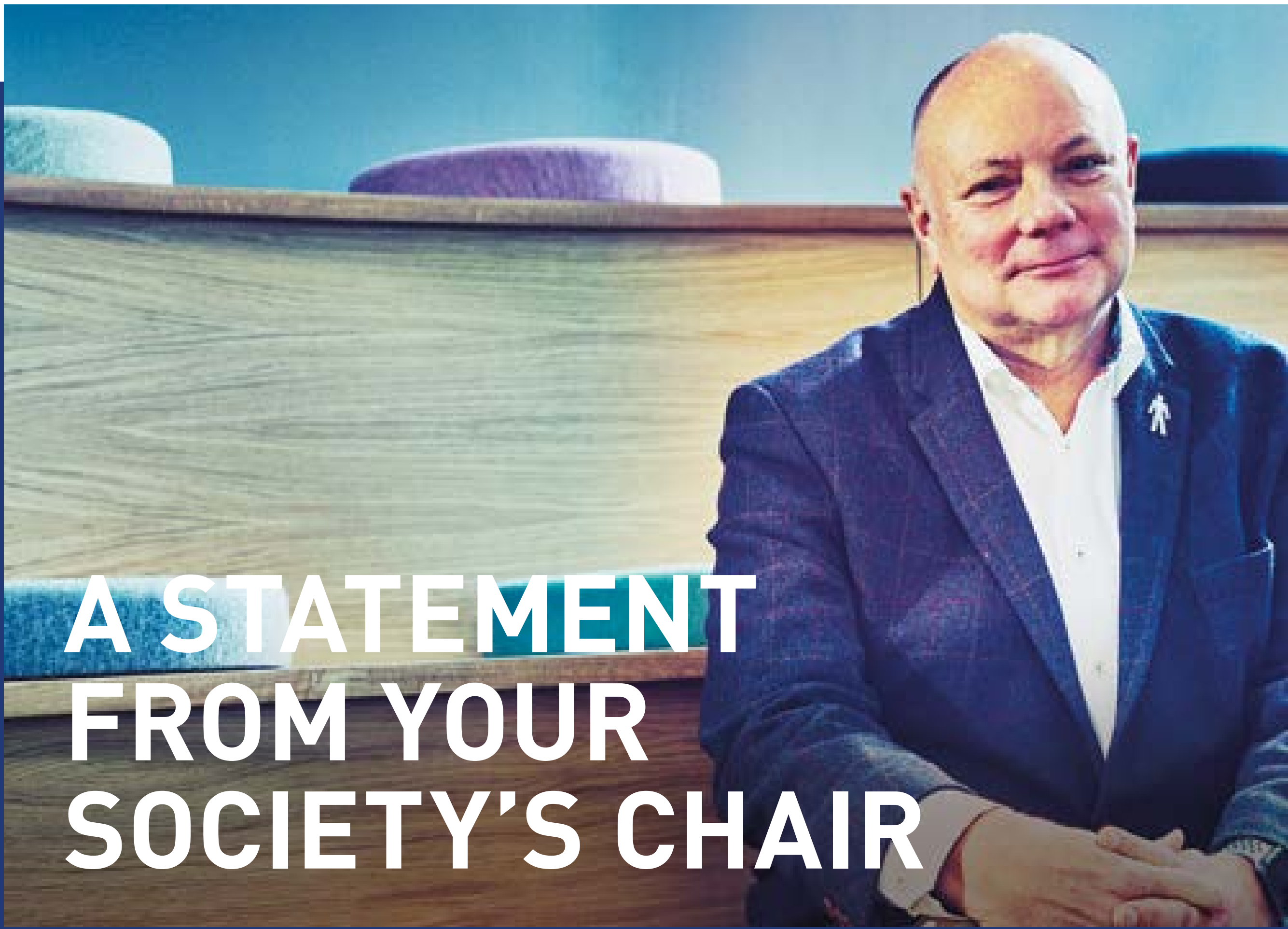
0.49%
2019: 0.48%
COSTS AS A PERCENTAGE OF AVERAGE ASSETS

£57m
2019: £52m
SPENDING ON INVESTMENT PROJECTS

LOW RISK BUSINESS MODEL

0.09%
2019: 0.08%
% OF MORTGAGES WHERE ARREARS ARE MORE THAN 2.5% OF THE BALANCE

1. The Society's average month end savings rate compared with the Bank of England average rate for household interest-bearing deposits on the Society's mix of products.
2. Source: Bank of England.
3. Net Promoter Score (NPS) is a measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.
4. Source: Financial Ombudsman Service latest available information 1 January 2020 to 30 June 2020.
5. Source: Best Companies – 3 Star accreditiation is awarded to organisations that receive an index score of 738 or higher reflecting 'world class' levels of workforce engagement.
6. During the period the Society has refined its calculation of this measure. Had this applied previously 31 December 2019 result would have been 4.6%.



A STATEMENT FROM YOUR SOCIETY'S CHAIR

In 2020, Covid-19 changed the world. It changed the way we work, but it didn't change who we are. A mutual organisation with a simple business model that delivers long term value for our stakeholders. We continued to provide exceptional service to members and customers while keeping our colleagues safe. This was a difficult year, but one where we can be proud of how we have responded.

The Covid-19 pandemic dominated all aspects of our lives in 2020. Its devastating impact affected physical and mental health, livelihoods and our freedom to interact with families, friends and strangers alike.

It carries a huge cost, especially to those who have lost loved ones, and casts a shadow over the country's economic future. It has also accelerated changes that were part of our world before the pandemic but have become the accepted way of doing things – changes like remote-working, digital services and focus on sustainable development. There is no going back when the pandemic ends.

As a mutual building society we have a long heritage of adapting to change and remaining relevant. We're able to do this because we're built on strong foundations, with a simple business model that puts the interests of our stakeholders at the heart of our decision making. It is this clarity which has guided our response to the pandemic but also keeps our focus on providing long term value as we look to the future.

MAINTAINING SERVICE THROUGH THE PANDEMIC

As a provider of essential services we needed to stay open, protect the health and financial security of members and colleagues, and support the communities we serve. I am very proud of the way we did this, keeping the vast majority of our branches open throughout 2020 while making changes to enable more members to contact us by telephone or via our website.

By whatever measure, whether service standards, satisfaction score or personal feedback, it is clear that members, customers and brokers really valued the consistency, speed and professionalism of our services.

At its heart our service is about people and, on behalf of the entire Board, I would like to take this opportunity to thank my colleagues for their amazing work throughout this extremely challenging year.

LONG TERM FOCUS

I've talked about the importance of our long term focus which I believe to be a particular strength of our mutual business model and one that benefits all our stakeholders. With Steve Hughes joining as our new Chief Executive we have spent time reflecting on our purpose and our broader role in society. We have set an ambitious strategy for the years ahead, grounded in our belief in putting Members First and our values as a mutual organisation.

Our financial performance in the year has been robust in the circumstances and not only have we maintained our strong capital position but we have continued to invest. This includes programmes to enhance the resilience of our IT infrastructure as well as improve our core banking platforms. These programmes are never easy, particularly during a pandemic, but the progress has been significant and we are on track to continue this throughout our strategic planning period.

74 SECONDS

AVERAGE CALL WAITING TIMES IN 2020[1]

(2019: 64 seconds)

ACTIVITY OF THE BOARD

The Board's ways of working have also changed as a result of the pandemic. Weekly updates were provided by the Chief Risk Officer and the frequency and content of Board and Board Risk Committee meetings were altered to enable additional Board oversight through this demanding period.

As I noted above, in 2020 we refreshed our strategy while focusing on how we can continue to thrive in our core savings and mortgage markets, assessing and shaping culture and overseeing an ambitious investment agenda.

The responsibilities of the Board include setting the Society's strategy, monitoring and shaping the culture, providing oversight of the management of the business and ensuring that the long term interests of members are protected.

The Board considered the views of stakeholders regularly in 2020. We assessed in detail matters relating to our colleagues and in particular their health and wellbeing. I was pleased that we introduced a range of options to help colleagues with responsibilities to care for others.

We regularly reviewed the results of engagement with our members, including via our Member Forum, to understand what they wanted to see the Society prioritise and to ensure that we continued to support them through challenging times. All of our Board members took the opportunity to meet with our members online and respond to their questions.

1. Average call waiting time between 1st January 2020 to 31st December 2020.

The Board listened to the needs of employees through the 'My Society' forum and shared with them the content of Board discussions as we developed our strategy and made choices about our future direction. We provided oversight of our major change programmes and the partners in our supply chain. Board members supported the Executive with the development of our community and environmental agenda strengthening our culture through a refreshed set of values and a commitment to improve the diversity of our senior teams.

CHANGES TO OUR BOARD

As I reported last year, our former Chief Execuitve Mark Parsons retired and Steve Hughes joined the Society in April. In many ways this was a tough time to take over the Society's leadership but I'm delighted with the positive impact Steve has made. He has invested time in engaging with and listening to colleagues, holding online meetings with many of them and he and the leadership team have set out a very clear ambition for the future.

We said goodbye to Andy Deeks, our Product Marketing and Strategy Director and Michele Faull, our Chief Financial Officer while our deputy-Chair, Peter Ayliffe, will retire following the 2021 AGM. I would like to thank Mark, Andy, Michele and Peter for all they achieved and their dedication to the Society during their time here.

Lee Raybould joined Steve's executive team as Interim Chief Financial Officer and brings 30 years of experience from the Building Society sector. We also welcomed Brendan O'Connor as a non-executive director in January 2021. Formerly Chief Executive of AIB UK plc, Brendan has relevant financial services sector experience and I am sure will be a valuable addition to the Board.

LOOKING AHEAD

At the time of writing the UK's vaccination programme is progressing well and it looks possible that a greater degree of normality will return from the middle of the year. However, it is difficult to predict outcomes with certainty in the midst of a pandemic.

The focus of the Society's Board in 2021 will be ensuring these challenges are appropriately managed, that we invest for the long term and continue to run the Society in your interest. We will also look to substantially progress the diversity and inclusion and sustainability agendas. To this end, the Board was delighted at the start of 2021 to agree to become signatories to the UNEPFI Principles for Responsible Banking and the UN Global Compact. I believe this to be a very public indication of our commitment in this area.

At the start of this statement I talked about the challenges of change. Our business model has proved resilient to shocks and I expect this to remain so in future. But this year has taught us about the resilience of people in coping with the tragedies of this terrible pandemic. I am proud of our contribution and once again thank my colleagues for their incredible efforts in keeping people safe and services running.

Gary Hoffman
Chair of the Board
3 March 2021

YOUR CHIEF EXECUTIVE'S REVIEW OF THE YEAR

I was immensely proud to join the Society in April. 2020 was an unprecedented year as a result of the Covid-19 pandemic but we remained open for business, continuing to meet the needs of our members and customers and providing great service. We have continued to invest for the future while delivering a robust financial performance and we balanced the differing needs of borrowers, savers and those in financial difficulty. I am proud of my colleagues who have lived our values and our belief in putting Members First.

AN UNPRECEDENTED YEAR

When I joined the Society at the end of April, the impacts of the Covid-19 pandemic were still emerging. Since then, the ongoing health crisis, combined with the economic and social impacts of ongoing lockdown restrictions have had a major impact on all our lives. I would like to thank all key workers across the country for all they have done during this time and my thoughts go out to everyone who has been impacted by the pandemic.

I am very proud of the way that my colleagues responded to the unprecedented disruption and their focus and dedication supporting our members and each other. I would like to thank them for their hard work during this time and for the warm welcome I have received in my first eight months.

The pandemic required us to change the way we worked and delivered our services. We kept our branches open, making them Covid-secure for our employees and customers. We increased resources in our customer service centres allowing more calls to be answered and invested in technology to allow the majority of our colleagues to work from home. We made improvements to our website to provide information and support for members who access their accounts online.

We helped 39,000 mortgage customers with payment holidays and we have worked with them so that they understand the impacts of the holiday on their future mortgage payments. We will continue to support those in financial difficulty once the payment holiday period ends.

The reduction in the Bank of England Base Rate reduced the income we earn from our mortgages and our liquidity investments. This required us to make some difficult short term decisions on savings and mortgage rates to protect the financial resilience of the Society which is in members' long term interest.

DELIVERING A RESILIENT PERFORMANCE

Despite the challenging environment, we maintained our industry leading service levels, grew our mortgage and savings balances and made good progress delivering our technology programmes. Our profit before tax, while lower year on year at £124 million (2019: £147 million), underpins our strong capital ratios, a key measure of our long term resilience.

Our mortgage growth of 3.0% (2019: 7.6%) was in line with the market growth rate[1]. This rate of growth is lower than previous years which reflects the effective closure of the housing market during the first lockdown, lower remortgaging activity and our conscious decision to manage mortgage volumes at points in the year. Market activity picked up significantly in the second half of the year and we selectively increased our participation. We remain focused on lower risk, high quality secured mortgage lending with an average loan to value on loans originated in the year of 63.7% (2019: 63.7%).

Our savings balances increased by 5% (2019: 8.9%), compared with market household deposit growth of over 10%[1]. Our savings growth was ahead of the growth in mortgages but below the market where households held more of their balances in current accounts as the level of consumer spending fell. Our average savings rate fell to 1.18% (2019: 1.49%) following a 0.65% reduction in Bank of England Base Rate to 0.10% and compares favourably to a UK average savings rate of 0.63%[2]. This means that we paid additional interest of £197 million[2] to our savings members in 2020 (2019: £228 million) when compared to the market average. We cannot operate in isolation from the market but we are committed to providing value to our members.

The uncertain economic outlook, particularly in those industries most impacted by Covid-19, has led us to set aside an additional £36 million of provisions for potential future credit losses in our mortgage book, notwithstanding the fact that the book is low risk and continues to perform well with no significant losses to date.

Spending our members' money wisely and maintaining our relative cost efficiency is a key priority for us. In 2020 our cost to mean asset ratio remained broadly stable at 0.49%[4] (2019: 0.48%). Our total management expenses increased to £246 million (2019: £229 million) and the increase included additional spend on our technology and change programmes.

Our profit in the year has resulted in us maintaining our strong capital ratios. Our Common Equity Tier 1 ratio was 33.0% (2019: 32.0%), well above the regulatory minimum requirement. Our Leverage Ratio increased to 4.6% (2019: 4.4%[5]) and our Liquidity Coverage Ratio was 179% (2019: 214%). These metrics demonstrate the strength and stability of the organisation and underpin our desire to be a safe and secure home for our members' money.

INVESTING FOR THE FUTURE

+73 NET PROMOTER SCORE

OUR MEASURE OF EXCELLENT SERVICE[3]

(2019: +74)

The Society has a significant investment agenda and we have continued to make good progress on our change projects throughout the year. The pandemic has reinforced our understanding that consumers value choice, flexibility and simplicity in how they manage their financial needs.

Building strong technology infrastructure and operational resilience is a core element of our investment programme including new data centres, upgrading our databases and establishing a testing capability that will allow more agile and cost-effective change. Digitising our mortgage and savings business is a key strategic focus, allowing customers to self-serve, reducing our paper and other resource use and unlocking the potential for future partnerships. We delivered technology to support stronger online authentication in the first half of 2020. We have also started work on the foundations for future digital functionality for all of our channels. We aim to bring the best of our personal touch to a digital world and continue to offer customers choice around how they access our products and services.

Our members value the fantastic personal service we provide through branches and over the phone and we are continuing to invest in these channels. Our branch redesign programme was paused during the first lockdown, but we restarted this activity while ensuring that Covid-secure measures were in place and we redesigned four branches in 2020, with the considerable investment in our branches due to be completed by 2022. This coupled with investment in our brand will see us continue to build on our aim of being locally loved in our communities and also result in a brand that is also better recognised across the UK.

CHIEF EXECUTIVE'S REVIEW CONTINUED

A FOCUSED STRATEGY WITH PURPOSE, MEMBERS AND OUR PEOPLE AT ITS CORE

It has been fantastic to engage with the Board and all 2,700 colleagues of setting the long term direction of the Society.

We have spent time focused on our purpose and the positive role we can play in society. It will drive our decision making, inform our strategy and will be the focus of our efforts for members, our communities and our environment. Our purpose of giving people the power to be better off through life means all our stakeholders will be better off because of the contribution of the Society.

We won't get everything right first time, but our purpose will be the standard to which we will hold ourselves. Unless we can demonstrate through our actions that people are better off trusting us with their savings and borrowing needs, better off working with us, and that we are contributing to a fairer and more sustainable wider society, then we will not be delivering our full potential and will not be acting in the long term interests of our membership or our society.

As a mutually owned building society we will always believe in putting our Members First. Providing a safe home for people's savings and enabling others to buy homes is what we have done throughout our long history and will continue to be at the core of what we do. In 2020 we have re-shaped our strategy and all of our colleagues have been engaged in this process. We have a clear ambition and have defined the priorities that we need to deliver on to achieve it.

This ambition is focused on being the best in our core markets of mortgages and savings with a clear focus on brilliant propositions meeting the needs of consumers, providing industry leading service, investing in our brand, our colleagues and providing members and customers choice through human or digital channels. Our values are built around the acronym CARES – Caring, Ambitious, Responsible, Empowering and Straightforward. These values recognise what has made the Society great but also look to the future – I see these values being lived by my colleagues every day and I know this is what our members and customers experience.

We look forward to sharing our progress on our strategic priorities as we move forward.

SUPPORTING OUR COLLEAGUES

We did not furlough any of our colleagues and we have worked to help our people impacted by the pandemic. Measures included extending our Carers Flex scheme to allow additional flexibility for those colleagues who have caring and childcare responsibilities and launching a service to allow all colleagues to access an online GP through video consultations. We have also launched an Employee Assistance Programme which provides a wellbeing hub and telephone counselling.

We responded quickly to new ways of working to enable our colleagues to serve members and run the Society safely. This included setting up equipment and technology to allow 75% of our office-based colleagues to work from home. We also transformed our branch and head office sites to ensure that these locations are Covid-secure. It was an incredible time to join a business having to try and build relationships and trust remotely but technology has been our friend and I have been able to virtually meet most of my 2,700 colleagues and have virtually visited all of our branches and operations. Engagement has been excellent and I have been able to get a real sense of the fantastic culture of the organisation and deep rooted belief of putting Members First.

Our colleagues continued to deliver excellent services to members throughout the year as measured by our Net Promoter Score[3] of +73 (2019: +74). We have also maintained high levels of colleague engagement as a 3* employer in the Sunday Times Best Large Companies to Work For list, achieving second place in the rankings in February 2020 as previously reported. It is also great to get external recognition for the fantastic service we provide and the quality of our products. To receive continued recognition from Fairer Finance for the simplicity and transparency of our products and from Which for the quality of our service is testament to what we are about. I am immensely proud of these achievements.

We are committed to creating the right environment at the Society, one where everyone feels that they can belong. In this report we have included clear and stretching targets for diversity and inclusion. We have pledged to sign up to the Race at Work Charter in 2021 which is an important next step for us. The Society employs more women than men, but this mix reverses in senior leadership roles – we want to see that change. Likewise, our ambition is to see more ethnic diversity in our managerial population. I look forward to reporting our progress to you.

We continue to create employment opportunities with our apprenticeship and graduate offers, providing great development opportunities for our colleagues and adding to our capability across the organisation. It has been fantastic to meet all new joiners this year and see the talent and dynamism they will bring to our future.

The voice of our colleagues is important in supporting our decision making. My Society is a forum of 30 colleagues from around the business and is attended by Peter Ayliffe our Deputy Chair. They meet quarterly and have had the opportunity to engage in strategy development, engagement and remuneration matters and play an important part in informing Board decisions.

MAKING A DIFFERENCE IN OUR COMMUNITIES

Making a real difference to our communities and to wider society is really important to everyone at the Society. We have programmes that focus on financial education and employment skills, creating opportunity for young people, addressing food poverty and homelessness in our home city of Coventry and reducing loneliness and isolation in our communities.

The opportunities for our colleagues to be directly involved in community activity in 2020 were limited by the pandemic so we supported our communities in new and different ways. Supporting education and creating opportunity for young people is critical. We worked with schools to provide stationery to children studying at home. We launched a £50,000 grant scheme to help Coventry primary school pupils deliver additional maths support to help pupils after time out of traditional education during the year. We also moved our employability programme online so that we can offer this to pupils without face to face sessions.

The pandemic has heightened the social challenges our communities face. We increased funding to a number of charities across Coventry that provide food and shelter to those most in need. We also provided support to University Hospital Coventry & Warwickshire Charity, so it could increase support to its own employees and their patient's families. Our branches continue to support local causes as well as providing financial services to members and in doing so reduce loneliness and isolation for those who were unable to meet up with friends and family.

Our members continued to save in our Poppy Bonds savings product which resulted in a further £0.8million donation to The Royal British Legion, bringing our support for the charity to almost £19 million. These donations make a real difference to current and former members of the armed forces and their families including benefit, debt and financial support and housing and employment support for those most in need.

We have focused and exciting plans for 2021 as we bring our purpose to life in our heartland and communities.

LOOKING AHEAD

2020 was an unprecedented year, impacting the health and lives of millions of people and also impacting the livelihoods of many others and the performance of the wider UK economy.

We expect the outlook to be uncertain for some time to come and we will continue to run the Society prudently. We aim to continue to provide brilliant service and good value to our members and customers with a strong focus on the wellbeing of our colleagues as well.

Our capital strength allows us to invest for the long term giving current and future generations flexible mortgage and savings propositions and genuine choice around how they access our products and services supported by great teams across our branches, contact centres and head offices. Capital is also needed to fund growth. Our resilience through previous periods of economic uncertainty gives us confidence we will continue to grow in the years ahead, supporting people who want to save and who want to buy their own homes and giving them the power to be better off through life.

I would like to thank our members, colleagues, customers and partners for their support and loyalty. I am delighted to have joined the Society and look forward to working with my colleagues to see the Society achieve its potential and fulfil its ambition.

Steve Hughes
Chief Executive
3 March 2021

1. Source: Bank of England
2. The Society's average month end savings rate compared with the Bank of England average rate for household interest-bearing deposits on the Society's mix of products.
3. Net Promoter Score (NPS) is a measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.
4. Administrative expenses, depreciation and amortisation/Average total assets.
5. During the year the Society has refined its calculation of this measure. Had this applied in 2019 the comparative would be 4.6%.

OUR BUSINESS MODEL AND STRATEGY

Our business model supports the delivery of our purpose and strategy.

INPUTS

FINANCIAL

We use the retained profits from our 136 years of trading plus other forms of financial capital and funding from outside investors, together with £38 billion in deposits from our savings members.

NATURAL

We make use of energy and natural resources such as paper and water to conduct our business activities. We use only green energy and FSC certified paper and are committed to reducing the carbon footprint of both our own activity and the homes that we provide mortgages for.

INFRASTRUCTURE

Our critical technology systems were available 99.9% of the time during 2020, despite the disruption to activities from the Covid-19 pandemic.

These systems supported the distribution of our products online and via our 69 branches, our telephone channels, secure messaging and self-service options such as our online services and cash machines. It also enables distribution through our partners.

PARTNERS

We distribute over 90% of our mortgage products via mortgage brokers and intermediaries and have started to make our savings products available on platforms such as the cash marketplace offered by Hargreaves Lansdown.

Our technology and infrastructure is supported by over 80 suppliers and contractors.

COLLEAGUES

We rely on an engaged and diverse workforce of 2,700 people to deliver our services to over 2 million customers across every region of the United Kingdom.

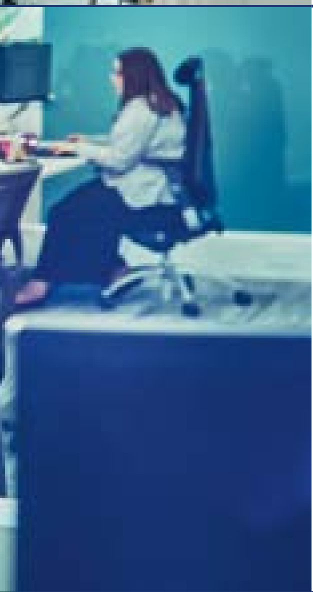
OUTPUTS

OUR CUSTOMERS

We provide residential mortgages and savings to personal customers based in the UK.

We believe in putting the needs of our members first, treating all our customers fairly and giving them choice and flexibility in how they interact with us, providing extra help to customers in vulnerable situations and those in financial difficulty.

This means keeping savers deposits safe and secure, offering good long term value and ensuring good conduct outcomes for both savers and borrowers.

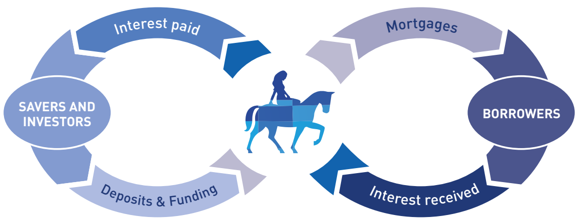


OUR BUSINESS MODEL

We earn interest and fee income from mortgage loans to owner occupied customers and private sector landlords.

We pay interest to savings members and wholesale investors who have placed deposits with us or bought our debt securities.

The difference between these two provides the net interest income to pay our employees and suppliers, to cover potential losses on our mortgage loans, to reinvest in improved products and services or to be retained as capital to fund future growth.



A mutual model consistent with the value and ethos of those who founded the Society over 136 years ago.

OUR PRODUCTS AND SERVICES

We provide residential mortgages to individuals to enable people to buy their own home or to let property as an investment. Our mortgage lending is lower risk than average, protecting our borrowers, investors and the Society's members from economic shock. This resilience is reflected in our financial performance, low arrears and low repossession rates relative to others.

We provide cash savings accounts and our savings range supports those wanting to save for their children's future, those wanting to save regularly or those wanting to invest for their future needs. Our products include instant and partial access products, fixed rate bonds and tax free Individual Savings Accounts (ISAs).

We do not provide current accounts or provide investment advice nor do we undertake corporate lending to other businesses.

We serve our customers through our network of branches and agencies, online, via the telephone and through our intermediary partners.

STRATEGIC REPORT

OUR PEOPLE AND PURPOSE-LED STRATEGY

A people and Purpose-led building society responding to the needs of all stakeholders.

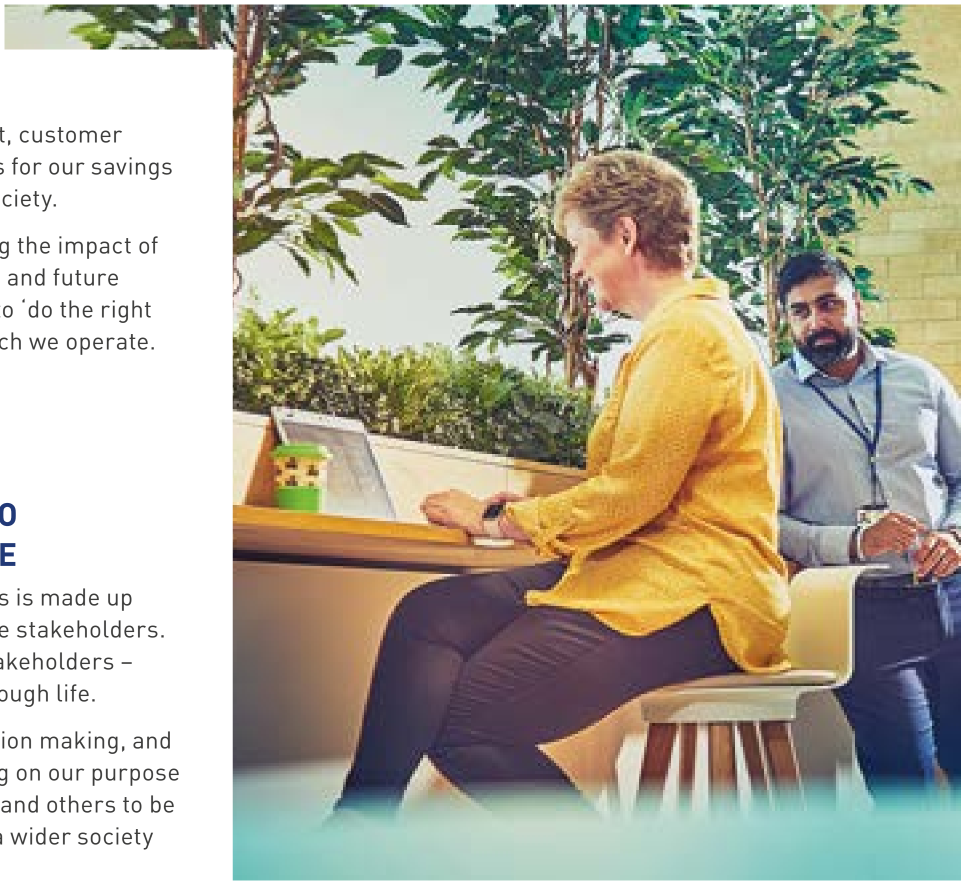
In 2020 we reviewed our purpose, values and strategic priorities. They have been refreshed, allowing us to recognise what has made us great while focusing on continuing to deliver to our full potential acting in the long term interests of our members and other stakeholders.

OUR BELIEF

PUTTING MEMBERS FIRST

We believe that remaining an independent, customer owned mutual delivers the best outcomes for our savings and borrowing members and for wider society.

Putting Members First means considering the impact of our decisions and strategy on our current and future membership and has consistently led us to 'do the right thing' and outperform the markets in which we operate.



OUR PURPOSE

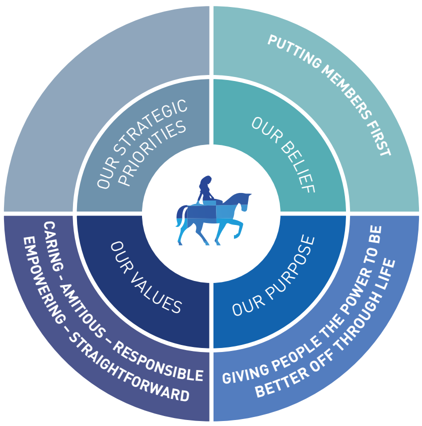
GIVING PEOPLE THE POWER TO BE BETTER OFF THROUGH LIFE

Being purposeful recognises our business is made up of a network of relationships with multiple stakeholders. We need to balance the interests of all stakeholders – giving them the power to be better off through life.

Our Purpose is at the core of all our decision making, and we aspire to live by it every day. Delivering on our purpose will empower our customers, colleagues and others to be better off through life and help to create a wider society that is fair, confident and resilient.

OUR VALUES

Our CARES values have been updated in 2020 and they are to be **Caring**, **Ambitious**, **Responsible**, **Empowering** and **Straightforward** in our dealings with each other, with members and customers and with other stakeholders as both a key driver of employee engagement and to sustain a strong culture.



OUR STRATEGIC PRIORITIES

These strategic priorities support our focused strategy with purpose, members and people at the core. They guide our activities and are aligned to our performance measures and targets.

A PEOPLE AND PURPOSE-LED MUTUAL

Purpose led approach to business and the environment	A responsible business supporting sustainable growth and employment. This also means protecting the natural environment and reducing our carbon footprint and use of resources. We will also look to provide lending to support customers with reducing the carbon footprint of their homes. Our purpose extends to our support to our local communities on issues that matter to them, and in particular creating opportunities for the most disadvantaged people in our home city.
Inclusive, inspiring workplace	We are creating an inspiring place to work which better reflects the diversity of our city and communities. We provide a safe and engaging workplace for our employees, supporting their health and wellbeing.

OFFERING THE BEST VALUE PRODUCTS AND CUSTOMER SERVICE WE CAN

Helping people to own homes and to save	Empowering customers to make better financial decisions and helping them achieve their financial and life goals through simple mortgage and savings propositions that offer great long term value.
Best in class customer service	We want customers to feel confident they have chosen the right provider for their mortgage and savings by having friendly and well trained employees offering tailored support and guidance to customers when they need it.
Digitising mortgages and savings	Offering improved choice of products, easier servicing options and improving the experience for our customers and colleagues.

DELIVERED IN A RESILIENT AND RESPONSIBLE MANNER

Protecting our members money	Keeping money safe and accessible for our customers and their information secure through investment in resilient technology and infrastructure.
Improved cost efficiency	Spending our members' money wisely so that we can continue to offer great long term value, great service while investing for the future.
Sustainable capital, liquidity and profitability	We aim to be a responsible and resilient business supporting UK economic growth and employment and ensuring good outcomes for our customers. To achieve this we stress test our capital and liquidity resources to ensure we can continue to grow and remain profitable under severe but plausible stress. This responsibility extends to our being open, honest and transparent in our dealings with our members, employees, partners, regulators and in reporting our performance.

ENGAGING OUR STAKEHOLDERS

During 2020, the Board undertook a variety of activities to engage with stakeholders and bring their voice into the boardroom, adapting these activities to reflect the impact on face to face engagement as a result of the Covid-19 pandemic.

AS DIRECTORS WE WORK TO PROMOTE THE SUCCESS OF THE SOCIETY FOR THE BENEFIT OF ITS MEMBERS AS A WHOLE. IN DOING SO, WE VOLUNTARILY COMPLY WITH SECTION 172 OF THE COMPANIES ACT 2006.

More information on how we engage with each of our stakeholders is set out below.

CUSTOMERS AND INTERMEDIARIES

As a member owned organisation, customers are at the heart of everything we do. During 2020 the Board received dedicated updates on the views of the Society's customers, including reviewing the position of vulnerable customers as a result of the pandemic. Insight into the views of members is gathered through use of the Society's 'Member Panel', an online forum which is made up of around 5,000 of the Society's members. In 2020 Board members met with individuals on the Member Panel in online meetings so they could hear at first hand the perspective of the Society's members. The insight gained from these activities in 2020 informed the Board's decision making on a range of important matters including prioritisation of IT projects and the Society's product strategy.

The views of the Society's intermediaries are regularly provided to the Board, with a particular emphasis on this topic in the Board strategy sessions held in 2020. The views of this stakeholder group help inform the Society's perspective on the mortgage market and what future developments in this area may look like.

COLLEAGUES

Since 2018 the Society's Deputy Chair, Peter Ayliffe, has held responsibility for ensuring the ideas, views and concerns of the Society's employees are taken into account by the Board in addition to feeding back to employees on what steps have been taken to address their concerns. Peter attends 'My Society' – the elected forum of employee representatives and uses this as an opportunity to understand the views of employees on key matters as well as updating forum members on issues that the Board is looking at. My Society members are also invited to attend and contribute directly in certain Board sessions. There is a facilitated programme of branch and department visits where non-executive directors meet colleagues across the Society. The Board also receives a detailed update on the Society' employee opinion survey, which provides granular insight into the views of the Society's employees.

These inputs helped the Board review and approve the Society's People Strategy in 2020, as well as informing how the Society managed impacts on colleagues arising from the pandemic. The Society's 2020 Board strategy process also included engagement with My Society, so that the Board had the perspective of colleagues as it sought to formulate and agree the 2021 Strategic Plan. The views of colleagues also helped inform the Board's prioritisation of sustainability and diversity matters in 2020.

SUPPLIERS

In 2020 the Board received a detailed update on the Society's supply chain, which summarised the most important suppliers to the Society from a cost, risk and value perspective. The Society engages extensively with its supply chain to understand their views on key matters. This included undertaking a survey of its suppliers to understand their perspective of the Society. This survey indicated that the Society was good at building collaborative relationships and listening to the views of suppliers. It also indicated the Society should look to involve suppliers early whenever possible.

The Board Risk Committee received two detailed updates in 2020 on the risks in the Society's supply chain and how these were being managed in a manner consistent with the Society's overall risk appetite. These updates had a particular focus on how the Society's supply chain could manage the risks arising from Covid-19 and Brexit. In addition updates on the Society's major change projects covered the role of suppliers and their ability to support the Society enhance its IT estate.

These data points helped inform the Board's overall assessment of risk facing the Society in 2020 as well as guiding its decision making in relation to major change projects.

INVESTORS

The Board receives insight on the views of investors through the activities undertaken by the CFO and Treasurer. The response to the Society's financial results are conveyed to the Board and the Board regularly reviews the impact on investors of the Society's strategy. In addition the Board considers as part of its annual strategic planning process plans for wholesale fund raising and considers how its broader plans will impact the Society's franchise with its investors.

In 2020 the emerging emphasis from investors on ESG and Green Finance helped underpin the Board's view that the Society should look to further engage with this area.

COMMUNITIES

The Board receives data at every scheduled meeting concerning the Society's community activities and information on the Society's charitable activities annually. The Board endorsed via the People Strategy the Society's commitment to volunteering, whereby every employee is provided with two days annually to undertake volunteering activities in their local communities.

The Board looked in detail at the Society's approach in this area as part of the 2020 strategic planning process. The Board determined that the Society should look to focus efforts on the City of Coventry and target themes of inclusion and vulnerability.

ENVIRONMENT

The Board receives periodic updates on activities designed to limit the Society's impact on the environment. In 2020 this included changes to ways of working which were designed to reduce environmental impacts through less use of things like single use plastic as well as moving to a zero waste to landfill approach.

The Board's 2020 strategic planning process focused extensively on the link between the Society's purpose and its environmental impacts. The Board determined this should be a priority for 2021.

BUILDING A SUSTAINABLE SOCIETY

Coventry Building Society has a clear Purpose. We exist to give people the power to be better off through life. A key element of delivering this purpose is building a sustainable Society, underpinned by working ethically with our supply chain and operating strong governance processes and good business practices.

OUR SUSTAINABILITY AMBITIONS

The 2030 agenda for sustainable development, adopted by all United Nations member states in 2015, provides a plan of action for people, planet and prosperity. At its heart are 17 Sustainable Development Goals (SDGs), which provide a framework of priority areas to tackle the most significant challenges faced by the world today. Our sustainability ambitions supports the objectives of the SDGs and we have undertaken an assessment of those UN SDGs where we can make a real difference. We have identified which of the UN-set targets are most relevant to our business and which we can contribute to. We provide more detail below on our performance against these goals in 2020 alongside our commitments for the future.

The Society is also a signatory to the UN Global Compact and UNEPFI Principles for Responsible Banking. Going forward we will look to report against these benchmarks as a public demonstration of the Society's commitment to creating a more equitable world.

"Everything we do during and after this crisis (Covid-19) must be with a strong focus on building more equal, inclusive and sustainable economies and societies that are more resilient in the face of pandemics, climate change, and the many other global challenges we face."

António Guterres
Secretary-General, United Nations

AREAS OF FOCUS

We feel there are three key areas where we can make a meaningful contribution to wider society.

	PEOPLE	PROSPERITY	PLANET
OUR GOALS	Equality of opportunity for our colleagues, customers and communities	Creating sustainable employment and economic growth	Reducing the energy and resource use of our business and lending
OUR AMBITIONS	To increase the diversity of our teams to be more representative of the city and communities we serve	Providing more school leaver and graduate opportunities in our branches and offices	Reducing the energy we use to power our branches, offices and technology
	Supporting more young people and adults with financial education and employability skills training	Helping people save safely for their future and invest in residential property	Reducing our use of resources, particularly paper, by providing digital alternatives
	Reducing social isolation and loneliness in our communities	Supporting first time buyers and those who want to buy their own homes	Helping our customers reduce the energy used by their homes
UNITED NATIONS (UN) SUSTAINABLE DEVELOPMENT GOALS	4 QUALITY EDUCATION	8 DECENT WORK AND ECONOMIC GROWTH	11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION

OUR PRIORITY GOALS

SUSTAINABLE DEVELOPMENT GOAL

QUALITY EDUCATION

UN TARGET

- By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.
- By 2030, ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy.

OUR ACTIONS IN 2020

SUPPORTING LIFELONG LEARNING FOR OUR COLLEAGUES

We support lifelong learning for employees through a range of technical, vocational, professional and personal development opportunities, delivered through a mix of in-house, self-learning and external provision.

Our programmes include:

- Comprehensive vocational development comprising accredited progression for customer-facing and regulated roles. Accreditation includes external qualifications where appropriate.
- Structured leadership development from first team leader positions to bespoke coaching and development for individuals with senior leadership potential.
- Extensive online resources for personal and career development, accessible by all employees.
- An award-winning apprenticeship programme which supports both start of career and change of career roles.

We judge the success of these programmes by the degree of internal mobility we achieve. In 2020 42% of all Society vacancies were filled by internal candidates (2019: 43%).

SUPPORTING EDUCATION IN COVENTRY

We work with primary and secondary schools supporting a number of educational programmes designed to improve basic skills, financial education and employability, including mentoring by our employees. Following the disruption caused by the Covid-19 pandemic the Society shifted its focus to providing home schooling resources and supporting schools in helping students recover from time out of in person learning.

OUR AMBITIONS

We will continue to help and encourage employees to develop the skills needed to succeed and progress their careers.

We will roll out a 'place-based' community strategy with the intention of making a positive impact on education in the city of Coventry.

We believe that apprenticeships offer excellent opportunities for school leavers and those already in work, enabling successful careers in growth areas such as specialist IT and technical roles as well as critical member-facing roles such as mortgage advisors. During 2020 we created 22 apprenticeships (2019: 15). We are committed to creating 250 apprenticeships over the next five years.

We believe that we have the talent within the Society to develop and take leadership responsibilities in the future. Our ambition is to extend our success in internal mobility to senior management roles so that 50% (currently 22%) of appointments to senior management roles are filled by internal candidates.

SUSTAINABLE DEVELOPMENT GOAL

ECONOMIC GROWTH

UN TARGET

- Full employment and decent work with equal pay.
- Promote youth employment, education and training environments.
- Improve resource efficiency in consumption and production.

OUR ACTIONS IN 2020

FULL EMPLOYMENT AND DECENT WORK WITH EQUAL PAY

We employed a total of 2,733 colleagues in 2020 including recruiting 276 new hires. In 2020 we paid at least the living wage to all employees and will continue to do so as part of our approach to our people.

Women currently make up 59% of the Society's workforce. The Society attracts high numbers of women to work in our outstanding customer teams. Fewer women work in some of the Society's growth areas of IT and Risk and in the most senior leadership roles. This results in a Gender Pay gap which has remained at 33% during 2020 (2019: 33%). We are committed to lowering it and have plans in place to address this over time.

Our Chief Executive pay ratio compares the total pay and benefits of the Chief Executive with the median income for colleagues. In 2020 this ratio was 27:1, in line with last year (2019: 27:1). More information is in the Directors' Remuneration Report.

PROMOTING YOUTH EMPLOYMENT, EDUCATION AND TRAINING ENVIRONMENTS

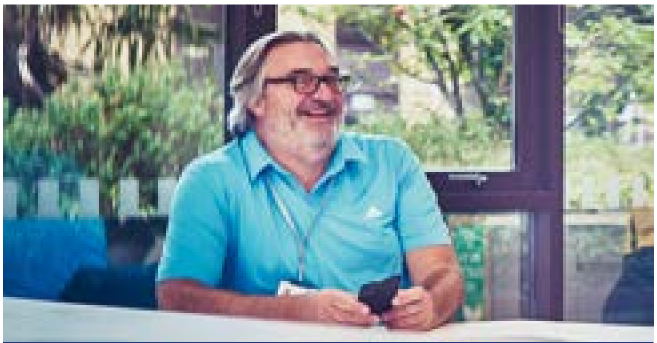
In 2020 our Learning and Development Team designed and delivered a varied programme of learning including leadership development, talent programmes, skills training, coaching and mentoring. We successfully transitioned these activities into an online format as a result of the pandemic. We made a significant investment in a new online platform for learning, which went live for all colleagues in 2020.

As discussed above, our community programme includes working with primary and secondary schools to support a number of educational programmes designed to improve basic skills, financial education and employability, including mentoring by our employees. We supported over 2,000 young people with learning materials during the first lockdown. Through our 'My Week at Work' project with the Careers and Enterprise Company we reached over 17,000 young people to offer employability and careers support.

IMPROVE RESOURCE EFFICIENCY IN CONSUMPTION AND PRODUCTION

We have undertaken a number of steps in 2020 to reduce our carbon footprint and increase resource efficiency across the areas of waste management and energy use, as well as reduce our consumption of plastic.

In 2020 we published a Supplier Code of Conduct based on the principles contained in the UN Global Compact which publicly set our expectations of the approach we expect our suppliers to take on sustainability. We are committed to prompt payment of suppliers, particularly suppliers which are small businesses. In 2020 our creditor days were 17 (2019: 8) and over 95% of all supplier invoices were paid within 60 days of receipt.



OUR AMBITIONS

In 2021 we will

- Progress the sustainability agenda with our suppliers, it is a core element of our supplier selection, assessment and management processes.
- Launch programmes to enhance the life chances of disadvantaged young people in Coventry.
- Offer colleagues career development and opportunities to grow and succeed.
- Create a diverse and inclusive workforce with particular reference to the following ambitions:
  - 50:50 gender balanced management roles by 2025 (44% of roles held by women currently) with 40% (currently 34%) of senior management roles held by women by 2025.
  - 25% of management roles held by Black, Asian or Minority Ethnic colleagues by 2025 (13% currently).

OUR PRIORITY GOALS CONTINUED

SUSTAINABLE DEVELOPMENT GOAL

SUSTAINABLE CITIES AND COMMUNITIES

UN TARGET

- Safe and affordable housing.

OUR ACTIONS IN 2020

We provide access to finance to enable people to buy houses to live in or rent to others. In 2020 we originated 36,000 new mortgages for customers. Our mutual model and 'Members First' approach has resulted in us being awarded the Which? Recommended provider for mortgages in October 2020. We are transparent in what we do publishing all relevant indicators of our mortgage service performance online and offering the same products at the same rates and with the same service to broker clients as our direct customers. During 2020 satisfaction with our service was maintained with an overall Net Promoter Score[1] of +73 despite the impact of Covid-19 (2019: +74), with our Intermediary team achieving an NPS score of +89 (2019:+85).

We continued to work in partnership with Coventry Citizens Advice and the Coventry Law Centre to support vulnerable adults with issues of debt advice, access to benefits and mental wellbeing. We contribute to sustainable communities through our charitable partnerships, of which we have 75. Our national charitable partner, The Royal British Legion, received £0.8 million in 2020 from the Society, meaning a total of almost £19 million has been donated since 2008 to this organisation.

OUR AMBITIONS

In 2021 we will look to diversify our mortgage proposition to give people greater access to mortgage finance in a way which is consistent with our risk appetite. This will include an aim to make more funding available to first time buyers and a review of opportunities to enhance environmental outcomes through our lending activities.

We will support the communities in which we are based by implementing a 'place-based' strategy that improves access to housing and addressing isolation and vulnerability.

SUSTAINABLE DEVELOPMENT GOAL
CLIMATE ACTION

UN TARGET

- Strengthen resilience and adaptive capacity to climate related disasters.
- Integrate climate change measures into policy and planning.

OUR ACTIONS IN 2020

In 2020 we continued to take the actions necessary to deliver on our environmental commitments. In particular:

- We sent no waste to landfill during the year.
- We use paper which has been sustainably sourced in line with our accreditation by the Forest. Stewardship Council.

In accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), more information on the impact of climate change and our response to it is set out below.

IMPACT OF CLIMATE CHANGE

As a long-term asset owner, the Society recognises that climate change poses risks and opportunities to our mortgage portfolio, in terms of both physical and transition risk.

GOVERNANCE AND RISK MANAGEMENT

The Society is pro-actively assessing inclusion of climate change considerations within our risk management processes. The Board Risk Committee will oversee this activity and ensure that these risk management processes remain consistent with the latest best practice and scientific research. In that endeavour, the Society will monitor and assess initiatives undertaken by government, regulators and industry. This includes, ensuring the Group meets the evolving regulatory requirements of the PRA and FCA.

METRICS AND TARGETS

We are committed to reducing our impact on the environment and will be Net Cet Carbon Neutral by 2021 for Scope 1 and 2 emissions, and entirely Net Carbon Neutral by 2030.

In 2020 we reduced Scope 1 and 2 emissions by 8%[2].

More information on how we intend to reduce our environmental impact and make a positive contribution to environmental sustainability is in our Environmental Policy on our website: www.thecoventry.co.uk.

OUR AMBITIONS

In 2021 we aim to achieve further progress in this area through:

- Developing a greenhouse gas reduction action plan with targets.
- Reviewing lending opportunities to encourage energy efficiency in homes across the UK
- Undertaking work to our head office sites and branch network which will reduce long-term energy use.

STRATEGIC REPORT

1. Net Promoter Score (NPS) is a measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.
2. Emissions are reported for the period 1 April 2019 to 31 March 2020. More information is included in our Environment Policy which is published on our website.

DOING THE RIGHT THING

PART OF CREATING A MORE SUSTAINABLE SOCIETY IS CONTINUING TO APPLY HIGH STANDARDS OF CORPORATE GOVERNANCE. OUR KEY ACTIVITIES AND POLICIES IN THIS AREA ARE SET OUT BELOW.

DIVERSITY, INCLUSION AND BELONGING

We understand there are challenges faced by different communities at the Society and our aim is to address those challenges and support diversity, inclusion and belonging in every way we can. Our Diversity Steering Committee, chaired by the Chief Customer Officer, comprises employees from across the Society who bring together their knowledge and experience to challenge the business, and guide change to make a more diverse and inclusive organisation.

We use focus groups to enable employees to raise experiences, concerns and areas we can improve the Society. In 2020 these concentrated on the experiences Black, Asian and Minority Ethnic colleagues have at the Society. Colleagues from Black, Asian, and Minority Ethnic backgrounds represented 16% (2019: 19%) of all new joiners in 2020[1].

We are committed to the Women in Finance Charter and are aiming for equal representation on the Board within the next five years (currently a third of Board directors are women).

This ambition is matched by our commitment to a balanced workforce across all levels of the Society and we are actively promoting development opportunities to help achieve this. In 2020 women achieved 49% (2019: 55%) of internal recruitment and took 58% (2019: 57%) of places on internal development programmes.

ETHICAL BEHAVIOUR

Our belief of 'Putting Members First' is deeply embedded in the organisation and brings with it a commitment to the highest possible standards of ethical behaviour and conduct. To ensure we uphold these standards, we use a number of resources, campaigns and policies relating to topics such as: Code of Conduct, Money Laundering, Bribery and Corruption, Personal Responsibilities and Fraud Awareness. All our people complete regular mandatory tests in each of these areas.

Our Whistleblowing committee consists of members of the senior leadership team who are responsible for reviewing, investigating, monitoring and reporting any incidences of whistleblowing. The committee report to our Whistleblowers' Champion, Iraj Amiri, one of our non-executive directors, who has overall responsibility for overseeing the integrity, independence and effectiveness of the Society's whistleblowing policies and procedures.

TAX STRATEGY

We conduct all of our business activities in the UK and are fully committed to meeting all of our UK tax responsibilities. More information is included in our Tax Strategy which is published at www.thecoventry.co.uk.

1. 34% of new joiners did not declare their ethnic background on joining (2019: 31%).

Our belief of 'Putting Members First' is deeply embedded into the organisation and brings with it a commitment to the highest possible standards of ethical behaviour and conduct.

PRIVACY AND DATA SECURITY

Our operations are based in the UK, and we undertake the requirements set out by our regulators, the Financial Conduct Authority and Prudential Regulation Authority, alongside relevant data security and privacy legislation. We disclose information to HMRC and other government bodies when we are required or permitted to do so. We've partnered with an experienced cyber security firm to help manage our risks and strengthen our capability, and we have comprehensive cyber insurance.

Our data protection approach is governed by the Board, alongside a Data Protection Officer responsible within the business. All employees undertake regular mandatory data protection and information security training as a minimum, with a wealth of experience in our data and security teams that support the business.

In 2020, our Strong Customer Authentication web systems were externally validated by the National Cyber Security Centre, and we achieved NCSC Cyber Essentials accreditation.

Further information on how we use and store data is in our Privacy Notice, which can be found on our website – www.thecoventry.co.uk.

This all means we can provide an informative and safe service to our members.

HUMAN RIGHTS AND MODERN SLAVERY

We have zero tolerance of slavery and human trafficking in any of our own operations or in our supply chain. Due to the nature of the Society's business, the chance that slavery or human trafficking will occur is low; however, we are not complacent on these issues. More information is in our Modern Slavery and Human Trafficking statement at www.thecoventry.co.uk.

ANTI-CORRUPTION AND ANTI-BRIBERY

Our Values include being responsible and we expect all colleagues and individuals acting on the Society's behalf to act with integrity in all dealings relating to our business. As a result we have no tolerance of bribery and corruption.

Our anti-bribery policy reflects our internal zero tolerance approach and legal requirements. All colleagues, contractors, directors and suppliers are aware of their responsibilities in this area. Annual anti-bribery training, together with monitoring and enforcement tools, ensure compliance with our policy is continuously assessed.

OUR EXTERNAL ENVIRONMENT

Key aspects of the external environment in which the Society operates are explained below.

ECONOMIC ENVIRONMENT

The UK economy contracted sharply in 2020 as a result of the Covid-19 pandemic, with the series of lockdowns impacting economic activity particularly in the entertainment, retail and hospitality sectors. The UK experienced its first recession since 2009 with a fall in GDP of 9.9% (2019: growth of 1.4%). However, extraordinary monetary and fiscal policy support has so far prevented a sharp rise in unemployment with mortgage arrears remaining at low levels. Unemployment levels have increased to 5.1%[1] (2019: 3.8%). The stamp duty holiday supported the housing market and house price inflation for the year was 7.3%[2] (2019: 1.4%).

MARKET ENVIRONMENT

SAVINGS MARKET

The UK savings ratio increased causing a rise in current account and savings balances which, coupled with the reduction in Bank of England Rate to 0.10% in March 2020 had a significant downward impact on savings rates. The average market rate reduced from 0.84%[3] to 0.63%[3], while household savings balances in the UK grew by 10.2%[4] (2019: 4.1%).

MORTGAGE MARKET

Borrowers in the UK mortgage market continued to benefit from lower rates in 2020, although availability of mortgages for those with low deposits reduced as a result of lenders being more cautious about the economic outlook. Demand for longer term fixed rate mortgages remained strong. Despite the pandemic impacting the number of home purchases, the mortgage market grew by 3.0%[4] in 2020 (2019: 3.1%).

RENTAL MARKET

The UK rental market has remained stable, although lower tenant demand has impacted rent levels for some property types and in some locations. Tax changes in buy to let have resulted in a lower level of new investment but the remortgage market remained resilient.

REGULATORY CHANGE

Regulatory change continued to focus on the operational resilience of firms to ensure good customer outcomes and on improving both data protection and security over financial transactions. The implementation of regulations such as Payment Services Directive 2 (including Strong Customer Authentication) have had significant impacts on the market and the way businesses operate.

Prudential regulators are also focusing on the need for resilience beyond a firm's standard operational activities with examples being capital resilience through changing MREL[5] regulation, and resilience while in recovery and into resolution through focused regulation on Operational Continuity in Resolution and the Resolvability Assessment Framework.

TECHNOLOGY

Technology is changing the way that customers access and interact with their financial services provider. Alongside increased online banking use, customers generally are more demanding of round the clock availability and a user experience in line with the best online retailers. Data needs to be kept secure and free from cyber attack. Challenger banks continue to focus on digitising traditional banking processes, adding popular functionality, which to date has focused more on current accounts, although online mortgage switching platforms are starting to emerge.

CLIMATE CHANGE

As evidence of increased climate change risk builds, consumers and regulators are attentive to environmental issues and the UK's commitment to a zero carbon economy by 2050. Recent PRA requirements for banks and building societies on the financial risks arising from climate change further increase focus in this area.

1. Source: UK Government National Statistics.
2. Source: Nationwide House Price Index.
3. Source: Bank of England average rate for household interest-bearing deposits on the Sociey's mix of products.
4. Source: Bank of England.
5. Minimum Requirement for own funds and Eligible Liabilities.

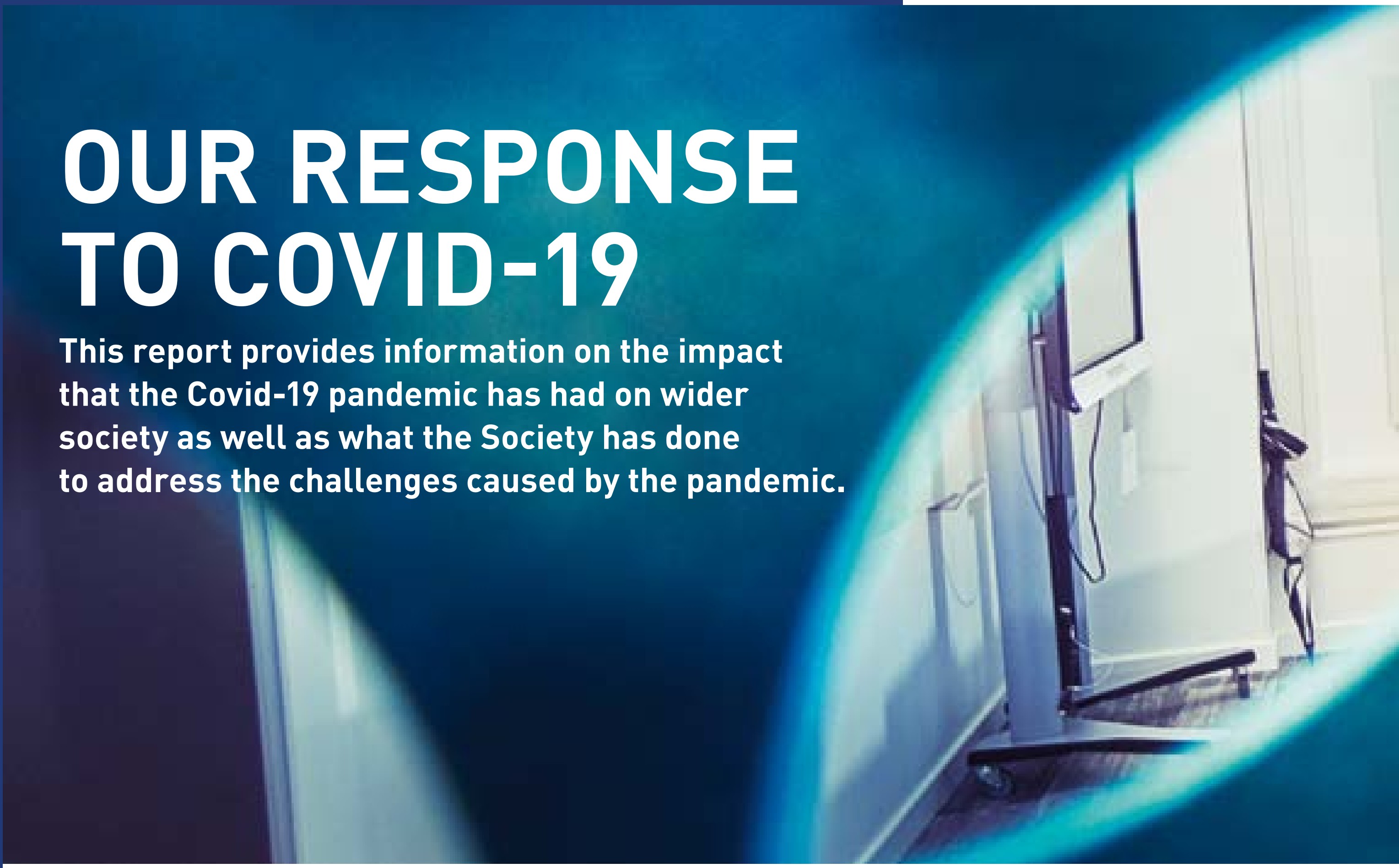
TOP & EMERGING RISKS

The top and emerging risks which could impact our ability to achieve our strategic goals vary over time. Information on the current risks and how we mitigate them is set out below. As a UK building society, we are exposed to a number of principal risk categories which are explained in the Risk Management Report.

RISK	MITIGATION
IMPACT OF COVID-19 Beyond the immediate consequences of the Covid-19 pandemic, government support to individuals through mortgage payment holidays makes the assessment of credit risk more uncertain. While payment holidays have brought a level of financial respite, certain features of the Scheme have obscured the full extent of the underlying credit risk.	The Society's simple, low risk, business model combined with its strong capital position means it remains resilient to both economic and credit downturns. The Society has undertaken extensive additional modelling of its credit exposures and performed additional analysis in order to make its assessment of future impairments and consequently its provisions.
MARKET ENVIRONMENT The pandemic and post-Brexit trade friction could continue to increase pressure on the Society's financial position, with the potential to compress margins further. This includes the impact of persistently low or negative interest rates and new entrants to our core markets.	Our low cost operating model and strong capital position mean that we can operate effectively in a low margin environment while still returning value to our members and maintaining prudent capital ratios. Regular stress testing considers the impact of severe economic downturns and confirms that we expect to remain resilient to these factors.
TECHNOLOGY AND INNOVATION The Society continues to invest in significant levels of technology and business change and expects this to continue for a number of years. This activity increases operational risk and may result in requirements which are more costly or disruptive than expected.	The Society is building technology to increase flexibility and resilience. We have taken steps to enhance our change capability which improve our processes, capacity and governance around change programmes to mitigate the execution risks associated with change.
CHANGING CUSTOMER BEHAVIOUR Customer expectations and the increased use of technology are changing the way that savings and mortgage products are designed and delivered. The impact of social distancing measures could accelerate this trend further. There is a risk that the scale of change leaves the Society with insufficient capacity to develop new products and services in an increasingly digital world. Alternatively, change requirements could jeopardise the Society's low cost operating model.	The Society continues to focus on developing products and services to meet changing demands and engages with members to identify product and service enhancements that they need and value in order to do this. The Society's Strategic Plan balances short term change demands with longer term strategic investment requirements within its appetite for expenditure.
OPERATIONAL RESILIENCE A major operational risk event could result in disruption to services leading to customer harm, financial or regulatory impacts or to reputational damage. Such events could include cyber attacks, loss of data or service outages.	We manage operational risk through our Enterprise Risk Management Framework and regularly test our response to risk events. We are modelling our important business services, analysing them and developing scenarios which we will use to assess, and enhance the resilience of each service, so that they do not fail when we have a major operational risk event.
REGULATORY ENVIRONMENT The regulatory environment continues to evolve, with increased focus in 2020 on responding to the challenges of the Covid-19 pandemic. There is a risk that the scope and complexity of regulatory changes could increase our costs and funding requirements.	We closely monitor the regulatory environment to understand and model the impact of upcoming changes.
CLIMATE CHANGE In recent years there has been increased focus and understanding of the impact of climate change. This could lead to increased credit risk if properties are impacted by flooding or other weather events or strategic risk as the economy transitions towards low carbon activities.	The Society's Strategic Plan outlines greater focus on social responsibility and contribution to society including addressing the impact of climate change.

OUR RESPONSE TO COVID-19

This report provides information on the impact that the Covid-19 pandemic has had on wider society as well as what the Society has done to address the challenges caused by the pandemic.



OUR RESPONSE TO COVID-19

The Covid-19 pandemic has changed the markets we operate in, our business environment, the expectations and behaviours of our members and the way we work. As a building society, our responsibility is to maintain the essential services we provide, protect the health and financial security of our members and colleagues and support the communities we serve.

The Society's response to the pandemic has been led by a team of executives and senior leaders, reporting to the Board. This has ensured swift decision making, effective governance and oversight, and enabled new policies and ways of working to be introduced quickly and effectively throughout a fast-moving and evolving situation.

IMPACT ON THE ECONOMY

The Covid-19 pandemic is having a devastating impact on the global economy. In the UK, its immediate effect was a significant reduction in economic activity. The Government has acted to support jobs and businesses, while also implementing measures to tackle the health aspects of the pandemic.

Many aspects of the housing market were constrained by the initial lockdown but eased as Covid-secure ways of working were introduced. The need to keep people in their homes resulted in an immediate surge of requests for mortgage payment holidays, but the Government's decision to waive stamp duty changed the focus and stimulated activity in the second half of the year. A third national lockdown took effect at the beginning of January 2021 but businesses involved in the housing market were designated essential, showing the importance of this market to the economy as a whole.

The effect on the retail savings market has been equally significant. The Bank of England Base Rate was reduced from 0.75% to 0.10% in March 2020. At the same time the Government extended the Term Funding Scheme (TFSME) to ensure the reduction in interest rate benefited businesses affected by the pandemic. Retail savings rates have fallen consistently through the year as a result. Average rates are now at their lowest since December 2010.

IMPACT ON CUSTOMERS

The pandemic has been a frightening experience for many people, with health concerns, losses to livelihoods and restrictions to individual freedoms which have not been seen before.

The provision of financial services is recognised as essential to a stable, functioning society. Pre Covid-19 trends towards remote channels have been accelerated, particularly during periods of lockdown as customers chose to transact over the phone or through online services. That said, branches continue to be the channel of choice for many customers, showing a blended approach is desired.

Customers who have had reductions in their incomes have been supported with mortgage payment holidays. There are increased risks that customers may continue to experience payment difficulties and there could be an increase in arrears in the near term.

The impact of extremely low interest rates has also changed the behaviour of savers. With less opportunity to spend money for those remaining in employment or furloughed, there has been an increase in overall savings. Much of these additional funds have been held in current accounts rather than specialist savings products reflecting both a desire to keep money accessible and the low differential between current accounts and other savings products.

IMPACT ON COLLEAGUES

Our colleagues have worked hard to maintain service throughout the pandemic. This has been challenging for our branch teams who have performed incredibly well while keeping members and colleagues safe.

Equally, the challenge of working remotely for an extended period of time has been significant for many of our head office colleagues. Increasingly colleagues are juggling different responsibilities at home including home-schooling and caring responsibilities. For colleagues who have continued to work in our head office locations, new restrictions have needed to be implemented and adhered to to keep our sites Covid-secure. All our colleagues have been impacted by the constant change in regulations, as has wider society. The uncertainty and a constantly changing situation have added to the mental and emotional pressures that everyone has felt this year.

The Society's responsibility to maintain its essential service also places demands on colleagues and as such efforts have been made to engage, support and reassure colleagues throughout the pandemic.

IMPACT ON THE COMMUNITY

The pandemic's impact on the most vulnerable in society and the charities that support them has created greater need at the same time as taking away many normal funding opportunities and making ways of working, including volunteering, much more difficult.

Covid-19 restrictions meant that many community activities were unable to take place but resources were realigned in an extremely pragmatic way to provide essential support to charities operating in the Coventry area in line with our emerging place-based community strategy.

OUR RESPONSE TO COVID-19 CONTINUED

Here are some of the things we have done:

KEEPING PEOPLE SAFE

- Equipped and enabled working from home for over 75% of office-based colleagues, including the provision of home office equipment, enhanced virtual private network (VPN) and technical solutions and support for remote working and leadership of teams.
- Transformed office and branch sites to meet the Government Covid-19 Secure standard, including: the removal of touchpoints, introduction of automated doors and screens, imposition of strict social distancing by removing access and facilities, enhanced cleaning regimes, provision of sanitiser and face coverings, restriction of movement and access to buildings.
- Reduced branch opening times and adjusted the provision of services to reduce contact time for colleagues and members.
- Engaged extensively with colleagues to ensure they understood business and individual responsibilities. Put in place local committees to ensure adherence to Covid-secure ways of working.
- Deployed additional security personnel at branches to assist with Covid-secure ways of working as appropriate.
- Reviewed, amended and introduced business processes to minimise contact risk, including split-site working, and delivery, or contactless pick-up, of 'working from home' equipment.
- Conducted regular surveys and mood meters to gather colleague views, and identify and resolve any points of concern.

SERVING MEMBERS

- Kept over 90% of our branches open throughout the year, including maintenance of Saturday services, and supported agencies in operating safely.
- Postponed our branch refurbishment programme to ensure resilience of service but reinstated this activity when conditions allowed.
- Granted 39,000 mortgage payment holidays, quickly developing an online solution to ensure an excellent service for members facing this requirement.
- Relaunched 'Trusted Helper Withdrawals' in March to support those most vulnerable members who were unable to get to a branch due to illness or self-isolation.
- Joined the Payout Now scheme run in conjunction with the Post Office to provide additional access to cash services.
- Recognised that members were using remote channels more during lockdowns and introduced technology and training to enable branch colleagues to support telephone services.
- Delivered exemplary service throughout the year, shown by the high Net Promoter Scores achieved by branches, savings and lending contact centres, and the intermediary team.
- Kept in regular touch with members, including the Members Forum, to understand their views and explain what the Society was doing to keep them safe and services operating.
- Used the longstanding relationship with members to call those who may have been struggling to offer support and contact.

SUPPORTING COMMUNITIES

- Donated £10,000 to the Heart of England Community Foundation's Coronavirus Resilience Fund to provide grants to small grass roots charities supporting vulnerable groups.
- Donated £20,000 to the Coventry Citizens Advice Bureau to provide IT and telephony infrastructure enabling its employees and volunteers to provide advice remotely.
- Launched £50,000 grant scheme to help Coventry primary schools deliver additional maths support and help pupils recover lost ground.
- Provided stationery packs and books to over 2,000 disadvantaged primary school students to support home learning.
- Worked with our partner charity to move our Schools Employability programme online.
- Donated £5,000 to the Coventry Foodbank.
- Raised £5,000 for University Hospital Coventry's NHS Superheroes fund, supporting NHS workers in the city.
- Supported the Home Office 'You're not alone' domestic abuse campaign and donated £15,000 to the women's refuge, Coventry Haven.

DOING THE RIGHT THING

- Maintained full employment for colleagues, with no use of the Government Job Retention Scheme (furlough).
- Supported shielding colleagues with working from home option or extension to sick leave provision.
- Launched a new Employee Assistance Programme, which provides a wellbeing hub, telephone counselling and other services.
- Extended existing Carers Flex scheme to 15 days for all employees. This is paid leave to allow colleagues the time they need to look after loved ones, and can be used flexibly to support home schooling, childcare or support other caring responsibilities.
- Introduced a free health and fitness app which supports colleagues through small life-enhancing changes.
- Launched a new service to all colleagues offering round the clock access to GPs, including children under the age of 16, through video consultations plus online provision of repeat NHS prescriptions.
- Offered free webinars on mindfulness and stress prevention to help support colleagues.

WELCOME TO YOUR CHIEF FINANCIAL OFFICER'S REVIEW

RESILIENT PERFORMANCE IN INCREDIBLY CHALLENGING TIMES

I joined the Society in November 2020 and I feel proud and privileged to be working for a building society with such great heritage and with values which I personally share.

The Covid-19 pandemic has had and continues to have an unprecedented impact in the UK and around the world. In the early part of the year, the UK introduced social distancing and self-isolation rules as it tried to combat the spread of the disease and these rules have remained in place to differing degrees throughout the year. This saw a huge shift in consumer behaviour as a significant proportion of the UK workforce moved to working from home and a number of business sectors, particularly hospitality, leisure and retail, were forced to close for large periods of the year. The housing market was also impacted with mortgage demand reduced for parts of the year as a result of social distancing measures, general consumer uncertainty and restrictions on house purchases.

Despite the unprecedented impacts, we delivered on our financial goals of growing mortgage and savings balances, investing in the future of our Society and returning tangible value to our members while maintaining a strong capital base: a resilient performance in incredibly challenging times.

Profit before tax has remained resilient at £124 million (2019: £147 million), a decrease of £23 million from the previous year. While the government and central bank interventions such as the furlough scheme, payment holidays, stamp duty holiday and business loans have helped support the economy, significant uncertainty remains about the future economic outlook. As a result, we have increased our provision for expected credit losses (ECLs) resulting in a £36 million charge for the year.

£43.5bn
MORTGAGE BALANCES

2020	43.5
2019	42.2
2018	39.3
2017	35.9
2016	32.9

£38.2bn
SAVINGS BALANCES

2020	38.2
2019	36.2
2018	33.3
2017	31.0
2016	28.1

0.49%
COST TO MEAN ASSETS RATIO

2020	0.49
2019	0.48
2018	0.50
2017	0.42
2016	0.41

0.81%
NET INTEREST MARGIN

2020	0.81
2019	0.83
2018	0.96
2017	1.02
2016	1.06

£197m
VALUE GIVEN TO MEMBERS[2]

2020	197
2019	228
2018	227
2017	210

£124m
PROFIT BEFORE TAX

2020	124
2019	147
2018	202
2017	243
2016	239

4.6%
LEVERAGE RATIO[3]

2020	4.6
2019	4.4
2018	4.6
2017	4.6
2016	4.4

33.0%
COMMON EQUITY TIER 1 RATIO

2020	33.0
2019	32.0
2018	33.9
2017	33.4
2016	30.8

1. Administrative expenses, depreciation and amortisation/Average total assets.
2. The Society's average month end savings rate compared with the Bank of England average rate for household interest-bearing deposits on the Society's mix of products.
3. During the year the Society has refined its calculation of this measure. Had it applied in 2019, the comparative would have been 4.6%.

Our overall net interest income increased to £409 million (2019: £397 million), but this increase was limited by the impact of the reduction in the Bank of England Base Rate in March to a historic low of 0.10%.

We continued to invest in the business for the benefit of members, spending £57 million on improving the resilience of the Society and our underlying IT infrastructure to ensure the best possible service for members (2019: £52 million) which, together with an increase in our operational costs, resulted in a slight increase in our cost to mean assets ratio to 0.49%[1] (2019: 0.48%).

We have maintained a strong capital position with the CET 1 ratio at 33.0% (2019: 32.0%) and our liquidity position remaining significantly ahead of regulatory requirements with a Liquidity Coverage Ratio (LCR) at 179% (2019: 214%). This has enabled the return of £197 million of value to savings members[2] (2019: £228 million), with average member savings rates 0.55% above the market average (2019: 0.65% above market average).

Your Society is strong and resilient and is well placed to weather the storms ahead. We will continue to run the Society prudently and in the long term interests of the membership and remain committed to supporting members, customers and colleagues throughout these incredibly difficult times.

Lee Raybould
Interim Chief Financial Officer
3 March 2021

INCOME STATEMENT

OVERVIEW

In 2020, the Society has faced significant challenges resulting from the pandemic and our focus has been on supporting members, customers and colleagues through these unprecedented times. Our results for the year are impacted by the following factors which relate to the pandemic:

- We have increased our provisions for future expected credit losses (ECLs) in the light of the continued uncertainty surrounding the future economic outlook.
- While our net interest income increased in the year, the 0.65% reduction in the Bank of England Base Rate in March had a negative impact on our net interest income. and
- Mortgage growth, while in line with the market, has been moderated from previous years due to the significant economic uncertainty.

As a result, profits for the year have reduced to £124 million (2019: £147 million). This reflects a strong recovery in the second half of the year following profits reported in our Interim Financial Report to 30 June 2020 of £22 million.

The Society remains committed to providing long term sustainable value to members through competitively priced savings and mortgage products while ensuring we continue to invest to improve services and the long term resilience of your Society.

In running the Society we seek to balance the needs of our mortgage and savings members. As reported in our Interim Financial Report, the impact of the 0.65% reduction in the Bank of England Base Rate in March had the effect of reducing net interest income.

In order to mitigate the impact of this, we took the difficult decision to reduce the rates of interest paid to our savings members. The time lag between the Bank of England Base Rate changes and repricing savings rates reduced net interest income in the year by £18 million.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

In overall terms, our net interest margin for the year reduced by 0.02% to 0.81% (2019: 0.83%). Of this reduction, 0.04% was due to the impact of the repricing following the Base Rate fall. This was offset by an increase of 0.02% relating to improving returns on our mortgage book. At 0.81%, our net interest margin has improved significantly from the 0.72% reported at the half year in line with our expectation that net interest margin would return towards 2019 levels.

Despite the reductions in savings rates, the Society has continued to pay favourable savings rates compared with the market average, balancing distribution of member value and the long term health and resilience of the Society. £197 million (2019: £228 million) of additional interest was paid to savings members as compared with average market rates[2].

Costs have increased £17 million to £246 million (2019: £229 million). Day-to-day operating costs increased by £11 million to £160 million (2019: £149 million) and spending on our strategic investment programme increased by £5 million to £57 million (2019: £52 million) with a further £1 million increase in the depreciation of previous investment.

The economic environment remains very uncertain and our expectations are for a rise in unemployment and house price falls in the period ahead. Notwithstanding the very strong asset quality and overall low risk nature of our balance sheet we recognised £36 million of additional provisions in the year for ECLs on the Society's mortgage portfolio. Significant judgement and estimation has been applied in calculating expected credit losses given the uncertain environment. More information on the ECL provision is set out below and in the notes to the accounts.

	2020 £m	2019 £m
Interest receivable	859.9	1,010.5
Interest payable	(451.4)	(613.8)
Net interest income	408.5	396.7
Other income	(0.1)	0.1
Losses on derivatives and hedge accounting	(0.7)	(17.2)
Total income	407.7	379.6
Management expenses	(245.6)	(229.1)
Impairment charge	(36.4)	(2.1)
Provisions	(0.5)	–
Charitable donation to Poppy Appeal	(0.8)	(1.2)
Profit before tax	124.4	147.2
Tax	(23.0)	(25.5)
Profit for the year	101.4	121.7

NET INTEREST INCOME

Net interest income has increased to £409 million (2019: £397 million) despite the Bank of England Base Rate reductions in March which reduced income by £18 million. This reduction was offset by an increase of £30 million due to growth and higher margins on our mortgage assets. There has also been a small reduction in future expected income recognised due to changes in customer behaviour. We will continue to assess the impact of changes in customer behaviour that occurs as a result of product and market developments.

NET INTEREST MARGIN

Net interest margin has decreased by 0.02% to 0.81%. This is the result of a reduction of 0.04% relating to the impact of the reduction in Bank of England Base Rate, partly offset by an increase of 0.02% reflecting an improvement in the margin on our mortgage book.

	2020 £m	2019 £m
Net interest income	409	397
Average total assets	50,515	47,801
	%	%
Net interest margin	0.81	0.83

DERIVATIVES AND HEDGE ACCOUNTING

The Society uses derivative financial instruments solely for risk management purposes to manage interest rate and currency risk arising from its mortgage and savings activity and from non-sterling, fixed rate wholesale funding. Over the last 12 months, the Society has continued to enhance its hedge accounting processes, in part to improve hedge effectiveness. The loss of £1 million for the year represents hedge ineffectiveness and fair value movements on derivatives where hedge accounting has not been obtained (2019: £17 million loss). These fair value movements represent timing differences and include adjustments to fair values as a result of Covid-19 related mortgage payment holidays.

MANAGEMENT EXPENSES

Overall management expenses have increased by £17 million or 7%. Of the £17 million increase in management expenses, day-to-day operating costs increased by £11 million to £160 million (2019: £149 million). The increase was due to salary and cost inflation, higher IT costs as investment programmes deliver and £4 million of costs incurred in response to the pandemic, including costs to facilitate remote working, personal protective equipment for colleagues and modifications to our branch and head office buildings.

Spending on our strategic investment programmes increased by 10%, or £5 million, to £57 million (2019: £52 million) with a further £1 million increase in depreciation of previous investment spend referenced in day-to-day operating costs above. Investment in the year has focused on a new mortgage platform, improving the resilience and security of our technology and some early investment in digital capabilities.

Running the Society efficiently remains at the heart of the Society's strategy enabling us to provide better value to members. The cost to mean total assets ratio of 0.49%[1] (2019: 0.48%) is expected to remain among the lowest in the UK building society sector and we will continue to invest in the Society for the benefit of members and to ensure the long term health and sustainability of the Society. Further information regarding management expenses is included in note 9 to the accounts.

IMPAIRMENT CHARGE

The full economic impacts of the pandemic are uncertain and it is expected that government support such as payment holidays and the furlough scheme have obscured potential credit deterioration in the mortgage book. Notwithstanding very strong asset quality and the overall low risk nature of our balance sheet, it is against this backdrop we have made provisions for ECLs of £36 million (2019: £2 million). We have undertaken a significant amount of work over an extended period in order to seek to identify and properly consider a range of potential risks in a range of different scenarios including a scenario where house prices fall by a third and unemployment doubles. We have sought to estimate the impact of all of these risks in assessing ECLs. More information on the ECL calculation methodology including the different scenarios which have been used is included in note 12 to the accounts.

By 31 December 2020, 39,000 members had taken Covid-19 related mortgage payment holidays, representing just under 15% by value of the mortgage loan book. There were 2,600 active payment holidays at the year end and 98% of the accounts with expired payment holidays had resumed mortgage payments. A further 2% of payment holiday customers are continuing to experience financial difficulties and we remain committed to supporting them through these challenging times.

The unprecedented nature of Covid-19 and the availability of payment holidays means that the calculation of expected credit losses has required significant judgement and estimation techniques. Of the total charge for the period, £33 million relates to a post model adjustment (PMA) where existing models do not fully reflect the ECLs arising from Covid-19 implications. The PMA has principally been calculated using the following techniques:

- By segmenting the book to identify higher risk segments and uplifting probability of default (PDs) accordingly. Higher risk segments include loans with a Covid-19 related payment holiday and those loans which have not taken a payment holiday but where external credit data indicates a deterioration in credit quality. The PDs applied in calculating the PMA have been uplifted by an average of 7.5%, weighted by value.
- We have reversed the benefit from the positive house price inflation we have seen since the start of the pandemic. HPI growth has been particularly strong in the second half of 2020 driven by temporary government support to keep the housing market strong such as stamp duty holiday which is expected to end on 31 March 2021. We believe this has only delayed the potential for house price falls in the near term and as such we have removed the impact of these increases when calculating ECLs.
- We have begun an assessment of more granular house price information on our mortgage book and this provides a more accurate view of indexed LTVs and risks associated with pockets of negative equity.

The remaining £3 million of ECL increase relates to worsening forward-looking macroeconomic scenarios and increases in the modelled ECL provision. The alternative scenarios reflect a range of possible outcomes as the economy emerges from the pandemic.

IFRS 9 requires loans to be assessed as 'stage 2' where there has been a significant increase in credit risk. During 2020 we have extended the criteria for stage 2 to include accounts which have taken a mortgage payment holiday of greater than three months and accounts with mortgage payment holidays where there are indications of a deterioration in credit quality. The remaining payment holiday cases have been left in stage 1. This change in criteria has resulted in 6.0% of loans being transferred into stage 2 (2019: nil) but despite this 91.3% of the book remains in stage 1 (2019: 97.0%).

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

As a result of these changes the ECL provision now equates to 0.11% of the overall mortgage book (2019: 0.03%). The materially higher level of ECL provision coverage is reflective of both the unprecedented nature of the environment and the potential risks in the period ahead.

More information on impairment is included in note 12 to the accounts and in the Risk Management Report.

PROVISIONS

There is a small charge of £0.5 million (2019: £nil) for provisions for liabilities. This relates to legal and redress cases.

CHARITABLE DONATION TO THE POPPY APPEAL

The Society continued to support The Royal British Legion's Poppy Appeal with £0.8 million donated during the year (2019: £1.2 million), bringing the total donated over the Society's relationship with the Legion to almost £19 million.

TAXATION

In 2020, the corporation tax charge was £23 million (2019: £26 million), an effective tax rate of 18.5% (2019: 17.3%). Further information is included in note 13 to the accounts.

BALANCE SHEET

OVERVIEW

In line with the underlying strategy the overall shape of the Balance Sheet has remained consistent during the year. Mortgage balances and liquidity have grown during the year by £1.2 billion and £0.4 billion respectively, with mortgage growth funded by growth in retail savings.

A summarised Balance Sheet is set out below:

	2020 £m	2019 £m
Assets		
Loans and advances to customers	43,482.8	42,234.7
Liquidity	7,314.5	6,854.7
Other	701.0	441.4
Total assets	51,498.3	49,530.8
Liabilities		
Retail funding	38,151.1	36,238.1
Wholesale funding	10,367.9	10,605.4
Subordinated liabilities and subscribed capital	67.2	67.1
Other	706.0	417.4
Total liabilities	49,292.2	47,328.0
Equity		
General reserve	1,835.1	1,773.3
Other equity instruments	415.0	415.0
Other	(44.0)	14.5
Total equity	2,206.1	2,202.8
Total liabilities and equity	51,498.3	49,530.8

LOANS AND ADVANCES TO CUSTOMERS

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

In 2020, we advanced £6.7 billion of mortgages (2019: £8.6 billion) and mortgage balances grew by £1.2 billion (2019: £3.0 billion). The year on year growth in mortgages of 3.0% is in line with mortgage market growth of 3.0%[4] resulting in our market share remaining the same as 2019 at 2.9%.

This year, our approach to lending was more cautious in light of the pandemic, market disruption and the significant uncertainty we faced. As a result, our growth was lower than 2019 but still in line with the market.

New lending of owner-occupier mortgages accounted for 60% of total new lending in 2020 (2019: 67%) at an average loan to value (LTV) of 65.5% (2019: 64.8%). Total mortgage assets at 31 December 2020 stood at £43.4 billion (2019: £42.2 billion) which comprises £25.7 billion of owner-occupier loans (2019: £25.5 billion) and £17.7 billion buy to let loans (2019: £16.7 billion).

The balance weighted indexed loan to value of the mortgage book at 31 December 2020 decreased to 52.8%[5] (2019: 55.4%). Arrears have been impacted by borrowers' ability to meet payments against the economic backdrop of Covid-19 and increased slightly in 2020, but remain significantly better than the industry as a whole. As at 31 December 2020, 0.09% of mortgage balances were 2.5% or more in arrears (2019: 0.08%) compared with the latest available industry average of 0.69%[6].

Possessions and forbearance have been supported by mortgage payment holidays and have remained low with 22 cases in possession at the year end (2019: 33) and forbearance levels down by 17.1% year on year in value terms and 21.3% in number of cases.

LIQUIDITY

On-balance sheet liquid assets have increased to £7.3 billion (2019: £6.9 billion) as we maintained a prudent liquidity buffer given the uncertain economic environment. While the Liquidity Coverage Ratio (LCR) reduced from elevated levels in 2019, it continued to be very strong at 179% (2019: 214%), significantly above the minimum regulatory requirement.

Liquid assets are principally held in deposits at the Bank of England and UK Government investment securities. This means that asset quality remains very high with 93% of the portfolio rated Aaa–Aa3 (2019: 96%). 98% of liquid assets are held in UK sovereign or UK financial institutions (2019: 99%).

4. Source: Bank of England, household sector.
5. LTV is calculated using the Nationwide Building Society quarterly regional House Price Index (HPI).
6. Source: Prudential Regulation Authority – latest available information at 30 September 2020.

Included in liquid assets are £1.0 billion of assets held at fair value through other comprehensive income (FVOCI). As at 31 December 2020, the balance on the FVOCI reserve was a £2 million gain, net of tax (2019: £4 million gain, net of tax).

RETAIL FUNDING

Retail savings increased in the year by £2.0 billion to £38.2 billion (2019: £36.2 billion), representing growth of 5.3%, compared with market growth of 10.2%. The Society's savings market share reduced slightly to 2.5% (2019: 2.6%).

The Society continued to support the cash ISA market, maintaining our market share at 6.3%[7] (2019: 6.3%). Our growth was supported through our partnership with Hargreaves Lansdown where we expanded our product range through its Active Savings platform to include a restricted access savings account. Our performance in the year reflects both our mortgage performance and our position of being predominantly funded by retail savings with 88% of mortgage loans funded by retail savings (2019: 86%).

WHOLESALE FUNDING

We use wholesale funding to make our funding more diverse, enabling growth and lowering risk, both of which benefit members.

We materially increased our funding capabilities in 2020, with issuances from two new funding vehicles. In July 2020, we accessed the RMBS market through our Economic Master Issuer programme (£0.35 billion), our first issuance of this type through a Master Trust RMBS. In October 2020, we retained issuance from our newly created Godiva Covered Bonds LLP which utilises buy to let loans and enables us to further collateralise government funding schemes. In addition, in January we completed a £0.5 billion covered bond issuance and in the second half of the year issued £0.35 billion of unsecured debt. These were offset by £1.5 billion of maturities in the year.

In March 2020 the Bank of England launched the Term Funding Scheme with additional incentives for SMEs (TFSME) to enable lenders to support new lending into the wider economy. To date, we have drawn £2.3 billion of funding under the Scheme, replacing some of the planned wholesale funding and we have repaid £2.0 billion of the previous Term Funding Scheme leaving £4.55 billion of Central Bank Term Funding outstanding as at 31 December 2020 (2019: £4.25 billion).

EQUITY

The Society's equity is predominantly made up of its general reserve and Additional Tier 1 (AT 1) capital. While the Society made post-tax profits of £101 million in the year, total equity remained in line with last year at £2.2 billion, reflecting £29 million distribution to AT 1 capital holders and negative movements in the cash flow hedge and pension reserves which largely offset the post-tax profits.

PENSION FUND

The pension scheme assets and liabilities are recorded in the Society's accounts and the overall position was a surplus of £10 million at the end of 2020 (2019: £24 million). These assets and liabilities are impacted by market movements and the reduction in the year is driven by the fall in UK corporate bond yields in the second half of 2020. The Society continues to monitor the pension scheme to ensure that there is no scheme deficit over the medium term.

REGULATORY CAPITAL

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

The Society's CRD IV capital position[8] as at 31 December 2020 is summarised below. During the year, capital available for CET 1 or 'capital resources' increased by £92 million, primarily driven by profit after tax of £101 million.

The increase in capital, partly offset by a 2% increase in risk weighted assets (RWAs), has increased our CET 1 ratio to 33% (2019: 32%). We expect this to continue to be among the highest reported in the UK.

Our new IRB models have been approved by the PRA in the year which accounted for a 2% increase in RWAs. The new models have a much wider distribution of risk grades meaning that accounts are likely to move between grades more frequently and are more sensitive to factors such as HPI in the risk grade allocation.

However, prior to the implementation of the new IRB models, the underlying RWAs had decreased by less than 1% which was driven by offsetting factors relating to mortgage growth of 3%, improvements in the loan to value of mortgages largely as a result of increases in HPI and a reduction in RWAs for derivatives.

7. Source: Bank of England, household sector.
8. Excluding any IFRS 9 transitional provisions which were negligible.
9. Capital Requirements Regulation.
3. During the year the Society has refined its calculation of this measure. Had it applied in 2019, the comparative would have been 4.6%.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

The PRA has recently released a consultation paper (CP14/20): "Internal Ratings Based UK mortgage risk weights: Managing deficiencies", which recommends flooring both average and individual IRB UK mortgage risk weights. If this were to be implemented as proposed, our CET 1 ratio would reduce by approximately 6%. From 2023, Basel IV RWA floors are being phased in and will reduce the Society's reported CET 1 ratio further, as they do not give full credit for our very low risk mortgage book. Applying the Basel IV RWA floors to the year end figures on a full transition basis would result in a CET 1 ratio of 17%.

The Society's Total Capital Requirement (TCR) has been updated to reflect changes in the regulatory setting of buffers, and the update of the Pillar 2 requirement to an absolute amount. As a result, our TCR at December 2020 was £574 million, equating to 10.6% of RWAs (2019: £590 million; 11.2%). We comfortably meet this requirement using CET 1 capital alone.

We are not currently bound by regulatory leverage ratios but we monitor leverage ratios on both a CRR[9] and UK basis. The UK ratio differs from the CRR basis in that it includes a restriction on the amount of AT 1 capital that can be included in leverage capital and excludes central bank claims with a maturity less than three months from leverage exposure.

The CRR and UK leverage ratios have increased slightly to 4.3% and 4.6%[3] respectively (2019: 4.1% and 4.4% respectively) driven by the increase in capital resources in the year.

	End-point 31 Dec 2020 £m	End-point 31 Dec 2019 £m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	**1,783.3**	1,691.0
Total Tier 1 capital	**2,198.3**	2,106.0
Total capital	**2,198.3**	2,106.0
Risk weighted assets	**5,410.6**	5,283.6
Capital and leverage ratios:	%	%
Common Equity Tier 1 (CET 1) ratio	**33.0**	32.0
CRR leverage ratio[1]	**4.3**	4.1
UK leverage ratio[2,3]	**4.6**	4.4

1. The CRR leverage ratio is calculated in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation.
2. The UK leverage ratio includes a restriction on the amount of Additional Tier 1 capital and excludes central bank reserves from the calculation of leverage exposures.
3. During the year the Society has refined its calculation of this measure. Had this applied in 2019 the comparative would be 4.6%.

ADDITIONAL INFORMATION

Further analysis on loans and advances to customers, treasury credit risk, liquidity, wholesale funding and capital management is set out in the Risk Management Report.

ALTERNATIVE PERFORMANCE MEASURES

The Society reports its results using a number of financial measures which are not driven by accounting standards (non-IFRS measures). These measures are used to understand our performance, and they are measures which are used internally when assessing the Society's results.

More information on each alternative performance measure is set out below:

MEASURE	CALCULATION
MEMBER VALUE A measure of the additional interest paid to our savings members as a result of the Society's interest rates being superior to the market average.	The Society's average month end savings rates are compared with the Bank of England average rates for household interest-bearing deposits. This calculation is adjusted to reflect the Society's mix of products.
NET INTEREST MARGIN A measure of profitability which is used throughout the building society sector.	Net interest income as a percentage of average total assets. Net interest income is the difference between interest receivable on assets and interest payable on liabilities.
COST TO MEAN ASSETS RATIO A measure of cost efficiency used throughout the building society sector.	Administrative expenses, depreciation and amortisation as a percentage of average total assets.
SPENDING ON INVESTMENT PROJECTS A measure of the Society's investment in improving technology infrastructure, operational resilience and services for members and customers.	Third party and employee costs recognised within management expenses that relate to the Society's change projects.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

NON-FINANCIAL INFORMATION

The table below contains information relating to the key non-financial matters which impact the Society. We comply with the non-financial reporting requirements within Sections 414CA and 414CB of the Companies Act 2006.

NON-FINANCIAL REPORTING CATEGORY	MORE INFORMATION
BUSINESS MODEL AND RISKS	
A description of our business model and our top and emerging risks is included in this Strategic Report.	See pages 10 and 25
KEY PERFORMANCE INDICATORS	
Our performance highlights are presented within this Strategic Report.	See page 02
Our remuneration scorecard and targets are included in the Directors' Remuneration Report.	See page 109
Our key alternative performance measures are explained above.	
OUR COLLEAGUES	
Information relating to colleague engagement is included within this Strategic Report.	See page 14
We are committed to creating a balanced and diverse workforce. More information on diversity and inclusion is included in this Strategic Report and on our website.	See page 22 www.thecoventry.co.uk
We aim to reward our people fairly and we have programmes in place to improve our gender pay gap. More information on this is in this Strategic Report.	See page 19 More information is available at www.thecoventry.co.uk
Disclosures relating to our CEO pay ratio are included in this report.	See page 19
The Society has a Code of Conduct which sets out the behaviour which is expected from all our colleagues. We aim to operate in a fair and honest way, and recognise that openness and trust are essential to creating mutually rewarding relationships and delivering excellent service to members.	
HUMAN RIGHTS	
Information on the policies we have in place to address the risk of modern slavery in this Strategic Report.	See page 23
ANTI-BRIBERY AND CORRUPTION	
Information on our Anti-bribery and Corruption Policy is included in this Strategic Report.	See page 23
OUR COMMUNITIES	
Information on how we interact with our communities is included in this Strategic Report.	See page 15
OUR ENVIRONMENT	
Information on the Society's environmental commitments is included in this Strategic Report.	See page 15
Our full Environmental Policy is published on our website.	www.thecoventry.co.uk

The Strategic Report has been approved by the Board of Directors and signed on its behalf by:

Steve Hughes
Chief Executive
3 March 2020

RISK MANAGEMENT REPORT

THIS SECTION OUTLINES THE RISKS THAT THE SOCIETY IS EXPOSED TO AND HOW THEY ARE MANAGED.

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RISK MANAGEMENT REPORT

INTRODUCTION

This Risk Management Report sets out the principal risks to which the Society is exposed and provides information on how it manages them.

The report also includes information on the Society's capital position as holding capital is one of the ways that the Society protects members from the impact of a risk which materialises.

PRINCIPAL RISKS

The principal categories of risk to which our business model is inherently exposed are set out below. These risk categories are managed through the Society's Enterprise Risk Management Framework (ERMF) and more information is included in the following sections of this report.

Information on the Society's top and emerging risks is included in the Strategic Report.

Risk categories	Mitigation
CREDIT RISK The risk that borrowers or counterparties do not meet their financial obligations.	We operate robust underwriting and affordability assessments which, together with appropriate credit policies, results in the Society lending responsibly and remaining low risk.
MARKET RISK 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 rate swap agreements to mitigate the impact of changes in interest rates.
LIQUIDITY AND FUNDING RISK 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.
CONDUCT RISK 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.
OPERATIONAL RISK The risk of loss arising from inadequate internal processes, people and systems, of 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 2020 we have adapted and enhanced our operational risk management framework to enable the Society to react effectively to the demands of Covid-19. We have built in business continuity capability to ensure operational resilience. We closely monitor the regulatory environment to understand and model the impact of upcoming regulatory change.
MODEL RISK 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.
STRATEGIC RISK 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. The Society continues to focus on developing products and services to meet changing demands and engages with members to identify product and service enhancements that they need and value in order to do this.

CONTROLLING AND MANAGING RISK

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.

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.

THREE LINES OF DEFENCE

The Society operates within a 'three lines of defence' model, recognised as an industry standard for risk management. The key accountabilities of the three lines of defence within the Society are set out below:

FIRST LINE OF DEFENCE

THE BUSINESS

- Owns and manages the Society's risks.
- Is responsible for compliance with relevant regulation and legislation.
- Identifies, manages and mitigates the risks of the Society.
- Defines and operates controls.
- Assesses key risk indicators and market conditions.
- Produces management information and reports on risk.

SECOND LINE OF DEFENCE

RISK OVERSIGHT

- Designs, interprets and develops the Enterprise Risk Management Framework, and monitors business as usual adherence to the framework.
- Provides oversight and challenge over the management of risks.
- Develops compliance policies, supports delivery of regulatory change and monitors and reports on regulatory issues.
- Is responsible for overseeing effective compliance with relevant regulation and legislation.

THIRD LINE OF DEFENCE

INTERNAL AUDIT

- Conducts independent testing and verification of the efficiency of the Society's business model, controls, policies, processes and business line compliance.
- Provides assurance that the risk management process is functioning as designed.
- Is responsible for providing assurance over compliance with relevant regulation and legislation.

RISK MANAGEMENT REPORT CONTINUED

RISK MANAGEMENT

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.
- Respond to risks by evaluating them against the Society's risk appetite, formulating associated management responses and monitoring progress against agreed management action plans.

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.

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.

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 three elements:

- Tone from above – the Board and executive management act, and encourage employees to act, with openness and integrity, especially in the fair treatment of 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 that 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 within financial services.
- Incentives – the Society makes sure that its performance management and reward frameworks 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 2020 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.

The Board's strategy continues to be that the Society operates as a below median risk building society. This generates a number of risk appetite statements and limits. Where management can meet strategic objectives without using the full extent of the Society's risk appetite, the Board expects it to do so.

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.

More detail on the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) is set out in the sections that follow covering capital, and liquidity and funding risk.

GOVERNANCE AND CONTROL

The Society has a number of committees which oversee and monitor risk as set out below. The Board delegates to 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).

Further information on BRC and BAC is included in the Governance Report.

THE BOARD

Board Risk Committee (BRC)
Chair: Martin Stewart, Non-Executive Director

See BRC Report

Board Audit Committee (BAC)
Chair: Iraj Amiri, Non-Executive Director

See BAC Report

Chief Executive Officer

Executive Risk Committee (ERC)
Chair: Fraser McNeill, Chief Risk Officer

- Oversees and monitors strategic risk, including pension obligation risk.
- Ensures that risk is being identified and managed effectively 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 CRO.
These reports are also submitted directly to BRC to ensure independent non-executive committee oversight of the Society's risk exposures.

Risk Oversight Committee (ROC) Chair: Fraser McNeill, Chief Risk Officer	Conduct Risk and Compliance Committee (CRCC) Chair: Ian Baker, Head of Conduct Risk Risk Oversight and Complaince	Asset and Liability Committee (ALCO) Chair: Lee Raybould, Interim Chief Financial Officer	Retail Credit Risk Committee (RCRC) Chair: Fraser McNeill, Chief Risk Officer	Operational Risk Committee (ORC) Chair: Peter Frost, Chief Customer Officer
• Provides independent oversight of the management of risk throughout the Society and ensures that risks are identified, assessed, managed, monitored and reported effectively and consistently.	• 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.	• 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.	• 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. • Oversees management of model risk in relation to retail credit risk through its sub-committee, the Models and Ratings Committee, which is chaired by the Chief Financial Officer.	• Provides primary oversight of all operational risk categories. • Ensures compliance with limits approved by the Board.

RISK MANAGEMENT REPORT

RISK CATEGORIES

CREDIT RISK

Credit risk is the risk that borrowers or counterparties do not meet their financial obligations to the Society as they fall due.

MAXIMUM EXPOSURE TO CREDIT RISK

The Society's exposure to credit risk mostly relates to loans and advances to customers. The maximum exposure to credit risk increased to £53.8 billion in 2020 (2019: £51.1 billion) as a result of growth in the mortgage book and an increase in liquid assets.

The maximum exposure to credit risk for on-balance sheet and off-balance sheet financial exposures is set out below, allowing for impairment where appropriate. The maximum exposure to credit risk for off-balance sheet financial exposures is considered to be the contractual nominal amounts.

(Audited)	On-balance sheet carrying value 2020 £m	Off-balance sheet exposures[1] 2020 £m	Maximum credit risk exposure 2020 £m	On-balance sheet carrying value 2019 £m	Off-balance sheet exposures[1] 2019 £m	Maximum credit risk exposure 2019 £m
Cash and balances with the Bank of England	5,728.9	–	5,728.9	5,226.0	–	5,226.0
Loans and advances to credit institutions	590.5	–	590.5	336.1	–	336.1
Debt securities	995.1	–	995.1	1,292.6	–	1,292.6
Loans and advances to customers	43,482.8	2,534.0	46,016.8	42,234.7	1,675.9	43,910.6
Hedge accounting adjustments	366.6	–	366.6	149.7	–	149.7
Derivative financial instruments	173.5	–	173.5	137.9	–	137.9
Total	51,337.4	2,534.0	53,871.4	49,377.0	1,675.9	51,052.9

1. Off-balance sheet exposures comprise pipeline loan commitments and undrawn loan facilities.

Retail credit risk and treasury credit risk are considered separately below.

RETAIL CREDIT RISK

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 Society continues to focus on low risk, high quality owner-occupier and buy to let mortgages. Non-traditional mortgage lending outside these core segments relates to legacy products and comprises just 0.4% (2019: 0.6%) of total gross balances.

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 4.9% of the owner-occupier portfolio at 31 December 2020 (2019: 5.4%) with an average loan to value of 37.6% (2019: 39.4%).

During 2020, the credit risk profile of the Society's mortgage book has been significantly impacted by the emergence of the Covid-19 pandemic and government measures to control it. The Society has worked to support customers who have experienced payment difficulties throughout the year. The Society has granted 39,336 payment holidays to customers, of which 2,565 were active at the year end.

More information on the impact of Covid-19 on retail credit risk is included in the following sections.

A summary of the Society's loans and advances to customers by product type is shown below.

Loans and advances to customers (Audited)	2020 £m	2020 %	2019 £m	2019 %
Residential mortgages: owner-occupier	25,508.7	58.7	25,198.9	59.7
Residential mortgages: buy to let	17,740.7	40.8	16,732.6	39.6
Total traditional residential mortgages	43,249.4	99.5	41,931.5	99.3
Residential near-prime mortgages	53.8	0.1	59.2	0.1
Residential self-certification mortgages	136.9	0.3	156.3	0.4
Commercial mortgages[1]	1.8	–	2.0	–
Total non-traditional mortgages	192.5	0.4	217.5	0.5
Unsecured personal loans[1]	17.2	–	20.0	–
Total gross balance	43,459.1	99.9	42,169.0	99.8
Impairment	(48.1)	(0.1)	(12.0)	–
EIR asset[2]	71.1	0.2	75.8	0.2
Fair value and other adjustments[2]	0.7	–	1.9	–
Total net balance	43,482.8	100.0	42,234.7	100.0

1. Legacy books of unsecured personal loans and commercial mortgages. The credit risk for these is immaterial and therefore not considered further in this report.
2. The effective interest rate (EIR) asset and fair value and other adjustments have been presented separately from gross balances in order to aid understanding.

GEOGRAPHICAL CONCENTRATION

The mortgage portfolio is well diversified and reflects the national coverage of the Society's distribution channels.

The geographical split of mortgages by balance, gross of impairment provisions, is shown below and has remained broadly stable:

Region (Audited)	2020 %	2019 %
London	27.9	27.6
South East England	18.7	18.7
Central England	14.1	14.2
Northern England	13.1	13.1
East of England	11.7	11.7
South West England	8.8	8.9
Scotland	3.4	3.4
Wales and Northern Ireland	2.3	2.4
Total	100.0	100.0

LOAN TO VALUE AND INCOME MULTIPLES (UNAUDITED)

The low loan to value (LTV) profile of the mortgage book, as shown in the following tables, is a reflection of the Society's low risk approach to lending. The Society updates the estimated value of the properties securing the mortgage portfolio on a quarterly basis using Nationwide regional house price indices and all tables within this report are prepared using these valuations.

The standard maximum income multiple for owner-occupier mortgages is 4.5. The Society lends on multiples of up to 5.0 for very low (65% or lower) LTV cases. Any lending at or above 4.5 times income is closely monitored and 5.9% (2019: 3.4%) of advances were made at or above this level in 2020, which is well below the maximum limit of 15% set by the Bank of England's Financial Policy Committee (FPC). The Society reduces maximum income multiples permitted if the loan term extends significantly into retirement to ensure it remains affordable.

The Society is a responsible lender and operates robust affordability checks before advancing any loans. For owner-occupier mortgages, ensuring a borrower has sufficient net income, both at the time of application and in a future higher interest rate environment, is a key part of this. For buy to let loans the Society sets minimum interest coverage ratios which reflect among other things the tax status of borrowers.

The Society's actual average interest coverage ratio at the end of the year using a stressed 5% interest rate was 175.4% (2019: 175.4%), significantly above its minimum lending criteria. The Society also lends to portfolio landlords within the buy to let segment and takes a prudent approach to assessing portfolio LTV and income coverage ratios. There are also limits on the number of properties in the portfolio both in total and those which the Society will lend on. Each loan in a portfolio is assessed on a standalone basis and no allowance is made in the affordability assessment for other income of the borrower.

RISK CATEGORIES CONTINUED

The LTV distribution of the mortgage book as at 31 December 2020 improved compared with 2019 as shown below. The following tables calculate LTV based on the weighted average loan balances unless stated otherwise.

Total mortgage book profile by number of accounts (Audited)	2020 %	2019 %
Indexed loan to value:		
< 50%	53.4	49.7
50% to 65%	26.4	25.0
65% to 75%	13.6	14.7
75% to 85%	5.8	7.4
85% to 95%	0.8	3.1
> 95%	0.0	0.1
Total	100.0	100.0
Average indexed loan to value of stock (simple average)	45.7	48.0
Average indexed loan to value of stock (balance weighted)	52.8	55.4

The average indexed LTV of loan stock in London has decreased to 51.7% (2019: 54.1%) as a result of increases in house prices during the year. The rest of the portfolio has also seen indexed LTV fall to 53.3% (2019: 55.9%).

The average LTV of gross new lending in 2020 is shown below. In 2020 the percentage of new buy to let lending increased during the year particularly for remortgages. Owner-occupier purchases also increased which reflects the active house purchase market in the second half of the year.

The average LTV of the new lending book has been maintained during the year.

Gross lending by balance – new business profile (Audited)	2020 %	2019 %
Owner-occupier purchase	34.9	33.9
Owner-occupier remortgages	23.1	30.7
Owner-occupier further advances	2.1	2.0
Buy to let purchase	8.1	7.7
Buy to let remortgages	31.1	25.0
Buy to let further advance	0.7	0.7
Total	100.0	100.0
Average loan to value (simple average)	59.8	59.6
Average loan to value (balance weighted)	63.7	63.7

RETAIL CREDIT RISK MANAGEMENT – MORTGAGES

The Retail Credit Risk Committee (RCRC) and ultimately the Board oversee the Society's credit risk management supported by a specialist retail credit risk department reporting to the Chief Risk Officer.

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.

The lending criteria have been updated in 2020 in order to reduce retail credit risk during the Covid-19 pandemic. The updates include:

- Lending restricted to 90% LTV for owner-occupier mortgages.
- Limits on the type of income which can be used to assess affordability, including reductions in overtime, shift allowance, commissions and bonuses.
- Capital raising loans are only permitted for owner-occupier loans up to 65% LTV for self-employed applicants, and limited to a maximum of 75% LTV where the funds are to be used for debt consolidation.

The Society also ensures that there is no overexposure 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'S APPROACH TO PAYMENT DIFFICULTIES

Covid-19 payment holidays

The Society has worked to support customers who have experienced payment difficulties during 2020 as a result of the Covid-19 pandemic 39,336 payment holidays have been granted during the year, of which 2,565 were active at 31 December 2020.

The table below shows the active payment holidays by product type.

31 December 2020 (Audited)	No. of active payment holidays[1]	% of total mortgage accounts	Gross balance £m	% of gross mortgage balance	Balance weighted average LTV %
Residential					
Owner-occupier mortgages	1,779	1.0	317.3	1.2	57.7
Buy to let mortgages	717	0.6	133.5	0.8	57.7
Near-prime mortgages	23	3.5	3.3	6.1	54.0
Self-certification mortgages	38	2.3	6.0	4.4	53.9
Other					
Commercial mortgages	–	–	–	–	–
Unsecured	8	0.4	0.1	0.6	–
Total	2,565	0.9	460.2	1.1	57.6

1. Payment holidays where mortgage payments are due to resume on or after 1 January 2021.

Of the accounts with payment holidays which had expired at 31 December 2020, 98.3% had commenced repayments.

A further 1.7% had not resumed payments – these accounts had balances of £87.6 million and a balance weighted LTV of 56.4%. The Society is working with these customers to assess their future affordability. In these cases, the Society seeks to reach a sustainable and fair arrangement to regularise the position in a timeframe which is acceptable to both the Society and the borrower.

Arrears performance

In 2020, arrears of three months or more have increased albeit from historical low levels seen previously. This position has been supported by the application of Covid-19 mortgage payment holidays for customers who have experienced financial difficulty during 2020. The overall credit quality of the book remains high and arrears levels compare favourably to the UK Finance average.

The Society will only seek repossession of a property when all reasonable efforts have failed or where the mortgage is unsustainable in the longer term. There has been a moratorium on house repossessions since March 2020 which is expected to remain in place until 1 April 2021. This has led to an increase in balances which are six months or more in arrears as shown in the table below. As at 31 December 2020 there have been 66 accounts which have been prevented from moving into possession proceedings which may have otherwise have done so during the year if not for the possession moratorium.

	2020		2019	
(Audited)	Gross balance £m	Arrears balance £m	Gross balance £m	Arrears balance £m
Greater than three months	**69.3**	**2.7**	54.0	1.7
Greater than six months	**38.7**	**2.1**	22.3	1.0
Greater than one year	**12.5**	**1.1**	5.1	0.4
In possession	**3.1**	**0.2**	4.6	0.2

The accounts in arrears as a percentage of loans and advances to customers has also increased during the year due to the worsening environment however remains significantly lower than the UK Finance average, as shown below:

	2020		2019	
(Audited)	Society %	UK Finance[1] %	Society %	UK Finance[1] %
Greater than three months	**0.18**	**0.83**	0.16	0.72
Greater than six months	**0.10**	**0.56**	0.06	0.43
Greater than one year	**0.03**	**0.31**	0.01	0.22
In possession	**0.01**	**0.01**	0.01	0.02

1. UK Finance data as at 31 December 2020 (31 December 2019).

RISK CATEGORIES CONTINUED

Extent and use of forbearance (Unaudited)

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 of time.
- 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.
- A change of product which results in more sustainable monthly payments.

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.

Details of loans which have had forbearance measures granted in the last 12 months are shown below. This does not include Covid-19 payment holidays which are reported separately above.

	2020		2019	
(Unaudited)	No. of accounts	Carrying value £m	No. of accounts	Carrying value £m
Forbearance: Accounts past due				
Arrangements	**402**	**43.9**	542	58.0
Concessions	**42**	**7.5**	20	3.7
Term extensions	**3**	**0.4**	6	0.9
Forbearance indicators: Accounts not past due				
Payment holidays granted by Collections department	**54**	**5.7**	191	22.7
Term extensions	**139**	**24.8**	154	30.0
Capitalisation of arrears	**–**	**–**	5	0.6

The number of loans in forbearance has decreased compared with 2019 reflecting the impact of the Government support schemes in combating Covid-19. This table includes customers who have previously had Covid-19 payment holidays and then moved onto forbearance measures as a result of entering financial difficulty.

Accounts which have had a Covid-19 payment holiday for longer than three months or had a Covid-19 payment holiday of any length and are also showing other signs of credit deterioration are assessed as stage 2 under IFRS 9. All accounts subject to non-Covid related forbearance are assessed as either stage 2 or 3 under IFRS 9 and the Society recognises a lifetime expected credit loss for these as an impairment provision. More information on expected credit losses is included below.

IDENTIFYING IMPAIRED LOANS (AUDITED)

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 unlikeliness 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 impact of Covid-19 has increased uncertainty in relation to identifying a significant increase in credit risk. More information on the accounting judgements which have been applied are included in note 12 to the accounts.

At 31 December 2020, 91.3% of the Society's loans and advances to customers were within the stage 1 'performing' category (2019: 97.0%). This proportion has decreased during 2020 as a result of the worsened credit environment driven by the Covid-19 pandemic.

The table below shows gross loans and advances to customers split by IFRS 9 stage at 31 December 2020 and at 31 December 2019. For loans in stages 2 and 3, further analysis of accounts which are past due and not past due is also shown.

			Of which			Of which		
2020 (Audited)	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Not past due £m	Past due £m	Stage 3 'Default' £m	Not past due £m	Past due £m	Total £m
Residential mortgages								
Owner-occupier	23,089.8	2,300.3	2,252.4	47.9	118.6	54.7	63.9	25,508.7
Buy to let	16,532.8	1,152.3	1,122.1	30.2	55.6	21.7	33.9	17,740.7
Total traditional residential mortgages	39,622.6	3,452.6	3,374.5	78.1	174.2	76.4	97.8	43,249.4
Non-traditional mortgages								
Residential near-prime	21.1	18.7	17.3	1.4	14.0	5.6	8.4	53.8
Residential self-certified	45.6	73.6	72.1	1.5	17.7	8.3	9.4	136.9
Commercial lending	–	1.4	1.4	–	0.4	0.4	–	1.8
Total non-traditional mortgages	66.7	93.7	90.8	2.9	32.1	14.3	17.8	192.5
Unsecured loans	14.1	2.8	2.5	0.3	0.3	0.2	0.1	17.2
Total gross loans	39,703.4	3,549.1	3,467.8	81.3	206.6	90.9	115.7	43,459.1
	%	%	%	%	%	%	%	%
Total gross loans	91.3	8.2	8.0	0.2	0.5	0.2	0.3	100.0

			Of which			Of which		
2019 (Audited)	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Not past due £m	Past due £m	Stage 3 'Default' £m	Not past due £m	Past due £m	Total £m
Residential mortgages								
Owner-occupier	24,433.1	644.5	588.5	56.0	121.3	48.2	73.1	25,198.9
Buy to let	16,350.4	340.7	307.9	32.8	41.5	19.7	21.8	16,732.6
Total traditional residential mortgages	40,783.5	985.2	896.4	88.8	162.8	67.9	94.9	41,931.5
Non-traditional mortgages								
Residential near-prime	26.5	16.3	14.2	2.1	16.4	5.2	11.2	59.2
Residential self-certified	63.5	75.2	72.0	3.2	17.6	6.7	10.9	156.3
Commercial lending	–	1.6	1.6	–	0.4	0.4	–	2.0
Total non-traditional mortgages	90.0	93.1	87.8	5.3	34.4	12.3	22.1	217.5
Unsecured loans	19.6	0.3	–	0.3	0.1	–	0.1	20.0
Total gross loans	40,893.1	1,078.6	984.2	94.4	197.3	80.2	117.1	42,169.0
	%	%	%	%	%	%	%	%
Total gross loans	97.0	2.5	2.3	0.2	0.5	0.2	0.3	100.0

At the reporting date, 91.3% of loans are in stage 1 with 8.2% in stage 2 and 0.5% in stage 3 (2019: 97.0%, 2.5% and 0.5%). Cure periods are applied to accounts in stages 2 and 3 which have had a Covid-19 payment holiday in addition to accounts which have hit certain quantitative triggers such as arrears. These cure periods delay transition of loans to a lower credit risk classification (i.e. from stage 3 to stage 2 or from stage 2 to stage 1) by requiring 12 months of sustained performance before a loan is reassessed. As a result, loans can be recorded in stage 2 or stage 3 despite otherwise performing at the reporting date.

Stage 2 balances were £3,549.1 million (2019: £1,078.6 million) and of these £81.3 million or 2.3% (2019: £94.4 million, 8.8%) are in arrears by 30 days or more. A total of £2,604.1 million are present within stage 2 as a result of the new SICR criteria established for the Covid-19 pandemic of which £324.9 million or 9.2% have an active Covid-19 payment holiday at 31 December 2020. Of these balances £2,561.5 million or 98.4% of accounts are up to date as at 31 December 2020 and remain in stage 2 as a result of cure rules or other indicators of increased risk. The significant increase in stage 2 balances has been driven by the impact of Covid-19 and all accounts which have either had a payment holiday of more than three months or have had a payment holiday of any length but are also showing signs of credit deterioration have been assessed as stage 2.

RISK CATEGORIES CONTINUED

Of the £206.6 million (2019: £197.3 million) of loans which are classified as stage 3 at the reporting date, 35.0% or £72.4 million were greater than three months in arrears (2019: 29.8%, £58.7 million), and 44.0% (£90.9 million) were paid up to date (2019: 40.2%, £80.2 million). This position has deteriorated slightly since 2019 as a result of the worsened economic environment and the moratoria on repossessions which means that loans which have defaulted are not moving through to possession. At the 31 December there are 66 properties with a property value of £18.0 million and a loan balance of £8.5 million to which possession proceedings may have started had the moratoria not been in place.

The number of properties which are in possession remains low and a total of £3.1 million of stage 3 loans are in possession (2019: £4.6 million), representing 22 individual properties (2019: 33 properties).

The table below shows total impairment provision split by IFRS 9 stage at 31 December 2020 and the previous year. For stages 2 and 3, further analysis of accounts which are past due and not past due is also shown.

Impairment provision as at 31 December 2020 (Audited)	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Of which: Not past due £m	Of which: Past due £m	Stage 3 Lifetime ECL £m	Of which: Not past due £m	Of which: Past due £m	Total £m
Residential mortgages								
Owner-occupier	4.8	16.5	16.4	0.1	5.2	3.7	1.5	26.5
Buy to let	3.5	10.3	10.2	0.1	4.7	2.7	2.0	18.5
Total traditional residential mortgages	8.3	26.8	26.6	0.2	9.9	6.4	3.5	45.0
Non-traditional mortgages								
Residential near-prime	0.1	0.2	0.2	–	0.2	0.1	0.1	0.5
Residential self-certified	–	0.5	0.5	–	0.7	0.4	0.3	1.2
Commercial lending	–	0.2	0.2	–	0.2	0.2	–	0.4
Total non-traditional mortgages	0.1	0.9	0.9	–	1.1	0.7	0.4	2.1
Unsecured loans	0.1	0.7	0.6	0.1	0.1	0.1	–	0.9
Mortgage pipeline	0.1	–	–	–	–	–	–	0.1
Total impairment provision	8.6	28.4	28.1	0.3	11.1	7.2	3.9	48.1
	%	%	%	%	%	%	%	%
Total impairment provision	17.9	59.0	58.4	0.6	23.1	15.0	8.1	100.0

Impairment provision as at 31 December 2019 (Audited)	Stage 1 12 month ECL £m	Stage 2 Lifetime ECL £m	Of which: Not past due £m	Of which: Past due £m	Stage 3 Lifetime ECL £m	Of which: Not past due £m	Of which: Past due £m	Total £m
Residential mortgages								
Owner-occupier	0.5	2.0	1.8	0.2	3.7	2.3	1.4	6.2
Buy to let	0.2	0.8	0.7	0.1	3.5	2.1	1.4	4.5
Total traditional residential mortgages	0.7	2.8	2.5	0.3	7.2	4.4	2.8	10.7
Non-traditional mortgages								
Residential near-prime	–	0.1	0.1	–	0.1	–	0.1	0.2
Residential self-certified	–	0.1	0.1	–	0.2	–	0.2	0.3
Commercial lending	–	0.2	0.2	–	0.2	0.2	–	0.4
Total non-traditional mortgages	–	0.4	0.4	–	0.5	0.2	0.3	0.9
Unsecured loans	0.2	–	–	–	0.1	–	0.1	0.3
Mortgage pipeline	0.1	–	–	–	–	–	–	0.1
Total impairment provision	1.0	3.2	2.9	0.3	7.8	4.6	3.2	12.0
	%	%	%	%	%	%	%	%
Total impairment provision	8.3	26.7	24.2	2.5	65.0	38.3	26.7	100.0

A reconciliation of movements in gross exposures and impairment provision by IFRS 9 stage from 1 January to 31 December 2020 is as follows:

	Stage 1		Stage 2		Stage 3		Total	
(Audited)	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2020	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(3,104.2)	(0.1)	3,104.2	0.5	–	–	–	0.4
Transfer from stage 1 to stage 3	(39.1)	–	–	–	39.1	0.9	–	0.9
Transfer from stage 2 to stage 3	–	–	(57.5)	(0.2)	57.5	0.2	–	–
Transfer from stage 3 to stage 2		–	36.9	0.9	(36.9)	(0.9)	–	–
Transfer from stage 3 to stage 1	10.8	0.1	–	–	(10.8)	(0.1)	–	–
Transfer from stage 2 to stage 1	303.0	–	(303.0)	(0.4)	–	–	–	(0.4)
Net movement arising from transfer of stages	(2,829.5)	–	2,780.6	0.8	48.9	0.1	–	0.9
New loans originated[1]	6,981.1	0.5	2.5	–	–	–	6,983.6	0.5
Remeasurement of ECL due to changes in risk parameters	–	(4.7)	–	4.5	–	1.7	–	1.5
Increase in post model adjustments	–	12.0	–	19.4	–	2.2	–	33.6
Remeasurement of ECL due to model refinements[2]	–	0.1	–	0.9	–	1.0	–	2.0
Loans derecognised in the period	(3,698.9)	(0.3)	(233.3)	(0.4)	(32.1)	(0.7)	(3,964.3)	(1.4)
Other items impacting Income Statement reversal	–	–	–	–	–	(0.3)	–	(0.3)
Net write offs directly to Income Statement	–	–	–	–	–	(0.4)	–	(0.4)
Income Statement charge for the period		7.6		25.2		3.6		36.4
Repayment and charges	(1,642.4)	–	(79.3)	–	(6.4)	–	(1,728.1)	–
Net write offs and other ECL movements	–	–	–	–	(1.1)	(0.3)	(1.1)	(0.3)
At 31 December 2020	39,703.4	8.6	3,549.1	28.4	206.6	11.1	43,459.1	48.1

1. New mortgages originated in stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2020. These include an update to the calculation of the probability of default for interest rate shock, enhancements to staging methodology for UPLs, time to modelled possession of properties in default, and lag of unemployment to credit deterioration in Buy to let properties. In the period these refinements increased ECLs by £2.0 million at Group and £1.2 million within the Society.

RISK CATEGORIES CONTINUED

(Audited)	Stage 1 Gross balance £m	Stage 1 Provision 12 month ECL £m	Stage 2 Gross balance £m	Stage 2 Provision lifetime ECL £m	Stage 3 Gross balance £m	Stage 3 Provision lifetime ECL £m	Total Gross balance £m	Total Provision £m
At 1 January 2019	37,853.6	1.4	1,129.6	3.9	208.6	6.3	39,191.8	11.6
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(570.0)	(0.1)	570.0	1.1	–	–	–	1.0
Transfer from stage 1 to stage 3	(39.6)	–	–	–	39.6	1.1	–	1.1
Transfer from stage 2 to stage 3	–	–	(49.9)	(0.3)	49.9	0.3	–	–
Transfer from stage 3 to stage 2	–	–	38.2	0.5	(38.2)	(0.5)	–	–
Transfer from stage 3 to stage 1	11.8	–	–	–	(11.8)	(0.1)	–	(0.1)
Transfer from stage 2 to stage 1	465.2	0.1	(465.2)	(0.5)	–	–	–	(0.4)
Net movement arising from transfer of stages	(132.6)	–	93.1	0.8	39.5	0.8	–	1.6
New loans originated[1]	8,582.4	0.6	4.2	–	0.1	–	8,586.7	0.6
Remeasurement of ECL due to changes in risk parameters	–	(0.1)	–	(0.3)	–	0.6	–	0.2
(Decrease)/Increase in post model adjustments	–	–	–	(0.3)	–	3.1	–	2.8
Remeasurement of ECL due to model refinements[2]	–	(0.4)	–	(0.6)	–	(0.1)	–	(1.1)
Loans derecognised in the period	(3,752.7)	(0.4)	(103.4)	(0.3)	(40.6)	(0.7)	(3,896.7)	(1.4)
Other items impacting Income Statement reversal	–	–	–	–	–	(0.3)	–	(0.3)
Net write offs directly to Income Statement	–	(0.1)	–	–	–	(0.4)	–	(0.3)
Income Statement (credit)/ charge for the period		(0.2)		(0.7)		3.0		2.1
Repayment and charges	(1,657.3)	–	(44.9)	–	(7.9)	–	(1,710.1)	–
Net write offs and other ECL movements	(0.3)	(0.2)	–	–	(2.4)	(1.5)	(2.7)	(1.7)
At 31 December 2019	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0

1. New mortgages originated in stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2019. These include an update to the calculation of the Probability of Default and an enhancement to the regional House Price Index modelling capability. In the year these refinements decreased ECLs by £1.1 million at Group level and £0.4 million within the Society.

The LTV distribution of the mortgage book by IFRS 9 stage has remained broadly stable during 2020 with 89% of the mortgage book having an LTV of 75% or lower (2019: 85.0%).

The Society updates its security values using the Nationwide Building Society quarterly regional HPI. Part of the risk assessment of the portfolio also includes an initial individual revaluation of security using automated valuation model (AVM) values, and following model build and testing it is expected that the Society will use AVM values more widely in future. Initial indications suggest that this assessment will reduce the weighted average ILTV of both the owner occupier and buy to let portfolios. Notwithstanding the anticipated reduced ILTV across the portfolios, an estimate of approximately £80 million of additional negative equity balances over and above the current methodology and reported figure has been used when considering expected credit losses.

The LTV distribution of the mortgage book by IFRS 9 stage has remained broadly stable during 2020 with 89% of the mortgage book having an LTV of 75% or lower (2019: 85.0%). This is shown by IFRS 9 stage below:

As at 31 December 2020 Indexed loan to value (Audited)	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Impairment £m	Total £m
< 50%	16,802.1	1,187.7	86.8	(1.3)	18,075.3
50% to 65%	12,595.2	1,130.7	62.8	(8.0)	13,780.7
65% to 75%	6,354.8	764.7	32.5	(14.4)	7,137.6
75% to 85%	3,465.7	435.3	17.4	(14.5)	3,903.9
85% to 90%	402.2	22.0	2.6	(1.6)	425.2
90% to 95%	67.1	3.7	0.6	(0.4)	71.0
95% to 100%	1.1	1.3	0.6	(0.3)	2.7
> 100%	1.1	0.9	3.0	(1.4)	3.6
Unsecured loans	14.1	2.8	0.3	(1.0)	16.2
Mortgage pipeline	–	–	–	(0.1)	(0.1)
Other[1]	–	–	–	(5.1)	(5.1)
Total	**39,703.4**	**3,549.1**	**206.6**	**(48.1)**	**43,411.0**

1. Other includes expected credit losses which are not directly attributable to underlying accounts and therefore are not allocated across loan to value bandings.

As at 31 December 2019 Indexed loan to value (Audited)	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Impairment £m	Total £m
< 50%	15,352.0	403.7	70.7	(0.3)	15,826.1
50% to 65%	12,112.9	326.1	61.9	(0.8)	12,500.1
65% to 75%	7,272.0	195.5	29.2	(1.1)	7,495.6
75% to 85%	4,098.4	102.2	21.0	(2.2)	4,219.4
85% to 90%	1,720.2	39.9	7.2	(1.0)	1,766.3
90% to 95%	309.5	7.0	1.4	(0.3)	317.6
95% to 100%	5.9	1.9	1.7	(0.2)	9.3
> 100%	2.6	2.0	4.0	(1.6)	7.0
Unsecured loans	19.6	0.3	0.2	(0.4)	19.7
Mortgage pipeline	–	–	–	(0.1)	(0.1)
Other[1]	–	–	–	(4.0)	(4.0)
Total	40,893.1	1,078.6	197.3	(12.0)	42,157.0

1. Comparative information has been updated to include 'Other'. Other includes expected credit losses which are not directly attributable to underlying accounts which were previously apportioned based on gross balances.

The credit quality of the mortgage book has been impacted by Covid-19 and payment holidays and other support measures may mean that indicators of deterioration may not be reflected in credit scores. Notwithstanding this, the credit quality of the mortgage book remained high during 2020.

The table below shows the PD of the Society's loans over their life (e.g. PD of less than or equal to 0.25 indicates a 0.25% chance of default over the life of the loan). Default includes cases which are three or more months in arrears or have been three or more months in arrears at some point in the last 12 months in addition to cases which have a specified unlikeliness to pay indicator.

Loan balances are reflected in the respective PD bands of the account as modelled through the Society's standard IFRS 9 impairment models. This has led to an increase of impairment reflected in the lower PD bands as a result of the post model adjustments (PMAs) applied as a result of the Covid-19 pandemic. For more information on PMAs see note 12 to the accounts.

RISK CATEGORIES CONTINUED

As at 31 December 2020 Probability of default (%) (Audited)	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Modelled ECL and non Covid-19 PMAs £m	Covid-19 PMA £m	Total £m
<=0.25	37,800.0	254.8	–	(0.4)	(11.2)	38,043.2
0.26 to 0.50	1,151.3	552.3	–	(0.1)	(4.0)	1,699.5
0.51 to 1.50	367.3	1,187.4	–	(0.1)	(7.7)	1,546.9
1.51 to 5.00	79.8	811.3	–	(0.2)	(5.0)	885.9
5.01 to 20.00	52.3	536.8	–	(0.5)	(2.6)	586.0
20.01 to 100.00	36.7	198.9	–	(0.7)	(0.8)	234.1
Other[1]	216.0	7.6	4.5	(7.2)	–	220.9
Default	–	–	202.1	(6.3)	(1.2)	194.6
Mortgage pipeline	–	–	–	(0.1)	–	(0.1)
Total	39,703.4	3,549.1	206.6	(15.6)	(32.5)	43,411.0

1. Other includes gross loans for equity release mortgages and other loans where credit risk is assessed using alternative calculation methods and their respective ECLs or where ECLs are not directly attributable to underlying accounts and therefore are not allocated across PDs bandings or to Default.

As at 31 December 2019 Probability of default (%) (Audited)	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Impairment £m	Total £m
<=0.25	39,482.1	58.7	–	(0.4)	39,540.4
0.26 to 0.50	698.3	63.9	–	(0.1)	762.1
0.51 to 1.50	313.2	114.7	–	(0.1)	427.8
1.51 to 5.00	62.5	261.9	–	(0.1)	324.3
5.01 to 20.00	51.9	396.5	–	(0.5)	447.9
20.01 to 100.00	49.4	176.2	–	(0.7)	224.9
Other[1]	235.7	6.7	3.1	(5.5)	240.0
Default	–	–	194.2	(4.5)	189.7
Mortgage pipeline	–	–	–	(0.1)	(0.1)
Total	40,893.1	1,078.6	197.3	(12.0)	42,157.0

1. Other includes equity release mortgages and other loans where credit risk is assessed using alternative calculation methods.

CREDIT RISK OUTLOOK

The impact of the pandemic and lockdown measures both in the UK and around the world are expected to result in a continued economic downturn. The Society expects to maintain support for customers who are experiencing payment difficulties with mortgage payment holidays and other forbearance measures in 2021. This is expected to increase once measures such as the furlough scheme remove support for those impacted by lockdowns.

While the Society acknowledges the continued uncertainty associated with Covid-19 both in terms of future house price and unemployment movements following the planned removal of government support schemes, the Society's focus on low risk lending which is geographically spread across the UK offers protection against future house price falls and affordability pressures.

TREASURY CREDIT RISK

Treasury credit risk is the risk that the Society is unable to recover the principal or interest due from a wholesale debtor, or that the value of a wholesale asset or instrument suffers materially due to changes in the creditworthiness of the counterparty.

MANAGEMENT OF TREASURY CREDIT RISK

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, with additional credit limits extended to a small number of highly rated and systemically important institutions in Europe, Australia, Canada and the United States and multilateral development banks (MDBs). In addition, the Society invests in covered bonds and Residential Mortgage Backed Securities (RMBS). The treasury credit framework is reviewed annually by BRC and the Board and reflect internal analysis, external credit ratings and any other relevant factors. There is a maximum permitted exposure set for each category of investments in addition to country and regional limits.

Within the risk framework, detailed limit setting is delegated to the Asset and Liability Committee (ALCO) with oversight from the Risk function. The Treasury Credit Committee monitors and allocates limits within the ALCO approved level.

Exposures are reviewed continuously to ensure that they remain within the approved limits. Developments with treasury counterparties are closely monitored and limits are reduced or suspended where there are adverse changes, including changes in the creditworthiness of counterparties or markets.

TREASURY CREDIT EXPOSURE PROFILE (AUDITED)

Treasury assets comprise cash and balances with the Bank of England, loans and advances to credit institutions and debt securities. The majority of liquidity continues to be held in UK central bank reserves and Government securities.

All of the Society's treasury exposures remain at investment grade as set out below:

	Exposure value by Moody's rating				
2020 (Audited)	Aaa-Aa3 £m	A1-A3 £m	Baa1-Baa3 £m	Unrated £m	Total £m
Central banks and sovereigns	5,979.2	–	–	–	5,979.2
Multilateral development banks (supranational bonds)	167.5	–	–	–	167.5
Financial institutions	619.3	523.1	–	–	1,142.4
Mortgage backed securities	25.4	–	–	–	25.4
Total	6,791.4	523.1	–	–	7,314.5

	Exposure value by Moody's rating				
2019 (Audited)	Aaa-Aa3 £m	A1-A3 £m	Baa1-Baa3 £m	Unrated £m	Total £m
Central banks and sovereigns	5,736.1	–	–	–	5,736.1
Multilateral development banks (supranational bonds)	165.5	–	–	–	165.5
Financial institutions	678.9	197.0	56.9[1]	–	932.8
Mortgage backed securities	20.3	–	–	–	20.3
Total	6,600.8	197.0	56.9	–	6,854.7

1. Cash collateral held by counterparties under Credit Support Annexes (CSAs) in relation to derivative liabilities. The Baa1-Baa3 exposure relates to a single counterparty that was downgraded in 2018.

The majority of treasury assets continue to be held within the UK. The geographical domicile of the Society's treasury assets is shown below:

	Treasury assets					Of which, debt securities		
2020 (Audited)	Sovereign £m	Supranationals £m	Financial institutions £m	Mortgage backed securities £m	Total liquid assets £m	Book value £m	Market value movement £m	Fair value £m
United Kingdom	5,979.2	–	1,024.0	25.4	7,028.6	814.9	12.7	827.6
Supranationals	–	167.5[1]	–	–	167.5	167.0	0.5	167.5
France	–	–	108.5[2]	–	108.5	–	–	–
Australia	–	–	4.2[2]	–	4.2	–	–	–
Canada	–	–	5.7[2]	–	5.7	–	–	–
Total	5,979.2	167.5	1,142.4	25.4	7,314.5	981.9	13.2	995.1

1. Supranationals relate to amounts held with the European Investment Bank (guaranteed by a number of European sovereigns) and both the European and International Bank for Reconstruction and Development (guaranteed by a number of global sovereigns).
2. Cash collateral held by counterparties under Credit Support Annexes (CSAs) in relation to derivative liabilities.

	Treasury assets					Of which, debt securities		
2019 (Audited)	Sovereign £m	Supranationals £m	Financial institutions £m	Mortgage backed securities £m	Total liquid assets £m	Book value £m	Market value movement £m	Fair value £m
United Kingdom	5,736.1	–	839.1	20.3	6,595.5	1,110.5	16.6	1,127.1
Supranationals	–	165.5[1]	–	–	165.5	165.4	0.1	165.5
France	–	–	90.2[2]	–	90.2	–	–	–
Switzerland	–	–	0.2[2]	–	0.2	–	–	–
Australia	–	–	0.5[2]	–	0.5	–	–	–
Canada	–	–	2.8[2]	–	2.8	–	–	–
Total	5,736.1	165.5	932.8	20.3	6,854.7	1,275.9	16.7	1,292.6

1. Supranationals relate to amounts held with the European Investment Bank (guaranteed by a number of European sovereigns) and both the European and International Bank for Reconstruction and Development (guaranteed by a number of global sovereigns).
2. Cash collateral held by counterparties under Credit Support Annexes (CSAs) in relation to derivative liabilities.

RISK CATEGORIES CONTINUED

COUNTERPARTY CREDIT RISK MITIGATION

The Society enters into derivative transactions for risk management purposes. It undertakes sale and repurchase (repo) transactions to manage liquidity and raise longer term funding, where highly rated assets such as gilts are sold with an agreement to repurchase at an agreed price on a later date. Counterparty credit risk includes 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.

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). 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 £7.5 million derivative net credit exposure (2019: £6.6 million), of which £7.5 million (2019: £3.6 million) in respect of an arrangement which will only be fully collateralised if the counterparty is downgraded to below specified credit ratings.

More information is included in note 31 to the accounts.

ANALYSIS OF TREASURY ASSETS BY IFRS 9 STAGE AND IMPAIRMENT

Under IFRS 9 the calculation of impairment on treasury assets is performed on an expected credit loss (ECL) basis.

The Society determines whether there has been a significant increase in credit risk for treasury assets using a range of factors including counterparty credit ratings, internal monitoring processes and, for mortgage backed securities, stress testing. Exposures are monitored by the Treasury Credit Committee.

All of the Society's treasury assets are assessed as stage 1 'performing' assets at both 1 January and 31 December 2020. Due to the underlying quality of the assets, they have remained resilient to the market movements caused by the impact of Covid-19.

ECLs are calculated by applying an externally published PD for the applicable credit risk rating to the treasury exposure value. The required provision has remained negligible for 2020.

As at 31 December 2020, no treasury assets were past due (2019: none).

TREASURY CREDIT RISK OUTLOOK

There remains significant uncertainty in the economic outlook. However, the Society's consistent low risk approach to treasury credit risk protects the Society and its members from credit risk arising on its treasury portfolio. This is expected to be maintained in future periods.

MARKET RISK

Market risk is the risk of a reduction in earnings and/or value resulting from adverse movements in financial markets.

Market risk only arises in the banking book as the Society does not hold a trading book. Interest rate risk in the banking book includes reprice, 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 reprice risk.

MANAGEMENT OF MARKET RISK

The Chief Financial Officer and Treasurer are responsible for managing and monitoring current and emerging market risks. This is overseen by ALCO and Board Risk Committee.

Market risk is managed by:

- Operating within limits that maintains exposure within Board risk appetite.
- Using derivatives such as interest rate swaps.
- Matching offsetting assets and liabilities.
- Maintaining margin capacity through administered rates.
- Investing its reserves and low interest rate savings account balances to reduce income volatility.

The Society complies with the Basel Committee on Banking Supervision's (BCBS) Standards on Interest Rate Risk in the Banking Book (IRRBB) which is being implemented by the PRA.

REPRICE RISK

The Society is exposed to the risk that interest rates change and its assets and liabilities reprice on different dates, resulting in a negative impact. The Society manages reprice risk by limiting the exposure using both economic value and earnings sensitivity measures.

The impact on the value of assets and liabilities under parallel and non-parallel scenarios is monitored by the Society. The key assumptions used in this modelling are:

- A run-off balance sheet which amortises the existing book.
- Contractual positions are adjusted for optionality within products and kept unchanged in all rate scenarios (apart from mortgage take-up).
- Downward shocks allow for negative rates.
- The effect of external hedging is included and reserves are allocated in line with Board approved limits.

The Society monitors its exposure against the prescribed shocks of the BCBS outlier test monthly and the Board sets limits for the maximum change in the Society's economic value of equity beneath the regulatory limit.

In addition to the economic value measures the impact of various interest rate scenarios on net interest income (NII), i.e. an earning measure, over multiple time frames is monitored. The key assumptions used in this modelling are:

- A dynamic balance sheet which includes the run-off of current assets and liabilities as well as retained and new business.
- Contractual positions are adjusted for optionality within products[1] which change with the rate scenario.
- Downward shocks allow for negative rates unless a contractual product floor is reached.
- No variation in commercial pricing assumptions in response to alternative interest rate scenarios.
- Includes the effect of external hedging.

The table below shows the exposure to reprice risk against a range of value and earnings-based assessments as at 31 December 2020. The relatively small change in value and net interest income measures provides insight into the modest amount of reprice risk the Society runs. The Balance Sheet is positioned to benefit from interest rates rising, i.e. losses are in relation to risk of falling interest rates. The sensitivity of the economic value to the different interest rate shocks is driven by pre-hedged customer flow positions and separate assumptions on how they will complete under each shock.

In 2020, given the reduction in interest rates, the Society lowered its flooring used in risk management.

1. Behavioural assumptions are described in the Product option risk section.

RISK MANAGEMENT REPORT

RISK CATEGORIES CONTINUED

Shock applied (Unaudited)	2020 £m	2019 £m
Impact on present value of assets and liabilities at year end from a parallel change in yield curve:		
+100 basis points shift (EV100)	4.4	(9.6)
-100 basis points shift (EV 100)	(1.7)	6.8
+200 basis points shift (EV 200)	49.5	(18.3)
-200 basis points shift (EV 200)	(12.0)	6.8

Shock applied (Unaudited)	2020 £m	2019 £m
Impact on net interest income for the year from a parallel change in yield curve:		
+100 basis points shift (EV 100)	14.5	23.7
-100 basis points shift (EV 100)	(33.1)	(19.8)

PRODUCT OPTION RISK

The Society is exposed to the risk that arises when interest rate changes result in a financial incentive for a customer to exercise an option on a fixed rate product and hedging has to be adjusted at adverse rates. The key behavioural assumptions made are:

- Rate of prepayment of fixed rate mortgages.
- Rate of prepayment of fixed rate savings.
- Rate of conversion of fixed rate mortgage pipeline.

Prepayment risk is quantified and assessed using a set of bespoke models that, based on historical experience, attempt to predict customer behaviour in response to changes in interest rates which are continuously backtested. It is mitigated by appropriate redemption or early withdrawal charges.

Pipeline risk is managed through dynamic hedging of the Society's estimate of likely sales and timing using a conversion model and applying stressed assumptions. Final hedging adjustments are made once the completion onto a product has ceased. The Covid-19 pandemic, including constraints on housing market activity, had a significant impact on pipeline completions behaviour in 2020. In order to address this, the pipeline was closely monitored and the hedging was updated regularly throughout the period. Conversion factors were updated in real time allowing the estimation of completion to be constantly refined in respect of both totals and timings.

BASIS RISK

The Society is exposed to the risk that interest rates change and floating rate liabilities reprice by different amounts than do its assets such that it is negatively impacted. The Society manages basis risk by offsetting assets and liabilities by their reference rate and ensuring that earnings sensitivity to market rates diverging from the Bank of England Base Rate remain within limits. The primary short-term interest rate benchmark that the Society is exposed to is Sterling Overnight Index Average (SONIA).

Interbank Offered Rate (IBOR) reform means that interest rate benchmarks such as LIBOR are expected to cease at the end of 2021. The Society has been removing LIBOR risk in an orderly way since January 2019 by transitioning the Society's LIBOR exposures to SONIA, the Bank of England's preferred risk free rate. ALCO has the responsibility of overseeing the LIBOR replacement project. The project is on track to remove all LIBOR exposures before the planned cessation date.

More information on the impact of IBOR reform is included in note 1 and note 23 to the accounts.

CREDIT SPREAD RISK

Credit spread risk in the banking book is the risk arising from changes in the market value of financial assets due to fluctuations in their credit spread. Beyond cash, the Society holds securities for the high quality liquidity buffer which are held at fair value through other comprehensive income (FVOCI). The Society manages this exposure through a limit which caps the change in the market value of both fixed and floating rate assets under a shock to credit spreads. Due to the low treasury credit risk appetite of the Society, in terms of exposure and credit quality, the risk is constrained.

FOREIGN CURRENCY RISK

The Society raises non-sterling funding to ensure wholesale funds are obtained cost effectively across a wide pool of potential providers. However, this exposes the Society to the risk of a change in the value of foreign currency denominated liabilities. Cross currency swaps are entered into to match the maturity profile of the debt instruments which fully hedges both foreign exchange and interest rate risk. Both pre and post hedged exposures are managed within limits.
Further information is in note 23 to the accounts.

MARKET RISK OUTLOOK

In March 2020 the Bank of England reduced the Base Rate to 0.10% as part of its response to the Covid-19 pandemic. Given the continuing severity of the pandemic, and potential for negative interest rates in future, the Society has considered the possible impacts of negative rates. These include savings rate floors being activated where a fall in market rates is unable to be fully passed on. The Society ensures long-term sustainability by ensuring all costs and risk are captured in the pricing of new mortgages and are generating sufficient earnings to maintain capital within risk appetite.

The Board has approved a hedge of the Society's reserves which give a weighted average life of between 1.5 and 4.5 years. The strategy is designed to smooth earnings volatility arising from changes in interest rates over the longer term and may be extended if the yield curve increases.

The Society is satisfied that this, and the controls outlined above, will mean that market risk remains within appetite.

RISK CATEGORIES CONTINUED

LIQUIDITY AND FUNDING RISK

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.

Both risks are 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.

MANAGEMENT OF FUNDING RISK

The Society ensures that it is not reliant on any single source or funding provider to manage funding risk. It maintains a strong and diversified funding base with access to a range of wholesale funding markets. This reflects the Society's strategy and the traditional building society model.

Retail funding forms the bulk of the funding base and consists of a mix of variable rate products, fixed rate bonds and ISAs. The Society has a strong record of attracting and retaining savings balances and continues to organically grow its savings book. The Society raises deposits from a broad customer base which is spread throughout the UK and offers a range of retail savings products to diversify retail funding. New channels are being explored to diversify this further.

The Society has accessed the Bank of England Term Funding Scheme (TFS) and the Term Funding Scheme with additional incentives for SMEs (TFSME) to further reduce funding costs and diversify exposures and as at 31 December 2020, the Society had £4.55 billion drawn in total from both schemes (2019: £4.25 billion).

The Board sets limits to avoid both over reliance on wholesale funding and funding concentration by type, counterparty or tenor. These limits comply with the Building Societies Act 1986 and follow the Prudential Regulation Authority's (PRA) supervisory guidance.

MANAGEMENT OF LIQUIDITY RISK

The Society ensures it holds sufficient quality and quantity of liquidity to remain a going concern after a severe but plausible stress. In turn this ensures that it meets regulatory requirements set by the PRA. The level of stress applied is dynamically assessed based on an assessment of risks run by the Society and the prevailing economic and market liquidity backdrop.

The Society's business inherently involves 'maturity transformation' as it borrows, or takes deposits, for shorter terms than its mortgage lending. This mismatch could, in certain stressed circumstances, give rise to liquidity risk if the Society was unable to raise new funding or replace existing funding at maturity because of either a liquidity crisis in the capital markets, or a loss of member confidence that causes a 'run' on retail funds at that time.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) is completed to ensure that the Society holds sufficient liquidity to cover this risk. The ILAAP is approved by the Board and confirms the Society's liquidity risk appetite including limits that determine the mix and amount of liquidity it must hold.

The Society's Recovery Plan outlines a menu of actions that can be undertaken to stop the Society from failing in extreme stress situations covering both capital and liquidity stresses. In line with regulatory requirements the Society has put in place actions to ensure there are no material barriers to resolution.

The Society completes regular stress testing including reverse stress testing and tests both the current balance sheet and the latest projections to ensure that actual and forecast liquidity remain within appetite. The forecast and actual liquidity levels are monitored by ALCO, and overseen by the Board.

The Society held a significant buffer above its regulatory liquidity requirement throughout 2020.

LIQUIDITY RESOURCES

The Society's liquidity resources include funds in cash accounts held in the Bank of England reserve account and other easily highly marketable assets and contingent liquidity. They are managed based on the prudent estimation of the expected time taken to convert them into cash in a stress. These limits ensure that the Society meets its risk appetite which is consistently higher than regulatory requirements.

The Society monitors compliance against Liquidity Coverage Ratio (LCR) requirements on a daily basis and as at 31 December 2020, the Society's LCR was 179% (2019: 214%), significantly above the regulatory minimum.

Net Stable Funding Ratio (NSFR) is a measure of stable funding which is targeted for implementation in the UK on 1 January 2022. The Society holds sufficient stable funding to meet the future regulatory requirement of 100% NSFR.

The Society's liquidity resources at 31 December 2020 are set out in the following table. The amount of liquid assets has remained elevated in 2020 as the Society took prudent risk management steps against any funding risk arising from economic uncertainty.

The amounts differ from those in the accounting Balance Sheet as this analysis excludes any encumbered assets such as cash held in the Society's covered bonds and RMBS programmes, and balances posted with counterparties as collateral under swap agreements.

(Audited)	2020 £m	2019 £m
Cash and balances with the Bank of England	5,225.8	4,778.8
UK Government securities and other qualifying securities	918.4	1,284.8
Sub-total high quality liquid assets	6,144.2	6,063.6
Other securities – on-balance sheet	7.2	7.8
Contingent liquidity	6,358.0	2,325.9
Total	12,509.4	8,397.3

Contingent liquidity includes Bank of England approved mortgage portfolios, self-issued covered bonds and RMBS that could be used to access Bank of England liquidity facilities or sold to and repurchased from third parties under repo agreements to realise contingent liquidity. Available contingent liquidity resources increased by £4.0 billion during the year as a result of increases in approved mortgage portfolios in addition to a further £0.9 billion self-issued covered bonds and £0.4 billion self-issued RMBS.

LIQUIDITY ADEQUACY AND STRESS TESTING

The ILAAP ensures that the Society holds sufficient liquidity to meet both minimum regulatory requirements such as the LCR and to comply with the Internal Liquidity Adequacy Assessment (ILAA) Rules, including the Overall Liquidity Adequacy Rule.

The ILAAP explains the assumptions used in the Society's liquidity stress tests including the rationale for their selection and calibration. These assumptions are specific to the Society and reflect the main risks. The stress tests consider the potential causes of liquidity risk for the Society in a severe but plausible stress and the management actions that may be taken to ensure that the Society remains a going concern. The Society's business model means that the main liquidity risks would relate to significant unexpected withdrawals of retail deposits, the impact of any credit risk downgrade and lack of access to wholesale funding markets when wholesale funding matures.

The ILAAP is reviewed by the PRA. Following this, the PRA provides Individual Liquidity Guidance which sets out the liquidity that the PRA requires the Society to hold, including any add-ons for liquidity risks that are not captured by the LCR.

The Society has continued to meet all regulatory liquidity requirements and has done so throughout the year.

RISK CATEGORIES CONTINUED

WHOLESALE FUNDING

The Society's wholesale funding at 31 December 2020 has decreased by £0.2 billion as a result of maturities in the year which have not been fully offset by new issuances. Funding from the Term Funding Scheme increased by £0.3 billion which reflects new drawings under the TFSME scheme offset by repayment of previous TFS funding.

(Audited)	Notes to the accounts	2020 £m	2020 %	2019 £m	2019 %
Deposits from banks, including repo agreements	21	589.1	5.7	1,060.6	10.0
Amounts drawn under the Term Funding Scheme	21	4,551.1	43.9	4,258.0	40.2
Other deposits and amounts owed to other customers		610.5	5.9	471.2	4.4
Debt securities in issue					
Medium term notes	22	1,607.2	15.5	2,158.4	20.4
Covered bonds	22	2,440.3	23.5	2,517.3	23.7
Residential Mortgage Backed Securities	22	569.7	5.5	139.9	1.3
Total		10,367.9	100.0	10,605.4	100.0

Wholesale funding outstanding at 31 December 2020 remains primarily denominated in sterling as shown below:

(Audited)	GBP £m	EUR £m	Total £m
Deposits from banks, including repo agreements	529.4	59.7	589.1
Amounts drawn under the Term Funding Scheme	4,551.1	–	4,551.1
Other deposits and amounts owed to other customers	610.5	–	610.5
Debt securities in issue			
Medium term notes	1,607.2	–	1,607.2
Covered bonds	1,098.1	1,342.2	2,440.3
Residential Mortgage Backed Securities	569.7	–	569.7
Total as at 31 December 2020	8,966.0	1,401.9	10,367.9
Total as at 31 December 2019	8,743.2	1,862.2	10,605.4

All of the euro denominated medium term notes and covered bonds have been swapped back into sterling.

The expected maturity analysis for wholesale funding is shown below, based on the earlier of first call date or contractual maturity. More funding matures in the two to five year window reflecting the increase in funding from TFSME during the year.

(Audited)	2020 £m	2020 %	2019 £m	2019 %
Less than one year	2,260.1	21.8	2,580.7	24.3
One to two years	2,174.5	21.0	3,562.1	33.6
Two to five years	5,489.0	52.9	4,043.0	38.1
More than five years	444.3	4.3	419.6	4.0
Total	10,367.9	100.0	10,605.4	100.0

CONTRACTUAL MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The table below analyses the carrying value of financial assets and financial liabilities based on the remaining contractual life to the maturity date. In practice, the contractual maturity will differ to actual repayments; 'on demand' customer deposits will be repaid later than the earliest date on which repayment can be requested and mortgages may be repaid ahead of their contractual maturity. The net liquidity gap has been broadly maintained during the year.

At 31 December 2020 (Audited)	Repayable on demand £m	Up to 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the Bank of England[1]	5,728.9	–	–	–	–	5,728.9
Loans and advances to credit institutions	590.5	–	–	–	–	590.5
Debt securities	–	152.6	80.5	334.2	427.8	995.1
Loans and advances to customers	31.7	817.4	2,325.8	11,147.9	29,160.0	43,482.8
Hedge accounting adjustment	–	0.2	18.3	222.3	125.8	366.6
Derivative financial instruments	–	65.9	107.0	0.6	–	173.5
Investment in equity shares	–	–	–	–	5.0	5.0
Total financial assets	6,351.1	1,036.1	2,531.6	11,705.0	29,718.6	51,342.4
Liabilities						
Shares	23,247.3	851.1	5,067.4	8,791.4	193.9	38,151.1
Sale and repurchase agreements[2]	–	0.4	–	524.9	–	525.3
Amounts drawn under TFS[2]	–	1.1	1,000.0	3,550.0	–	4,551.1
Deposits from banks – other	60.4	3.4	–	–	–	63.8
Other deposits	–	1.0	–	–	–	1.0
Amounts owed to other customers	–	559.5	50.0	–	–	609.5
Secured debt securities in issue – RMBS and covered bonds	–	3.4	569.6	1,992.6	444.4	3,010.0
Senior unsecured debt funding	–	9.7	1.6	1,595.9	–	1,607.2
Hedge accounting adjustment	–	–	5.7	82.3	–	88.0
Derivative financial instruments	7.5	34.3	316.7	175.7	–	534.2
Subordinated liabilities	–	0.6	10.0	–	15.0	25.6
Subscribed capital	–	1.6	–	–	40.0	41.6
Total financial liabilities	23,315.2	1,466.1	7,021.0	16,712.8	693.3	49,208.4
Net liquidity gap (contractual)	(16,964.1)	(430.0)	(4,489.4)	(5,007.8)	29,025.3	2,134.0

1. Includes £130.9 million mandatory reserve with the Bank of England.
2. Included in Deposits from banks on the Balance Sheet.

RISK CATEGORIES CONTINUED

At 31 December 2019 (Audited)	Repayable on demand £m	Up to 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m	Total £m
Assets						
Cash and balances with the Bank of England[1]	5,226.0	–	–	–	–	5,226.0
Loans and advances to credit institutions	336.1	–	–	–	–	336.1
Debt securities	–	319.7	236.5	457.0	279.4	1,292.6
Loans and advances to customers	32.6	782.9	2,224.6	10,749.9	28,444.7	42,234.7
Hedge accounting adjustment	–	9.0	78.4	19.8	42.5	149.7
Derivative financial instruments	–	–	24.3	103.4	10.2	137.9
Investment in equity shares	–	–	–	–	4.1	4.1
Total financial assets	5,594.7	1,111.6	2,563.8	11,330.1	28,780.9	49,381.1
Liabilities						
Shares[2]	22,056.9	729.8	6,755.2	6,543.7	152.6	36,238.1
Sale and repurchase agreements[3]	–	101.3	350.0	524.9	–	976.2
Amounts drawn under TFS[3]	–	8.0	–	4,250.0	–	4,258.0
Deposits from banks – other	82.7	1.7	–	–	–	84.4
Other deposits	–	8.5	–	–	–	8.5
Amounts owed to other customers	–	325.8	136.9	–	–	462.7
Secured debt securities in issue – RMBS and covered bonds	–	653.5	0.7	1,583.4	419.6	2,657.2
Senior unsecured debt funding	–	7.7	903.9	1,246.8	–	2,158.4
Hedge accounting adjustment	–	1.7	42.2	0.1	–	44.0
Derivative financial instruments	–	1.0	21.5	124.6	134.7	281.8
Subordinated liabilities	–	0.6	–	10.0	14.9	25.5
Subscribed capital	–	1.6	–	–	40.0	41.6
Total financial liabilities[2]	22,139.6	1,841.2	8,210.4	14,283.5	761.8	47,236.4
Net liquidity gap (contractual)[2]	(16,544.9)	(729.6)	(5,646.6)	(2,953.4)	28,019.1	2,144.7

1. Includes £111.7 million mandatory reserve with the Bank of England.
2. Prior year balances have been restated to reflect the contractual maturity of deposits as opposed to previously reported contractual accessibility.
3. Included in Deposits from banks on the Balance Sheet.

Gross contractual cash flows payable under financial liabilities are analysed further below.

This analysis differs from the analysis of contractual maturity as it includes interest accrued for the period to maturity on the balance outstanding at the Balance Sheet date. Principal payments are included based on the earlier of first call date, accessible date or contractual maturity. The undated Subscribed capital is included in the 'more than five years' column but with no accrued interest after this date. The profile has remained broadly similar to the prior year.

At 31 December 2020 (Audited)	Up to 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m	Total £m
Liabilities					
Shares	24,098.3	5,096.4	8,806.4	193.9	38,195.0
Deposits, amounts owed to other customers and debt securities in issue	945.9	2,404.4	6,769.9	462.9	10,583.1
Other liabilities and adjustments	30.7	135.7	301.0	57.6	525.0
Subordinated liabilities	0.9	10.9	4.5	17.3	33.6
Subscribed capital	2.4	2.5	19.4	40.0	64.3
Total liabilities	25,078.2	7,649.9	15,901.2	771.7	49,401.0
Undrawn loan facilities	29.8	–	–	–	29.8

At 31 December 2019 (Audited)	Up to 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m	Total £m
Liabilities					
Shares[1]	22,786.7	6,788.8	6,566.8	152.5	36,294.8
Deposits, amounts owed to other customers and debt securities in issue	1,148.6	1,520.4	7,784.1	451.4	10,904.5
Other liabilities and adjustments	40.0	81.6	147.1	57.5	326.2
Subordinated liabilities	0.9	0.9	15.2	18.4	35.4
Subscribed capital	2.4	2.4	19.4	40.0	64.2
Total liabilities[1]	23,978.6	8,394.1	14,532.6	719.8	47,625.1
Undrawn loan facilities	34.3	–	–	–	34.3

1. Prior year balances have been restated to reflect the contractual maturity of deposits as opposed to previously reported contractual accessibility.

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.

Asset encumbrance at 31 December 2020 is set out in the table below.

	Encumbered		Unencumbered		
(Unaudited)	Pledged as collateral[1] £m	Other[2] £m	Available as collateral[3] £m	Other[4] £m	Total £m
Cash and balances with the Bank of England	–	485.8	5,243.1	–	5,728.9
Loans and advances to credit institutions	590.5	–	–	–	590.5
Debt securities	69.0	–	926.1	–	995.1
Loans and advances to customers	12,567.3	–	7,298.1	23,617.4	43,482.8
Hedge accounting adjustment	–	–	–	366.6	366.6
Derivative financial instruments	–	–	–	173.5	173.5
Other assets	–	–	–	160.9	160.9
Total as at 31 December 2020	13,226.8	485.8	13,467.3	24,318.4	51,498.3
Total as at 31 December 2019	12,407.3	438.0	8,696.9	27,988.6	49,530.8

1. Assets that have been used to support interest rate swap collateralisation agreements, third-party secured funding operations, central bank operations or third-party repo transactions and cannot be used for any other purpose.
2. Other encumbered assets are assets that cannot be used for secured funding due to legal or other reasons. This includes cash and assets supporting secured funding vehicles.
3. These assets are readily available as collateral to secure funding. Loans and advances to customers in this category comprise Bank of England approved portfolios, and those that although technically encumbered are held in respect of retained self-issued notes in the Society's covered bond and securitisation programmes.
4. Unencumbered other assets are therefore conservatively defined as not readily available for use as collateral. The Loans and advances to customers in this category include £17.0 billion at 31 December 2020 (2019: £20.0 billion) which would be eligible for use to support future external or self-issuance under the Society's covered bond and securitisation programmes. A proportion of the remaining balance would also be suitable for such purpose subject to amending the programme structures.

EXTERNAL CREDIT RATINGS

The Society's long-term and short-term credit ratings were unchanged by Moody's and Fitch in the year. In line with many industry peers, the outlook was changed by Fitch to negative from stable during the year as a result of the Covid-19 pandemic.

Short and long-term credit ratings as at 3 March 2021 are set out below:

(Audited)	Long-term	Short-term	Outlook	Date of last credit opinion
Moody's	A2	P–1	Negative	September 2020
Fitch	A–	F1	Negative	January 2021

Liquidity and Funding risk outlook

In 2020, the liquidity and funding markets were impacted by the Covid-19 pandemic and the effects of lockdowns on the UK as well as by political and economic concerns in respect of Brexit. The Society remained committed to prudent liquidity levels and funding from TFSME and from the wholesale markets during the year despite volatility in pricing. The Society expects that volatility could continue as a result of continued economic uncertainty.

RISK CATEGORIES CONTINUED

The Society has £4.55 billion of TFS and TFSME drawings which are due to be repaid by the end of 2024. The Society's plans to replace these funds are well advanced and have seen the Society extend the range of wholesale funding options it utilises to ensure that it can access sufficient funds.

The Society's wholesale funding plan also considers regulation related to meeting Minimum Requirement for own funds and Eligible Liabilities (MREL).

The Society is satisfied that it can accommodate any funding uncertainty that arises; in particular, it has a strong track record of being able to attract retail funds and the underlying strength of its business model continues to support access to wholesale markets for funding.

CONDUCT RISK

Conduct risk is the risk that the Society's behaviour and decision making fail to deliver good customer outcomes. The Society is committed to making a positive difference and delivering good outcomes for customers.

CONDUCT RISK PROFILE

The Society's mutual ownership, its culture and values and its belief of Putting Members First all actively support delivery of good customer outcomes. As a result, the Society meets its conduct risk responsibilities and ensures the fair treatment of members. This is evidenced through the Society's low level of customer complaints and the positive response from the Financial Ombudsman Service on complaints that are referred to them, both of which remain consistently below industry averages. In 2020, 97%[1] of complaints referred to the Financial Ombudsman Service were decided in the Society's favour (2019: 97%) compared with an industry average of 51%[2] (2019: 54%).

MANAGEMENT OF CONDUCT RISK

The Society manages conduct risk through its Conduct Risk Framework which is designed to ensure that conduct risk is identified, measured, managed, monitored and reported.

The Society has considered the five conduct questions for firms set out by the FCA. It is satisfied that it addresses these by:

- Taking proactive steps to identify inherent conduct risks in the business.
- Encouraging colleagues working in control and support functions to be responsible for managing conduct risks.
- Providing training and support to enable colleagues to improve customer outcomes.
- Active Board and Executive oversight of conduct issues.
- Assessing strategies that could inadvertently undermine good customer outcomes.

Day-to-day management of conduct risk is the responsibility of all of the Society's senior management. Oversight is provided by the Conduct Risk and Compliance Committee (CRCC).

The Society's approach to conduct risk is grounded in six key principles:

1. Putting Members First from both an individual and a total membership perspective.
2. Products and services are based on good customer outcomes now and in the future.
3. Complaints are resolved fairly with effective action taken on root causes to improve member experience.
4. The systems and partners the Society uses are within its risk appetite and balance the needs of members and the Society.
5. The literature and advice provided by the Society are straightforward, easy to understand and unbiased.
6. Strategy and governance promote and evidence good customer outcomes.

Good customer outcomes are only delivered by people and these principles underpin the Society's internal communications, and its recruitment and reward strategies. In particular, recruitment processes are designed to make sure that colleagues understand and share the Society's values, while the reward policy does not incentivise sales and positively reward customer service.

Employees understand and share the focus on Putting Members First and this is a major part of the Society's high employee engagement score. The Society's corporate induction is tailored to ensure that all new colleagues are trained on Putting Members First, with additional training on day-to-day decision making provided regularly to all managers. In this way the Society ensures that all managers understand the importance of their team's role in delivering good customer

1. Source: Financial Ombudsman – complaints upheld in the Society favour for the six months to 30 June 2021.
2. Source: Financial Ombudsman – complaints upheld in the Banking and Credit sector for the six months to 30 June 2021.

outcomes. The Society actively designs products to be fair and transparent, with their features and terms and conditions explained simply and clearly. This has been independently endorsed by Fairer Finance. All major product developments are reviewed and approved by CRCC before launch.

Quality assurance activities across operational processes specifically check customers have received the right advice and levels of service for their particular needs.

The Conduct Risk Framework ensures that potential conduct risks arising from the products, services and documentation it provides to its members are identified and that there are adequate control measures in place to manage, mitigate and monitor such risks.

There is a dedicated Conduct Risk Oversight and Compliance function which provides second line oversight of business activity focused on the delivery of positive customer outcomes, as well as assessing adherence to the Society's compliance and regulatory obligations.

Supporting our customers through Covid-19

Safety of the Society's colleagues and customers has been at the forefront of the approach to managing the impact of Covid-19 while maintaining excellent service standards.

We were able to keep 65 of our 69 branches open throughout 2020, with only two branches remaining closed throughout 2020. In doing so, we followed government guidance to restrict transactions to those which were essential and reducing opening hours where appropriate.

As a result of reduced opening hours, branch network colleagues were able to support our contact centres during the period which allowed more flexibility of resourcing and reduced contact centre waiting times.

Within the contact centres, service was maintained by colleagues working both remotely and on site. While there was an increase from previous 'business as usual' waiting times, our average waiting time of 74 seconds[1] was only slightly increased from 64 seconds in 2019.

The Society applied the FCA's payment holiday guidance while supporting 39,366 customers with payment holiday requests during the year. Guidance was provided on the Society's website as well as through telephone contact centres and tools were made available to help customers understand the impact of taking a payment holiday on their mortgage. The Society continues to support borrowers experiencing longer term financial difficulties.

Supporting vulnerable customers

The Society recognises that members in vulnerable circumstances are at greater risk of poor outcomes when dealing with their finances.

Supporting vulnerable customers was a particular focus of branch colleagues during the year. Relying on knowledge of local customers, colleagues attempted outbound contact of customers with known vulnerabilities where they had not visited branches to determine whether any further support was needed.

Colleagues were able to educate and encourage branch members to use alternative channels and help to set up security to enable this. Branches continued to support the registration of bereavement and power of attorney throughout 2020 and colleagues have used telephone services to follow up where support was needed, as private meeting spaces were not available due to lockdown restrictions.

The Society is fully committed to applying a 'human approach' across all of its channels and this will remain a key focus as digital services are developed.

Strong Customer Authentication

In June 2020 the Society launched its new online authentication solution as required by the Payment Services Regulations 2017. The solution was tested to ensure that the customer journey/experience was improved alongside meeting regulatory requirements.

COMPLAINTS AND REDRESS

While the Society seeks good customer outcomes, from time to time things can go wrong.

The Society positively encourages members to identify poor outcomes or service that does not meet their expectations and has recently enhanced its online complaints facility to ensure this works as well for members as other contact options. The Society seeks to resolve complaints as soon as possible. In addition, while complaint levels are modest, analysis of the more common issues raised is used to improve services and customer outcomes.

1. Average call waiting time between 1 January 2020 to 31 December 2020.

RISK CATEGORIES CONTINUED

Complaint volumes have remained low during 2020 albeit the drivers of complaints have changed, driven by circumstances such as the impact of Covid-19 and other service matters.

Claims relating to Payment Protection Insurance (PPI) which has dominated complaint volumes in recent years have significantly reduced in 2020 following the claims deadline in August 2019.

More information on provisions for customer redress is included in note 24 to the accounts.

CONDUCT RISK OUTLOOK

The FCA's 2020/21 Business Plan is aligned to its objectives of ensuring that markets continue to function well, that the most vulnerable are protected, the impact of firm failure is minimised, that scams are tackled, and that consumers and SMEs are treated fairly.

The impact of Covid-19 underpins much of the focus for the coming year. The uncertain economic outlook will mean forbearance is a key focus of the FCA's supervisory activity. This includes mortgage payment deferrals, the moratoria on repossessions and forbearance.

The Society also expects continuing focus on culture and the impact this has on the treatment of customers with a culture assessment programme to be completed by the FCA during 2021.

The FCA's proposals for a Single Easy Access Rate for back book savings accounts have not been progressed but the FCA continues to be concerned about price discrimination and the lack of switching activity in the cash savings market and will continue to monitor market practices.

The Society's belief in Putting Members First and its focus on delivering excellent customer service combined with high levels of colleague engagement will continue to support delivering good customer outcomes. This will assist the Society in maintaining its excellent track record on conduct risk.

OPERATIONAL RISK

Operational risk is the risk of a loss arising from inadequate or failed internal processes, people and systems, or from external events.

OPERATIONAL RISK PROFILE

One of the Society's principles is to be safe and secure, which means managing operational risk on behalf of members to mitigate the risk of:

- Disruption to services.
- Loss of customer data or other forms of information security incidents.
- Financial losses.

Operational risk appetite is driven internally by the Society's belief of Putting Members First, and externally by consumer expectations and regulatory standards that increasingly focus on business resilience.

MANAGEMENT OF OPERATIONAL RISK

Operational risk is managed, reported and controlled across a number of sub-categories, consistent with the Basel risk classifications, industry best practice and the Society's business model. The most significant operational risk sub-categories for the Society continue to relate to IT and change management, information security and financial crime, which are covered below in addition to operational resilience.

Day-to-day management of operational risk is carried out as an integral part of conducting the Society's business by the relevant functional executives. The executives are responsible for identifying potential risks and ensuring that adequate controls are in place to mitigate risks in line with risk appetite, using the Society's Risk and Control Self- Assessment process.

The Operational Risk Committee, chaired by the Chief Customer Officer, provides primary oversight of all operational risk categories with further oversight provided by BRC and the Board.

OPERATIONAL RESILIENCE

The Society considers that operational resilience is an outcome of good business management. Its risk appetite seeks to ensure that delivery of all important member services is maintained during or after any disruptive event in order to minimise negative impacts.

The Society continues to develop its approach to operational resilience in line with regulatory expectations which are expected to be confirmed by the regulator in the first half of 2021. The Society expects to finalise its Operational Risk and Resilience Framework in 2021 and will continue to work on defining important business services, setting impact tolerance, mapping end to end services and scenario testing to better understand where the Society can improve its resilience.

Following the emergence of the Covid-19 pandemic, the Society responded quickly by invoking its Serious Incident Management Framework and actively managed the impacts to the Society under two key workstreams: people and business continuity.

The Society's business continuity arrangements proved effective and service levels were maintained across all channels. Remote working capacity was expanded rapidly in order to support this and steps were taken to ensure that increased risks around information security were managed. The rapid improvements to remote working capability which were delivered in 2020 leave the Society better placed to respond effectively to future incidents where on-site working is unavailable.

More information on how the Board responded to the Covid-19 pandemic is included in the Governance section.

REGULATORY ENVIRONMENT

The regulatory landscape was also impacted by Covid-19 and a number of consultations were delayed in 2020 in order to focus on the immediate impact of the pandemic.

Regulatory focus on operational resilience has continued and the Society's ongoing activity in relation to operational resilience aligns with the regulatory agenda.

The regulatory environment remains challenging for financial institutions where change is required in order to meet regulatory requirements.

Responding to regulatory driven change is a key priority for the Society and design flexibility is built into the Society's change programmes to accommodate regulatory change during longer projects.

IT AND CHANGE MANAGEMENT

Keeping pace with technology is important to maintain the stability, security and resilience of technology systems and in doing so avoid member disruption and reputational impacts from IT outages.

In 2020 the Society has continued to invest in enhancing its IT operations and upgrading its IT estate. The Society's change activity has been significantly impacted by the Covid-19 pandemic and proposals were reviewed in March to reprioritise the change portfolio. Priority programmes were continued throughout the period but a number of other projects were paused while the emerging situation was reviewed and assessed.

The Society's change portfolio is now operating fully albeit with some programmes running to longer timeframes than originally planned. However, the prioritisation activity has allowed focus on a number of high priority projects and significant progress has been achieved during 2020.

This included activity to upgrade the Society's mortgage origination system and develop a digitised mortgage origination process in addition to further progress on enhancing data infrastructure. The Society also completed the launch of a new online solution to deliver Secure Customer Authentication in the first half of the year.

The Society's project design and testing consider the risk of disruption to operations to service levels so that negative outcomes are avoided.

The Society continues to apply first line assurance and second line oversight for change initiatives which impact the core banking platform. The governance arrangements which are in place ensure that the Society's change programmes are delivered in line with expectations and without disruption to member services or other operations.

INFORMATION SECURITY AND FINANCIAL CRIME

Maintaining systems availability and information security defences has always been of critical importance for the Society and the need for this has been highlighted during the Covid-19 pandemic.

The Society responded quickly to maintain information security defences and systems availability during the year.

The Society considers that it is well protected from the threat of cyber crime but it continues to evolve its risk management capabilities.

In support of this the Society has continued to migrate applications to third-party owned data centres which improve both resilience and security.

RISK CATEGORIES CONTINUED

The Society has enhanced its procurement and other relevant policies to ensure that information security risk is a core part of the assessment and management of third-party suppliers.

Continued investment through a portfolio of upgrade and engagement projects is being progressed by the Society.

SUMMARY OF RISK INCIDENTS

Operational risk incidents are tracked and managed in line with the Society's ERMF and are recorded in its risk management system. The same system records strategic, model and conduct risk incidents which result in losses of over £5,000 per incident and the following analysis applies to all of these risk categories.

In 2020, the total cost of risk incidents was £4.2 million (2019: £2.0 million). The costs of risk incidents relating to the Covid-19 pandemic were significant at £3.0 million (2019: £nil).

An analysis of risk incidents by Basel risk category by both value and number of incidents is set out below. In 2020, Covid-19 and PPI risk incidents accounted for 93% of operational losses by value. There remained no reportable risk events within the Basel risk categories for Business disruption and system failures, damage to physical assets or employment practices and workplace safety.

	% of total volume		% of total losses	
Operational risk by Basel category[1] (Unaudited)	**2020**	2019	**2020**	2019
Execution, delivery and process management	**25**	12	**4**	17
Business disruption and system failure	**12**	–	**71**	–
External fraud	**38**	75	**3**	4
Clients, products and business practices[2]	**25**	13	**22**	79
Total	**100**	100	**100**	100
Value of losses (£m)			**4.2**	2.0

1. Losses less than £5,000 have been excluded.
2. PPI included.

OPERATIONAL RISK OUTLOOK

Operational resilience is expected to be the key priority for the operational risk agenda. In the coming years, IT and information security as well as the scale and pace of both the Society's change agenda and regulatory driven change will continue to be at the forefront of the Society's risk mitigation activity. The Society will continue to invest in these areas and continuously improve its controls to ensure that operational risk remains in line with risk appetite.

MODEL RISK

Model risk is defined as the risk that an ineffective model or incorrect interpretation of a model output leads to a loss, opportunity cost, accounting restatement, reputational damage or regulatory censure.

MODEL RISK PROFILE

The Society is exposed to model risk in both its credit risk models and wider financial and behavioural models. The use of models in the business is expanding due to factors such as the implementation of accounting standards that rely on forward-looking assessments of behaviour, including IFRS 9.

Notwithstanding this, the Society's simple business model limits the extent of the exposure to model risk.

MANAGEMENT OF MODEL RISK

Model risk is managed by the Chief Financial Officer and oversight is provided by the Chief Risk Officer. It has been governed through RCRC and ALCO.

From 2021 the Society has set up a specific Model Risk Committee to manage model risk across all functions of the Society which creates stronger alignment with the ERMF principles.

The Society has a Board approved policy on model risk which sets out the minimum standards to be applied to mitigate the risk. These standards are supported by controls and model requirements within a comprehensive Model Risk Framework which is reviewed by BRC annually and is designed to conform to the regulatory expectations for model risk management practices.

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.
- Sensitivity analysis of key assumptions.

The Society categorises its models and complex calculators dependent on their criticality and complexity and the framework operates to require increased controls on more critical and more complex models.

During 2020, the Society obtained approval from the PRA to adopt a new suite of IRB models. The new IRB models were implemented by the year end.

MODEL RISK OUTLOOK

IRB models have been and will continue to be subject to significant regulatory reform with regulations published by UK and global bodies. The Society will continue to update its suite of IRB models to reflect future changes in regulatory requirements.

The Society anticipates that usage of models within the business will continue to increase. As a result it will continue to develop its controls over and oversight of models and complex calculators and the data that populates them.

STRATEGIC RISK

Strategic risk is the risk that changes to the business model or macroeconomic, geopolitical, regulatory or other factors may lead to the business model, strategy or Strategic Plan becoming inappropriate. This includes the risk of an overly ambitious Strategic Plan as well as unforeseen market, consumer, competitor or regulatory changes.

In addition, strategic risk includes pension obligation risk (i.e. the risk that, as the sponsor of the Society's pension scheme, the Society is exposed to adverse movements in the actuarial valuation of the fund). Details on the Society's management of pension obligation risk are provided in note 19 to the accounts.

MANAGING STRATEGIC RISK

The Board manages strategic risk supported by BRC and Executive Risk Committee. In particular, the Board's consideration and approval of the Strategic Plan include both stress testing of the financial plan and a review of those risks that could potentially threaten the Society's business model over time.

The Society's simple and consistent business model means that the principal risk categories are well understood and the Society is experienced in managing these effectively. Information on management of each principal risk category is included in this report.

The top and emerging risks which could impact the Society's ability to deliver on its strategy are set out in the Strategic Report.

The main drivers of strategic risk are:

- Macroeconomic factors including the downturn in the economy following the Covid-19 pandemic.
- Regulatory change such as new capital requirements and change to the UK regulatory landscape following Brexit.
- Change in customer behaviour and expectations.
- Market environment including the potential for sustained low interest rates.
- The impact of financial risks relating to climate change.

More information on how the Society mitigates strategic risk is set out below.

MACROECONOMIC ENVIRONMENT

Adverse changes in the performance of the UK economy, including in the near term the downturn in performance following the Covid-19 pandemic and the exit from the European Union.

The Society's simple low risk business model, supported by its strong capital position is expected to remain resilient. This is confirmed by regular stress testing which is carried out by management.

RISK CATEGORIES CONTINUED

REGULATORY CHANGE

Regulatory change could negatively impact the Society relative to other firms if it disproportionally impacts firms of our size or with our business model. The Society acknowledges that the regulatory changes are designed to improve either the resilience of the UK financial services sector or the outcome for customers, both of which it supports.

A number of capital regulation changes are expected in the short term, including wider implementation of leverage and leverage based MREL as well as the phase in of Basel IV risk weighted floors.

The Society ensures that it monitors and plans for future regulatory requirements and models the impacts of changes to the capital regime. The impact of the Basel IV leverage and output floor regulations have been modelled and subjected to stress testing and the results show that we expect to meet the requirements while operating within our risk appetite.

CHANGE IN CUSTOMER BEHAVIOUR

The Society operates in a competitive market where customers' changing demands alongside the increased use of technology are changing the way that mortgage and savings products are designed and delivered. New entrants into the market are differentiating through technology which could put further pressure on the Society's business model.

The Society supports members through the highest levels of customer service and great value products. The Society continues to invest in new products and services and engages with members to understand the product and service enhancements that are valued.

The Society's low cost model and mutual ownership structure mean that it is able to operate effectively at low margins, maintaining capital levels, while investing in the business.

MARKET ENVIRONMENT

The Society operates in the large but highly competitive UK residential and buy to let mortgage and savings market and is less diversified than larger financial services firms with other divisions and operations outside the UK. Business model growth relies on our ability to offer attractive mortgage rates to individual borrowers and to attract savings balances and wholesale funding from investors. With a relatively small branch network and direct mortgage business, we originate over 90% of new loans via mortgage intermediaries.

Performance is therefore sensitive to the performance of the UK housing market, pricing of mortgages and savings and customer preference around the type of firm they will to borrow from or save with and whether they prefer to purchase or operate their account direct or via an intermediary. The Society's relatively lower operating and risk costs and strong reputation and franchise mitigate these market risks.

RISK FROM CLIMATE CHANGE

As a long-term asset owner, the Society recognises that climate change poses risks and opportunities to our mortgage portfolio, in terms of both physical and transition risk. More information on the Society's climate change initiatives is in the Strategic Report.

STRATEGIC RISK OUTLOOK

The Society's simple business model and mutual ownership supported by its cost efficient and low risk profile create significant strategic advantages. In addition, notwithstanding near term challenges, the UK economy and the demand for good value, straightforward mortgages and savings products is considered to be fundamentally robust.

The Society has a robust strategic planning process and the assumptions used are regularly reviewed to ensure that they focus on risks which could become threats to the business model over the medium and long term.

As a result, the Society expects to continue to provide long-term sustainable value through savings and mortgage products while maintaining capital strength and investing to improve services.

CAPITAL

INTRODUCTION

The Society holds sufficient capital to protect its members against future losses while maintaining its ratios and investing in the future.

MANAGEMENT OF CAPITAL

Day-to-day capital management is delegated to the Chief Financial Officer and Treasurer and overseen by the Risk function, ALCO, BRC and ultimately the Board.

The Society assesses its capital position and risks through an annual Internal Capital Adequacy Assessment Process (ICAAP) in line with the PRA requirements. The ICAAP considers the key capital risks and the amount of capital it should retain to cover these risks. These requirements are assessed against the current position and throughout the five year Strategic Plan.

Stress testing is a major part of the ICAAP and makes sure that the Society is resilient to a range of stresses. This assesses whether capital requirements would be met under severe but plausible stress scenarios specified by the regulator and considers what management actions are available to mitigate the impacts of a stress.

The ICAAP also incorporates alternative, more targeted, stress scenarios as part of the overall assessment of capital adequacy risks.

The Society carries out reverse stress testing to identify very extreme events that have the capacity to 'break' the Society, to identify risks and control mechanisms which might otherwise be missed.

The Recovery Plan contains a menu of options that may be used to address any shortage of capital resulting from an extreme stress.

CAPITAL ADEQUACY

In assessing capital adequacy the Society reviews each of the material inherent risks within its business model. It also reviews the capital needed to support planned growth in lending and operations.

The Society is currently only formally bound by its Total Capital Requirement (TCR) which is set by the PRA. The TCR has been updated in 2020 and equates to 10.6% of RWAs or £574 million based on year end RWAs (2019: 11.2% of RWAs or £590 million). The Society comfortably meets this requirement out of its CET 1 capital resources.

The Society is not currently bound by regulatory leverage ratios but monitors and seeks to maintain capital sufficient to meet both the non-risk based leverage ratio and standardised risk weighted floors that are part of the Basel IV reforms package.

Further information on capital management is included in the Society's 2020 Pillar 3 Disclosures at www.thecoventry.co.uk.

RISK WEIGHTED CAPITAL REQUIREMENTS

The Society uses the IRB basis for most of its retail credit risk and capital management, following approval from the PRA in 2008.

IRB models are used to calculate capital requirements for prime owner-occupier and buy to let mortgage exposures which account for around 99% of lending exposures throughout 2020 (2019: 99%). The remaining retail credit risk exposures on legacy closed products are modelled using the standardised approach.

The Society implemented new IRB models in 2020 after receiving approval from the PRA to do so. The new models reflect current applicable guidance, which has changed since the previous models were developed.

Use of the new models accounts for a 3.1% increase in risk weighted assets during the year and therefore a fall in the CET 1 ratio of 1.06%. This is because the new models assess the mortgage book across a wider distribution of risk grades and they are more sensitive to changes in variables such as house price inflation. The overall impact of the new models is relatively modest because the Society's previous models already assess risks 'through the cycle' rather than solely on a 'point in time' basis.

The Society follows the standardised approach for all other lending exposures and for operational risk. The standardised approach uses capital risk weighting percentages set by CRD IV[1].

CRD IV requires the Society to maintain a CET 1 ratio of at least 4.5%, a Tier 1 capital ratio of at least 6% and a total minimum capital ratio of 8%. Taken together, these ratios are known as the Pillar 1 requirement.

1. On 28 December 2020 CRD V replaced CRD IV. However, some amendments to related UK regulation will only apply from 31 December 2021.

CAPITAL CONTINUED

The Pillar 2 capital requirement reflects wider risks within the Society's ICAAP assessment and any capital add-ons arising from the supervisory review of those assessments. In addition, a PRA buffer may be applied depending on the outcome of the severe but plausible stress tests.

The combined Pillar 1 and 2 capital requirements must be covered with at least 56% CET 1 capital. AT 1 and Tier 2 capital (up to a maximum of 25% of the requirement) can then be used to fulfil requirements above this.

CRD IV requires lenders to hold supplementary capital buffers. As at 31 December 2020, these were:

- A Capital Conservation Buffer (CCoB) of 2.5%.
- A Systemic Risk Buffer (SRB) at 0%[1].
- Macro-prudential Countercyclical Buffer (CCyB) at 0% (reduced from 1% in March 2020).

LEVERAGE RATIO

The leverage ratio measures Tier 1 capital against total exposures, including off-balance sheet items. The leverage ratio does not reflect the degree of risk in exposures and does not differentiate unsecured and secured loans.

Similarly, it does not reflect other features of the Society's low risk mortgage lending such as the low loan to value nature of the portfolio.

Due to the UK's exit from the European Union, only the UK leverage ratio framework is now applicable. This currently only applies to banks and building societies with retail deposits of £50 billion or more. It is expected that the Bank of England will conduct a review of leverage regulation, and that output from that review will be available in summer 2021.

The UK leverage ratio requires a minimum ratio of 3.25% calculated on the basis that exposures exclude central bank reserves. Of the UK leverage requirement, a maximum of 25% may be met using high quality AT 1 capital. Neither of these modifications exists in the CRR leverage measure where the minimum 3% requirement can be met by Tier 1 capital (CET 1 and AT 1) without restriction.

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 as described above.

The CCLB decreased to 0% in March 2020 in line with the CCyB, reducing the minimum UK leverage requirement from 3.65% to 3.25%. The Society's Strategic Plan ensures that it will continue to meet leverage requirements on an ongoing basis.

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)

Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements are being introduced by regulators to ensure that taxpayers no longer absorb losses when a bank or building society fails. MREL requirements are set to reflect how complex or important to the wider economy an institution is.

The Society has met an MREL requirement of 18% of RWAs. From 1 January 2023 this will increase to twice the binding capital requirement (or two times Pillar 1 plus Pillar 2a), currently this equates to 21.2% of RWAs.

The amount of MREL required will increase further with the introduction of regulatory changes expected from 2022 and if leverage becomes the binding capital measure as expected, this will increase the requirement and the Society will need to issue MREL eligible debt. The Society's financial plan provides for these outcomes.

REGULATORY CAPITAL ANALYSIS

The Society calculates and maintains regulatory capital ratios on both a Group consolidated (including all subsidiary entities) and Individual consolidated (or solo) basis.

The Individual basis includes only those subsidiaries meeting particular criteria contained within CRD IV. For the Society, there are no significant differences between the Group and Individual bases and the capital disclosures in this report are provided on a Group consolidated basis only.

IFRS 9 capital transitional arrangements exist but their impact on the Society's regulatory capital ratios is not material and as a result the CET 1 and leverage ratios disclosed in this report do not include the transitional reliefs.

1. A buffer of 0% applies to lenders with total assets of less than £175 million.

RISK WEIGHTED CAPITAL (UNAUDITED)

The Society's capital position on a CRD IV end-point basis is set out below based on all CRD IV requirements that were in force during 2020 excluding transitional provisions. Further information on CRD IV disclosures on a transitional basis is included in the Society's 2020 Pillar 3 Disclosures at www.thecoventry.co.uk.

At 31 December 2020, and throughout the year, the Society complied in full with the capital requirements that were in force. The CET 1 ratio has increased to 33.0% (2019: 32.0%). Total risk weighted assets have increased by 2.4% reflecting growth in the mortgage book of 3% and a modest decrease in LTV discussed in the credit risk section.

The Individual consolidated CET 1 ratio on an end-point basis at 31 December 2020 was 0.7% (2019: 0.8%) higher than the Group ratio due to assets held by entities that sit outside of the individual consolidation.

Capital position	End-point 31 Dec 2020 £m	End-point 31 Dec 2019 £m
Common Equity Tier 1 (CET 1)		
General reserve	1,835.1	1,773.3
Fair value through other comprehensive income reserve	2.3	3.7
Cash flow hedge reserve	(46.3)	10.8
Common Equity Tier 1 prior to regulatory adjustments	1,791.1	1,787.8
Common Equity Tier 1 regulatory adjustments		
Prudent additional valuation adjustment[1]	(1.0)	(1.3)
Intangible assets[2]	(31.0)	(30.4)
Cash flow hedge reserve[2]	46.3	(10.8)
Pension fund surplus adjustment[2]	(7.7)	(19.2)
Excess of expected loss over impairment[3]	(4.0)	(24.5)
Foreseeable distributions[4]	(10.4)	(10.6)
Common Equity Tier 1 capital	1,783.3	1,691.0
Additional Tier 1 (AT 1) capital		
Permanent Interest Bearing Shares (PIBS)	–	–
Additional Tier 1 – Perpetual Capital Securities	415.0	415.0
Total Additional Tier 1 capital	415.0	415.0
Total Tier 1 capital	2,198.3	2,106.0
Tier 2		
Collective provisions for impairment	–	–
Total Tier 2 capital	–	–
Total capital	2,198.3	2,106.0
Risk weighted assets		
IRB approach		
Credit risk – retail exposures[5]	4,375.7	4,213.9
Standardised approach		
Credit risk – retail exposures	138.1	146.5
Credit risk – liquidity book	141.9	153.8
Credit risk – other	102.0	98.1
Credit valuation adjustment risk	47.5	60.8
Operational risk	605.4	610.5
Total risk weighted assets	5,410.6	5,283.6
Common Equity Tier 1 ratio[5]	33.0%	32.0%

1. A prudent valuation adjustment is applied in respect of assets and liabilities held at fair value.
2. Items do not form part of regulatory capital, net of associated deferred tax.
3. The expected loss over accounting provisions is deducted, gross of tax.
4. Foreseeable distributions in respect of AT 1 securities are deducted, net of tax.
5. 2020 numbers for Risk Weighted Assets have increased as a result of use of new IRB models. Had these models been approved for use in 2019 the comparative figure would be £5,917.6 million with a reduction to the CET 1 ratio of 3.73%.

CAPITAL CONTINUED

LEVERAGE RATIO ANALYSIS (UNAUDITED)

The Society's leverage ratio position on an end-point basis is set out below on both a UK and CRR basis.

Unlike the CRR ratio, the UK ratio includes a restriction on the amount of AT 1 capital that can be included in leverage capital and excludes central bank reserves from leverage exposures.

Both the UK and CRR leverage ratios have increased to 4.6% and 4.3% respectively (2019: 4.4% and 4.1% respectively) as the increase in eligible Tier 1 capital was ahead of the increase in leverage ratio exposures. This reflects the Society's strategy to remain low risk while retaining only sufficient profits to support leverage ratio at required levels.

Leverage ratio	End-point 31 Dec 2020 £m	End-point 31 Dec 2019 £m
Total Tier 1 capital – used in CRR calculation	2,198.3	2,106.0
Adjustment for AT 1 restriction	(37.3)	(35.2)
Total Tier 1 capital – used in UK calculation	2,161.0	2,070.8
Leverage ratio exposures		
Total Balance Sheet assets	51,498.3	49,530.8
Mortgage pipeline[1]	500.8	328.3
Other committed facilities (undrawn lending)[1]	14.9	17.1
Repurchase agreements[2]	76.1	1,817.5
Netted derivative adjustments[3]	27.8	51.6
Other adjustments[4]	(429.7)	(240.0)
Total leverage ratio exposures – used in CRR calculation	51,688.2	51,505.3
Adjustment to exclude central bank reserves	(5,208.2)	(4,760.3)
Total leverage ratio exposure – used in UK calculation	46,480.0	46,745.0
CRR leverage ratio[5]	4.3%	4.1%
UK leverage ratio[6]	4.6%	4.4%

1. Mortgage pipeline are assessed at 20% and other commitments at 50% as per the delegated regulation amending CRD IV.
2. Repurchase agreements represent the extent to which collateral provided on repurchase agreements exceeds the amount borrowed.
3. The netted derivative adjustment figure converts the accounting value of derivatives to an exposure measure.
4. Other adjustments predominantly relate to asset balances that have already been included in the capital calculation and these are therefore removed from the total Balance Sheet assets figure.
5. During the period the Society has refined its calculation of this measure. Had this applied in 2019 the comparative would 31 December 2019 4.2%.
6. During the period the Society has refined its calculation of this measure. Had this applied in 2019 the comparative would 31 December 2019 4.6%.

Additional capital disclosures including the European Banking Authority Templates are available in the Society's 2020 Pillar 3 Disclosures at www.thecoventry.co.uk.

CAPITAL OUTLOOK

The PRA has recently released a consultation paper (CP14/20): "Internal Ratings Based UK mortgage risk weights: Managing deficiencies", which recommends flooring both average and individual IRB UK mortgage risk weights. If this were to be implemented as proposed, the Group's CET 1 ratio would reduce by approximately 6%.

The upcoming changes from Basel IV risk weighted floors, MREL and leverage will have a significant impact on low risk organisations. From 2023, Basel IV RWA floors are being phased in and will reduce the Group's reported CET 1 ratio further, as they do not give full credit for the Group's very low risk mortgage book. Applying the Basel IV RWA floors to the year end figures on a full transition basis would result in a CET 1 ratio of 17%.

As a result the Society will see a significant reduction in reported CET 1 measures and expects to need to raise MREL debt.

This expectation has been included within the Society's financial plan which indicates that it will continue to have a surplus over all capital requirements, ensuring we remain safe and secure.

GOVERNANCE

THIS SECTION OUTLINES HOW THE SOCIETY IS MANAGED IN THE INTERESTS OF MEMBERS AND HIGHLIGHTS THE ROLE, CONSTITUTION AND GOVERNANCE OF THE BOARD AND ITS COMMITTEES.

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GET TO KNOW YOUR BOARD OF DIRECTORS

This section provides information about your Board of Directors as at 3 March 2021.

BOARD COMPOSITION

GENDER SPLIT

MALE	7
FEMALE	3

EXECUTIVE AND NON-EXECUTIVE DIRECTOR SPLIT

EXECUTIVE DIRECTOR	2
NON-EXECUTIVE DIRECTOR	7
CHAIR	1

LONGEVITY OF BOARD MEMBERS (YEARS WITH SOCIETY SINCE 2012)

UP TO 1 YEAR	UP TO 2 YEARS	UP TO 3 YEARS	UP TO 4 YEARS	UP TO 5 YEARS	UP TO 8 YEARS	UP TO 9 YEARS
2	1	3	1	1	1	1

THE BOARD'S CALENDAR AND COMMITMENTS

The Board and its Committees have a regular cycle of meetings as set out below and will hold additional ad hoc meetings as required.

JAN 2020 – DEC 2020

JAN	B, R, RC
FEB	B, A, A, RC, RC, N&G
MAR	B, A, NDR
APR	B, B, RC
MAY	B, R, A
JUN	B, R, R, N&G
JUL	B, R, A, A, RC
AUG	
SEP	B, R, A, N&G
OCT	N&G
NOV	B, R, RC
DEC	B, R, A, RC, N&G

B Board **R** Risk **A** Audit **RC** Remuneration Committee **NDR** Non-Executive Director Remuneration **N&G** Nominations & Governance

GARY HOFFMAN

CHAIR OF THE BOARD

COMMITTEE MEMBERSHIP

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

APPOINTED: April 2018

SKILLS AND EXPERIENCE

Chief Executive of Hastings Insurance Group which he led through flotation on the London Stock Exchange. Chair of Visa Europe having served on the boards of Visa for 17 years. Extensive experience in retail financial services including lending, deposit taking, credit cards and insurance. A 26 year career with Barclays Bank, where he undertook roles as Group Vice Chair, Chief Executive for UK retail banking, Chair of UK Banking and Group CEO of Barclaycard. Served as the Chief Executive of Northern Rock following its nationalisation.

EXTERNAL APPOINTMENTS

Chair of the Premier League and Chair of Monzo Bank.

"I have had an account with Coventry Building Society since I was five months old. My parents and children have accounts. I know how well the Society looks after people's savings and mortgages.

This difficult year hasn't changed that. Despite the challenges, I have really valued the opportunity to connect directly with members over video calls. It has also reinforced my role to support colleagues, through working from home, regular updates on our response to the pandemic and with physical and mental health. I strongly believe that looking after our colleagues means they can do a better job for members."

STEVE HUGHES

CHIEF EXECUTIVE AND EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP

Chair of the Non-Executive Directors' Remuneration Committee.

APPOINTED: April 2020

SKILLS AND EXPERIENCE

Global chartered management accountant with over 15 years' experience in senior and board-level roles within financial services. Group Finance Director followed by Chief Executive Officer of Principality Building Society, Finance Director of Lloyds Banking Group plc's general insurance business, including the integration of Lloyds TSB plc and HBOS plc. Early career experience in automotive, retail and consumer goods sectors. Established experience in developing strategy, people leadership and development, operational management and large-scale transformation.

EXTERNAL APPOINTMENTS

Non-executive director on the main board of UK Finance. Chair of the audit and risk committee of UK Finance. Member of BSA council.

"I am dedicating my time to building an organisation fit for our current valued members and for future generations to benefit from. I am passionate about the role that I do; it is a privilege for me to lead this organisation. I take personal responsibility for making decisions in members' long-term interest, to build a business that can be as successful in the next 136 years as it has been in the previous 136.

I'm equally excited by the role we can play in our communities, from providing financial education for our young people to supporting more complex social challenges. Inside the Society, I strongly believe that people are our greatest asset. I want to ensure that we create opportunities for my colleagues and have a culture they can be proud of."

GOVERNANCE

"The culture at Coventry Building Society is visible in the face of every colleague. It's clear they enjoy being part of a fantastic team. Working as an auditor, I have seen many businesses and very few display the Coventry's culture of dedication to service. In addition to ensuring financial probity and balanced reporting, my role is to preserve and protect that culture, as I believe it's the Society's biggest asset.

I was born and raised in the Middle East, so I bring a different perspective to the Board. It's important to me to showcase diversity and the benefits it brings and to celebrate and drive ongoing inclusivity initiatives across the Society."

IRAJ AMIRI

INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP

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

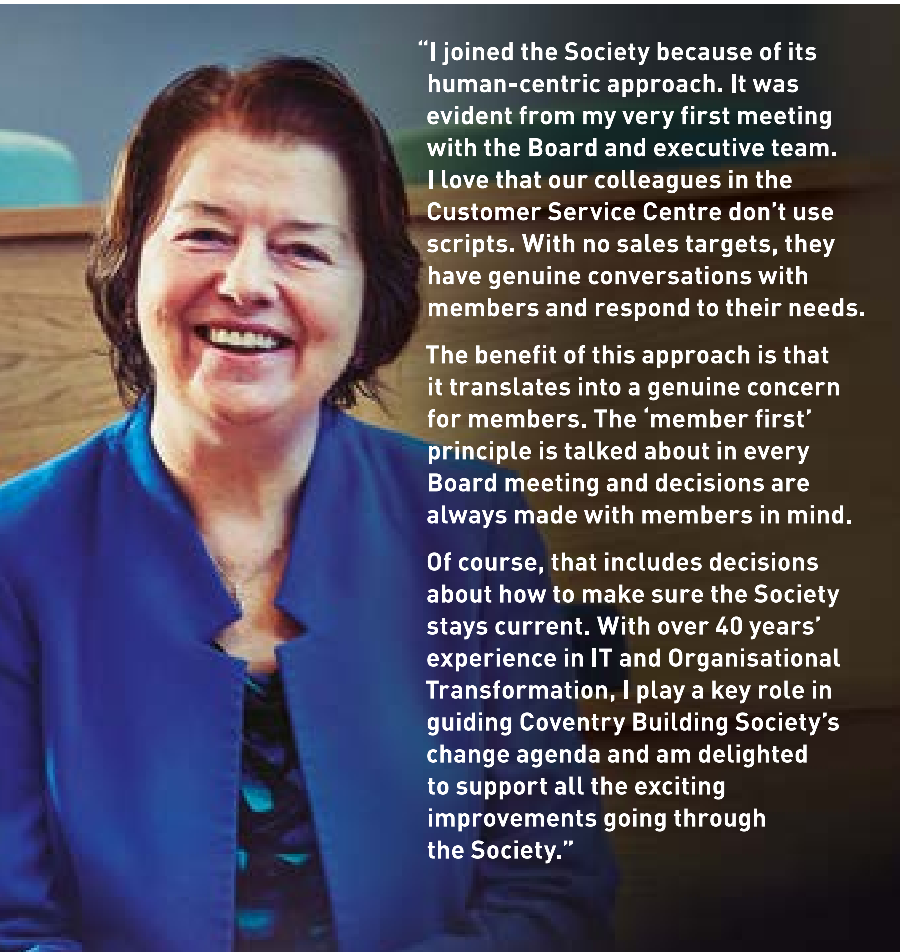
APPOINTED: June 2018

SKILLS AND EXPERIENCE

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.

EXTERNAL APPOINTMENTS

Chair of the Audit Committee at Development Bank of Wales Plc, non-executive director of Aon UK Plc and non-executive director of Toronto-Dominion Bank Europe.



"I joined the Society because of its human-centric approach. It was evident from my very first meeting with the Board and executive team. I love that our colleagues in the Customer Service Centre don't use scripts. With no sales targets, they have genuine conversations with members and respond to their needs.

The benefit of this approach is that it translates into a genuine concern for members. The 'member first' principle is talked about in every Board meeting and decisions are always made with members in mind.

Of course, that includes decisions about how to make sure the Society stays current. With over 40 years' experience in IT and Organisational Transformation, I play a key role in guiding Coventry Building Society's change agenda and am delighted to support all the exciting improvements going through the Society."

CATHERINE DORAN

INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP

Member of Board Risk Committee and Remuneration Committee.

APPOINTED: August 2016

SKILLS AND EXPERIENCE

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

EXTERNAL APPOINTMENTS

Non-executive director of Clearbank.

PETER AYLIFFE

DEPUTY CHAIR OF THE BOARD

COMMITTEE MEMBERSHIP

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

APPOINTED: May 2013

SKILLS AND EXPERIENCE

40 years working in the retail banking and payment sector. President and Chief Executive Officer of Visa Europe. Main Board Director with Lloyds TSB, responsible for retail banking.

EXTERNAL APPOINTMENTS

A trustee of the Pennies Foundation.

"I strongly believe in the mutual model. It allows us to create value that can be returned to members in the short term in the form of better rates on our savings and mortgage products and in the longer term by investing in the business (such as in new digital services) to meet our members' future needs and expectations.

I also feel extremely proud of what the Society does for our communities and charity partners, such as the Royal British Legion.

Of course, it's our people that make the difference. I am part of our employee forum, 'My Society', with the specific responsibility of making sure that the views and ideas of our colleagues are both sought and heard in the boardroom."

PETER FROST

CHIEF CUSTOMER OFFICER AND EXECUTIVE DIRECTOR

APPOINTED: November 2012

SKILLS AND EXPERIENCE

Chief Customer Officer, responsible for managing our day-to-day operations including our Customer Operations and Branch Network.

Over 30 years' experience working in the UK retail financial services sector, including serving as Operations Director of UK Retail Operations of Barclays Bank. Non-Executive roles at Vaultex and Intelligent Processing Solutions.

EXTERNAL APPOINTMENTS

Governor and Vice Chair of Little Heath Primary School, Coventry.

"I joined the Coventry eight years ago because I believed it would be different. Thankfully, I have been proven right. The Society provides excellent, human-led customer service in a way others simply don't.

I am determined that we continue to invest in the hugely positive culture of the organisation and make sure all employees are treated fairly and with respect. Engaged colleagues go the extra mile for customers so it's a win-win.

Even when Covid-19 brought significant challenges for the Society – as it did elsewhere – I'm proud that the Society's swift and decisive response kept an absolute focus on supporting members and colleagues."

"Throughout my career, I've always been concerned about how our decisions affect the real people at the end of the process. And at the Coventry, it's a delight to be on a Board that thinks the same way. The commitment to support members is evident in every discussion we have.

As Chair of the Remuneration Committee, for example, it's really tricky to balance fair pay and benefits to keep talented people, with spending money wisely, as both are in our members' best interests. As a woman in business, I'm also passionate about diversity and balance, and this is another subject that I'm delighted that the Committee, and the Society as a whole, are putting lots of focus on."

JO KENRICK

SENIOR INDEPENDENT DIRECTOR

COMMITTEE MEMBERSHIP

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

APPOINTED: November 2017

SKILLS AND EXPERIENCE

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 of Principality Building Society.

EXTERNAL APPOINTMENTS

Non-executive director and Chair of the Remuneration Committee of Dŵr Cymru Welsh Water. Non-executive director of Safestore Holdings plc and for Pay UK, Chair of PayM and of the Current Account Switch Service.

"I bring my financial services experience to contribute to the Society's strategy and I am committed to ensure we continue to provide value to our members, colleagues and all our stakeholders.

I am very proud to be part of the Society which has a wider purpose, particularly its role in providing wellbeing support to colleagues, helping our wider communities and protecting the environment. I am passionate about long-term sustainability. The Society has successfully been in existence for over 100 years and I believe we need to ensure we continue to make long-term decisions and evolve with the changing needs of our members and society as a whole."

SHAMIRA MOHAMMED

INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP

Member of the Board Audit Committee.

APPOINTED: May 2019

SKILLS AND EXPERIENCE

Chartered Accountant with over 20 years' experience within the financial services sector. Currently Group Chief Accounting Officer of 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, Athora.

BRENDAN O'CONNOR

INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP

Remuneration Committee and Board Risk Committee.

APPOINTED: January 2021

SKILLS AND EXPERIENCE

Over 35 years' experience at Allied Irish Bank including Head of their 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 director for Ford Credit Europe Bank.

"A mortgage is a financial contract but a home is so much more. It's dreams, heart, family and ambition. With savings, people don't save to aimlessly accumulate money in an account – they save for a reason: perhaps a first car, a home or to send their kids to university.

As we help members to realise these dreams, we must also be accountable for and focus on sustainability – how to behave responsibly, be a good partner in the communities we serve and make sure our business model is sustainable in the broadest sense. An element of that sustainability will be the technical and digital transformation that needs to happen. I am incredibly impressed with the customer focus that already exists in the business and I care about protecting that focus as more interactions become remote."

MARTIN STEWART

INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP

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

APPOINTED: September 2018

SKILLS AND EXPERIENCE

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

Non-executive director 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.

"I have a strong belief in mutuality. I recall a time in my career when I was advising financial institutions whether to demutualise, when their competitors were. I could see that mutuality was in the best long-term interest of members and recommended they should not demutualise. From my experience in the industry and my work with the Coventry, I know that the mutual model is still best for all aspects of our business today.

This is reflected in the service at the Coventry. I am extremely impressed with the fact that when the Covid-19 crisis materialised, we were back to normal service levels in four weeks. I'm very proud of how brilliantly colleagues have adapted during these extremely challenging times."

DIRECTORS' REPORT ON CORPORATE GOVERNANCE

DEAR MEMBER

I am pleased to present to you the Society's Report on Corporate Governance. This report explains how our governance framework operates, and the role of the Board and its Committees, and gives you an insight into our key activities in 2020. The report recognises that we are accountable to members for good corporate governance, and this report, together with the reports from the Nominations & Governance Committee, the Board Risk Committee, the Board Audit Committee and the Remuneration Committee, seeks to demonstrate our commitment to high standards of governance.

As Chair, it is my responsibility to lead the Board to operate effectively and in a way that promotes the long-term sustainable success of the Society. Having an effective corporate governance framework is key to achieving this success; it impacts how, as a Society, we deliver our strategy and ensure that we operate in a way that is consistent with our values and culture.

Good governance depends on effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk and risk appetite. The Strategic Report explains how we seek to fulfil our purpose and our approach to the management of risk.

OUR RESPONSE TO THE COVID-19 PANDEMIC

The challenges faced this year as a result of the Covid-19 pandemic have highlighted the importance of having a strong governance framework. It was essential that the Board could provide effective oversight and challenge to ensure that the Society could continue to serve its members, colleagues and wider stakeholders. In response, a number of changes were made to our governance structure including increasing the frequency and content of Board meetings held during the course of the year. This ensured that Board members were kept fully informed of developments and could continue to inform the Society's response to the pandemic, focusing on maintaining service to our members and supporting the wellbeing of our colleagues throughout the crisis.

CHANGES TO THE BOARD

In 2020 we welcomed two new directors to the Board. This began with the appointment of our Chief Executive, Steve Hughes, in April 2020 and most recently with the appointment of our newest non-executive director, Brendan O'Connor.

We recognise that in order to ensure the long-term success of the business, the Board must consist of individuals with the right combination of skills and experience who are committed to delivering the strategy. We are confident that the changes to the composition of the Board will help us to achieve this. Full details of these changes are provided in this report.

OUR COMMITMENT TO BOARD DIVERSITY

Achieving diversity in our leadership remains a key focus for the Board. While there is much work to do to achieve everything that is required in this area, there is a clear commitment to progress.

OUR OBJECTIVES FOR 2021

Looking forward to 2021, the Board's primary objective will be to:

- Meaningfully progress the Society's diversity and inclusion agenda, including committing to goals and targets to help to deliver real change.
- Provide oversight and leadership on the Society's IT and change activities to ensure continued successful delivery of key projects and the development of new capabilities which are required by our members.
- Develop the Society's commitment to sustainability, in line with its position as a signatory to the UNEP Principles of Responsible Banking.

Gary Hoffman
Chair of the Board
3 March 2021

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement has been prepared in accordance with the principles of the UK Corporate Governance Code dated July 2018 (the Code) which applied to the 2020 financial year. The Society has met the requirements of the UK Code throughout 2020 with the exception of the provisions relating to engagement with institutional shareholders, which is not relevant to the Society given its mutual ownership model. The Governance Report explains how the Society has applied the principles of the Code through 2020.

BOARD & COMMITTEE STRUCTURE

THE BOARD

CHAIR: Gary Hoffman

PURPOSE: The Board sets the overall direction of the Society and is responsible for its long-term success.

MEMBERS: Peter Ayliffe, Catherine Doran, Jo Kenrick, Iraj Amiri, Martin Stewart, Shamira Mohammed, Steve Hughes, Peter Frost, Brendan O'Connor.

REMUNERATION COMMITTEE

CHAIR:
Jo Kenrick

PURPOSE:
Ensures that the Society's remuneration policy and practices are effective, compliant and reflect the Society's purpose, values and strategy.

MEMBERS:
Catherine Doran
Peter Ayliffe
Gary Hoffman
Brendan O'Connor

NOMINATIONS & GOVERNANCE COMMITTEE

CHAIR:
Gary Hoffman

PURPOSE:
Ensures the Board maintains high standards of corporate governance and oversees the appointment and succession planning of Board directors.

MEMBERS:
Peter Ayliffe
Jo Kenrick
Martin Stewart

BOARD RISK COMMITTEE

CHAIR:
Martin Stewart

PURPOSE:
Oversees the Society's risk management and control environment.

MEMBERS:
Peter Ayliffe
Catherine Doran
Iraj Amiri
Brendan O'Connor

BOARD AUDIT COMMITTEE

CHAIR:
Iraj Amiri

PURPOSE:
Ensures that the Society operates effective internal controls and delivers external financial reporting which is fair, balanced and understandable and in line with accounting standards.

MEMBERS:
Jo Kenrick
Martin Stewart
Shamira Mohammed

A document called 'Matters reserved to the Board' details the responsibilities of the Board, and the responsibilities of each of the Board's Committees are set out in their terms of reference. These can both be found on our website at www.thecoventry.co.uk.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE CONTINUED

ROLE OF THE BOARD AND BOARD RESPONSIBILITIES

The Board has a collective responsibility to ensure the long-term sustainable success of the Society for the benefit of its members and wider stakeholders. This responsibility extends across a number of areas as summarised below:

THE ROLE OF THE BOARD

- CHALLENGING AND APPROVING THE LONG-TERM STRATEGY OF THE SOCIETY INCLUDING THE LEGAL STATUS OF THE SOCIETY AND REVIEWING THE STRATEGIC PLAN
- DETERMINING AND REVIEWING THE SOCIETY'S RISK APPETITE AND THE MAJOR RISKS FACED BY THE SOCIETY
- SETTING THE RIGHT CULTURE AND VALUES FOR THE SOCIETY
- ASSESSING THE ADEQUACY OF CAPITAL AND LIQUIDITY
- SETTING THE SOCIETY'S REMUNERATION POLICY AND THE REMUNERATION FOR DIRECTORS AND CERTAIN OTHER MEMBERS OF SENIOR MANAGEMENT
- MONITORING THE PERFORMANCE OF THE SOCIETY AND HOLDING THE CHIEF EXECUTIVE AND THE EXECUTIVE TEAM TO ACCOUNT ON BEHALF OF MEMBERS
- COMMUNICATING WITH STAKEHOLDERS BY APPROVING THE ANNUAL FINANCIAL STATEMENTS AND WITH MEMBERS THROUGH THE ANNUAL GENERAL MEETING

BOARD ACTIVITIES IN 2020

Board meetings are an important mechanism through which the Board discharges its responsibilities particularly in relation to the requirements of the Code and Section 172 of the Companies Act 2006. Some of the Board's responsibilities are discharged directly, whereas others will be delegated to the Board's Committees.

The Board seeks to meet its legal and regulatory obligations as well as fulfilling its purpose to oversee the overall management of the Society. The Board's activities are planned on a 12 month rolling basis with additional items coming to the Board as appropriate.

ACTIVITIES IN 2020

At each meeting the following standing items are considered by the Board

CHIEF EXECUTIVE'S REPORT:

providing an overview of the external competitive environment covering key trends across the lending and savings sectors, in addition to information on the status and progress of the Society's strategic change projects.

MANAGEMENT INFORMATION:

(i) on the Society's trading and financial performance since the last meeting of the Board.

(ii) reporting on the Society's operations including people and customer service metrics and key developments across Society operations.

CHIEF RISK OFFICER'S REPORT:

on the Society's risk position and assessment of the Society's key risks.

BOARD COMMITTEE UPDATES:

from the Chairs of the Board Committees to the Board on the key issues and topics raised at committee meetings ensuring the Board is aware of key discussions and decisions made by the committees.

In addition to the standing items, listed above, the Board considered the key strategic items during 2020:

PEOPLE & MEMBERS

- Received the results of the 2020 employee survey – this was particularly important this year in light of the pandemic to assess the wellbeing of our employees. We also invited employees to attend the Board presentation to talk about their views on how the Society has supported its workforce throughout the pandemic. This will help mould the approach that the Society adopts in 2021 to help improve the wellbeing of its employees.
- Received a report on the Society's customer experience initiatives including feedback from the Member Panel (good and bad) on their experiences of the Society and suggestions on what could be improved.

STRATEGIC DEVELOPMENT

- Considered and approved the Society's five year strategic plan, assessing the strategic actions identified to achieve the Society's strategy.
- Reviewed progress on the delivery of each of the Society's key strategic change projects, focusing on the development of the Society's digital offering, in line with its strategic plan.
- Reviewed and approved new product propositions including Owner-Occupied Interest-Only Mortgage.
- Refreshed the Society's strategic values.

FINANCE & PERFORMANCE

- Reviewed and approved the Society's interim and full year financial results.
- Approved the Society's Annual Report & Accounts.
- Approved the Society's costs budget for 2021.
- Approved the Society's Financial Plan for 2021-2025.

RISK AND REGULATORY MATTERS

- Approved the Society's risk management framework, its risk appetite and ongoing monitoring of adherence to this.
- Approved the Board Risk Appetite Framework.
- Approved the Society's 2020 Resolution Plan to ensure that adequate provisions and processes are in place to protect the Society's business and its members.
- Reviewed the Society's Brexit transition strategy.

GOVERNANCE

- Approved the appointments of the Chief Executive and a Non-Executive Director, Brendan O'Connor.
- Reviewed the results of the 2019 Board and Board Committee Effectiveness survey and agreed actions to enhance the effectiveness of the Board and its committees during 2020.
- Reviewed and approved the matters reserved to the Board and the terms of reference for each committee of the Board.
- Approved the Notice of the 2020 AGM and the associated member documentation.
- Approved the Society's contingency plans for the 2020 AGM in light of the Covid-19 pandemic.
- In line with the requirements of the Senior Managers Regime, the Board considered the results of the annual fitness and propriety assessments of each Director, prior to recommending them for election/re-election at the Society's next AGM.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE CONTINUED

OPERATION OF THE BOARD

The Board delegates certain detailed matters to its Committees or to the Chief Executive to make best use of the knowledge, skills and experience on the Board. The Board has documented this arrangement and reviews it annually.

The Board has five Committees: Board Audit Committee, Board Risk Committee, Nominations & Governance Committee, Non-Executive Directors' Remuneration Committee and Remuneration Committee. They are chaired by and comprise of members who are non-executive directors, except the Non-Executive Directors' Remuneration Committee which is chaired by the Chief Executive.

The Board oversees its Committees by receiving reports from the Committee Chairs following each meeting. Each Committee carries out a review of its own effectiveness annually, including an assessment of its compliance with its terms of reference, published guidance and best practice. All Board Committees were confirmed as effective during 2020.

BOARD AND BOARD COMMITTEE ATTENDANCE 2020

The attendance record for Board members is shown in the table below. The table shows the actual number of meetings attended with the number of meetings for which the directors were eligible to attend.

Name	Title	Board	Board Risk Committee	Board Audit Committee	Remuneration Committee	Non-Executive Directors' Remuneration Committee	Nominations & Governance Committee
Gary Hoffman[1]	Chair of the Board	11/11			7/7	1/1	5/5
Peter Ayliffe	Deputy Chair	11/11	8/8		7/7		5/5
Iraj Amiri[2]	Non-Executive Director	11/11	8/8	8/8			
Andy Deeks[3]	Product, Marketing and Strategy Director	9/9	6/6				
Catherine Doran	Non-Executive Director	11/11	8/8		7/7		
Michele Faull[4]	Chief Financial Officer	10/10	7/7	7/7		1/1	
Peter Frost	Chief Customer Officer	11/11	8/8	4/4			
Jo Kenrick[5]	Non-Executive Director	11/11		8/8	7/7		5/5
Mark Parsons[6]	Chief Executive	3/3	1/1	3/3	4/4	1/1	1/1
Steve Hughes[7]	Chief Executive	8/8	7/7	5/5	3/3		4/4
Shamira Mohammed	Non-Executive Director	11/11		8/8			
Martin Stewart[8]	Non-Executive Director	11/11	8/8	8/8			4/4

1. Chair of the Board and Chair of Nominations & Governance Committee.
2. Chair of the Board Audit Committee.
3. Served on the Board until 09.10.2020.
4. Served on the Board until 30.11.2020.
5. Chair of the Remuneration Committee.
6. Served on the Board until 19.04.2020.
7. Chief Executive Officer and Chair of the Non-execuative Remuneration Committee from 20.04.2020.
8. Chair of the Board Risk Committee. Member of the Nominations & Governance Committee from 23.04.2020.

DIVISION OF RESPONSIBILITIES

INDEPENDENCE

In January 2020, the Board reviewed the independence of its non-executive directors. In line with the Code, it considered whether there were any relationships or circumstances that were likely to affect, or could appear to affect, a director's independence.

In the opinion of the Board, Peter Ayliffe, Catherine Doran, Jo Kenrick, Iraj Amiri, Martin Stewart and Shamira Mohammed satisfy the requirements for independence and have demonstrated this in their character and judgement. The Board considered Brendan O'Connor was independent when appointed as Non-Executive Director in January 2021. Letters of appointment for the Society's directors are available from the General Counsel and Secretary on request. Details of the directors' external appointments are in the Annual Business Statement.

CHAIR OF THE BOARD AND CHIEF EXECUTIVE

The positions of Chair of the Board and Chief Executive are held by different directors and are distinct in their purpose. This meets with accepted good practice, including the Code. The Chair is responsible for leading the Board and ensuring that it is effective. The Chief Executive has overall responsibility for managing the Society and implementing the strategies and policies agreed by the Board.

DEPUTY CHAIR

The principal role of the Deputy Chair is to deputise for the Chair of the Board at meetings of the Board and to support the Chair of the Board in his role. In addition, the Deputy Chair has specific responsibility to represent the views and interests of the Society's employees to the Board. As a part of his Deputy Chair role, Peter Ayliffe attends quarterly meetings of My Society, the elected forum of employee representatives. The views of the My Society members have informed Board discussion on a number of matters, including strategy and culture.

SENIOR INDEPENDENT DIRECTOR

The role of the Senior Independent Director is to provide a sounding board for the Chair of the Board and act as an intermediary for other directors. They are responsible for holding annual meetings with non-executives, without the Chair present, to appraise the Chair's performance.

In conjunction with the other directors, the Senior Independent Director evaluates the performance of the Chair of the Board and leads succession planning for the role of the Chair of the Board. Jo Kenrick is the appointed Senior Independent Director for the Society.

TIME COMMITMENT

Non-executive directors are not required to devote the whole of their time to the Society's affairs but must devote sufficient time to properly discharge their duties and regulatory obligations. Each year the Society's Nominations & Governance Committee assesses whether each of the directors is able to commit sufficient time to the Society to discharge their responsibilities effectively, taking into account any external commitments they may also have. The assessment from 2020 confirmed that all directors were considered to have sufficient time to properly discharge their duties as directors of the Society.

DIRECTORS' REPORT ON CORPORATE GOVERNANCE CONTINUED

CONFLICTS OF INTEREST

The Board maintains a register of conflicts of interest which is reviewed at the start of every Board meeting. In accordance with their duties as directors, each director is obliged to notify the Board of any actual or potential interest that they have in a matter to be transacted at a meeting. In addition it is the responsibility of the Nominations & Governance Committee to oversee compliance with the Society's Conflicts of Interest Policy. The policy gives effect to various legal and regulatory requirements on the Society in relation to conflicts of interest and in broad terms seeks to ensure the directors of the Society do not assume roles which would conflict with their obligations as a director of the Society.

TRAINING AND DEVELOPMENT

New directors receive formal induction training on joining the Board. The training is tailored to the needs of each director given their existing knowledge and experience, and any committees on which they will serve. Training covers key aspects of the Society's business.

Established directors continue their professional development and maintain their knowledge of the Society's operations through branch and department visits and formal training overseen by the Nominations & Governance Committee in line with Board training policy. During 2020 the Board members received training on the following topics:

- Conduct Risk.
- Third-Party Supplier Management at the Society.
- Wholesale Funding.
- Digital Footprint.
- Operational Resilience.

COMPOSITION, SUCCESSION AND EVALUATION

Brief biographies of the directors are included in the Board of Directors section. Details of those seeking election and re-election can be found in the Notice of the 2021 AGM.

The Society's Rules require that the Board comprises between six and 12 directors. There are currently nine directors: the Chair of the Board, six independent non-executive directors (NED) and two executive directors. Under the Code at least half of the directors, excluding the Chair of the Board, should be non-executive.

Changes to the Board during 2020 are as follows:

Mark Parsons	CEO	Resigned April 2020
Steve Hughes	CEO	Appointed April 2020
Andy Deeks	Product and Marketing Director	Resigned October 2020
Michele Faull	CFO	Resigned November 2020
Brendan O'Connor	NED	Appointed January 2021

BOARD EFFECTIVENESS

The Board reviews its performance annually, with the last internal review in December 2020. Each Board member considered the effectiveness of the Board against its terms of reference.

The Board and its Committees were found to be operating effectively. The Chair of the Board appraised the directors' performance. The Chair of the Board's performance review was led by the Senior Independent Director and took into account the views of the rest of the Board. The Board concluded that all directors were fulfilling their duties and responsibilities effectively.

THE BOARD AND STAKEHOLDERS

As a purpose led building society, our Board understand the importance of engaging with the Society's stakeholders to understand how their decisions impact this wider group. The Board takes into consideration the interests of these stakeholders as part of its discussion and decision-making processes, ensuring that they continue to act in the best interest of members, colleagues and the wider stakeholder group.

On page 14 of the Strategic Report you will find more information on the Society's stakeholders and how they influence the decisions that the Board make. This section also forms part of our disclosure under Section 172(1) of the Companies Act 2006. Although, as a building society, we are not required to follow the Companies Act 2006, we seek to apply its requirements where appropriate.

WHISTLEBLOWING

The Society has in place arrangements to ensure that those who work for us speak up about concerns so that workers can raise concerns in confidence and anonymously and that these can be investigated and properly dealt with. The Society is committed to ensuring that no-one will be at risk of detrimental treatment from the Society or its employees as a result of raising a concern. Iraj Amiri, Non-executive Director, has been appointed as the Whistleblowing Champion. The Whistleblowing Champion has overall responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Society's whistleblowing policies and procedures, including arrangements for protecting Whistleblowers against detrimental treatment. The Whistleblowing Champion will ensure that a report is presented to the Society's Board of Directors annually regarding the effectiveness of whistleblowing systems and controls. The Society provides training on whistleblowing annually and is imminently releasing a new reporting channel for workers in 2021. It will enable concerns to be reported via an independent third party.

The Society remains committed to continually evaluating its approach to whistleblowing and its effectiveness. The Board Audit Committee play an active role in overseeing the Society's procedures and policies for whistleblowing and review a report on the effectiveness of the Society's whistleblowing procedures on an annual basis, prior to submission to the Board. The Society also has a designated Enterprise Leader with responsibility for this area who meets regularly with the Whistleblowing Champion and the members of the Board Audit Committee, without other management present, to discuss the Society's whistleblowing arrangements.

NOMINATIONS & GOVERNANCE COMMITTEE REPORT

DEAR MEMBER

As Chair of the Nominations & Governance Committee, I am pleased to present to you a report which outlines the matters that we, as a Committee, have focused on in 2020.

GOVERNANCE

One of the principle responsibilities of the Committee is to ensure that the Society maintains a high standard of corporate governance that is consistent with best practice and the requirements of the UK Corporate Governance Code (Code). This is a key factor to the overall success of the Society and ensures that the decisions made are in the best interest of our members and are consistent with our values and culture.

The challenges faced as a result of the Covid-19 pandemic reinforced the importance of having a robust governance framework. It meant that as the pandemic evolved, the Society was able to adapt its governance arrangements to meet the needs of the business and focus on maintaining service to its members and supporting the wellbeing of colleagues. As a part of its role to oversee the Society's governance processes, the Committee considered recommendations from the Executive Team on how the governance arrangements at the Society could be enhanced. This has involved reviewing the cadence of the Board and Board committee meetings and re-evaluating the matters that fall under the Board's responsibilities. The outcome of this activity will be implemented during 2021.

SUCCESSION PLANNING AND POLICY

One of the Committee's main roles is to review and make recommendations on matters relating to the structure, size, composition and ways of working of the Board. This includes Board succession planning and overseeing the appointment of non-executive and executive directors to the Board and Board committees.

During the year the Committee focused on succession planning to enhance the composition of the Board, considering the skills, knowledge, experience and diversity of existing members of the Board and the capabilities needed. A key consideration for the Committee in all recruitment processes is ensuring that prospective candidates continue to build on the Society's purpose, values and culture. The Committee oversaw the rigorous recruitment process for the new Chief Executive who was appointed to the Board in April 2020 and more recently recommended Brendan O'Connor to be appointed as a non-executive director of the Board in January 2021.

The Committee remains dedicated to promoting broader diversity on its Board and continue to embrace processes which support that objective. During 2020, the Committee worked with specialist search advisors in relation to executive and non-executive director appointments who were selected for their market expertise as well as their track record of making placements of diverse candidates. The Committee plays an important role in managing the shortlisting of candidates and ensure that diversity and inclusion credentials are a key consideration in this process.

Below you will find details of the search firms used by the Society in 2020 for the following Board appointments:

Steve Hughes	Chief Executive Officer	Russell Reynolds Associates
Brendan O'Connor	Non-Executive Director	Ridgeway Partners

Neither firm has any connection with the Society or individual directors of the Society.

TIME COMMITMENT

For all Board vacancies, the Committee must assess whether the proposed candidate has sufficient time to discharge their duties as a director of the Society, having regard to their other commitments. This assessment is carried out at least annually for all existing Board members and also upon any current Board member seeking additional external appointments.

The Committee considers that the directors currently comply with Article 91 of the Capital Requirements Directive and the Code, since all directors are able to commit sufficient time to perform their duties at the Society and none of the directors has more than the maximum number of directorships when taking into account the provisions relating to group directorships and non-commercial organisations.

COMMITTEE MEMBERSHIP

The Code requires the majority of members of a Nominations & Governance committee to be independent non-executive directors. The Committee complies with this requirement and comprises solely independent non-executive directors. The Committee meet a minimum of four times a year and members of the executive team are invited to attend meetings as appropriate.

Current membership	Member since
Gary Hoffman	2018
Jo Kenrick	2018
Peter Ayliffe	2014
Martin Stewart[1]	2020

1. Became a member of the Committee on 24 April 2020.

DIVERSITY

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 a part of its remit, the Committee oversees the implementation of the Society's inclusion and diversity strategy and objectives and carried out a detailed review of this area during the year. One key area of focus for the Committee is the gender balance of the Board, senior managers at the Society and their direct reports. The Committee have engaged with the Executive leadership team to ensure accountability for progress on the Society's inclusion and diversity agenda.

In October 2019 the Board exceeded its gender diversity target to achieve 36% female membership. The target was updated in 2019 to achieve 50% female membership by the end of 2024. Further to changes to the Board's composition in 2020, the Board is behind this target with only 30% female membership at the reporting date. Progress in this area remains a priority for the Committee and the Board and actions have been agreed to address gender balance issues on the Board and across the Society generally. In addition, any future Board appointments will continue to ensure diverse shortlists as standard.

EFFECTIVENESS

The Committee is responsible for overseeing the effectiveness assessment of the Board, each of its committees and the Board Directors. The last internal effectiveness assessment was completed in December 2020 and involved:

- Board and Committee members completing a questionnaire on their effectiveness during the course of the year.
- Each of the Board and its committees reviewing their terms of reference and reporting on how these have been met in 2020.
- An assessment of the effectiveness of individual non-executive directors was undertaken by the Chair of the Board through individual interviews and the Chief Executive completed effectiveness reviews via appraisals with the executive directors. The assessment of the effectiveness of the Chair of the Board was undertaken by the Senior Independent Director and the Chief Executive was appraised by the Chair.

The Committee has considered the results of this assessment and concluded that the Board, its committees and each of the Society's directors operated effectively in 2020. The Committee will continue to monitor the progress of any actions arising out of the review during 2021.

OTHER KEY ACTIVITIES IN 2020

In addition to the points already covered, the Committee:

- Reviewed the Board Succession Plan with particular reference to executive succession and securing a pipeline of non-executive directors.
- Oversaw changes to the Chairs and membership of the Board's committees, and reviewed the Society's Management Responsibilities Map, before submission to the Board for approval.
- Oversaw the application of the various policies designed to ensure the Society's Board is effective.
- Reviewed the matters reserved for the Board and the Board timetable to ensure matters were considered or delegated appropriately.
- Reviewed directors' proposed external appointments to ensure they did not represent a conflict of interest or exceed the number of permitted directorships or prevent directors devoting sufficient time to the Society.
- Reviewed the roles of the Chair of the Board and Chief Executive.
- Received updates on corporate governance developments.
- Considered conflicts of interest and reviewed the effectiveness of the Society's conflicts of interest policy.
- Reviewed governance related policies, including those relating to the Senior Managers Regime (SMR).
- Oversaw the application of the Fit and Proper Policy and other SMR related policies to ensure compliance with this area of regulation.

ANNUAL ELECTION/RE-ELECTION

The Board has considered the provisions of the Code relating to re-election of directors, and considers that it is in the best interests of members to submit the entire Board for annual re-election. This means all of the current directors who were re-elected at the 2020 AGM have voluntarily submitted themselves for re-election, with the exception of Peter Ayliffe who will retire in April 2021 and Steve Hughes and Brendan O'Connor who will stand for election for the first time at the Society's 2021 AGM.

Gary Hoffman
Chair of the Nominations & Governance Committee
3 March 2021

GOVERNANCE

BOARD RISK COMMITTEE REPORT

DEAR MEMBER

I am pleased to present the Board Risk Committee (the Committee) report for the year ended 31 December 2020.

COMMITTEE ROLE AND RESPONSIBILITY

The Committee 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 Executive 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.

OVERSIGHT AND MANAGEMENT OF RISKS IN 2020

2020 raised a unique series of risks for the Society, which were brought about by the impact of the Covid-19 pandemic and the challenges which arose from the United Kingdom's departure from the European Union. In response, the Committee sought to provide appropriate support and challenge to discharge its routine activities, as well as ensuring that these unique risks were appropriately managed.

In order to discharge its oversight obligations through this unprecedented period, the Committee met more frequently and I engaged regularly with the Chief Risk Officer and his team, in order to understand how these risks were being appropriately managed on behalf of our members. I was impressed at the commitment shown by employees of the Society, to ensure that these risks were appropriately managed in line with the society's overall risk appetite. I would like to use this opportunity to thank them for their efforts in this regard.

More details on how the Committee oversaw the Society's approach to the management of the unprecedented risks which arose in 2020 are set below.

COMMITTEE EFFECTIVENESS

As required by the Corporate Governance Code, an annual review of the Committee's effectiveness was undertaken during the year. The Committee determined that a report could be made to the Board that the Committee was operated effectively in discharging its responsibilities during 2020.

LOOKING FORWARD

During 2021 the Committee will continue to provide oversight of risk management across the Society, including the risks which have emerged from the Covid-19 pandemic. In addition, the increased focus on climate change risk will be another important priority for the year ahead.

Martin Stewart
Chair of the Board Risk Committee
3 March 2021

COMMITTEE MEMBERSHIP

The current members of the Committee are:

Current membership	Member since
Martin Stewart	2018
Iraj Amiri	2018
Catherine Doran	2017
Peter Ayliffe	2016

COMMITTEE MEETINGS

During 2020 the Committee met on eight separate occasions. As a result of the Covid-19 pandemic, adjustments to the meeting schedule were implemented to ensure that the Committee could appropriately oversee a fast changing risk environment. Details on meeting attendance can be viewed on the Directors' Report on Corporate Governance.

KEY MATTERS CONSIDERED BY THE COMMITTEE

At each meeting, the Committee considered a consolidated risk report from the Society's Chief Risk Officer (CRO). These reports highlighted key and emerging risks for consideration by the Committee including those relating to both the pandemic and Brexit.

In addition, during 2020 the Committee:

- Reviewed the strategic and emerging risks within the Society's 2021-2025 Strategic Plan.
- Reviewed the ERMF and recommended it to the Board for approval. An effectiveness review of the ERMF was also undertaken.
- Reviewed the Society's risk appetite including risk limits and risk indicator categories for each principal risk category.
- Agreed an integrated risk assurance plan, and monitored second line risk oversight and progress in delivering a programme of thematic reviews.
- Reviewed the Conduct Risk Framework.
- Received assurance from the CRO that employees are risk aware and encouraged to contribute to identifying and managing risks faced by the Society.
- Reviewed risk matters relevant to the Society's IT capabilities and sought assurance as to the effectiveness of IT systems and business continuity arrangements including operational resilience.
- Reviewed assurance reports relating to the Society's strategic investment programmes.
- Scrutinised internal assessments of capital and liquidity resources, prior to the Board providing its approval, and reviewed and approved the Society's Recovery Plan.
- Reviewed the Treasury Risk and Prudential Policy Statement before recommending to the Board for approval.
- Received reports on lending policy and processes in place to meet with regulatory expectations including detailed consideration of the Society's credit position.
- Undertook responsibility to manage and oversee the risks of the Society's outsourcing arrangements.
- Reviewed the Financial Crime Risk Management Policy and the Anti-Money Laundering Risk Management Policy and recommended them to the Board for approval. A report was also received from the Money Laundering Reporting Officer.
- Reviewed the Model Risk Framework and Policy and recommended these to the Board for approval.
- Undertook a review of retail credit risk.
- Received an update on regulatory change.
- Reviewed an assessment of the performance and independence of the Compliance Function.
- Reviewed the Operational Risk Policy and recommended it to the Board for approval.
- Received reports on information security risk including the Cyber Security Strategy.
- Undertook an annual review of business continuity and operational resilience.
- Undertook a review of remuneration risk.
- Received a Financial Stability Report.
- Reviewed the Operational Continuity in Resolution (OCIR) Framework/Resolvability Assessment Framework.
- Undertook additional reviews of market risk, change risk and people risk.

A private session was also held between members, the Society's CRO and the CRO's direct reports to provide an opportunity for discussion about risk matters without management presence.

Please refer to the Strategic Report for the principal risks facing the Society as well as a summary of the inherent risks in the Society's business model. The Risk Management Report contains information relating to how risk is managed across the Society.

COMMITTEE RESPONSE TO COVID-19

In response to the Covid-19 pandemic the Committee sought to ensure its oversight role was focused on the most relevant risk categories which included in particular strategic risk, retail credit risk, people risk, IT risk, information security risk and third-party risk.

In relation to people risk, the Committee particularly focused on how the risks relating to member and employee safety and wellbeing were being managed. A further area of focus for the Committee was assessing the management of operational risks arising from the significantly increased number of employees working from home on a long-term basis.

BOARD AUDIT COMMITTEE REPORT

DEAR MEMBER

As Chair of the Board Audit Committee, I am pleased to present our report for 2020 which sets out the work carried out by the Committee throughout the year. My role has been to direct the Committee's oversight responsibilities relating to accounting, financial reporting and internal control matters through what has been a hugely challenging year. Every aspect of the Committee's activities has been affected by the Covid-19 pandemic, requiring it to remain flexible and responsive to the areas that demanded consideration. This has resulted in additional meetings being held to oversee the key impacts on the Society's accounting and financial reporting matters, including but not limited to mortgage provisions.

During 2020, the impact of the pandemic and the Society's response to it was a key focus for the Committee. Our colleagues have actively brought about new ways of working to support the challenges presented by the pandemic while maintaining the control environment and ensuring excellent member service and colleague health and safety continued. The effects of the pandemic have resulted in increased economic uncertainty which impacts the Society's accounting judgements. More information on the impacts of the pandemic on the Society as a whole is included in the Strategic Report.

The Committee has continued to monitor the integrity of the Society's external reporting and has reviewed the significant financial reporting judgements which are included in the financial statements. More information on these judgements is included in this report. As a result of the review performed, the Committee has been able to provide assurance to the Board that the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members and other stakeholders to assess the Society's position and performance, business model and strategy.

The effectiveness of the Society's internal controls and risk management systems has also been reviewed during the year. Particular focus has been given to those aspects of the Society's control environment that have experienced surges in demand or upon which the Society has increased its reliance with the emergence of Covid-19, for example processes to record and manage mortgage payment deferrals, information security, and capital and liquidity management.

Internal Audit immediately reassessed and revised its plan as a result of the impacts of the pandemic on the Society. As part of this replanning, focus was given to the assessment of impacted processes and activities in a restated Audit Plan that was approved by the Committee in May 2020, following the initial impacts of the pandemic. Planned audit work was repurposed to include consideration of the impacts of the pandemic such as increased remote working, with additional assessments added to the Audit Plan to evaluate the impacts of Society operations during these uncertain times. The Committee has reviewed all the activities, findings and performance of the Internal Audit function during the year including the effectiveness of the function, its departmental financial budget and the remuneration of the Chief Internal Auditor.

The Committee has also provided oversight of the Society's procedures and policies for maintaining probity during the year including whistleblowing, assessed their overall efficacy and reviewed an annual report on the effectiveness of whistleblowing procedures prior to submission to the Board.

We have also monitored the external auditor's independence and objectivity, and assessed the effectiveness of the external audit process, in addition to recommending the appointment and approving the remuneration and terms of engagement of the external auditor.

More information on each of the above items is included in the report.

Iraj Amiri
Chair of the Board Audit Committee
3 March 2021

ROLE AND MEMBERSHIP OF THE COMMITTEE

The role of the Committee is to review and assess the integrity of the Society's financial reporting and statements, in addition to monitoring the effectiveness of internal controls and risk management systems, and overseeing the work of the Internal Audit function and external auditors.

The Committee's members are independent non-executive directors who are able to draw on their experience to review and challenge the work of management in these areas.

The Committee advises the Board on matters which are set out in its terms of reference which are included on the website at www.thecoventry.co.uk. The Committee reviews its terms of reference and its roles and responsibilities annually against the Financial Reporting Council's (FRC) Guidance on Audit Committees. This review was completed during 2020 and no significant changes were made to the Committee's responsibilities.

The Board is satisfied that all Committee members have recent and relevant financial services sector experience and that both Iraj Amiri and Shamira Mohammed are professionally qualified accountants.

Current membership	Member since
Iraj Amiri	2018
Jo Kenrick	2017
Shamira Mohammed	2019
Martin Stewart	2018

More information on the Society's Committee structure is included in the Corporate Governance Report.

COMMITTEE ATTENDANCE

The Committee met eight times during 2020. All Committee meetings are routinely attended by the Chief Executive, Chief Financial Officer, Chief Risk Officer, General Counsel and Secretary, Chief Internal Auditor and the external auditor. Other senior managers are invited to attend meetings as required.

The Committee meets both the Chief Internal Auditor and the external auditor without management present at least once during the year to enable issues to be raised privately if necessary. The Committee Chair also meets privately with the Chief Internal Auditor and the external auditor on a regular basis.

THE EFFECTIVENESS OF THE COMMITTEE

The Committee carried out a review of its effectiveness during 2020, including an assessment of its work against its terms of reference, published guidance and recommended good practice. The review considered the views of members and attendees, provided anonymously, and focused on the how the Committee had considered key financial reporting judgements and controls, the work of the Society's internal and external auditors, and the skills and competencies of the Committee. The assessment resulted in the Committee ensuring that it updated its terms of reference in light of the Covid-19 pandemic, while also taking account of new corporate governance code requirements and recommended practices.

The assessment of effectiveness is provided to the Board to enable it to make an overall assessment of the effectiveness of corporate governance arrangements in 2020 and make a report on this matter in the Society's Annual Report & Accounts. The review concluded that the Committee had operated effectively throughout the year, with the Board approving the Committee's revised terms of reference.

KEY AREAS OF FOCUS DURING 2020

Significant matters which were considered by the Committee during the year, working closely with the Board Risk Committee, the Society's Risk function and Internal Audit, are set out in the following sections.

PREPARATION OF FINANCIAL STATEMENTS AND KEY AREAS OF JUDGEMENT

When assessing both the interim and full year 2020 financial statements, the Committee considered carefully areas subject to management judgement which included the following:

CALCULATION OF EXPECTED CREDIT LOSS PROVISIONS UNDER IFRS 9

The Committee has continued to review the Society's IFRS 9 accounting policies during 2020 to ensure that they remain appropriate.

The calculation of expected credit losses (ECLs) for loans and advances to customers has been significantly impacted by the pandemic. The Committee 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.

In uncertain times, the Committee recognises that a more significant degree of management judgement may be required, particularly where there is no reliable precedent. The Committee's role is to make sure that appropriate judgements are applied. The ECL provision has increased significantly to £48.1 million (2019: £12.0 million) including a post model adjustment of £37.6 million (2019: £4.0 million). The Committee has challenged management on the calculation methodology and is satisfied with the rationale and method for determining the post model adjustment.

BOARD AUDIT COMMITTEE REPORT CONTINUED

The Committee also reviewed the alternative economic scenarios that have been used in the provision calculation and the weightings which have been assigned to them along with sensitivity of the provision to different weightings along with other key assumptions. The Committee has considered the range of sensitivities, which have been greater than in previous years, given the heightened uncertainty.

The financial statements disclosures have been reviewed to ensure that sufficient information on the judgements which have been applied is included in the Society's financial statements. The Committee was satisfied with the adequacy of the provisions and the appropriateness of the disclosures which have been made.

REVENUE RECOGNITION AND EIR METHODOLOGY

The Society recognises income on its mortgage loans using the Effective Interest Rate (EIR) method. This applies a rate of return that reflects a constant income yield over the expected life of the mortgage loan based on expectations of future loan redemption and interest rates. The EIR calculation is most sensitive to current assumptions on loan redemption and the difference between fixed rates and Standard Variable Rates in the future.

The Committee reviewed the EIR calculation methodology, in addition to the key assumptions used. The Committee concluded that the asset valuation was appropriate.

DERIVATIVES AND HEDGE ACCOUNTING

The Committee reviewed the Society's approach to hedge accounting. Derivatives are used by the Society solely for risk management purposes, to manage either interest rate risk or foreign exchange risk and the Society uses hedge accounting to reduce income statement volatility arising from fair value accounted derivatives. The Committee has reviewed the Finance team's control activities and reports from the external auditor on the methodology, process and key assumptions applied to the Society's hedge accounting activity. In particular, the Committee has reviewed the approach for hedge accounting relating to mortgage pipeline swaps and for the Society's equity release mortgage portfolio. The Committee is satisfied that the amounts recognised in the financial statements are appropriately stated.

DEFINED BENEFIT PENSION SCHEME SURPLUS

The Committee also considered the calculation of the Society's defined benefit pension surplus including the valuation of the Scheme's assets and the assumptions which are used to calculate the Scheme's liabilities. The surplus has decreased to £9.7 million (2019: £24.3 million) as a result of market movements during the year, and the Committee is satisfied that it is appropriately stated.

GOING CONCERN AND LONG-TERM VIABILITY

The Committee evaluated whether adopting the going concern basis of accounting was appropriate and separately considered the Society's long-term viability, taking account of the principal risks facing the Society, including those that could threaten the Society's business model, future performance, solvency and liquidity. The impact of the pandemic on the Society's business was reviewed including updates to stress testing and forecasts as a result of updated forward-looking assumptions.

In particular, the Committee considered the periods over which the Society's prospects and long-term viability should be assessed, along with the basis of these assessments. It was concluded that a three year statement on long-term viability remained appropriate taking into account the planning and stress testing carried out by the Society combined with increased and inherent uncertainty in the outer years of the Strategic Plan resulting from economic and market conditions and predictions. The Committee concluded that the going concern and long-term viability assessment were appropriate and statements on these matters are included in the Directors' Report.

FAIR, BALANCED AND UNDERSTANDABLE

The Committee considered whether the 2020 Annual Report & Accounts, taken as a whole, were fair, balanced and understandable. The Committee satisfied itself that there was a robust process of review and challenge at different levels within the Society, to ensure balance and consistency and that this is reflected in the Annual Report & Accounts, which included:

- Providing guidance on drafting.
- Making sure all messages are communicated as simply as possible and that the Strategic Report is comprehensive.
- Thorough verification of all factual content.
- Central coordination and thorough review including review by a non-specialist.
- Comprehensive review by senior executives including the Committees' Chairs prior to wider Committee consideration.

The Committee also considered other information regarding the Society's performance presented to the Board during the year. After consideration of all relevant information, the Committee concluded that it could report to the Board that the 2020 Annual Report & Accounts are fair, balanced and understandable.

NEW ACCOUNTING STANDARDS AND DISCLOSURES

The Committee was updated on the application of the Phase 2 amendments to IAS 39, IFRS 7 and IFRS 9 as a result of IBOR transition and has reviewed the implementation of the amendments which has been applied by management.

Further information with respect to financial reporting developments can be found in the notes to the accounts.

The Society has included climate change disclosures aligned to the Task Force on Climate-related Financial Disclosures for the first time in 2020 and the Committee has reviewed the disclosures, along with additional non-financial reporting disclosures made in the year. The Committee is satisfied that the disclosures are appropriate as included in the Annual Report & Accounts.

THE SOCIETY'S INTERNAL CONTROL AND RISK MANAGEMENT ARRANGEMENTS

The Committee reviewed the effectiveness of internal control and risk management arrangements through regular reporting from Internal Audit, the Risk function and the external auditor. In addition, the Committee reviewed the assurance statements received from the Chief Internal Auditor on internal control, and from the Chief Risk Officer on risk management.

In this regard the Committee has reviewed the circumstances that gave rise to a correction of the Society's prior period risk weighted assets which was announced in December 2019. It has reviewed management's proposals to enhance the internal control environment for Capital reporting and will oversee the ongoing control enhancements.

During 2020, Internal Audit paid additional attention to assessing internal control and risk management systems associated with functions and activities undertaken by the Society that have been impacted by the pandemic. Evaluations have been made of operational processes directed at recording and managing mortgage payment deferrals, ensuring that the Society's buildings are Covid-safe and provide a safe environment for the Society's members and colleagues, and appropriate adjustments are made to the Society's change priorities and financial forecasts and provisions. Specific attention was also given to the steps taken by management to protect Society colleagues' health, safety and wellbeing, reaching positive opinions on the steps taken by the Society.

Increased consideration has also been given to the impact on internal control of remote working, in conjunction with efforts to protect the wellbeing of colleagues. Progress by the Society in the effective delivery of change during these uncertain times has provided the Committee with formal assessments related to the key change initiatives as well as functional control improvement plans related to areas including capital reporting and privileged access management.

The Committee received regular reports during 2020 on whistleblowing and concluded that the arrangements were operating effectively and there were no material matters of concern.

Further information on the Society's approach to internal control and risk management is included in the Risk Management Report.

THE ACTIVITIES OF INTERNAL AUDIT

The role and responsibilities of Internal Audit are set out in the Internal Audit Charter and reviewed and revalidated by the Committee during the year. A copy of this Charter is available on the Society's website (www.coventrybuildingsociety.co.uk/InternalAudit).

The Committee received regular reports from the Chief Internal Auditor setting out the results of assurance activity related to Society operations and strategic change initiatives, progress in delivery of the Internal Audit Plan and the adequacy of resources. These updates included the results of all work directed at assessing the Society's response to and continued management of the impacts of the Covid-19 pandemic and Internal Audit's assessment of information security management and access controls. Significant findings and thematic issues identified were considered by the Committee, together with management's response and completion of remedial action commitments made in respect of previously issued audit reports.

During the year, the Committee oversaw a review of the effectiveness of the Internal Audit function led by the Chief Internal Auditor, which built on the external review completed by an independent assessor in 2019. The review considered the quality of work, the appropriateness of skills and resources within the team and compliance with the Chartered Institute of Internal Auditors' Guidance on Effective Internal Audit in the Financial Services Sector. While a number of improvements were recommended, the report confirmed that the Internal Audit function was effective. The Committee is monitoring implementation of actions following the review.

BOARD AUDIT COMMITTEE REPORT CONTINUED

EXTERNAL AUDITOR

As well as discussing external audit findings, the Committee is responsible for overseeing the relationship with the external auditor and the quality of the audit process. During the year this included the following:

AUDIT PLAN

Prior to the annual audit commencing, the Committee considered PwC's audit plan including materiality levels, areas of audit focus, terms of engagement and fees payable for the audit. Following the review of the 2020 Interim Financial Report and audit of the annual financial statements, the Committee received a report setting out: the work performed in areas of significant risk and management judgement and conclusions for each area; a summary of adjustments and differences; and internal control recommendations. In recommending approval of the interim and annual financial statements, the Committee considered the matters set out in these reports.

AUDIT QUALITY

The Committee oversees external audit quality. Committee meetings consider factors which impact external audit quality and conclusions on external audit effectiveness are formalised as part of the year end reporting process. The factors considered included:

- The technical skills and industry experience of the audit engagement partner and wider audit team;
- The appropriateness of the proposed Audit Plan, the identification of significant risk areas and the effective performance of the audit in line with the agreed plan;
- The quality of communication between the external auditor and the Committee, and the effectiveness of interaction between management and the external auditor;
- The quality of reports to the Committee on accounting matters, governance and internal control;
- The reputation and standing of the external auditor; and
- The independence and objectivity of the external auditor.

The Committee also considered the Financial Reporting Council's (FRC) July 2020 Audit Quality Inspection Report on PwC, and the findings of the FRC's Audit Quality Review Team from their review of the Society's audit for the year ending 31 December 2019. This review was carried out as part of the FRC's routine monitoring process. There were no significant recommendations made by the FRC with some procedures identified as needing limited improvements only. These have been discussed with PwC.

The Committee concluded that the external audit process was effective, and it was satisfied that there were no matters of concern with respect to the external auditor's independence or objectivity.

The results of the assessment were shared with the lead audit partner so that areas for improvement could be addressed.

THE APPOINTMENT OF THE EXTERNAL AUDIT FIRM TO UNDERTAKE NON-AUDIT SERVICES

The Committee regularly reviews and monitors the Society's relationship with the external auditor to ensure that auditor independence and objectivity is maintained at all times. The Committee has developed a policy and framework which define the approach to non-audit engagements and these have been updated in 2020 to reflect the guidance in the FRC's Revised Ethical Standard. At no time does the external auditor audit its own work, make management decisions for the Society, create a conflict of interest or find itself in the role of advocate for the Society. The Committee keeps non-audit engagements under review and receives regular reports from the external audit partner confirming that adequate safeguards for independence remain in place.

During 2020, the Society engaged the external audit firm to provide certain non-audit services including assurance engagements in relation to the Society's Capital Reporting and work in relation to the Society's debt issuances. All engagements complied with the Society's policy. The Committee received regular updates on the nature and cost of the engagements, seeking to ensure that they were appropriate. Details of the fees paid to the external auditor for audit and non-audit services are set out in note 9 to the accounts.

DIRECTORS' REMUNERATION REPORT

REPORT OF THE REMUNERATION COMMITTEE TO MEMBERS

DEAR MEMBER

As Chair of the Remuneration Committee (the Committee), I am pleased to present a report which outlines for members how the Society's purpose, values and 'Members First' belief shape remuneration strategy and decision making. The report covers both the Remuneration Policy and the application of this policy throughout the year.

The Covid-19 pandemic impacted us all in 2020. The Society's priority, and in turn that of the Committee, has been the people affected by the crisis: maintaining services for members, supporting our employees and keeping everyone safe. The vast majority of employees have been working from home, including most of our contact centre colleagues. Nearly all branches have remained open and all of our customer teams have continued to provide outstanding service to members. No employee has been furloughed and there have been no redundancies resulting from the pandemic. For several years the Society has prioritised employee wellbeing and the investment in this infrastructure has been invaluable in supporting our people through the pandemic.

You will have read in the Chair of the Board's statement and the Chief Executive's review of the year about the impact of the pandemic on the business as well as the strong recovery once the housing market reopened. The Society continued to lend through the pandemic, to pay savings rates which are ahead of the market, to maintain a strong capital position and to deliver exceptional service to customers. The Committee has worked hard to ensure that the risks and challenges presented by the pandemic, as well as the exceptional response from colleagues, are reflected in our decision making. To bring this to life, support was provided to colleagues through extending paid leave for those with caring responsibilities (a benefit used by over 600 colleagues in the year) and additional funding was provided for recognition awards. Alongside this, retained awards paid in the year under the Executive Variable Pay Plan were reduced, reflecting the impact of the pandemic on profit.

The balanced scorecard, which underpins both the all employee Success Share scheme and the Executive Variable Pay Plan, enables the full range of business performance to be assessed. This evidences the exceptional work and commitment by colleagues around the Society with both Net Promoter Score and employee engagement sustained at the very high pre-pandemic levels. However, the impacts of the pandemic are also evident, with growth in mortgages and savings being behind plan for the year as we took a prudent approach. Despite the challenges of 2020, the Committee determined that the targets set at the outset of the year should stand and these have not been modified. The outturn is therefore a true reflection of both the challenges and the triumphs.

Jo Kenrick
Chair of the Remuneration Committee
3 March 2021

DIRECTORS' REMUNERATION REPORT CONTINUED

THE REMUNERATION COMMITTEE

Committee membership and attendees

The 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[1]	2017
Gary Hoffman	2018
Peter Ayliffe	2017
Catherine Doran	2016

1. Chair of the Committee since April 2018.

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

Governance and the role of the Remuneration Committee

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 Capital Requirements Regulation and Capital Requirements Directives IV and V (CRD IV and 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 risk in incentivising the wrong type of behaviour. The Committee's work has involved ensuring predictability in the remuneration structure; considering proportionate awards that reward good performance (for example through approval of the executives' pay proposal for 2020); 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.

The Committee ensures that statutory and regulatory requirements are met and that there continues to be a clear link between corporate and individual performance and remuneration decisions.

Activities during 2020

During 2020, the Committee:

- Considered the outturn of the 2019 balanced scorecard and approved the performance measures for the 2020 scorecard.
- Approved variable pay awards under the 2019 Executive Variable Pay Plan (ExVPP), ensuring awards are in line with the Society's Remuneration Policy.
- Approved the 2019 Success Share scheme payment.
- Endorsed the Society's existing Remuneration Policy.
- Assessed external benchmarking data to ensure remuneration remains competitive and appropriate.
- Approved the Society's salary review approach.
- Received a report from the Chief Risk Officer that gave assurance that the Society's remuneration framework had not encouraged excessive risk taking.
- Considered the Chief Risk Officer's annual review of any grounds to recover or withhold variable pay awards.
- Oversaw an assessment of employees whose responsibilities could impact the Society's risk profile.
- Approved the Society's Prudential Regulation Authority (PRA) Remuneration Policy Statement.
- Approved the Directors' Remuneration Report.

The Committee also undertook the following activities in 2020:

- Received updates from the Committee's advisors regarding the impact of Covid-19 and the Capital Requirements Directive (CRD V) on executive remuneration.
- Reviewed the PRA letter to Level One financial institutions concerning dividends and cash bonuses. While the Society is not currently a Level One firm, due consideration was given in relation to the Society's variable pay plans.
- Considered the amended Capital Requirements Directive (CRD V) and its impact on variable pay.
- Considered the Society's gender pay ratios and CEO pay ratio and in response committed to future diversity and inclusion actions.
- Reviewed and applied downward discretion to the retained variable payments.
- Engaged with the workforce through My Society, the Society's employee forum, to explain the work of the Committee and to take feedback from representatives.

REMUNERATION POLICY

The Society's Remuneration Policy (as approved by our members at the 2020 AGM) is determined by the Remuneration Committee and confirms the principles that underpin its approach to remuneration. This section of the report provides information about the principles that underpin the Policy and the key elements of the Policy.

The Remuneration Policy is designed to reward all employees for their skills, knowledge, responsibilities and performance. When making any decisions about pay and benefits the Society must strike a balance between the needs of employees, the needs of members to ensure cost efficiency and the requirements of its regulators. The Society's ultimate objective is to offer a remuneration package (pay, benefits and non-financial rewards) that is competitive when compared with similar financial services organisations and that is also fair and appropriate for the size and type of organisation we are. The principles of the Remuneration Policy apply to all employees, including executives, across the whole Society. All fixed and variable remuneration (with the exception of benefits in kind such as private medical insurance and cars, where applicable) are paid through the payroll.

In determining remuneration approach, the Society works with its employee forum, My Society, and the trade union, UNITE, to ensure that employees' views are understood and represented.

The Society follows the PRA's Code on Remuneration Practices and Disclosure Requirements and in addition aligns the Policy with the PRA's best practice guidelines and the UK Corporate Governance Code where applicable. The Remuneration Policy is consistent with the Society's risk appetite and is designed to support the overall financial stability of the Society and its strategic priorities, by promoting sound and effective risk management and not encouraging excessive risk taking.

The Remuneration Policy is based on two further principles:

- It must reflect our mission, purpose, belief and values, and the expectations of our members.
- It must support the Society to recruit, motivate, engage and retain great people.

THE MAIN ELEMENTS OF EXECUTIVE REMUNERATION

The main elements of remuneration in place for the executive leadership of the Society, executive directors who sit on the Board and executive managers, are set out below with an explanation of how each element links to our overall business strategy:

Base salary

Purpose and link to strategy	Salaries of executive directors are set with reference to market rates of pay to enable the Society to recruit, retain and motivate high calibre leaders.
Operation	Executive director salaries are reviewed annually with any increases taking effect from 1 April, 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. • Increases awarded to the Society's employees. Where an executive director is to be promoted or where their role is to be expanded the Society will review the salary and decide whether an adjustment is appropriate.
Risk mitigation	Executive director salaries are benchmarked against comparable financial services organisations to ensure they are not excessive. No executive director is involved in setting their own remuneration or exercising discretion over judgements that could influence their own remuneration.
Maximum potential	Any increases will generally be in line with increases applied to the Society's employees (in percentage terms). Increases may be made either above or below that level in exceptional circumstances, taking into account the factors outlined above.
Performance metrics	Individual performance is considered when setting salaries.
Application to other employees	The Society uses the same approach when setting salaries for all its employees.

DIRECTORS' REMUNERATION REPORT CONTINUED

Benefits (excluding pension)

Purpose and link to strategy	The Society provides a competitive benefits package to all its employees to support their physical, mental and financial wellbeing.
Operation	Each executive director receives 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.
Risk mitigation	Not applicable.
Maximum potential	Not applicable.
Performance metrics	Not applicable.
Application to other employees	All employees receive permanent health insurance and life insurance and many also receive private medical insurance. Executive directors do not receive any benefits that are unavailable to other senior managers within the Society.

Pension

Purpose and link to strategy	The Society provides post-retirement financial security for all its employees at a cost that is sustainable for the Society over the long term.
Operation	Executive directors are eligible to participate in the defined contribution pension plan. If their contributions exceed the annual or lifetime allowance, they may be permitted to take a cash alternative in place of contributions.
Risk mitigation	No executive director is involved in exercising discretion over judgements that could influence their level of pension contribution.
Maximum potential	Executive directors receive a pension contribution or cash alternative. This is 10% of base salary for the new Chief Executive and 15% for other executive directors. Future executive director appointees will receive 10%, in line with the maximum potential for all new employees.
Performance metrics	Not applicable.
Application to other employees	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).

Annual Success Share bonus

Purpose and link to strategy	Success Share is a key part of the Society's remuneration package. It is a discretionary variable pay scheme that enables all eligible employees to share in the Society's success in delivering against its strategy. It helps the Society to be competitive in attracting and retaining high calibre employees and ensures their alignment with strategic priorities.
Operation	The Scheme applies to all eligible employees (including executive directors) with the same Society performance measures used to assess payments for everyone. The Scheme is reviewed each year to ensure that it is aligned to the Society's business plans and any changes in regulation.
Risk mitigation	The Society does not incentivise any employees based on individual or team sales targets. The Committee has absolute discretion to reduce any variable pay award if it decides that acceptable standards or performance levels have not been met. The Committee can also adjust, withhold or recover any vested awards using 'malus' and 'clawback' arrangements for executive directors and executive managers.
Maximum potential	The maximum award for all employees (including executive directors) is 20% of base salary for exceptional performance and 10% of base salary for on target performance.
Performance metrics	The Society measures annual performance against a number of stretching financial and non-financial targets detailed in the balanced scorecard, which is aligned to its strategic priorities (see below).
Application to other employees	All employees of the Society are included in the Success Share scheme.

Executive Variable Pay Plan (ExVPP)

Purpose and link to strategy	The ExVPP helps to recruit and retain high calibre executive directors and rewards performance over the longer term in delivering the Society's strategy.
Operation	Awards to executive directors and executive managers are made in cash, and are subject to deferral and retention. 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.
Risk mitigation	Risk mitigation is as outlined above for the annual Success Share bonus. In addition, the plan ensures that the executive directors' remuneration package is strongly linked to the Society's long-term performance and members' interests.
Maximum potential	If the Society performs in line with its plans, the ExVPP scheme provides for an award of 30% of salary for executive directors (15% for executive managers). The maximum award (60% of base salary at the date of grant for executive directors and 30% for executive managers) can only be achieved by exceeding stretching upper targets for all measures.
Performance metrics	The Society measures annual performance against performance targets in its balanced scorecard (see below).
Application to other employees	The plan is only available to executive directors and executive managers.

DIFFERENCES BETWEEN THE EXECUTIVE DIRECTORS' AND WIDER EMPLOYEES' REMUNERATION POLICIES

Performance related variable pay makes up a higher proportion of remuneration for the executive directors and executive managers than for employees generally, reflecting the role of these individuals in managing the business to achieve the Society's strategic objectives.

CHOICE OF PERFORMANCE MEASURES FOR VARIABLE PAY

A balanced scorecard is used to assess the performance of the Society. The performance measures in the scorecard reflect the Society's strategic priorities, and stretching performance targets are set each year for the Annual Success Share bonus and ExVPP schemes. In setting performance targets the Committee takes into account a number of different reference points which may include the Society's business plans and strategy and the market environment.

The Committee retains the discretion to adjust or set different performance measures or targets if the measures are no longer appropriate, such as in the case of a significant change in prevailing market conditions, and amendment is required so that the measures achieve their original purpose.

MALUS AND CLAWBACK

Malus, clawback, deferral, and retention arrangements are in place for executive directors and executive managers. The Committee ensures that an objective assessment of business risk and long-term sustainability is included with any assessment of variable pay awards and it may decide to exercise its discretion and adjust Success Share or ExVPP payments. Further details about malus and clawback arrangements are set out below:

	Malus	Clawback
What is it?	The Committee can decide to reduce or cancel any variable pay award, before the payment has been made.	The Committee may decide that an individual must repay part or all of a variable pay award after the payment has been made.
Which awards does it apply to?	Malus applies to any payments under the annual Success Share bonus and ExVPP schemes, as well as any future variable pay schemes.	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.
When would this be used?	Can be applied in circumstances including, but not limited to: • Reasonable evidence of misbehaviour or material error by the executive director. • The Society suffering a material downturn in its financial performance. • The Society suffering a material failure of risk management.	Can be applied in circumstances including, but not limited to: • Reasonable evidence of misbehaviour or material error by the executive director. • 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.

APPROACH TO RECRUITMENT REMUNERATION

Ongoing remuneration

When agreeing the remuneration package for a new executive director, the Committee considers:

- Whether the overall package is sufficient to recruit a high calibre executive with the right level of experience, capability and potential required for the role, noting external benchmarks.
- The remuneration packages of other executive directors in the Society, and maximum variable pay limits.

The Committee retains discretion to include other elements of remuneration which are not included in the provisions of the Remuneration Policy set out above should business needs require. However, this discretion is subject to the following principles and limitations, and the commercial rationale for taking such action will be disclosed in the following Annual Report on Remuneration.

The maximum level of variable remuneration which may be granted to a new executive director on appointment (excluding any award to take account of remuneration relinquished when leaving the former employer) will be 80% of salary in line with the Policy table set out previously.

Buyout awards

When hiring an external candidate the Committee may decide to compensate them for any variable pay awards from their previous employer that they will forfeit as a result of joining the Society, known as 'buyout'. In determining any buyout, the Remuneration Committee will conduct rigorous due diligence and consider all relevant factors, including the likelihood of the awards vesting, the form in which they were awarded and the time over which they would have vested. Any buyout will be made in line with the Remuneration Policy wherever possible. The Society will always comply with regulatory requirements in effect at the time of making any awards of this nature.

DIRECTORS' REMUNERATION REPORT CONTINUED

Internal appointments

For an internal executive director appointment, any variable pay element awarded in respect of the prior role will be paid according to its terms.

APPROACH TO PAYMENT FOR LOSS OF OFFICE

If an individual ceases to be an executive director, the Society will take a different approach to paying them for the loss of office depending on the circumstance of their leaving.

In all circumstances, termination payments will include any base salary or other contractual benefits due for the notice period, although these may be reduced if the executive director finds alternative employment during the notice period.

If an individual ceases to be an executive director due to retirement, redundancy, death, ill-health, injury/disability or certain reasons as determined by the Committee, they are considered to be a 'good leaver'. Under good leaver circumstances, the Scheme rules state that any annual Success Share bonus or ExVPP award will be paid on a pro rata basis, depending on the time served during the performance period. Any deferred and retained awards will be subject to any necessary performance or malus adjustments and paid at the same time as awards for executive directors remaining in employment. Clawback rules will continue to apply.

If an individual ceases to be an executive director under any circumstance not covered by the good leaver provisions, no annual Success Share bonus or ExVPP payments will be made, and any unvested awards will be forfeited.

The Committee reserves the right to make any other payments in connection with an executive director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with their cessation of office or employment.

OTHER CONSIDERATIONS WHEN SETTING EXECUTIVE DIRECTOR REMUNERATION

When approving executive director pay, the Committee will take decisions aligned to the Society's Remuneration Policy. The Committee's decisions take into account wider market benchmarking across financial services and remuneration paid to other employees across the Society.

APPLICATION OF THE REMUNERATION POLICY

The following table shows the maximum variable pay for executive directors, as a percentage of base salary:

	As a percentage of base salary		
2020 performance scenarios	Success Share %	ExVPP %	Total variable pay %
Minimum	0	0	0
On target	10	30	40
Maximum	20	60	80

SERVICE CONTRACTS

Executive directors' terms and conditions of employment are detailed in their individual service contracts available at the Principal Office. An executive director's contract can be terminated by the director giving six or 12 months' notice (dependent on role), or by the Society giving one year's notice.

The dates that current executive directors were appointed are shown in the table below:

Executive director	Date of appointment as a director of the Society
Chief Executive – Mark Parsons (until 19.04.2020)	01.7.2014
Chief Executive – Steve Hughes	20.4.2020
Product, Marketing and Strategy Director – Andy Deeks (until 09.10.2020)	27.4.2017
Chief Financial Officer – Michele Faull (until 30.11.2020)	27.4.2017
Chief Customer Officer – Peter Frost	01.11.2012

All of the Society's executive directors must voluntarily stand for re-election by its members each year.

NON-EXECUTIVE DIRECTORS

The Committee oversees remuneration for all employees, including executive directors and executive managers. Non-executive director matters are dealt with separately as outlined below.

Details of the Non-Executive Directors' Remuneration (NEDR) Committee

The members of the NEDR Committee are:

Current membership	Member since
Mark Parsons[1] (until 19.04.2020)	2014
Steve Hughes[1] (from 20.04.2020)	2020
Michele Faull (until 30.11.2020)	2017
Gary Hoffman	2018

1. Chair of the Committee.

The NEDR Committee is responsible for reviewing and recommending to the Board for approval the remuneration of the non-executive directors other than for the Chair of the Board. The Committee met twice during the year.

Approach for non-executive directors' fees

The approach for non-executive directors is in line with the objectives of the Remuneration Policy for the whole Society and is to offer fees that are competitive when compared with similar financial services organisations and, as such, allows the Society to recruit, retain and motivate high calibre non-executive directors to the Society.

The NEDR Committee recommends the remuneration of the non-executive directors, other than the Chair of the Board, to the Board for approval. Recommendations for the remuneration of the Chair of the Board are made by the Remuneration Committee and approved by the full Board without the participation of the Chair. No director takes part in the discussion of their own remuneration.

NON-EXECUTIVE DIRECTOR FEES

Base salary	
Purpose and link to strategy	Non-executive director fees are set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience.
Operation	Fees are usually reviewed annually and amended to reflect market positioning and any change in responsibilities. Non-executive directors may be eligible to receive appropriate benefits such as the use of secretarial support and expenses for travel and accommodation costs.
Risk mitigation	Benchmarking non-executive director salaries against comparable financial services organisations ensures they are not excessive. Fees paid to non-executive directors are recommended by the NEDR Committee and approved by the Board as a whole. Non-executive directors do not participate in the Annual Success Share bonus and ExVPP.
Maximum potential	Fees are based on the level of fees paid to non-executive directors serving on boards of similar-sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive directors receive a basic fee and an additional fee for further duties (for example Chair of a Committee or Senior Independent Director responsibilities).
Performance metrics	Not applicable.

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

Non-executive directors are appointed for an initial term of three years which can be terminated by the director, or at the discretion of the Board with a notice period. Non-executive directors must voluntarily stand for re-election each year.

CONCLUSION

This concludes the Remuneration Policy section of the Committee's annual report; the following pages outline how the Policy was implemented in the annual remuneration report.

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REMUNERATION REPORT

This report set outs remuneration awarded to executive and non-executive directors for 2020. All remuneration decisions are taken in accordance with the Remuneration Policy approved by an advisory vote at the AGM in 2020.

The total pay package that was earned by each executive director for 2019 and 2020 is shown below:

TOTAL REMUNERATION EARNED BY EACH EXECUTIVE DIRECTOR

	Fixed remuneration				Variable remuneration				
(Audited)	Base salary[1] £000	Taxable benefit £000	Pension allowance[2] £000	Total fixed £000	Success Share £000	ExVPP £000	Total variable £000	Other £000	Total remuneration £000
2020									
Steve Hughes[3] from 20.4.20	351	13	35	399	23	120	143	160	702
Mark Parsons[4] until 19.4.20	162	6	32	200	14	–	14	15	229
Andy Deeks[5] until 09.10.20	184	8	32	224	14	43	57	184	465
Michele Faull[6] until 30.11.20	335	9	50	394	27	81	108	93	595
Peter Frost	299	30	45	374	24	72	96	–	470
Total	1,331	66	194	1,591	102	316	418	452	2,461

	Fixed remuneration				Variable remuneration				
(Audited)	Base salary[1] £000	Taxable benefit £000	Pension allowance[2] £000	Total fixed £000	Success Share £000	ExVPP £000	Total variable £000	Other £000	Total remuneration £000
2019									
Mark Parsons	536	18	107	661	54	146	200	–	861
Andy Deeks	228	10	34	272	23	62	85	–	357
Michele Faull	357	10	54	421	36	97	133	–	554
Peter Frost	292	29	44	365	29	79	108	–	473
Total	1,413	67	239	1,719	142	384	526	–	2,245

1. Base salary is the actual salary earned in the year and will differ from the current salary effective from 1 April.
2. Pension allowance includes both contributions to the Group's defined contributory pension scheme and cash payments in lieu of contributions.
3. The remuneration shown for Steve Hughes is from his joining date of 20 April 2020 and includes a full year ExVPP grant and a buyout award of £160,000 to compensate for the variable pay forfeited from Principality Building Society in 2020 as a result of his resignation. Steve also claimed £14,656 in relocation allowance. £8,000 of this is non-taxable and the remainder is shown above as a taxable benefit.
4. The remuneration shown for Mark Parsons is up to his leaving date of 19 April 2020 and includes a payment of £15,446 holiday pay for accrued but untaken holiday.
5. The remuneration shown for Andy Deeks is up to his leaving date of 9 October 2020 and includes a payment for loss of office of £83,077 and notice pay of £101,073 received in 2020.
6. The remuneration shown for Michele Faull is up to her leaving date of 30 November 2020 and includes notice pay of £92,748 received in 2020.

FURTHER INFORMATION ON INDIVIDUAL REMUNERATION ELEMENTS: EXECUTIVE DIRECTORS

Base salary 2020

The annual review of salaries in April 2020 saw a pool of 3% which was distributed on a discretionary basis for all employees. Executive directors received increases as set out below:

Executive director	Effective 1 April 2020 £	Effective 1 April 2019 £	% increase
Steve Hughes	500,000	–	–
Mark Parsons	538,560	538,560	0.0%
Andy Deeks	240,000	229,500	4.6%
Michele Faull	368,000	358,938	2.5%
Peter Frost	300,655	293,321	2.5%

Benefits and pension 2020

Executive directors received benefits including a fully expensed Society car or a cash alternative and private fuel (a limited legacy arrangement not offered to new or recent appointments and which notice has now been provided for it to cease), personal membership of a private medical insurance scheme and life assurance.

Executive directors were eligible to participate in the Society's defined contribution pension plan, which is offered to all employees. The Product, Marketing and Strategy Director was an active member of the defined contribution pension plan and received a pension contribution of 15% of base salary.

The Chief Executive, Chief Financial Officer and Chief Customer Officer received cash alternatives in lieu of pension contributions equivalent to 20% (former CEO), 15% (former CFO and Chief Customer Officer) and 10% (current CEO) of base salary respectively as they have exceeded the lifetime allowance cap. This is in line with the approach for all employees who 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).

Variable pay 2020

Despite the extremely challenging market conditions in 2020, the Society has made significant progress against its balanced scorecard targets which were not adjusted in response to the pandemic. The Society outperformed against four of the 13 performance targets which determine variable pay, performed in line with five measures and performed below target in four measures.

Further information on the Society's performance can be found in the Strategic Report. Performance against the balanced scorecard measures, which are equally weighted, is summarised below:

Performance measure	Performance target range	Performance result	Performance relative to target range
Members:			
Experience Net Promoter Score[1]	+71 – +75	+73	On target
Relationship Net Promoter Score[1]	Top 3 (+/– 1)	3rd	On target
Savings Premium	> 0.65%	0.55%	Below target
People:			
Employee engagement[2]	750 – 770/3 star	754/3 star	On target
Community involvement	77% – 80%	43%	Below target
Financial:			
Mortgage balance growth	6.5% – 7.5%	3.0%	Below target
Savings balance growth	7.7% – 8.7%	5.3%	Below target
Cost to mean assets ratio	0.49% – 0.51%	0.49%	On target
Capital ratios:			
Leverage ratio	4.35% – 4.45%	4.65%	Ahead of target
Common Equity Tier 1 ratio	27.7% – 29.7%	33.0%	Ahead of target
Risks and projects:			
Mortgage balances in arrears (%)[3]	< 0.12%	0.09%	Ahead of target
Liquidity Coverage Ratio	> 150%	179%	Ahead of target
Investment programme delivery[4]	Qualitative assessment	Qualitative assessment	On target

1. NPS is a measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.
2. The Best Companies employee engagement score reflects the assessment as a large-sized company.
3. % of mortgage balances where arrears are more than 2.5% of the balance.
4. Investment programme delivery is assessed against delivery and cost measures.

Given the performance outlined above, the Committee considered the appropriate level of variable awards and determined:

- An annual Success Share bonus for all eligible employees, including executive directors, equivalent to 8% of base salary from a potential maximum of 20%.
- An ExVPP award to executive directors equivalent to 24% of base salary from a potential maximum of 60% and to executive managers of 12% of base salary from a potential maximum of 30%.
- This assessment reflects the mortgage and savings balance growth, savings premium and community involvement measures being behind target.

For executive directors and executive managers these awards will be deferred as described below.

THE IMPACT OF DEFERRAL

Variable remuneration is subject to regulatory deferral arrangements as described below. For executive directors whose total remuneration is above the regulatory deferral threshold of £500,000, their total variable pay (annual Success Share bonus and ExVPP) is paid over nine years following the performance period, with 60% of this being paid in the last six years of the 'extended deferral period'. The percentage which is paid in each year is set out in the table below. For each annual payment, half is made in cash with the other half retained in an equivalent share-like instrument for a further 12 months. All payments are subject to malus and clawback reductions.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

IMPACT OF DEFERRAL IN RELATION TO THE 2019 AND 2020 PERFORMANCE PERIODS

In 2020, Mark Parsons, Steve Hughes and Michele Faull were above the regulatory deferral threshold and therefore their variable remuneration will be paid in instalments as set out below. The table shows the percentage (where applicable) of variable remuneration which will be paid in each year.

Variable pay received		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2020 performance period	%	–	20	20	–	6	12	12	12	12	6
2019 performance period	%	20	20	–	6	12	12	12	12	6	–

For executive directors below the regulatory deferral threshold only ExVPP payments are subject to deferral, with 40% of this being paid two years after the performance period. For the annual Success Share bonus and the ExVPP payments, half of the awards are made in cash with the other half retained in an equivalent share-like instrument for a further period of six months.

In 2020, Peter Frost and Andy Deeks were below the regulatory deferral threshold and therefore will be paid 100% of the annual Success Share bonus in 2021 and 60% of the ExVPP amount. The remaining 40% of ExVPP will be paid in 2023.

PAYMENTS FOR LOSS OF OFFICE

Mark Parsons retired from his position as Chief Executive on 19 April 2020. In line with his contractual arrangements he will not receive any compensation for loss of office. The Committee determined that he should be treated as a good leaver and any inflight deferred variable pay will be released at the normal time in line with the Remuneration Policy. Mark waived his eligibility to join the 2020 ExVPP scheme, but his 2020 Success Share payments will be pro rated based on his four months' eligibility in the 2020 performance year.

Michele Faull retired from her position as Chief Financial Officer on 30 November 2020. In line with her contractual arrangements she will not receive any compensation for loss of office. From her leaving date she will receive monthly pay in lieu of notice for the balance of her 12 month notice period until 30 November 2021. These payments will cease if alternative employment were to be found during the notice period. Her monthly payments will comprise her salary, car cash allowance and cash in lieu of pension.

The Committee determined that she should be treated as a good leaver and any inflight deferred variable pay will be released at the normal time in line with the Remuneration Policy. Michele's 2020 Success Share and ExVPP payments will be pro rated based on her 11 months' eligibility in the 2020 performance year.

Andy Deeks was made redundant from his position as Product, Marketing and Strategy Director on 9 October 2020. In line with his contractual arrangements he received £83,077 as compensation for loss of office, in accordance with the Society's Remuneration Policy. From his leaving date he will receive monthly pay in lieu of notice for the balance of his 12 month notice period until 9 October 2021. These payments will cease if alternative employment were to be found during the notice period. His monthly payments will comprise his salary, car cash allowance, and cash in lieu of pension.

The Committee determined that he should be treated as a good leaver and any inflight deferred variable pay will be released at the normal time in line with the Remuneration Policy. Andy's 2020 Success Share and ExVPP payments will be pro rated based on his nine months' eligibility in the 2020 performance year.

REMUNERATION ELEMENTS IN 2021

Base salary 2021

Base salaries for executive directors will be reviewed in April 2021, in line with the approach outlined in the Remuneration Policy.

Benefits including pension 2021

No changes to the Society's approach to benefits are anticipated.

Variable pay 2021

The 2020 annual Success Share bonus scheme and ExVPP will be reviewed in line with the Society's strategic priorities and any changes to regulation. Details of the performance metrics for both variable pay plans will be provided in the 2021 Directors' Remuneration Report.

The amended Capital Requirements Directive (CRD V) was implemented by 28 December 2020 and applies from the start of the Society's performance year on 1 January 2021. The Directive lowers the threshold for the application of proportionality to an individual de minimis threshold from £500,000 to £45,000. The minimum deferral period is also increased to five years.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table sets out the changes in profit after tax in 2020 and 2019 and compares these with the overall spend on remuneration over the two years. As a mutual organisation, the Society only seeks to retain sufficient profit to maintain capital ratios and allow for investment in the business, returning any surplus above this to members through superior pricing. A better measure of the Society's activity is the level of growth in mortgage and savings balances and so the percentage change in total assets has been included to give an appropriate indication of this.

	2020 £m	2019 £m	Percentage change %
Total assets	51,498.3	49,530.8	4.0
Employee remuneration costs	111.5	101.6	9.7
Profit after tax	101.4	121.7	(16.7)

The increase in employee remuneration costs reflects the increase in salaries following the annual salary review and a 4.2% increase from additional full time equivalent headcount to support the growth of the business and investment in our technology and infrastructure.

CHANGE IN REMUNERATION OF CHIEF EXECUTIVE

The historical levels of the Chief Executive's variable pay awards as a percentage of the maximum payable are shown below:

	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %	2011 %
Annual Success Share bonus as a percentage of maximum	40	50	55	60	70	60	60	70	60	65
LTIP as a percentage of maximum	n/a	n/a	n/a	63	63	–	100	100	97	38
ExVPP as a percentage of maximum	40	45	50	60	65	n/a	n/a	n/a	n/a	n/a

CEO PAY RATIO

The Companies (Miscellaneous Reporting) Regulations 2018 came into force for accounting periods starting from 1 January 2019 and requires UK quoted companies with more than 250 UK employees to publish their CEO pay ratio figures and supporting information in their annual reports. The regulations require that the pay ratio figures are calculated using the single total figure of remuneration methodology used above which includes total salary, variable pay, pension benefits and taxable benefits.

The Society has elected to publish its CEO pay ratios using the Government's preferred methodology (Option A) which is based on actual full time equivalent pay and benefit values for all employees for the financial year. It is calculated by identifying the median total remuneration as well as the total remuneration at the 25th percentile and 75th percentile points. For 31 December 2020, these were as set out in the table below. In calculating these figures, leavers were excluded but all other employees who started partway through the year or who were on extended leave for some or all of the year have been included on the basis of a full year's salary.

REMUNERATION ELEMENT

	25th percentile £	Median £	75th percentile £
Total pay and benefits	25,952	34,618	49,387
Salary	23,028	28,815	41,500

On the basis of these numbers the ratio of CEO pay to employee pay at the median and 25th and 75th percentiles is as follows:

Year	Method	25th percentile £	Median £	75th percentile £
2020	Option A	36:1	27:1	19:1
2019	Option A	35:1	27:1	19:1
2018	Option A	36:1	27:1	19:1

The median pay ratio has remained stable over the last three years and the Society believes it is consistent with the principles of its Remuneration Policy. The 2020 pay ratio figure is calculated using the total pay and benefits paid to both Steve Hughes and Mark Parsons, as they both undertook the role of CEO in the relevant financial year. This approach is in accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018.

DIRECTORS' REMUNERATION REPORT CONTINUED

DETAILS OF THE NON-EXECUTIVE DIRECTORS' REMUNERATION

(Audited)	Base fees 2020 £000	Committee Chair and other fees 2020 £000	Expense payments 2020 £000	Total fees and expense payments 2020 £000	Base fees 2019 £000	Committee Chair and other fees 2019 £000	Expense payments 2019 £000	Total fees and expense payments 2019 £000
Non-executive director: **Gary Hoffman** Chair of the Board from 26.04.18	179	–	–	179	178	–	–	178
Peter Ayliffe Deputy Chair of the Board from 27.04.18 Chair of the Board until 26.04.18	52	7	1	60	52	7	3	62
Iraj Amiri from 28.06.18 Chair of the Board Audit Committee from 18.09.18	52	14	5	71	52	14	7	73
Roger Burnell Senior Independent Director until 24.04.19 Resigned from the Board 24.04.19	–	–	–	–	17	3	–	20
Catherine Doran from 01.08.16	52	–	1	53	52	–	3	55
Jo Kenrick Senior Independent Director from 24.04.19 Chair of the Remuneration Committee from 26.04.18	52	19	1	72	52	16	3	71
Shamira Mohammed from 01.05.19	52	–	1	53	35	–	1	36
Martin Stewart from 01.09.18 Chair of the Board Risk Committee from 25.09.18	52	14	2	68	52	14	14	80
Total	491	54	11	556	490	54	31	575

Fees for non-executive directors were increased from October 2020 and were in line with increases applied to all employees. The table below sets out fees for non-executive directors compared with the previous year. Non-executive director fees are made up of a base fee, plus a Committee Chair fee as appropriate. The Chair of the Board does not receive additional fees for roles carried out other than that of Chair.

Non-executive director fees	2020 £000	2019 £000
Chair of the Board	181	178
Base fee	53	52
Deputy Chair of the Board	7	7
Senior Independent Director (if different from Deputy Chair of the Board)	7	7
Chair of the Remuneration Committee	12	12
Chair of the Board Audit Committee	14	14
Chair of the Board Risk Committee	14	14

Expense and other payments

Expense payments reimburse travel and accommodation costs in relation to attending meetings. Non-executive directors do not receive performance related pay or bonus, pension arrangements or other benefits.

REMUNERATION COMMITTEE ADVISOR AND FEES

Deloitte LLP (Deloitte) was appointed by the Committee and is retained to provide independent advice to the Committee as required. Deloitte is a founding member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice received is objective and independent and services provided by Deloitte are reviewed annually to ensure this continues to be the case. Fees for providing advice to the Committee amounted to £12,960 (2019: £19,200), including VAT, for the year ended 31 December 2020.

CONSIDERATION OF MEMBER VIEWS

The Society welcomes feedback on executive and non-executive directors' remuneration. Member approval of the Directors' Remuneration Report is voted on at each AGM and every three years the Committee ask members for a non-binding vote on the Remuneration Policy.

STATEMENT OF MEMBER VOTE AT AGM

At the 2020 AGM, an ordinary resolution (advisory vote) was proposed to members to approve the Annual Remuneration Report and Remuneration Policy for the year ended 31 December 2019 for which the following votes were received:

	Number of votes	% votes cast	Number of votes	% votes cast
	Annual Remuneration Report		Remuneration Policy	
Votes cast for	81,870	91.5%	81,478	91.0%
Votes cast against	7,640	8.5%	8,042	9.0%
Total votes cast	89,510	100.0%	89,520	100.0%
Votes withheld	2,031		2,018	

MATERIAL RISK TAKERS

The disclosures required under the Capital Requirements Regulation (CRR) Part Eight Article 450 in respect of the Society's Material Risk Takers for the performance year ended 31 December 2020 are included in this report. The Society's remuneration policies, practice and governance comply with the Remuneration Part of the PRA Rulebook and the FCA Remuneration Code for dual-regulated firms (SYSC 19D the Remuneration Code). Material Risk Takers fall into two categories: individuals whose actions have a material impact on the risk profile of the Society (based on criteria set by the European Banking Authority) and individuals outside of these criteria, who the Society has determined have a material impact on the risk profile of the Society.

During the year there were a total of 44 Material Risk Takers. Of these, 21 fall within the senior management category (being the executive and non-executive directors of the Board and executive managers).

The following table shows the remuneration of the Society's Material Risk Takers for the performance year ended 31 December 2020:

Analysis of remuneration by fixed and variable elements	Senior management	Other Material Risk Takers	Total
Number of Material Risk Takers	21	23	44
Fixed pay (£000)[1]	4,891	2,936	7,827
Variable pay (£000)[2]	834	198	1,032
Total (£000)	5,725	3,134	8,859

1. Fixed pay includes base salary, benefits, pension and severance pay and fees for non-executive directors.
2. Variable pay includes the 2020 annual Success Share bonus and 2020 ExVPP awards.

The Material Risk Takers remuneration table includes one buyout award of £160,000 and three severance payments totalling £208,353. The highest severance award to a single person was £107,521.

DIRECTORS' REPORT

The directors have pleasure in presenting their Annual Report & Accounts for 2020.

BUSINESS OBJECTIVES, FUTURE DEVELOPMENTS AND KEY PERFORMANCE INDICATORS

The Society's objectives and future plans are set out in the Strategic Report, together with the Society's key performance indicators. The Strategic Report is incorporated by reference within this Directors' Report.

PROFIT AND CAPITAL

Profit before tax for the year ended 31 December 2020 was £124 million (2019: £147 million). The profit after tax transferred to the general reserve was £101 million (2019: £122 million).

Total Group reserves and equity at 31 December 2020 were £2,206 million (2019: £2,203 million). Further details on the movements on reserves and equity are given in the Group Statement of Changes in Members' Interests and Equity.

Gross capital at 31 December 2020 was £2,273 million (2019: £2,270 million), including £26 million (2019: £26 million) of subordinated debt, £42 million (2019: £42 million) of subscribed capital and £415 million (2019: £415 million) of Perpetual Capital Securities. The ratio of gross capital as a percentage of savings and borrowings at 31 December 2020 was 4.68% (2019: 4.84%) and the free capital ratio was 4.46% (2019: 4.60%). The Annual Business Statement gives an explanation of these ratios.

MORTGAGE ARREARS

At 31 December 2020, there were 119 mortgage accounts more than 12 months in arrears (including those in possession) (2019: 69). The balance on these accounts totalled £15.6 million (2019: £9.7 million) and the value of these arrears was £1.3 million (2019: £0.6 million) or 0.003% (2019: 0.002%) of total mortgage balances.

Mortgage arrears disclosures are based on the UK Finance definition, which calculates months in arrears by dividing the arrears balance outstanding by the latest contractual payment.

During 2020 the Society has supported customers with Covid-19 mortgage payment holidays and 2,565 mortgage accounts have an active payment holiday at 31 December 2020 (2019: none). The balance on these accounts totalled £460.2 million (2019: £nil) or 1.1% (2019: nil) of gross mortgage balances.

CHARITABLE AND POLITICAL DONATIONS

The Board approved donations of £0.8 million (2019: £1.3 million) to charitable organisations during the year. This included an amount of £0.8 million (2019: £1.2 million) to The Royal British Legion's Poppy Appeal and £70,000 (2019: £70,000) to the Coventry Building Society Charitable Foundation.

No contributions were made for political purposes. However, employees are permitted time off to carry out civic duties and political activity which can amount to an effective political donation. The Society supports a small number of employees in this way.

Employees are also supported in volunteering and fundraising in the local community; more information in relation to this is included in the Strategic Report.

CREDITOR PAYMENT POLICY

The Society's policy is to agree the terms of payment at the start of trading with suppliers and to pay in accordance with its contractual and other legal obligations. The Society's creditor days were 17 days as at 31 December 2020 (2019: 8 days).

COUNTRY-BY-COUNTRY REPORTING

The nature of the Society's activities is set out in the Strategic Report and for each of the Society's subsidiaries in note 17 to the accounts. All of the activities of the Society and its subsidiaries are conducted in the United Kingdom, and therefore 100% of the total income, profit before tax and tax shown in the Income Statement, as well as employee figures disclosed in note 10 to the accounts, are related to the United Kingdom. The Society and its subsidiaries have not received any public subsidies.

RISK MANAGEMENT

As a result of its normal business activities, the Group is exposed to a variety of risks, including credit, market, liquidity and funding, conduct, operational, model and strategic risk. The Group seeks to manage all the risks that arise from its activities and has established a number of Committees and policies to do so. Details of these are set out in the Strategic Report, Risk Management Report and the Directors' Report on Corporate Governance.

COLLEAGUES

Information on colleague engagement, development, equality, diversity and inclusion is in the Strategic Report and is incorporated by reference into this Directors' Report.

The Society complies with the UK Equality Act 2010 and has processes in place to help train, develop and promote employees with disabilities. If someone has a disability the Society makes appropriate adjustments during the recruitment process.

Similarly, if someone becomes disabled during their employment, the Society provides support relevant to individual needs. This may include retraining and redeployment within the workforce. Partnerships are also in place with specialist organisations in order to make our workplace more accessible to people with a disability.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ANNUAL REPORT & ACCOUNTS

The following statement, which should be read in conjunction with the Statement of the auditors' responsibilities on page 122, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, the Directors' Remuneration Report, the Annual Business Statement and this Directors' Report.

The Building Societies Act 1986 (the Act) requires the directors to prepare Group and Society Annual Accounts for each financial year. Under that law, they are required to prepare the Group Annual Accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the Society Accounts on the same basis.

The Group and Society Annual Accounts are required by law and by accounting standards to present fairly the financial position and the performance of the Group and the Society; the Act provides that references to Annual Accounts giving a true and fair view are references to their achieving a fair presentation. The Act also requires the Annual Accounts to provide details of directors' emoluments in accordance with Part VIII of the Act and regulations made thereunder.

In preparing each of the Group and Society Annual Accounts, the directors are required to:

- Select suitable accounting policies and apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- State whether applicable accounting standards have been followed.
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the Annual Accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF ACCOUNTING RECORDS AND INTERNAL CONTROL

The directors are responsible for ensuring that the Group:

- Keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society.
- Establishes and maintains systems for control of its business, records, inspection and reports.

The directors have responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors who held office at the date of approval of this Directors' Report confirm that, so far as each of them is aware, there is no relevant audit information of which the Group's auditor is unaware, and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant information and to establish that the Group's auditor is aware of that information.

DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the directors have included a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group. This information is contained principally in the Strategic Report and the Risk Management Report.

The directors confirm that, to the best of each of their knowledge and belief:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, present fairly the assets, liabilities, financial position and profit of the Group and Society.
- The management report contained in the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Society, and the Risk Management Report includes a description of the principal risks and uncertainties that they face.

DIRECTORS' STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

As required by the UK Corporate Governance Code, the directors confirm their opinion that the 2020 Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the performance, strategy and business model of the Society.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF GOING CONCERN AND LONG-TERM VIABILITY

The UK Corporate Governance Code (the Code) requires that the directors state whether they consider it appropriate to adopt the going concern basis of accounting, and identify any material uncertainties to the Society's ability to continue as a going concern for a period for at least 12 months from the reporting date.

In addition, the Code requires that the directors explain how the prospects of the company have been assessed and whether there is a reasonable expectation that the Society will continue in operation and meet its liabilities as they fall due over the period of assessment. Details of this long-term viability assessment are set out below.

DIRECTORS' REPORT CONTINUED

GOING CONCERN

In preparing the financial statements the directors are required to satisfy themselves that it is appropriate to adopt the going concern basis of accounting in accordance with guidance from the Financial Reporting Council and IAS 1 Presentation of Financial Statements.

The Society's business activities, together with the factors likely to affect its future development, performance, position, liquidity and capital structure, are set out in the Strategic Report. In addition, the Risk Management Report includes further information on the Society's objectives, policies and processes for managing its exposure to credit, market, liquidity and funding, conduct, operational, model and strategic risks, along with details of its financial instruments and hedging activities. In addition, top and emerging risks, including the impact of the Covid-19 pandemic on the UK economy, are disclosed on page 25.

The Group's forecasts and projections include the expected impact of the pandemic. Together with stress testing and scenario analysis, this shows that the Society will be able to operate at adequate levels of both liquidity and capital for at least the next 12 months while meeting all relevant regulatory requirements.

After making enquiries, the directors are therefore satisfied that the Society has adequate resources to continue in business for at least the next 12 months with no material uncertainties and therefore it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

LONG-TERM VIABILITY

In accordance with the UK Corporate Governance Code the directors are required to explain how, taking account of the Society's current position and principal risks, they have assessed the prospects of the Society and to confirm that they believe the Society will be able to continue in operation and meet its liabilities as they fall due over a specified period determined by the directors.

ASSESSMENT OF PROSPECTS

The directors have assessed the Society's prospects over a five year period to December 2025. This period was chosen as it aligns with the Society's Strategic Plan period.

In making this assessment, the directors used a wide range of sources including the Strategic Plan, stress testing, the Society's business model, principal risks and the Risk Management Framework described within the Risk Management Report to assess the Society's future prospects.

The directors considered the Society's strategy and the key threats to its delivery including the continued impact of the pandemic. The directors also considered broader risks to the prospects of the Society including the adequacy of risk management arrangements, performance of the Society against the Board's risk appetite and the risk outlook for the Society.

The directors consider this to be a suitable process to enable them to form a reasonable expectation of the Society's prospects over a five year period.

ASSESSMENT OF LONG-TERM VIABILITY

The directors have assessed the viability of the Society over the three year period to December 2023. The directors consider a three year period appropriate as it is within the period covered by the Strategic Plan and the stress testing activities undertaken by the Society. In addition, using a period of three years eliminates the inherent uncertainties in the assumptions underpinning the outer years of the Society's Strategic Plan.

In making the assessment, the directors considered the financial projections of the Society including profitability, capital and funding positions and the wide range of stress testing of those projections to ensure the viability of the Society even in times of severe stress. The directors considered the impact of the pandemic including the potential deterioration in the labour market, the credit environment, the interest rate outlook and the potential impact on wholesale funding markets.

The most significant stress scenario which was considered included an increase in unemployment to 12% during 2021 and house price falls of 33% over the period 2021 to 2023.

The review considered emerging regulation where there is sufficient clarity over future standards to inform the analysis. For example, the assessment of the Society's capital position reflects current understanding of capital buffer and leverage requirements likely to be imposed on the Society, together with the consequences of MREL.

Based upon the assessment set out above, the directors have a reasonable expectation that the Society will continue in operation and meet its liabilities as they fall due over the period to December 2023.

DIRECTORS

The directors who served during the year are set out in the Directors' Report on Corporate Governance.

THE AUDITOR

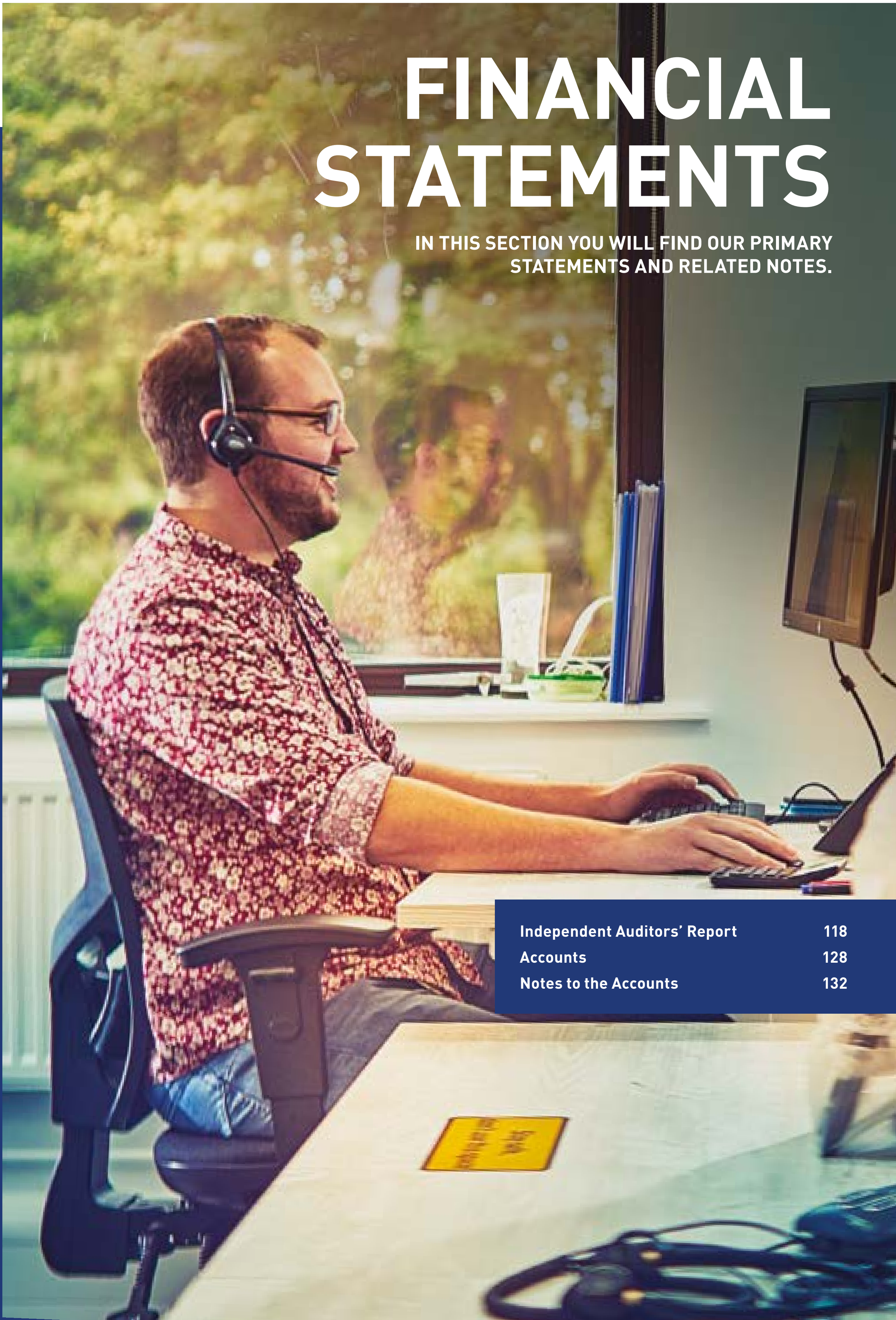
A resolution to reappoint PricewaterhouseCoopers LLP auditor of the Society will be proposed at the 2021 AGM.

Approved by the Board of directors and signed on its behalf by

Gary Hoffman
Chair of the Board
3 March 2021

FINANCIAL STATEMENTS

IN THIS SECTION YOU WILL FIND OUR PRIMARY STATEMENTS AND RELATED NOTES.



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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, Coventry Building Society's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and Society's affairs as at 31st December 2020 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society balance sheets as at 31 December 2020; the Group and Society income statements and statements of comprehensive income, the Group and Society statements of cash flows, and the Group and Society statements of changes in members' interests and equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

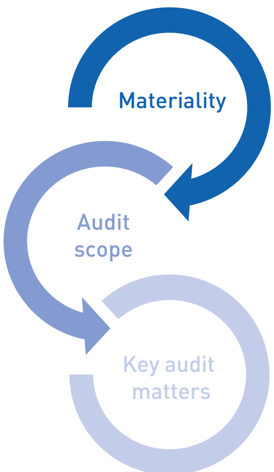
Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group. Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2020 to 31 December 2020.

OUR AUDIT APPROACH

Overview



- Overall Group materiality: £7.8 million (2019: £7.3 million), based on 5% of a three year average of Group profit before tax (2019: one year equivalent).
- Overall Society materiality: £4.5 million (2019: £3.2 million), based on 5% of a three-year average of Society profit before tax (2019: one year equivalent).

- We performed audit procedures over all material account balances and financial information of the Group and Society.

- The application of key judgements and estimates in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society);
- The appropriateness of key estimates used in the accounting for the effective interest rate of mortgage products (Group and Society);
- The application of hedge accounting in accordance with IFRS (Group and Society);
- Privileged access to Information Technology ('IT') systems (Group and Society);
- The appropriateness of actuarial assumptions relating to the defined benefit pension obligations and the valuation of certain complex pension assets (Group and Society); and
- The impact of the Covid-19 pandemic (Group and Society).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, Pensions legislation and the UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries to manipulate financial performance and management bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of internal audit and compliance monitoring findings throughout the year;
- Reading key correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted by senior management, posted with descriptions indicating a higher level of risk, posted to unusual account combinations based on our understanding of usual business operations, and material late adjustments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

The impact of the Covid-19 pandemic is a new key audit matter this year. In addition the defined benefit pension scheme key audit matter now incorporates the appropriateness of the valuation of certain complex pension assets in addition to the appropriateness of the actuarial assumptions related to the pension obligations. Otherwise, the key audit matters below are consistent with last year.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY CONTINUED

Key audit matter	How our audit addressed the key audit matter
The application of key judgements and estimates in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society)	
The Group held £48.1 million of expected credit loss ('ECL') provisions against residential mortgages in accordance with IFRS 9 (2019: £12.0 m million) against total loans and advances to customers of £43,482.8 million (2019: £42,234.7 million). The determination of ECL is highly subjective and judgmental and the degree of estimation is increased as a result of the current uncertain economic environment. Losses are recognised on an expected, forward-looking basis, reflecting the Group's view of potential future economic events. We focussed our audit work on the areas of the methodology that we identified as most judgemental. These were: • The appropriateness of the 'staging' thresholds selected by management to determine whether a significant increase in credit risk had arisen, and hence whether a 12 month or lifetime loss provision is recorded. • The application of forward-looking economic assumptions used in the models and the weightings assigned to scenarios (specifically the base and the downside scenarios as these are most material to ECL); and • The completeness and valuation of post model adjustments, to take account of latent risks and known model limitations. In the current period, post model adjustments have become significantly more material to the overall ECL provision as a new material post model adjustment of £32.5 million has been booked to respond to latent risks caused by Covid-19 and the granting of mortgage payment holiday concessions to customers. This post model adjustment is highly judgemental because of the uncertain mitigating impact that existing government support schemes will have on future default levels and the uncertain future performance of accounts that have had a payment holiday granted. We therefore focused our work on these judgemental aspects. The Group's disclosures are given in Note 12. Management's associated accounting policies are detailed on pages 136 to 138. Management's judgements in application of accounting policy and critical estimates is disclosed on pages 141 and the considerations of the effect of the future economic environment are given on pages 149 to 151. The Audit Committees' consideration of the matter is described on pages 97 to 98.	We understood and critically assessed the methodology applied in the impairment models, using modelling specialists in the more judgemental areas, including the results of empirical testing on key model components, primarily the Probability of Default ('PD') model, to confirm that the implemented methodology was compliant with IFRS 9. We tested key significant estimates and judgements used in the calculation of provisions and tested the accuracy of critical data inputs used by the impairment models on a sample basis by agreeing to supporting documentation. We validated management's 'staging' thresholds by re-performing key back testing procedures performed by management. We examined subsequent account performance to confirm that the criteria selected by management were reasonable and that the models are sufficiently predictive of defaults, or mitigating post model adjustments were appropriately recorded. We assessed the reasonableness and likelihood of the forward looking economic assumptions and weightings assigned to the scenarios using our economic experts. For the base and downside economic scenarios, their reasonableness was assessed against known or likely economic, political and other relevant events, including potential risks caused by Covid-19. The severity and magnitude of the scenarios were compared to external forecasts and data from historical economic downturns, and the sensitivities of the scenarios on the ECL were considered. We found that the assumptions adopted and assigned weightings to the scenarios were reasonable. We tested management's monitoring controls performed throughout the year and independently re-performed a number of monitoring tests to ensure that changes to customer behaviour are reflected in the ECL calculation. We considered the completeness of post model adjustments to take account of known model limitations or latent risks using our industry expertise. We tested the valuation of post model adjustments by critically assessing the methodology, using modelling specialists, and testing critical data inputs used in the post model adjustment calculations by agreeing to supporting documentation on a sample basis. A number of changes to the post model adjustment methodology were implemented by management as a result of our audit and we found the final methodology used to be reasonable. We reviewed the ECL disclosures made by management to ensure compliance with accounting standards and agreed the disclosures to supporting evidence without material exceptions. From the evidence we obtained we found that the judgements and estimates applied in relation to forward looking economics and the appropriateness of staging and post model adjustments as they relate to the ECL provision to be reasonable.

Key audit matter	How our audit addressed the key audit matter
The appropriateness of key estimates used in the accounting for the effective interest rate of mortgage products (Group and Society)	
Accounting standards require interest receivable and similar income to be recognised on an effective interest rate ('EIR') accounting basis. The EIR approach has the effect of recognising interest at a single constant rate that averages out the effect of fixed and variable rates of interest and fees across the expected life of the mortgage. The loans and advances to customers line item includes effective interest rate accounting adjustments of £71.1 million at the balance sheet date (2019: £75.8m). This adjustment is released to the income statement in accordance with the forecast behavioural life of the Group's mortgage book which is a key estimate. In addition, the reversionary interest rate after the fixed mortgage initial term is inherently uncertain. Management calculates these estimates by considering past repayment behaviour on the loan book and by considering the prevailing interest rate environment. We focussed our audit work on these two key estimates The Group's disclosures are given in Note 3. Management's associated accounting policies are detailed on page 134. Management's significant estimates are set out on page 141. The Audit Committees' consideration of the matter is described on page 98.	We performed a walkthrough of the EIR model logic, methodology and associated calculations and tested the accuracy and validity of the calculations used. We confirmed that all fees and charges included within the EIR accounting calculation are in line with accounting standards. We tested the completeness and accuracy of the redemption data used in the generation of the behavioural life profiles, and challenged management as to whether the current loan book will perform consistently with historical experience. We performed a sensitivity analysis on a range of possible outcomes to determine whether the overall adjustment lies within a reasonable range of best estimate focusing on the estimation uncertainty in determining the lifetime of the mortgage and future interest rates. We performed substantive testing over the completeness and accuracy of the transfer of critical data from the mortgage book source system to the EIR model and supporting evidence. We tested the reconciliation of the accounting model outputs to the general ledger to ensure appropriate recording in the financial statements. We reviewed the disclosures made by management to ensure compliance with accounting standards and agreed the disclosures and sensitivity analysis to supporting evidence. From the evidence we obtained we found that the mortgage lifetimes and the reversionary interest rates used within the EIR accounting models are supportable and considered to be reasonable estimates.
The application of hedge accounting in accordance with IFRS (Group and Society)	
Operations of the Group expose the Group to significant interest rate risk as a result of a mismatch between fixed and floating interest rate cash flows. The risk of future movements in market interest rates affecting profitability is mitigated through the use of derivative financial instruments in the form of interest rate and cross currency swap contracts. These are designated under hedge accounting arrangements to reduce the effect of future movements in interest rates on amounts recorded in the financial statements. Where a designated hedge accounting relationship is formed, accounting rules allow the Group's underlying hedged items to be carried at fair value. At 31 December 2020, the fair value of these items was £278.6m greater (2019: £105.7m greater) than its carrying value. The use of hedge accounting during the year also gave rise to a £0.7m charge (2019:£17.2m charge) being recognised in the income statement. This was an area of audit focus as the hedge accounting rules are complex. Given the size of both the fixed interest mortgages and interest rate swaps held on the balance sheet, this gives rise to an increase in the risk of error in application. This risk of error is compounded as the Group had primarily manual processes in relation to hedging for the majority of 2020 and therefore there is an increased risk of operational errors. The Group's disclosures are given in Note 23. Management's associated accounting policies are detailed on pages 138 to 139. Management's significant assumptions and estimates are set out on page 141. The Audit Committees' consideration of the matter is described on page 98.	We performed a walkthrough of management's end to end process for performing hedge accounting in relation to fair value and cash flow hedges. We obtained and read the hedge accounting documentation to evaluate whether it was compliant with the accounting requirements of IAS 39. This included testing of a sample of hedge designations and inspection of a sample of hedge documentation. We independently re-performed a sample of hedge effectiveness tests performed by management, considering both prospective and retrospective testing. We also re-performed the valuation of a sample of derivatives and underlying hedged items, and tested a sample of manual calculations for mathematical accuracy and performed logic and calculation checks to ensure manual hedging calculations are valid. We tested the reconciliation between the hedging models and the amounts recorded in the general ledger. We tested the disclosures in respect of hedge accounting and confirmed that they were compliant with IAS 39 and IFRS 7. From the evidence we obtained, we found that the hedge accounting methodology was compliant with IAS 39 and the underlying manual hedging calculations were accurate and valid.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY CONTINUED

Key audit matter	How our audit addressed the key audit matter
Privileged access to IT systems (Group and Society)	
The Group is highly dependent on technology due to the significant number of transactions that are processed daily. Controls over privileged access rights are important as they ensure that changes to applications and data are authorised and made in an appropriate manner. Ensuring that staff only have appropriate access, and that the access is monitored, is key to mitigate the potential for misuse or error as a result of a change to an application or underlying data. Improvements are required to privileged access controls. We therefore did not rely on IT general controls applying to relevant systems, but instead performed additional substantive testing to mitigate risks of material misstatement in the Group financial statements by fraud or error.	In response to the weaknesses identified, we performed an assessment of the risks of fraud or error in the financial statements. Additional substantive testing was performed on those areas where we identified a higher risk of fraud or error in relation to privileged access, including the following: • A higher extent of testing on loans and advances to customers and deposits; • Increased extent of sample testing of administrative expenses; • Additional risk based manual journal testing; and • Additional payroll testing to mitigate the risk of inappropriate amendments to standing data. In performing the procedures noted above, no inappropriate changes to system data were identified.
The appropriateness of actuarial assumptions relating to the defined benefit pension obligations (Group and Society)	
The valuation of the defined benefit obligations of the Group Pension Scheme (the 'Fund') is dependent on a number of actuarial assumptions, including the discount rate, rate of inflation rate and mortality rates. Changes in these assumptions will have an impact on the valuation. The Funded status/pension surplus is £9.7 million at the balance sheet date (2019: £24.3 million). Management performs a review of the valuation methodology and assumptions each year. The assumptions were updated to reflect changing market practice and management's future outlook. In addition, the pension asset portfolio includes complex assets that are relatively illiquid and therefore inherently more difficult to value. The valuation risk is further increased by market uncertainty as a result of Covid-19. Third party valuations for the pension assets are obtained by the Society on a periodic basis. The valuation of the defined benefit obligations and certain pension assets are relatively complex and judgemental and therefore represents a key audit matter. We focussed our work on the key actuarial assumptions used, and the valuation of complex pension assets. The Group's disclosures are given in Note 19. Management's associated accounting policies are detailed on page 139. The Audit Committees' consideration of the matter is described on page 98.	*Defined benefit pension obligations* We understood the process for determining the actuarial assumptions used in calculating the valuation of pension obligations. We engaged our actuarial specialists to understand the estimates made by management in determining the key financial assumptions used in the calculation of the liability. We assessed the reasonableness of the assumptions using PwC developed benchmarks and external market data and performed sensitivity analysis. Based on the evidence obtained, we found the assumptions and methodologies used in the valuation of the Fund's defined benefit obligations to be within a reasonable range. *Complex pension assets* We understood the nature of the underlying pension assets and the process for determining the valuation of the complex pension assets. We confirmed the valuation of the assets directly with investment managers and obtained further corroborative evidence of the valuation of the assets at year end. In addition, we obtained and reviewed the relevant third party service auditor reports and assessed the design and operational effectiveness of key valuation controls in respect of the asset valuations. Based on the evidence obtained, we found the valuation of the pension assets to be reasonable. We read and assessed the disclosures made in the financial statements, including the disclosures of the actuarial assumptions and pension assets and found them to be appropriate.

Key audit matter	How our audit addressed the key audit matter
The impact of the Covid-19 pandemic (Group and Society)	
The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and individuals. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of most substantial impacts being the transition to remote working. A substantial proportion of Group's employees have been working remotely during 2020 as has our audit team. The continued roll out of vaccines has created an expectation that the restrictions may be gradually eased, however there remains uncertainty about the future mutation and spread of the disease, the extent and impact of government measures and the economic outlook. The impact of the Covid-19 pandemic and resulting uncertainty has impacted certain significant estimates in the Group and Society financial statements. The directors have specifically considered the following aspects: • The going concern assessment of the Group and Society, and the Group and Society's longer term financial viability; and • The expected credit loss provision on loans and advances to customers. The directors' disclosures demonstrating how the pandemic gives rise to a principal risk for the Society is given on page 26. Disclosures relating to the appropriateness of the use of the going concern basis of preparation and the considerations made by the directors when drawing this conclusion is given on page 116.	We discussed the impact of Covid-19 on the Society's financial statements and operations with the Audit Committee during the year. Our planning and execution of the audit has given specific consideration to the impact of Covid-19. This included adopting a different basis for determining materiality to take account of the volatility in results. We considered the impact of Covid-19 on the Group's control environment. We adapted our own working practices to remote working and ensured we obtained sufficient, appropriate audit evidence. The impact of Covid-19 on the most significant accounting estimate and our audit is in relation to expected credit losses as reported in the relevant Key Audit Matter in this opinion. We have reviewed management's going concern assessment and findings are included in the section 'Conclusions relating to going concern' later in this opinion. This included evaluation of the future profitability of the Group. As a result of these procedures we concluded that the impact of Covid-19 has been appropriately evaluated and reflected in the presentation and disclosure of these financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

All of the Group's activities are administered in the United Kingdom. The principal activity of the Group is the provision of savings products and mortgage finance to members. The Group's mortgage book is predominantly secured on UK residential property.

The Group is formed of the Society and several other subsidiary companies. Based on Group materiality, we performed audit procedures over all material account balances and financial information of the Society and its subsidiaries. Our audit procedures on the Society and its subsidiaries provided us with sufficient audit evidence as a basis for our opinion on the Group financial statements as a whole.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY CONTINUED

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

	Group financial statements	Society financial statements
Overall materiality	£7.8 million (2019: £7.3 million)	£3.2 million (2019: £3.2m)
How we determined it	5% of a three year average of profit before tax (2019: one year equivalent)	5% of a three year average of profit before tax (2019: one year equivalent)
Rationale for benchmark applied	Profit before tax is one of the principal considerations when assessing the Group's and Society's performance and is a generally accepted benchmark for determining audit materiality. We have considered the economic impact of the Covid-19 pandemic on the Group and Society results. Whilst profit before tax is still considered to be the most suitable benchmark, we used a three year average, to reduce the volatility introduced by Covid-19 and set a more stable measure.	

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £5.9m for the Group financial statements and £3.4m for the Society financial statements.

In determining performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £391,000 (Group) and £227,000 (Society) (2019: £368,000 (Group) and £161,000 (Society) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

Our evaluation of the directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify critical factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the Group operates. As part of our risk assessment, we reviewed and considered the Group's Strategic plan, ICAAP and ILAAP, regulatory correspondence and management reports provided to key governance forums;
- Evaluation of the reasonableness of the Group's five year Strategic plan, including testing key assumptions and performance of sensitivity analysis using our understanding of the Group and its financial and operating performance obtained through the course of our audit. We also considered the historical accuracy of previous Strategic plans as part of this assessment;
- Testing of the appropriateness of the disclosures made in the Annual Report and accounts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, the Building Societies Act 1986 and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Building Society Act 1986 – Opinion on Annual Business Statement and Directors' Report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 December 2020 is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Society's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report and Accounts that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties relating to the Group's and Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Society's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Society and their environment obtained in the course of the audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY CONTINUED

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Society's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities in respect of the preparation of the Annual Report and Accounts, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

BUILDING SOCIETIES ACT 1986 EXCEPTION REPORTING

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the audit committee, we were appointed by the directors on 23 April 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2019 to 31 December 2020.

OTHER VOLUNTARY REPORTING

OTHER CODE PROVISIONS

The directors have prepared a Corporate Governance statement and requested that we review it as though the Society were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the Society's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

DIRECTORS' REMUNERATION

The Society voluntarily prepares a Directors' Remuneration in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Carl Sizer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
3 March 2021

FINANCIAL STATEMENTS

INCOME STATEMENTS

For the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	859.9	1,010.5	749.2	875.1
Interest payable and similar charges	4	(451.4)	(613.8)	(440.0)	(601.5)
Net interest income		408.5	396.7	309.2	273.6
Fees and commissions receivable	5	7.2	7.8	5.5	6.0
Fees and commissions payable	6	(9.5)	(10.2)	(7.2)	(7.6)
Other operating income	7	2.2	2.5	2.2	2.5
Net losses from derivatives and hedge accounting	8	(0.7)	(17.2)	(3.2)	(18.5)
Total income		407.7	379.6	306.5	256.0
Administrative expenses	9	(217.3)	(201.4)	(173.5)	(162.1)
Amortisation of intangible assets	17	(12.2)	(13.5)	(12.2)	(13.5)
Depreciation of property, plant and equipment	18	(16.1)	(14.2)	(16.1)	(14.2)
Impairment charge on loans and advances to customers	12	(36.4)	(2.1)	(22.6)	(0.5)
Provisions for liabilities and charges	24	(0.5)	–	(0.5)	–
Charitable donation to Poppy Appeal		(0.8)	(1.2)	(0.8)	(1.2)
Profit before tax		124.4	147.2	80.8	64.5
Taxation	13	(23.0)	(25.5)	(13.6)	(9.8)
Profit for the financial year		101.4	121.7	67.2	54.7

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Profit for the financial year		101.4	121.7	67.2	54.7
Other comprehensive (expense)/income					
Items that will not be transferred to the Income Statement:					
Remeasurement of defined benefit pension plan	19	(15.3)	(6.2)	(15.3)	(6.2)
Taxation	13	4.2	1.6	4.2	1.6
Effect of change in corporation tax rate	13	–	(0.1)	–	(0.1)
Items that may be transferred to the Income Statement:					
Fair value through other comprehensive income investments:					
Fair value movements taken to reserves		0.2	3.7	0.2	3.7
Amount transferred to the Income Statement		(1.9)	(6.2)	(1.9)	(6.2)
Taxation	13	0.4	0.6	0.4	0.6
Effect of change in corporation tax rate	13	(0.1)	–	(0.1)	–
Cash flow hedges:					
Fair value movements taken to reserves	23	(38.5)	(124.2)	(80.2)	(39.5)
Amount transferred to the Income Statement	23	(39.6)	106.0	23.4	33.9
Taxation	13	21.1	4.9	15.2	1.5
Effect of change in corporation tax rate	13	(0.1)	(0.3)	(0.1)	(0.1)
Other comprehensive (expense) for the year, net of tax		(69.6)	(20.2)	(54.2)	(10.8)
Total comprehensive income for the year, net of tax		31.8	101.5	13.0	43.9

The notes on pages 132 to 174 form part of these accounts.

BALANCE SHEETS

As at 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Assets					
Cash and balances with the Bank of England		5,728.9	5,226.0	5,371.0	4,896.3
Loans and advances to financial institutions		590.5	336.1	652 .7	425.0
Debt securities	14	995.1	1,292.6	995.1	1,292.6
Loans and advances to customers	15	43,482.8	42,234.7	26,914.1	26,659.4
Hedge accounting adjustment		366.6	149.7	366.6	149.7
Derivative financial instruments	23	173.5	137.9	108.9	103.4
Investment in equity shares		5.0	4.1	5.0	4.1
Deferred tax asset	20	20.1	–	16.5	–
Investment in Group undertakings	16	–	–	16,215.0	15,090.8
Intangible assets	17	33.9	33.2	33.9	33.2
Property, plant and equipment	18	72.8	77.8	72.8	77.8
Pension benefit surplus	19	9.7	24.3	9.7	24.3
Prepayments and accrued income		19.4	14.4	19.2	14.4
Total assets		51,498.3	49,530.8	50,780.5	48,771.0
Liabilities					
Shares		38,151.1	36,238.1	38,151.1	36,238.1
Deposits from banks	21	5,140.2	5,318.6	5,080.5	5,276.4
Other deposits		1.0	8.5	1.0	8.5
Amounts owed to other customers		609.5	462.7	682.3	462.7
Debt securities in issue	22	4,617.2	4,815.6	4,045.0	4,675.7
Hedge accounting adjustment		88.0	44.0	88.0	44.0
Derivative financial instruments	23	534.2	281.8	517.5	240.6
Current tax liabilities		5.8	14.2	4.9	6.4
Deferred tax liabilities	20	–	5.0	–	4.0
Accruals and deferred income		41.6	36.0	36.8	31.1
Other liabilities	29	36.0	35.7	441.0	35.4
Provisions for liabilities and charges	24	0.4	0.7	0.4	0.7
Subordinated liabilities	25	25.6	25.5	25.6	25.5
Subscribed capital	26	41.6	41.6	41.6	41.6
Total liabilities		49,292.2	47,328.0	49,115.7	47,090.7
Members' interests and equity					
General reserve		1,835.1	1,773.3	1,281.4	1,253.8
Other equity instruments	27	415.0	415.0	415.0	415.0
Fair value through other comprehensive income reserve		2.3	3.7	2.3	3.7
Cash flow hedge reserve		(46.3)	10.8	(33.9)	7.8
Total members' interests and equity		2,206.1	2,202.8	1,664.8	1,680.3
Total members' interests, liabilities and equity		51,498.3	49,530.8	50,780.5	48,771.0

The notes on pages 132 to 174 form part of these accounts.

Approved by the Board of Directors on 3 March 2021 and signed on its behalf by

Gary Hoffman
Chair of the Board

Steve Hughes
Chief Executive Officer

Peter Frost
Chief Customer Officer

FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN MEMBERS' INTERESTS AND EQUITY

For the year ended 31 December 2020

Group	General reserve £m	Other equity instruments £m	Fair value through other comprehensive income reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2020	1,773.3	415.0	3.7	10.8	2,202.8
Profit for the financial year	101.4	–	–	–	101.4
Net remeasurement of defined benefit plan	(11.1)	–	–	–	(11.1)
Net movement in fair value through other comprehensive income reserve	–	–	(1.4)	–	(1.4)
Net movement in cash flow hedge reserve	–	–	–	(57.1)	(57.1)
Total comprehensive income	90.3	–	(1.4)	(57.1)	31.8
Distribution to Additional Tier 1 capital holders	(28.5)	–	–	–	(28.5)
As at 31 December 2020	1,835.1	415.0	2.3	(46.3)	2,206.1
As at 1 January 2019	1,693.5	396.9	5.6	24.4	2,120.4
Changes on initial application of IFRS 16	(0.8)	–	–	–	(0.8)
Restated position at 1 January 2019	1,692.7	396.9	5.6	24.4	2,119.6
Profit for the financial year	121.7	–	–	–	121.7
Net remeasurement of defined benefit plan	(4.7)	–	–	–	(4.7)
Net movement in fair value through other comprehensive income reserve	–	–	(1.9)	–	(1.9)
Net movement in cash flow hedge reserve	–	–	–	(13.6)	(13.6)
Additional Tier 1 Capital repurchased[1]	(9.3)	(396.9)	–	–	(406.2)
Additional Tier 1 Capital issued[1]	(2.5)	415.0	–	–	412.5
Total comprehensive income	105.2	18.1	(1.9)	(13.6)	107.8
Distribution to Additional Tier 1 capital holders	(24.6)	–	–	–	(24.6)
As at 31 December 2019	1,773.3	415.0	3.7	10.8	2,202.8

1. Net of tax. For more information see note 27.

Society	General reserve £m	Other equity instruments £m	Fair value through other comprehensive income reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2020	1,253.8	415.0	3.7	7.8	1,680.3
Profit for the financial year	67.2	–	–	–	67.2
Net remeasurement of defined benefit plan	(11.1)	–	–	–	(11.1)
Net movement in fair value through other comprehensive income reserve	–	–	(1.4)	–	(1.4)
Net movement in cash flow hedge reserve	–	–	–	(41.7)	(41.7)
Total comprehensive income	56.1	–	(1.4)	(41.7)	13.0
Distribution to Additional Tier 1 capital holders	(28.5)	–	–	–	(28.5)
As at 31 December 2020	1,281.4	415.0	2.3	(33.9)	1,664.8
As at 1 January 2019	1,241.0	396.9	5.6	12.0	1,655.5
Changes on initial application of IFRS 16	(0.8)	–	–	–	(0.8)
Restated position at 1 January 2019	1,240.2	396.9	5.6	12.0	1,654.7
Profit for the financial year	54.7	–	–	–	54.7
Net remeasurement of defined benefit plan	(4.7)	–	–	–	(4.7)
Net movement in fair value through other comprehensive income reserve	–	–	(1.9)	–	(1.9)
Net movement in cash flow hedge reserve	–	–	–	(4.2)	(4.2)
Additional Tier 1 Capital repurchased[1]	(9.3)	(396.9)	–	–	(406.2)
Additional Tier 1 Capital issued[1]	(2.5)	415.0	–	–	412.5
Total comprehensive income	38.2	18.1	(1.9)	(4.2)	50.2
Distribution to Additional Tier 1 capital holders	(24.6)	–	–	–	(24.6)
As at 31 December 2019	1,253.8	415.0	3.7	7.8	1,680.3

1. Net of tax, for more information see note 27.

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cash flows from operating activities					
Profit before tax		124.4	147.2	80.8	64.5
Adjustments for:					
Expected credit loss provisions and other provisions	12, 24	36.7	2.4	22.7	0.6
Depreciation and amortisation		28.3	27.7	28.3	27.7
Interest on subordinated liabilities and subscribed capital		6.7	6.6	6.7	6.6
Changes to fair value adjustment of hedged risk		(36.1)	85.3	39.8	8.7
Other non-cash movements		(78.7)	13.9	(78.5)	13.9
Non-cash items included in profit before tax		(43.1)	135.9	19.0	57.5
Loans and advances to credit institutions		(273.7)	(119.3)	(247.0)	(208.2)
Loans and advances to customers		(1,284.7)	(2,972.5)	(277.5)	(1,999.8)
Prepayments, accrued income and other assets		(5.0)	(4.2)	(4.8)	(4.2)
Changes in operating assets		(1,563.4)	(3,096.0)	(529.3)	(2,212.2)
Shares		1,985.0	2,963.5	1,985.0	2,963.5
Deposits and other borrowings		(29.9)	(170.3)	25.4	(231.8)
Debt securities in issue		(479.7)	(57.6)	(930.4)	(57.7)
Accruals and deferred income and other liabilities		8.9	(5.8)	(6.1)	8.3
Changes in operating liabilities		1,484.3	2,729.8	1,073.9	2,682.3
Interest paid on subordinated liabilities and subscribed capital		(6.6)	(6.6)	(6.6)	(6.6)
Interest paid on lease liabilities		(0.6)	(0.7)	(0.6)	(0.7)
Taxation		(31.0)	(29.0)	(0.6)	(27.5)
Net cash flows from operating activities		(36.0)	(119.4)	636.6	557.3
Cash flows from investing activities					
Purchase of investment securities		(921.9)	(1,095.1)	(921.9)	(1,095.1)
Sale and maturity of investment securities and equities		1,215.9	739.2	1,215.9	739.2
Proceeds from sale of properties		0.5	–	0.5	–
Purchase of property, plant and equipment and intangible assets		(22.4)	(28.7)	(22.4)	(28.7)
Net cash flows from investing activities		272.1	(384.6)	272.1	(384.6)
Cash flows from financing activities					
Loans to connected undertakings		–	–	(719.2)	(858.2)
Distribution paid to Additional Tier 1 capital holders		(28.5)	(24.6)	(28.5)	(24.6)
Repurchase of Additional Tier 1 capital[1]		–	(408.5)	–	(408.5)
Issue of Additional Tier 1 capital[1]		–	411.6	–	411.6
Repurchase and repayment of debt securities		(668.4)	(22.6)	(650.0)	–
Principal elements of lease payments		(5.5)	(4.5)	(5.5)	(4.5)
Issue of debt securities		950.0	544.6	950.0	544.6
Net cash flows from financing activities		247.6	496.0	(453.2)	(339.6)
Net increase in cash		483.7	(8.0)	455.5	(166.9)
Cash and cash equivalents at start of year		5,114.3	5,122.3	4,784.6	4,951.5
Cash and cash equivalents at end of year		5,598.0	5,114.3	5,240.1	4,784.6
Cash and cash equivalents:					
Cash and balances with central banks[2]		5,598.0	5,114.3	5,240.1	4,784.6

1. Net of tax. For more information see note 27.
2. This does not include the mandatory reserve with the Bank of England of £130.9 million (2019: £111.7 million).

The notes on pages 132 to 174 form part of these accounts.

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

These accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC); and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to organisations reporting under IFRS.

The accounts comprise the standalone financial statements of the Society and the consolidated financial statements of the Group. They have been prepared on a historical cost basis, as modified by the revaluation of financial instruments which are measured at fair value. As stated in the Directors' Report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts. A summary of the Group's accounting policies is set out within this note.

BASIS OF CONSOLIDATION

The assets, liabilities and results of the Society and its consolidated subsidiaries and structured entities are included in the financial statements of the Group.

The Group consolidates an entity from the date on which it: (a) has power over the entity; (b) is exposed to, or has the right to, variable returns from its involvement with the entity; and (c) has the ability to affect those returns through the exercise of its powers. Upon consolidation, intra-group transactions, balances and unrealised gains and losses are eliminated.

The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes in one or more of these three elements. The Group deconsolidates entities from the date that control ceases.

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control.

Structured entities are consolidated when the substance of the relationship indicates control. In making this judgement, the Group considers factors such as the purpose and design of the entity, size and exposure to variability of returns and the nature of the relationship, including power over the structured entity.

The Society's investment in shares in its subsidiaries is recognised on the Balance Sheet at cost less any provision for impairment in value.

CHANGES IN ACCOUNTING STANDARDS

There are a number of new standards effective from 1 January 2020 that do not have a material effect on the Group's financial statements. Amendments which have been issued in the year and adopted have been set out below.

The IASB has issued a number of new standards with effect from 1 January 2021 however these are not expected to have a significant impact on the Group's financial statements.

INTEREST RATE BENCHMARK REFORM – PHASE 1 AND 2

The Group elected to early adopt *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the Phase 2 amendments).

The Phase 2 amendments apply to a number of the Group's hedge relationships which are linked to Inter Bank Offered Rates (IBOR) which are expected to be replaced by the end of 2021.

The amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without interruption. The Group has applied the amendments retrospectively from 1 January 2020. The impact of the amendments on the Group's hedge accounting is set out below. The amendments to IFRS 4 and IFRS 16 do not impact the Group.

The impact of these amendments on the Group's hedge accounting is set out below, and the impact on the Group's reported results in 2020 is insignificant. The Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosure for 2019.

The Group also elected to early adopt *Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)* (the Phase 1 amendments) for the year ending 31 December 2019. The Phase 1 amendments facilitate hedge accounting by ensuring that hedge accounting is not terminated where the testing criteria set out in IAS 39 failed solely due to IBOR transition.

Fair value hedge accounting
The Group has fixed rate mortgages, savings, liquidity assets and wholesale liabilities which are held in hedge relationships with hedging instruments subject to benchmark rate changes. Where a hedging instrument is terminated in order to convert to an alternative benchmark rate solely due to IBOR reform, hedge accounting is permitted to continue and the hedge designation documentation of the hedge relationship is amended to reflect the new hedge relationship. Where a hedging instrument is terminated for any other reason, hedge accounting is discontinued from the point of termination.

Cash flow hedge accounting
Where the Group applies cash flow hedge accounting of forecast future transactions, it assumes that the hedged benchmark interest rate and the cash flows of the hedged item will not be altered as a result of IBOR reform. Amendments to either hedging instrument or the hedged item which occur solely as a result of IBOR reform are not considered a discontinuation of the hedge relationship.

Where IBOR amendments are made, the cumulative gain or loss in the cash flow hedge reserve at the date of the amendments shall be deemed to be based on the benchmark rate on which the hedged future cash flows are determined. This also applies to discontinued hedge relationships of which the basis for determining the contractual cash flows of their original hedged item is changed.

Should the hedged future cash flows no longer be considered highly probable due to reasons other than interest rate benchmark reforms, the cumulative gain or loss will be reclassified to the Income Statement.

In 2020, the Group has not made any changes to the hedged risk and the benchmark interest rate of hedged item designated in a cash flow hedge.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES
The Group derecognises financial assets where the right to receive cash flows has expired, or where the assets are transferred with substantially all the risks and rewards of ownership. Where the transfer does not result in the transfer of cash flows, but the Group assumes an obligation to pay the cash flows to the transferee, the financial assets are also derecognised.

The Group derecognises financial liabilities when the obligation is discharged, cancelled or has expired.

SECURITISATION AND COVERED BOND TRANSACTIONS
The Group has securitised certain mortgage loans by transferring the loans to structured entities controlled by the Group. These securitisations enable issuance of debt to investors, who take security in the underlying assets as collateral.

The structured entities are fully consolidated into the Group accounts.

Transfers of mortgage loans to the structured entities are not treated as sales and the loans are not derecognised but remain on the transferor's own Balance Sheet as it retains substantially all the risks and rewards of the mortgage loans. In the accounts of the transferor, the proceeds received from the transfer of mortgage loans to structured entities are accounted for as a deemed loan from the structured entity and are disclosed within Other liabilities on the Balance Sheet.

For covered bonds, the Society itself and not the structured entity issues the covered bonds and then lends the proceeds to the structured entity on back to back terms. The structured entity then uses these proceeds as consideration for the loans transferred from the Society. In the accounts of the Society, neither the loan to the structured entity nor the consideration for the transfer of mortgage loans is recognised separately as an additional asset and liability.

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.

Investments in such self-issued debt and the equivalent deemed loan, together with the related income, expenditure and cash flows, are not recognised in the Society's financial statements.

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 derivatives and hedge accounting policy below.

NOTES TO THE ACCOUNTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

SALE AND REPURCHASE AGREEMENTS (REPOS)

Securities sold subject to a commitment to repurchase them are retained on the Balance Sheet when substantially all the risks and rewards of ownership remain within the Group. The counterparty liability is included separately on the Balance Sheet, as appropriate. The difference between the sale and repurchase price is accrued over the life of the agreements using the Effective Interest Rate (EIR) method.

INTEREST RECEIVABLE AND INTEREST PAYABLE

For instruments measured at amortised cost, the EIR method is used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. Interest income on FVOCI debt is also included on an EIR basis.

In calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instrument. For assets which are in default and assessed as stage 3 under IFRS 9, interest is calculated by applying the EIR to the expected recoverable amount. The EIR calculation includes all fees received and paid and costs borne and all other premiums above or below market rates.

FEES AND COMMISSIONS

Fees and commissions receivable and payable that are not spread across expected asset lives under the EIR method are taken to income on an accruals basis as the related obligations are satisfied.

LEASES

The majority of the Group's leases relate to property including branches, head office buildings and data centres. The Group also has other leases which relate to cars and office equipment.

Where the Group enters into a lease or contract which meets the criteria for lease classification under IFRS 16, the Group recognises an asset representing its right to use the leased item and a corresponding liability on the Balance Sheet.

The lease liability is measured at the present value of the lease payments including any incentives, additional lease components and lease extension or termination options where they are reasonably certain to be exercised. These payments are discounted using the Group's incremental borrowing rate since no interest rates are specified in the Group's leases.

The right-of-use asset is measured at cost including the lease liability, any initial direct costs and committed restoration costs.

The right-of-use asset is depreciated over the shorter of its useful life or the lease term on a straight line basis through the Income Statement, and the interest charge on the lease liability is recognised within Interest payable. In the Cash Flow Statement the interest paid on lease liabilities is included in Interest paid on lease liabilities, and the principal element of the lease payments is included in Principal elements of lease payments.

Expenses relating to leases which are for less than 12 months, of low value or relate to intangibles such as software are recognised in the Income Statement as charged.

On an ongoing basis the Group reviews the right-of-use asset and lease liability for any modifications that would require remeasurement and makes an assessment for impairment as required.

TAXATION INCLUDING DEFERRED TAX

Corporation tax on the profits for the year comprises current and deferred taxation.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets and liabilities are measured on a non-discounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled. Deferred tax assets and liabilities are offset when there is both a legally enforceable right and an intention to settle on a net basis.

Corporation tax is charged or credited directly to the Statement of Comprehensive Income if it relates to items that are credited or charged to the Statement of Comprehensive Income. Otherwise corporation tax is recognised in the Income Statement.

RESEARCH AND DEVELOPMENT EXPENDITURE CREDITS

Research and development expenditure credits are recognised in the Balance Sheet when receipt is probable. They are released in the Income Statement within Administrative expenses in line with the recognition of the underlying cost to which the credit relates.

SEGMENTAL REPORTING

The Group operates solely within the retail financial services sector within the United Kingdom. As such, no segmental analysis is required.

FINANCIAL ASSETS

Financial assets comprise cash and balances with the Bank of England, loans and advances to financial institutions, debt securities, loans and advances to customers, derivative financial instruments and investment in equity shares.

At initial recognition, the Group measures financial assets at their fair value. Subsequently, financial assets are classified in one of the following measurement categories:

- Amortised cost.
- Fair value through other comprehensive income (FVOCI).
- Fair value through profit and loss (FVTPL).

Financial assets are classified based on an assessment of the Group's business model for managing the assets and their contractual cash flow characteristics.

Amortised cost

Financial assets held to collect contractual cash flows and where contractual terms comprise solely payment of principal and interest are classified as amortised cost. This category of financial asset includes cash and balances with the Bank of England, loans and advances to financial institutions, loans and advances to customers and a small portfolio of debt securities.

Financial assets within this category are recognised on either the receipt of cash or deposit of funds into one of the Group's bank accounts or when the funds are advanced to borrowers. After initial recognition, the assets are measured at amortised cost using the EIR method, less provision for expected credit losses.

Assets acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. The fair value at acquisition becomes the opening amortised cost for acquired assets. Fair value adjustments are made to reflect both credit risk and interest yield associated with the acquired loan assets. Any discount between the amount due and the fair value is subsequently recognised in interest receivable and similar income using the EIR method.

Significant accounting judgements – classification and measurement of equity release loans

The Group has a £210.2 million (2019: £223.9 million) portfolio of equity release mortgages where the borrower is guaranteed that the amount recoverable at the end of the mortgage will not exceed the value of the property. The Society has not offered new mortgages on this basis since September 2009. The average loan to value of the portfolio is 40% (2019: 40%). The Group has assessed the cash flow characteristics at recognition of each loan within the portfolio to confirm that the IFRS 9 criteria for amortised cost classification are met. The Group has concluded that this is the case as the low loan to value of the portfolio means that the guarantee is a de minimis feature of the product for substantially all of the loans.

Fair value through other comprehensive income (FVOCI)

Financial assets held with the intent of collecting contractual cash flows or selling, where contractual terms comprise solely payment of principal and interest, are classified and measured at FVOCI. This category of financial asset includes most of the Group's debt securities which are held to manage liquidity.

Assets are measured at fair value based on quoted market prices or prices obtained from market intermediaries where available. In cases where quoted market prices are not available, discounted cash flow valuations are used.

Interest on FVOCI assets is recognised in interest receivable and similar income in the Income Statement, using the EIR method.

Unrealised gains and losses arising from changes in fair value are recognised directly in Other comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the Income Statement. Gains and losses arising on the sale of FVOCI assets, including any cumulative gains or losses previously recognised in Other comprehensive income, are recognised in the Income Statement.

NOTES TO THE ACCOUNTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Fair value through profit and loss (FVTPL)

FVTPL is the default category for financial assets which do not meet the criteria for amortised cost or FVOCI assets. Assets which are classified as FVTPL include derivative financial instruments and investments in equity shares.

These assets are carried at fair value and are initially recognised at the trade date.

Interest income and changes in the fair value of derivatives other than the effective portion of those in cash flow hedge accounting relationships are recognised in the Income Statement. The impact of hedging on the measurement of financial assets and liabilities is detailed in the derivatives and hedge accounting policy.

Dividends and changes in the fair value of equity instruments are recognised in the Income Statement.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses, on a forward-looking basis, the expected credit loss (ECL) associated with its financial assets carried at amortised cost and FVOCI and its mortgage pipeline commitments. Financial assets held at FVTPL are not subject to impairment under IFRS 9.

IFRS 9 requires the Society to categorise its financial assets 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 are in stage 2; and assets which are credit impaired or in default are in stage 3. The Society is required to recognise a 12 month ECL allowance on all stage 1 assets and a lifetime ECL allowance on all stage 2 and 3 assets.

The Society does not have any purchased or originated credit-impaired financial assets.

LOANS AND ADVANCES TO CUSTOMERS

Significant accounting judgements – identifying significant increase in credit risk

The Group considers a loan to have experienced a significant increase in credit risk when one or more of the following qualitative, quantitative or backstop criteria have been met.

Qualitative criteria

The qualitative measures used to allocate a loan to stage 2 are aligned to the Group's underwriting and forbearance practices. In some cases, the qualitative measures will be evident before the borrower's credit score is impacted and they are therefore lead indicators of a deteriorating credit risk.

The most significant qualitative criterion relates to Covid-19 mortgage payment holidays and accounts are moved to Stage 2 where a Covid-19 payment holiday has been extended beyond three months, or where a mortgage payment holiday of any length has been taken and there were other indicators of distress such as a deterioration in internal credit risk grades or worsening bureau data.

Other criteria include bankruptcy, cancelled direct debits or poor external credit bureau data which exceeds the Society's underwriting policy at the reporting date, even if the loan is currently performing. Qualitative criteria are monitored and reviewed periodically for appropriateness.

Quantitative criteria

The Group uses internal credit risk gradings that reflect its assessment of the probability of default (PD) of individual borrowers and counterparties. Given the Society's very low risk loan book, a three grade decrease in rating may still result in a very low PD and the application of the current decline limit ensures that loans below this threshold are regarded as still being of sufficiently high quality that they are allocated to stage 1. The loan will be assessed as stage 2 where there has been a three risk grade decrease and the remaining lifetime PD has doubled since origination.

Backstop criteria

In addition, a loan is considered to have experienced a significant increase in credit risk if its total arrears are equal to one current monthly repayment. Loans subject to this backstop measure will continue to be classified as stage 2 for a period of 12 months (cure period) from the date that the arrears fall below one current monthly repayment. A cure period of 12 months is also applied to accounts with Covid-19 mortgage payment holidays. A cure period is not applied to the other qualitative and quantitative criteria as the borrower's credit score will be adversely affected for some time after the trigger event and to add a further cure period beyond this would overstate the impact on the credit risk of the account.

Default

The Society considers a loan to be in default when the loan is three months or more in arrears i.e. current arrears balances are equal to three or more current monthly repayments. Alternatively, a loan is considered to be in default if any of the following unlikeliness to pay indicators are present:

- A payment concession has been agreed with the borrower whereby a sum less than the contractual monthly payment is made for a limited period of time.
- Litigation proceedings against the borrower have begun.
- The customer is bankrupt and the account is in arrears.
- The loan is interest only and has gone three months past the scheduled term date, or 12 months past contractual trigger event for equity release loans.
- The property has been taken into possession by the Group.
- A specific provision has been raised indicating a potential issue that may give rise to a loss (e.g. title or boundary issues).

A loan is considered to be no longer in default (i.e. to have been cured) when a consecutive period of 12 months has passed since it met any of the above qualitative and quantitative criteria (cure period).

Inputs, assumptions and estimation techniques

The measurement of expected credit loss reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money.
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses (ECLs), being forward-looking, are discounted back to the reporting date and are calculated by multiplying the probability of default (PD), exposure at default (EAD) and loss given default (LGD) where:

- The PD represents the likelihood of a borrower defaulting over either the next 12 months or over the remaining lifetime of the mortgage (being the contractual lifetime).
- EAD is the amount the Society expects to be owed at the time of default. The Society does not have any significant revolving commitments where guaranteed further amounts can be drawn down by the borrower.
- LGD represents the Society's expectation of the extent of loss on a default and takes account of available collateral, likely sales cost and potential discount needed to secure a sale.

The Society has based its IFRS 9 ECL calculations on the models used to calculate regulatory expected losses, with the following amendments:

- The IFRS 9 PD is based on a point in time calculation adjusted to take into account estimates of future economic conditions. The regulatory PD is long run and is averaged throughout a full economic cycle.
- The IFRS 9 EAD has been modelled based on expected payments over the term up to the point of default. The regulatory EAD cannot be lower than the current balance.
- The IFRS 9 LGD includes the impact of future economic conditions such as changes in value of collateral and does not include any floors. Only costs associated with obtaining/selling the collateral are included and the discounting of the expected cash flows is performed using the Effective Interest Rate of the loan. The regulatory LGD is based on downturn conditions and includes all collection costs, is subject to regulatory floors and is discounted using a stressed measure of the cost of capital.
- IFRS 9 also requires the use of multiple economic scenarios to calculate a probability weighted forward-looking ECL. More information on the forward-looking information incorporated in the ECL calculations is included in note 12.

Key assumptions and judgements within the ECL calculations, such as whether the forward-looking views remain appropriate or whether staging criteria require adjustment, are monitored and reviewed on a regular basis, at least quarterly. These modelled ECL provisions may be adjusted by the Society if it considers that there are potentially additional risks that have not been identified or that cannot be adequately modelled.

Significant accounting assumptions and estimates – post model adjustments

The Group has applied a post model adjustment (PMA) to reflect ECLs relating to the impact of the Covid-19 pandemic which cannot be adequately captured by existing models.

The PMA was derived by assessing potential indicators of deterioration in credit quality including loans subject to mortgage payment holidays and enhanced credit bureau data.

NOTES TO THE ACCOUNTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

In addition, the Group has included an adjustment to remove the positive impact of HPI growth from 1 April 2020 on ECLs in order to reflect the potential for house price falls in the near term.

Other post model adjustments are applied where there is insufficient data on which to build statistically robust models and the risk of buy to let interest only customers not repaying the capital at maturity.

The assumptions used in calculating ECLs are regularly reviewed and further information can be found in note 12.

ECLs for loans and advances to customers reduce the carrying amount of these assets in the Balance Sheet and the movement in ECLs is included in impairment losses in the Income Statement. For mortgage pipeline exposures and undrawn mortgage loan facilities, the provision is included in the ECL provision in the Balance Sheet.

Calculation of expected credit loss under IFRS 9 – treasury credit risk and investment in Group undertakings

Treasury assets comprise cash and balances with the Bank of England, loans and advances to financial institutions and debt securities.

Credit losses on treasury assets are rare for the Group. In accordance with IFRS 9, impairment for treasury credit exposures is calculated taking the exposure value and applying an externally published PD for the credit rating applicable to the exposure. Exposures are monitored to review whether any change in the counterparty credit profile reflects a significant increase in credit risk.

ECLs for treasury assets held at amortised cost reduce the carrying amount of these assets in the Balance Sheet and the movement in ECLs is included in impairment losses in the Income Statement. ECLs for debt securities measured at FVOCI do not reduce the carrying amount of these assets which remain at fair value in the Balance Sheet. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount with a corresponding charge to impairment losses in the Income Statement. The accumulated loss recognised in other comprehensive income is then recycled to the Income Statement upon derecognition of the assets.

The Society's Investment in Group undertakings comprises shares and intercompany loans which are valued at cost less any provision for impairment. These investments are reviewed annually for evidence of potential impairment, significant increase in credit risk with any impairment recognised in the Income Statement. No impairment on Investments in Group undertakings has been identified.

Write off policy

The Group writes off financial assets when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group holds derivative financial instruments only to manage the risks associated with its non-variable rate assets and liabilities and its foreign currency transactions and not for speculative or trading purposes.

All external derivative financial instruments are carried at fair value. Derivatives are principally valued by discounting cash flows using yield curves that are based on observable market data. In measuring fair value, separate adjustments are made for credit risk to the extent not already included in the valuation.

HEDGE ACCOUNTING

The Group applies the requirements of IAS 39 for hedge accounting, including the Phase 1 and Phase 2 amendments relating to IBOR reform.

Where the documentation, eligibility and testing criteria for hedge accounting set out in IAS 39 are met, the Group applies hedge accounting and designates the hedging derivative as either hedging fair value or cash flow risks. The Group undertakes this on both an individual and a portfolio accounting basis.

Fair value hedges

Changes in the fair value of derivatives that qualify as fair value hedges are recorded in the Income Statement under Net gains/losses from derivatives and hedge accounting in the period in which the movement occurs together with the change in fair value of the hedged asset or liability that is attributable to the hedged risk (interest rate risk). This also applies if the hedged item is classified as an FVOCI financial asset.

Cash flow hedges

Gains and losses on derivative financial instruments hedging the variability in cash flows of a designated asset or liability are recognised directly through the Statement of Comprehensive Income in the cash flow hedge reserve. The relevant portion of the gain or loss on the hedging instrument is recognised in the Income Statement immediately to the extent that the hedge is deemed ineffective under IAS 39. Any amounts deferred to the cash flow hedge reserve are subsequently recycled to the Income Statement when the underlying asset or liability being hedged impacts the Income Statement, for example when foreign exchange movements occur.

INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment. Maintenance costs associated with the operation of these intangibles are charged to the Income Statement as incurred. Amortisation is charged to the Income Statement on a straight line basis over the useful life of the asset commencing from the date the asset is ready for use.

The useful life of computer software is reviewed by management at each financial year end and is currently between three and eight years for assets which are currently in use.

Software development costs, both internal and external, and purchased software that is not an integral part of a related hardware purchase are recognised as an intangible asset if it is probable that: (a) the asset is controlled by the Group; (b) it is separately identifiable; and (c) it will generate future economic benefits. For each significant project undertaken by the Group, an assessment of capitalisation criteria including future economic benefit is performed by the relevant business area and reviewed in accordance with agreed governance processes.

Intangible assets, including assets in the course of construction, are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may exceed the recoverable amount. Where impairment is identified the asset is written down immediately to the estimated recoverable amount and the impairment amount is charged to the Income Statement.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment.

The carrying values of property, plant and equipment are reviewed at each reporting date for impairment or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Where this is the case the asset is written down immediately to the estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying value of the asset and are included within the Income Statement.

Depreciation commences when the asset is ready for use and is provided on a straight line basis over the anticipated useful life of the asset which is currently as follows:

Freehold and long leasehold buildings	Over a period of 50 years
Leasehold adaptations	Shorter of remaining term of the lease and useful life
Equipment, fixtures and fittings	Three to eight years

EMPLOYEE BENEFITS

Pensions

The Group operates a defined benefit pension scheme and a defined contribution scheme for employees.

Contributions to the defined contribution pension scheme are recognised as an expense in the Income Statement as incurred, on an accruals basis.

The Group's net obligation under the defined benefit pension scheme is assessed annually by an independent qualified actuary. The net obligation is calculated as the difference between the fair value of the Scheme's assets and the amount of future entitlements earned by Scheme members from service in prior periods, discounted back to present values using a rate based on an index of long-dated AA rated corporate bonds. This calculation allows the net obligation of the Scheme to be expressed as either a surplus or a deficit, which is recognised as either an asset or a liability respectively in the Group's accounts at the Balance Sheet date.

Gains or losses arising from the remeasurement of the defined benefit plan are recognised in full, in the year they occur, in the Statement of Comprehensive Income.

Other long term employee benefits

The cost of bonuses payable 12 months or more after the end of the financial years in which they are earned is recognised in the year in which the employees render the related service.

NOTES TO THE ACCOUNTS CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Short term employee benefits

The cost of short term employee benefits, including wages and salaries, social security costs, bonuses payable within 12 months and healthcare, is recognised in the year of service.

FINANCIAL LIABILITIES

Financial liabilities include shares, bank and other deposits, amounts owed to other customers, debt securities in issue, derivative financial instruments, subordinated liabilities and subscribed capital. The Group classifies its financial liabilities into the following categories:

Amortised cost

Financial liabilities, other than derivatives, are measured on an amortised cost basis reflecting their face value adjusted for any unamortised premiums, discounts and transaction costs directly attributable to the acquisition or issue. Amortisation is recognised in Interest payable and similar charges at the Effective Interest Rate of the liability.

FAIR VALUE THROUGH PROFIT OR LOSS

All derivatives are carried at fair value.

Changes in the fair value of derivatives other than those in cash flow hedge accounting relationships are recognised in the Income Statement. The impact of hedging on the measurement of financial assets and liabilities is detailed in the derivatives and hedge accounting policy above.

For changes in the fair value of derivatives in cash flow hedge accounting relationships, see the hedge accounting policy for cash flow hedges.

PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably. For the Financial Services Compensation Scheme (FSCS) levy, a provision is recognised when the levy is legally enforceable, in accordance with IFRIC 21 Levies.

Contingent liabilities are potential obligations from past events which will only be confirmed by future events. Contingent liabilities are not recognised within the Balance Sheet.

EQUITY INSTRUMENTS

Financial instruments are classified as equity instruments where the contractual arrangements with the holder do not result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments. Where the Group does have a present obligation the instrument is classified as a financial liability.

The proceeds of the issuance of equity instruments are included in equity net of the costs directly attributable to the issuance.

Distributions to holders of equity instruments are recognised when they become irrevocable and are deducted from the general reserve.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the Group.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the Balance Sheet date. Foreign exchange gains and losses resulting from retranslation and settlement are recognised on a net basis in the Income Statement within interest payable and similar charges.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Statement of Cash Flows comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks and loans and advances to credit institutions.

IFRS DISCLOSURE

For ease of reference, certain audited IFRS disclosures related to credit, market and liquidity and funding risks are included within the Risk Management Report.

A maturity analysis for all assets and liabilities is presented in the Liquidity and Funding section of the Risk Management Report.

Audited information is also included within the Directors' Remuneration Report. These disclosures, where marked as 'audited', are covered by the Independent Auditor's Report.

2. JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

There are judgements relating to the application of the Group's accounting policies which have had a significant effect on the amounts recognised in the financial statements. The Group has also made significant judgements relating to assumptions and estimates that could affect the reported amount of assets and liabilities both in the accounts and in the following financial years. The most significant judgements and assumptions and estimates are disclosed in the following notes:

Significant accounting policy judgements	Notes
Classification and measurement of equity release loans	1
Determining a significant increase in credit risk under IFRS 9	1
Significant accounting assumptions and estimates	
Mortgage EIR	3
Expected credit loss provision on loans and advances to customers – application of post model adjustments	12
Expected credit loss provision on loans and advances to customers – forward-looking information incorporated in the ECL models	12
Present value of the defined benefit pension scheme liabilities	19

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
On financial assets measured at amortised cost:				
On loans and advances to customers	982.0	997.7	549.4	563.9
Connected undertakings	–	–	321.4	299.4
Interest on other liquid assets	12.2	39.1	12.1	38.1
Interest and other income on debt securities	0.2	0.5	0.2	0.5
Interest and other income on debt securities measured at FVOCI	15.3	21.2	15.9	21.2
Net expense on financial instruments in qualifying hedge relationship	(149.8)	(48.0)	(149.8)	(48.0)
Total interest receivable and similar income calculated using the EIR method	859.9	1,010.5	749.2	875.1

SIGNIFICANT ASSUMPTIONS AND ESTIMATES – EFFECTIVE INTEREST RATE (EIR)

The Group recognises interest on loans and advances to customers on the basis of their Effective Interest Rate (EIR). This is a single constant rate that averages out the effect of fixed and variable rates of interest and fees across the expected life of the loan account.

As at 31 December 2020 the EIR method resulted in an asset of £71.1 million (2019: £75.8 million), gross of fees, within loans and advances to customers. This asset represents 0.2% (2019: 0.2%) of the Balance Sheet carrying value of mortgages. The movement in the period of £4.7 million was recognised in the Income Statement.

A significant accounting estimate in the calculation of the EIR is the expected life of the mortgages, as this determines the assumed period over which customers may be paying the Standard Variable Rate of interest (SVR). The calculation of the EIR uses assumptions on expected life that are based on the experience of similar products.

These assumptions are monitored to ensure that they remain appropriate. Changes arising from actual product life experience which differs from the assumptions are periodically calculated and an adjustment is made to the EIR asset with a corresponding adjustment to interest receivable and similar income.

An increase of 5% in the redemption rate of a loan for 12 months after the initial incentive period would result in a decrease in the EIR asset of £8.9 million, with a corresponding reduction to income in the Income Statement. Future market interest rates also affect the calculation. A decrease in the SVR received by the Society after the initial incentive period of 25 basis points would result in a decrease in the EIR asset of £10.3 million with a corresponding reduction to income in the Income Statement.

NOTES TO THE ACCOUNTS CONTINUED

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Bank and customer				
Subordinated liabilities	1.8	1.8	1.8	1.8
Other	18.6	45.5	18.6	45.7
Debt securities in issue	77.3	96.7	74.1	93.3
Other borrowed funds				
On shares held by individuals	388.5	482.2	388.5	482.2
On subscribed capital	4.9	4.8	4.9	4.8
On loans from connected undertakings	–	–	1.9	–
Net income on financial instruments hedging liabilities	(40.7)	(18.1)	(50.8)	(27.3)
Foreign currency losses	0.4	0.2	0.4	0.3
Other interest payable	0.6	0.7	0.6	0.7
Total	451.4	613.8	440.0	601.5

5. FEES AND COMMISSIONS RECEIVABLE

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Mortgage related administration fees	4.6	4.7	2.8	2.9
General insurance commissions	0.6	0.8	0.6	0.8
Other fees and commissions	2.0	2.3	2.1	2.3
Total	7.2	7.8	5.5	6.0

6. FEES AND COMMISSIONS PAYABLE

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Banking fees	2.3	2.6	2.3	2.6
Mortgage related fees	4.6	5.2	2.2	2.6
Other fees and commissions	2.6	2.4	2.7	2.4
Total	9.5	10.2	7.2	7.6

7. OTHER OPERATING INCOME

Operating income of £2.2 million (2019: £2.5 million) includes £1.8 million (2019: £1.0 million) relating to gains on the Society's investments in equity shares of Visa Inc. and VocaLink Holdings Limited which are measured at fair value through profit and loss and £0.3 million (2019: £nil) relating to profit on sale of fixed assets.

In 2019 a further £1.4 million gain related to receipt of deferred consideration from the sale of the Society's equity investment in VocaLink Holdings Limited in 2017.

8. NET LOSSES FROM DERIVATIVES AND HEDGE ACCOUNTING

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Derivatives designated as fair value hedges				
Losses on derivatives designated as fair value hedges	(155.2)	(120.2)	(155.2)	(120.2)
Movement in fair value of hedged items attributable to hedged risk	163.5	123.0	163.5	123.0
Ineffectiveness on fair value hedges	8.3	2.8	8.3	2.8
Derivatives designated as cash flow hedges[1]				
Foreign exchange	0.1	–	–	–
Foreign exchange and interest rate	(0.4)	0.6	–	(0.1)
Interest rate	(10.0)	(0.6)	(10.0)	(0.6)
Ineffectiveness on cash flow hedges	(10.3)	–	(10.0)	(0.7)
Gains/(losses) on other derivatives	1.3	(20.0)	(1.5)	(20.6)
Total	(0.7)	(17.2)	(3.2)	(18.5)

1. Represents ineffectiveness on cash flow hedge relationships which will mature over a period of six years (2019: nine).

Further information on the Society's risk management strategy and how it hedges interest and foreign exchange risk is in note 23.

Gains on other derivatives of £1.3 million (2019: Losses of £20.0 million) have been recognised in the Income Statement reflecting fair value movements on derivatives where hedge accounting relief has not been obtained. The gains represent timing differences and are expected to reverse over the remaining life of the derivatives although further volatility may also be experienced.

Foreign exchange losses of £88.3 million (2019: £105.2 million loss) have been recognised in the Income Statement relating to the principal amount of financial instruments held at amortised cost. This is offset by foreign exchange gains of £88.5 million (2019: £105.4 million gain) on derivative financial instruments held at fair value.

9. ADMINISTRATIVE EXPENSES

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Employee costs				
Wages and salaries	95.6	87.4	95.6	87.4
Social security costs	10.0	9.2	10.0	9.2
Pension costs				
Defined benefit plan (note 19)	(0.5)	(0.8)	(0.5)	(0.8)
Defined contribution plan	6.4	5.8	6.4	5.8
	111.5	101.6	111.5	101.6
Other expenses				
Project costs	40.3	36.3	40.3	36.3
Training, recruitment and other employee costs	12.5	11.5	12.5	11.5
Information systems	19.4	15.4	19.4	15.4
Premises and facilities	9.5	8.2	9.5	8.2
Legal, professional and consultancy	6.7	7.4	6.6	7.2
Marketing and communications	3.1	3.4	3.1	3.4
Loss on disposal of property, plant and equipment and intangibles	0.9	0.9	0.9	0.9
Other operating expenses	13.4	16.7	13.0	16.2
Intercompany management charge	–	–	(43.3)	(38.6)
Total	217.3	201.4	173.5	162.1

The Intercompany management charge reflects a contribution to operational costs by Godiva Mortgages Limited and ITL Mortgages Limited to the Society in respect of management and servicing of their mortgage portfolios.

The costs above relate to both ongoing business as usual activity and delivering change as shown below. Costs of delivering change include both project costs reflected in the table above as well as third party and employee costs which relate to change activity.

Group and Society	2020 £m	2019 £m
Business as usual run costs	159.9	149.1
Costs of delivering change	57.4	52.3
Total	217.3	201.4

The remuneration of the auditor, PricewaterhouseCoopers LLP is set out below:

Group and Society	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Audit of the Group and Society annual accounts	0.9	0.6	0.9	0.6
Audit of Group subsidiaries	0.2	0.1	–	–
Audit related assurance services	0.1	0.1	0.1	0.1
Other non-audit services	0.8	–	0.8	–
Total	2.0	0.8	1.8	0.7

The Group's policy in relation to its auditor providing non-audit engagements sets out the services which the auditor may perform. Further details are included in the Board Audit Committee Report in the Governance section.

All non-audit engagements provided by the Group's auditors are subject to pre-approval by either the Board Audit Committee or the Chief Financial Officer (under delegation from the Board Audit Committee), depending upon the nature of the non-audit engagement. The increase in other non-audit services in the period relates to an assurance engagement relating to the Society's capital reporting.

NOTES TO THE ACCOUNTS CONTINUED

10. EMPLOYEE NUMBERS

Group and Society	2020 Full time	2020 Part time	2020 Total	2019 Full time	2019 Part time	2019 Total
The average number of persons employed during the year (including executive directors) was:						
Head office and administrative centres	1,691	432	2,123	1,574	447	2,021
Branches	301	309	610	316	298	614
Total	1,992	741	2,733	1,890	745	2,635

The average number of employees on a full time equivalent basis was 2,444 (2019: 2,345) and all of these are employed within the United Kingdom.

11. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table summarises the classification of carrying amounts of the Group's financial assets and liabilities at the reporting date. A separate Society table is not presented as there are no differences in classification to that of the Group.

	31 December 2020			
Group	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit and loss £m	Total £m
Financial assets				
Cash and balances with the Bank of England	5,728.9	–	–	5,728.9
Loans and advances to financial institutions	590.5	–	–	590.5
Debt securities	10.3	984.8	–	995.1
Loans and advances to customers	43,482.8	–	–	43,482.8
Hedge accounting adjustment	366.6	–	–	366.6
Derivative financial instruments	–	–	173.5	173.5
Investment in equity shares	–	–	5.0	5.0
Total financial assets	50,179.1	984.8	178.5	51,342.4
Other non-financial assets	155.9	–	–	155.9
Total assets	50,335.0	984.8	178.5	51,498.3
Financial liabilities				
Shares	38,151.1	–	–	38,151.1
Deposits from banks	5,140.2	–	–	5,140.2
Other deposits	1.0	–	–	1.0
Amounts owed to other customers	609.5	–	–	609.5
Debt securities in issue	4,617.2	–	–	4,617.2
Hedge accounting adjustment	88.0	–	–	88.0
Derivative financial instruments	–	–	534.2	534.2
Subordinated liabilities	25.6	–	–	25.6
Subscribed capital	41.6	–	–	41.6
Total financial liabilities	48,674.2	–	534.2	49,208.4
Other non-financial liabilities	83.8	–	–	83.8
Total liabilities	48,758.0	–	534.2	49,292.2

Group	31 December 2019 Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit and loss £m	Total £m
Financial assets				
Cash and balances with the Bank of England	5,226.0	–	–	5,226.0
Loans and advances to financial institutions	336.1	–	–	336.1
Debt securities	16.0	1,276.6	–	1,292.6
Loans and advances to customers	42,234.7	–	–	42,234.7
Hedge accounting adjustment	149.7	–	–	149.7
Derivative financial instruments	–	–	137.9	137.9
Investment in equity shares	–	–	4.1	4.1
Total financial assets	47,962.5	1,276.6	142.0	49,381.1
Other non-financial assets	149.7	–	–	149.7
Total assets	48,112.2	1,276.6	142.0	49,530.8
Financial liabilities				
Shares	36,238.1	–	–	36,238.1
Deposits from banks	5,318.6	–	–	5,318.6
Other deposits	8.5	–	–	8.5
Amounts owed to other customers	462.7	–	–	462.7
Debt securities in issue	4,815.6	–	–	4,815.6
Hedge accounting adjustment	44.0	–	–	44.0
Derivative financial instruments	–	–	281.8	281.8
Subordinated liabilities	25.5	–	–	25.5
Subscribed capital	41.6	–	–	41.6
Total financial liabilities	46,954.6	–	281.8	47,236.4
Other non-financial liabilities	91.6	–	–	91.6
Total liabilities	47,046.2	–	281.8	47,328.0

12. 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 the Risk Management Report.

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.

SIGNIFICANT ACCOUNTING ESTIMATES – APPLICATION OF POST MODEL ADJUSTMENTS

Included within the ECL provision of £48.1 million (2019: £12.0 million) is £37.6 million (2019: £4.0 million) relating to post model adjustments (PMAs). Of the total increase in the year of £33.6 million, £32.5 million relates to a PMA for potential further credit losses as a result of the impact of Covid-19 which has not yet been reflected in the Society's impairment models.

The Covid-19 PMA was derived by segmenting the mortgage book to identify higher risk segments based on an assessment for potential indicators of a deterioration in credit quality. Higher risk segments include loans with a Covid-19 related payment holiday and those loans which have not taken a payment holiday but where there has been a deterioration in risk grade or external credit bureau data indicates a deterioration in credit quality.

For segments which are considered to have increased risk, uplifts have been applied to the modelled probability of default (PD). These uplifts have been estimated using historical data on customer defaults and management judgement. An average uplift of 7.5% (weighted by value) has been applied to PDs and the resulting increase in ECLs of £16.8 million has been recognised.

This uplift of PDs is a key assumption within the ECL calculation. If the applied uplift was increased by a further 5 percentage points (i.e. increasing a PD of 5% to 10%) the impact would be an increase in the total ECL provision of £9.4 million after the application of multiple economic scenarios.

NOTES TO THE ACCOUNTS CONTINUED

12. IMPAIRMENT ON LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Further adjustments to the modelled ECL provision include an adjustment to remove the impact of positive HPI growth from 1 April 2020 which reflects the potential for house price falls in the near term, particularly once government measures to support the housing market such as the stamp duty holiday are removed.

In addition, following an assessment of more granular house price information using automated valuation models (AVM) an estimate of approximately £80 million of additional negative equity balances over and above the current methodology and reported figure has been used to calculate ECLs. These additional items increase ECLs by £15.7 million.

There are additional PMAs of £5.1 million which have been included in ECLs on a consistent basis with the previous year (2019: £4.0 million).

The impairment charge in the year was £36.4 million (2019: charge £2.1 million). A reconciliation of movements in gross exposures and ECL provision split by IFRS 9 stage from 1 January 2020 to 31 December 2020 is set out below:

	Stage 1		Stage 2		Stage 3		Total	
Group	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2020	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(3,104.2)	(0.1)	3,104.2	0.5	–	–	–	0.4
Transfer from stage 1 to stage 3	(39.1)	–	–	–	39.1	0.9	–	0.9
Transfer from stage 2 to stage 3	–	–	(57.5)	(0.2)	57.5	0.2	–	–
Transfer from stage 3 to stage 2		–	36.9	0.9	(36.9)	(0.9)	–	–
Transfer from stage 3 to stage 1	10.8	0.1	–	–	(10.8)	(0.1)	–	–
Transfer from stage 2 to stage 1	303.0	–	(303.0)	(0.4)	–	–	–	(0.4)
Net movement arising from transfer of stages	(2,829.5)	–	2,780.6	0.8	48.9	0.1	–	0.9
New loans originated[1]	6,981.1	0.5	2.5	–	–	–	6,983.6	0.5
Remeasurement of ECL due to changes in risk parameters	–	(4.7)	–	4.5	–	1.7	–	1.5
Increase in post model adjustments	–	12.0	–	19.4	–	2.2	–	33.6
Remeasurement of ECL due to model refinements[2]	–	0.1	–	0.9	–	1.0	–	2.0
Loans derecognised in the period	(3,698.9)	(0.3)	(233.3)	(0.4)	(32.1)	(0.7)	(3,964.3)	(1.4)
Other items impacting income statement reversal	–	–	–	–	–	(0.3)	–	(0.3)
Net write offs directly to Income Statement	–	–	–	–	–	(0.4)	–	(0.4)
Income Statement charge for the period		7.6		25.2		3.6		36.4
Repayment and charges	(1,642.4)	–	(79.3)	–	(6.4)	–	(1,728.1)	–
Net write offs and other ECL movements	–	–	–	–	(1.1)	(0.3)	(1.1)	(0.3)
At 31 December 2020	39,703.4	8.6	3,549.1	28.4	206.6	11.1	43,459.1	48.1

1. New mortgages originated in stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2020. These include an update to the calculation of the probability of default for interest rate shock, enhancements to staging methodology for UPLs, time to modelled possession of properties in default, and lag of unemployment to credit deterioration in buy to let properties. In the period these refinements increased ECLs by £2.0 million.

Society	Stage 1 Gross balance £m	Stage 1 Provision 12 month ECL £m	Stage 2 Gross balance £m	Stage 2 Provision lifetime ECL £m	Stage 3 Gross balance £m	Stage 3 Provision lifetime ECL £m	Total Gross balance £m	Total Provision £m
At 1 January 2020	25,746.1	0.7	713.1	1.3	122.6	3.1	26,581.8	5.1
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(2,139.7)	–	2,139.7	0.2	–	–	–	0.2
Transfer from stage 1 to stage 3	(16.8)	–	–	–	16.8	0.5	–	0.5
Transfer from stage 2 to stage 3	–	–	(36.8)	(0.1)	36.8	0.1	–	–
Transfer from stage 3 to stage 2	–	–	25.5	0.6	(25.5)	(0.6)	–	–
Transfer from stage 3 to stage 1	6.6	–	–	–	(6.6)	(0.1)	–	(0.1)
Transfer from stage 2 to stage 1	185.1	–	(185.1)	(0.2)	–	–	–	(0.2)
Net movement arising from transfer of stages	(1,964.8)	–	1,943.3	0.5	21.5	(0.1)	–	0.4
New loans originated[1]	4,362.1	0.4	2.0	–	–	–	4,364.1	0.4
Remeasurement of ECL due to changes in risk parameters	–	(3.5)	–	3.1	–	0.9	–	0.5
Increase in post model adjustments	–	7.8	–	12.5	–	1.0	–	21.3
Remeasurement of ECL due to model refinements[2]	–	–	–	0.6	–	0.6	–	1.2
Loans derecognised in the period	(2,386.1)	(0.3)	(156.1)	(0.1)	(20.7)	(0.4)	(2,562.9)	(0.8)
Other items impacting income statement reversal	–	–	–	–	–	(0.1)	–	(0.1)
Net write offs directly to Income Statement	–	–	–	–	–	(0.3)	–	(0.3)
Income Statement charge for the period		4.4		16.6		1.6		22.6
Repayment and charges	(1,439.4)	–	(72.8)	–	(4.7)	–	(1,516.9)	–
Net write offs and other ECL movements	–	–	–	–	(0.5)	(0.1)	(0.5)	(0.1)
At 31 December 2020	24,317.9	5.1	2,429.5	17.9	118.2	4.6	26,865.6	27.6

1. New mortgages originated in stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2020. These include an update to the calculation of the probability of default for interest rate shock, enhancements to staging methodology for UPLs, time to modelled possession of properties in default, and lag of unemployment to credit deterioration in buy to let properties. In the period these refinements increased ECLs by £1.2 million.

NOTES TO THE ACCOUNTS CONTINUED

12. IMPAIRMENT ON LOANS AND ADVANCES TO CUSTOMERS CONTINUED

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2019 to 31 December 2019 is set out in the following table.

	Stage 1		Stage 2		Stage 3		Total	
Group	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2019	37,853.6	1.4	1,129.6	3.9	208.6	6.3	39,191.8	11.6
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(570.0)	(0.1)	570.0	1.1	–	–	–	1.0
Transfer from stage 1 to stage 3	(39.6)	–	–	–	39.6	1.1	–	1.1
Transfer from stage 2 to stage 3	–	–	(49.9)	(0.3)	49.9	0.3	–	–
Transfer from stage 3 to stage 2	–	–	38.2	0.5	(38.2)	(0.5)	–	–
Transfer from stage 3 to stage 1	11.8	–	–	–	(11.8)	(0.1)	–	(0.1)
Transfer from stage 2 to stage 1	465.2	0.1	(465.2)	(0.5)	–	–	–	(0.4)
Net movement arising from transfer of stages	(132.6)	–	93.1	0.8	39.5	0.8	–	1.6
New loans originated[1]	8,582.4	0.6	4.2	–	0.1	–	8,586.7	0.6
Remeasurement of ECL due to changes in risk parameters	–	(0.1)	–	(0.3)	–	0.6	–	0.2
(Decrease)/increase in post model adjustments	–	–	–	(0.3)	–	3.1	–	2.8
Remeasurement of ECL due to model refinements[2]	–	(0.4)	–	(0.6)	–	(0.1)	–	(1.1)
Loans derecognised in the period	(3,752.7)	(0.4)	(103.4)	(0.3)	(40.6)	(0.7)	(3,896.7)	(1.4)
Other items impacting income statement reversal	–	–	–	–	–	(0.3)	–	(0.3)
Net write offs directly to Income Statement	–	0.1	–	–	–	(0.4)	–	(0.3)
Income Statement (credit)/ charge for the period		(0.2)		(0.7)		3.0		2.1
Repayment and charges	(1,657.3)	–	(44.9)	–	(7.9)	–	(1,710.1)	–
Net write offs and other ECL movements	(0.3)	(0.2)	–	–	(2.4)	(1.5)	(2.7)	(1.7)
At 31 December 2019	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0

1. New mortgages originated in stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2019. These include an update to the calculation of the probability of default and an enhancement to the regional House Price Index modelling capability. In the year these refinements decreased ECLs by £1.1 million.

Society	Stage 1 Gross balance £m	Stage 1 Provision 12 month ECL £m	Stage 2 Gross balance £m	Stage 2 Provision lifetime ECL £m	Stage 3 Gross balance £m	Stage 3 Provision lifetime ECL £m	Total Gross balance £m	Total Provision £m
At 1 January 2019	23,691.5	0.9	751.0	1.4	129.0	3.0	24,571.5	5.3
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(360.3)	–	360.3	0.4	–	–	–	0.4
Transfer from stage 1 to stage 3	(22.6)	–	–	–	22.6	0.6	–	0.6
Transfer from stage 2 to stage 3	–	–	(36.0)	(0.1)	36.0	0.1	–	–
Transfer from stage 3 to stage 2	–	–	26.2	0.3	(26.2)	(0.3)	–	–
Transfer from stage 3 to stage 1	7.0	–	–	–	(7.0)	–	–	–
Transfer from stage 2 to stage 1	287.7	–	(287.7)	(0.2)	–	–	–	(0.2)
Net movement arising from transfer of stages	(88.3)	–	62.8	0.4	25.5	0.4	–	0.8
New loans originated[1]	5,879.5	0.4	3.6	–	–	–	5,883.1	0.4
Remeasurement of ECL due to changes in risk parameters	–	(0.1)	–	(0.4)	–	0.4	–	(0.1)
(Decrease)/increase in post model adjustments	–	–	–	0.1	–	0.9	–	1.0
Remeasurement of ECL due to model refinements[2]	–	(0.1)	–	(0.1)	–	(0.1)	–	(0.3)
Loans derecognised in the period	(2,293.4)	(0.3)	(67.2)	(0.1)	(24.5)	(0.4)	(2,385.1)	(0.8)
Other items impacting income statement reversal	–	–	–	–	–	(0.1)	–	(0.1)
Net write offs directly to Income Statement	–	–	–	–	–	(0.4)	–	(0.4)
Income Statement (credit)/ charge for the period		(0.1)		(0.1)		0.7		0.5
Repayment and charges	(1,443.0)	–	(37.2)	–	(6.1)	–	(1,486.3)	–
Net write offs and other ECL movements	(0.1)	(0.1)	–	–	(1.2)	(0.6)	(1.4)	(0.7)
At 31 December 2019	25,746.1	0.7	713.1	1.3	122.6	3.1	26,581.8	5.1

1. New mortgages originated in stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2019. These include an update to the calculation of the probability of default and an enhancement to the regional House Price Index modelling capability. In the year these refinements decreased ECLs by £0.3 million.

SIGNIFICANT ACCOUNTING ASSUMPTIONS AND ESTIMATES – FORWARD LOOKING INFORMATION INCORPORATED IN THE ECL MODELS

The assessment of a significant increase in credit risk (SICR) and the calculation of ECLs both incorporate forward-looking information and therefore require significant estimation techniques.

At 31 December 2020 the Group has used alternative economic scenarios to assess ECLs for its core owner-occupier and buy to let portfolios which represent over 99% of total loans and advances to customers.

In response to Covid-19, a new base scenario has been developed which reflects a continued controlled reopening of the economy over the rest of 2021 along with a new downside scenario reflecting a prolonged slowdown as a result of the pandemic. The previous severe downside and upside scenarios have been updated from 2019 year end, particularly for a worsened expectation of unemployment in the severe downside scenario.

NOTES TO THE ACCOUNTS CONTINUED

12. IMPAIRMENT ON LOANS AND ADVANCES TO CUSTOMERS CONTINUED

An explanation of each scenario and its relative weighting in calculating ECL set out below.

Scenario	Weighting
Base – this is the central scenario used to support the business planning of the Society. The scenario has a controlled reopening of the economy as government support schemes roll off within 2021, with increased unemployment affecting house prices.	58%
Downside – a scenario that represents a significant downside equivalent to a prolonged economic slowdown throughout 2021 in the UK and delayed recovery from the economic consequences of Covid-19 and trade friction due to Brexit.	20%
Severe downside – based on the Internal Capital Adequacy Assessment Process (ICAAP) low rates stress (being the worst case scenario from a credit loss perspective used in capital stress testing), with further adjustment for worsened unemployment. This scenario is considered severe enough to reflect delayed economic recovery from the Covid-19 related slowdown and an unforeseen negative outcome from Brexit.	20%
Upside – an upside scenario which reflects a more rapid recovery as successful vaccination programmes lead to a suppression of Covid-19.	2%

The ECL calculation is particularly sensitive to changes in the following assumptions in each scenario:

- Unemployment rate, given its impact on borrowers' ability to meet their loan repayments.
- House Price Index (HPI), given the significant impact it has on mortgage collateral valuations.

The following table shows these key economic assumptions used in the scenarios over a five year forecast period

KEY ECONOMIC ASSUMPTIONS AS AT 31 DECEMBER 2020

Scenario/ weighting		2021 %	2022 %	2023 %	2024 %	2025[1] %	Peak to trough %	Range %	Average to 31 Dec 2025 %[1]
Base 58%	Unemployment	9.0	7.3	6.8	6.3	6.0	3.5	5.5 – 9.0	6.9
	HPI	(5.0)	(7.0)	7.9	4.0	2.5	(11.7)	(11.7) – 0.0	0.5
	GDP	6.0	3.0	2.0	2.0	2.0	(15.4)	0.5 – 15.9	3.0
	Base Rate	0.1	0.1	0.1	0.1	0.1	–	0.1 – 0.1	0.1
Downside 20%	Unemployment	9.8	9.0	8.0	7.2	6.8	4.1	5.9 – 10.0	8.2
	HPI	(7.5)	(10.0)	(1.2)	2.0	2.0	(19.0)	(19.0) – 0.0	(2.9)
	GDP	1.0	5.0	2.0	2.0	2.0	12.4	0.1 – 12.5	2.4
	Base Rate	0.0	0.0	0.0	0.0	0.0	–	–	0.0
Severe downside 20%	Unemployment	11.6	10.0	8.9	8.3	7.6	5.9	6.1 – 12.0	9.3
	HPI	(8.7)	(18.2)	(10.9)	5.9	5.5	(33.4)	(33.4) – 0.0	(5.3)
	GDP	0.0	1.0	5.0	2.0	2.0	10.3	0.0 – 10.3	2.0
	Base Rate	0.0	0.0	0.0	0.0	0.0	–	–	0.0
Upside 2%	Unemployment	5.0	4.5	4.0	4.0	4.0	1.4	4.0 – 5.4	4.4
	HPI	2.5	4.0	4.0	4.0	4.0	19.7	0.2 – 19.9	3.7
	GDP	6.0	3.0	2.8	3.2	3.2	19.0	0.5 – 19.5	3,6
	Base Rate	0.1	1.0	1.3	1.5	2.0	1.9	0.1 – 2.0	0.9

1. HPI change and GDP change average to 31 December 2025 are shown as the annual compound growth rates.

The alternative economic scenarios which have been used at 31 December 2020 are more negative than those which were used at 31 December 2019. The following table shows the movement for each scenario for the key assumptions of unemployment and HPI for 2021 and 2022:

		31 December 2020			31 December 2019		
		Weighting	Unemployment %	HPI %	Weighting	Unemployment %	HPI %
Base	2021	58%	9.0	(5.0)	60%	4.2	–
	2022		7.3	(7.0)		4.3	0.5
Downside	2021	20%	9.8	(7.5)	26%	6.0	(3.7)
	2022		9.0	(10.0)		6.5	0.1
Severe Downside	2021	20%	11.6	(8.7)	12%	9.2	(18.4)
	2022		10.0	(18.2)		8.7	(17.0)
Upside	2021	2%	5.0	2.5	2%	3.7	4.0
	2022		4.5	4.0		3.6	4.0

A significant degree of estimation relates to the relative weightings of the scenarios, incorporating different views of the House Price Index and Unemployment as indicated above. In order to demonstrate this sensitivity, the impact of applying 100% of a particular scenario on the reported IFRS 9 ECL provision is shown below. For example, if the provision was wholly calculated on the Base scenario it would decrease by £18.6 million, or 38.7% (2019: £1.6 million, 13.3%) compared with the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £71.6 million, or 148.9% (2019: £10.7 million, 89.2%).

Scenario	IFRS 9 provision £m	(Decrease)/ increase %	IFRS 9 provision £m	(Decrease)/ increase %
IFRS 9 weighted average	48.1	–	12.0	–
Base scenario	29.5	(38.7)	10.4	(13.3)
Downside scenario	60.8	26.4	11.1	(7.5)
Severe downside scenario	119.7	148.9	22.7	89.2
Upside scenario	18.6	(61.3)	9.5	(20.8)

The ECL calculated above for 100% of each scenario multiplied by the scenario probability will not reconcile to the overall provision. This is due to the staging of loans within each scenario varying, however being allocated to a single stage in the overall provision calculation and having a weighted average 12 month or lifetime PD applied taking into account the economic scenarios. The probability weighted ECL is then calculated based on this staging allocation.

The weightings used at the year end reflect the Society's view of the range of potential future economic conditions at the Balance Sheet date.

ECL COVERAGE RATIOS

This ECL coverage ratio (ECL provision / loans and advances to customers before ECL provisions and EIR, fair value and other adjustments) is 11 basis points (2019: three basis points).

		31 Dec 2020	31 Dec 2019
Total ECL provision	£m	48.1	12.0
Total gross loans and advances to customers before ECL and EIR	£m	43,459.1	42,169.0
ECL coverage ratio	%	0.11	0.03

		Year ended 31 Dec 2020	Year ended 31 Dec 2019
Impairment losses before recoveries	£m	1.1	2.7
Total ECL provision	£m	48.1	12.0
ECL coverage	Years	43.7	4.4

NOTES TO THE ACCOUNTS CONTINUED

13. TAXATION

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Current tax				
UK corporation tax	22.5	31.1	14.0	15.4
UK corporation tax – adjustment in respect of prior years	0.5	0.4	0.6	0.4
Total current tax	23.0	31.5	14.6	15.8
Deferred tax				
Current year	(1.2)	(5.6)	(2.2)	(5.6)
Adjustment in respect of prior years	1.2	(0.4)	1.2	(0.4)
Total deferred tax	–	(6.0)	(1.0)	(6.0)
Total	23.0	25.5	13.6	9.8

A reconciliation between the actual tax expense and tax that would be due if the UK standard corporation tax rate of 19.0% (2019: 19.0%) was applied to the profit before tax without adjustment is as follows:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Profit before tax (PBT)	124.4	147.2	80.8	64.5
Tax at UK standard rate of corporation tax on PBT of 19.0% (2019: 19.0%)	23.6	28.0	15.4	12.3
Recurring items				
Surcharge on banking profits	3.0	3.2	3.0	3.2
Tax credit on Additional Tier 1 capital distribution	(5.4)	(6.6)	(5.4)	(6.6)
Expenses not deductible for tax purposes – compensation payments	–	–	(1.0)	–
Effect of tax rate change	0.1	1.0	0.1	1.0
Non-recurring items				
Adjustments in respect of prior years	1.7	–	1.8	–
Other	–	(0.1)	(0.3)	(0.1)
Total	23.0	25.5	13.6	9.8

The Society, but not other Group companies, is subject to a surcharge of 8% on taxable profits in excess of £25 million in line with other banking companies, including building societies.

The effective tax rate for the year is 18.5% (2019: 17.3%) for the Group and 16.8% (2019: 15.2%) for the Society. The effective tax rates for 2020 are below the UK standard corporation tax rate, because the £5.4 million (2019: £6.6 million) tax credit in relation to distributions to holders of the Group's AT 1 instrument outweighs the £3.0 million (2019: £3.2 million) surcharge on banking profits.

Tax on items reported through the Statements of Comprehensive Income is as follows:

Statements of Comprehensive Income	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Tax credit on remeasurement of defined benefit pension plan	(4.2)	(1.6)	(4.2)	(1.6)
Tax credit on fair value through other comprehensive income movements	(0.4)	(0.6)	(0.4)	(0.6)
Tax credit on cash flow hedges	(21.1)	(4.9)	(15.2)	(1.5)
Effect of change in corporation tax rate	0.2	0.4	0.2	0.2
Total	(25.5)	(6.7)	(19.6)	(3.5)

14. DEBT SECURITIES

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Fair value through other comprehensive income:				
UK Government investment securities	640.7	864.8	640.7	864.8
Other listed transferable debt securities	344.1	411.8	344.1	411.8
Amortised cost				
Other listed transferable debt securities	10.3	16.0	10.3	16.0
Total	995.1	1,292.6	995.1	1,292.6
Movements during the year are analysed below:				
At 1 January	1,292.6	951.2	1,292.6	951.2
Additions	921.9	1,095.1	921.9	1,095.1
Maturities and disposals	(1,215.9)	(739.2)	(1,215.9)	(739.2)
Changes in fair value	(3.5)	(14.5)	(3.5)	(14.5)
At 31 December	995.1	1,292.6	995.1	1,292.6

A maturity analysis of the Group debt securities is included in the Liquidity and Funding section of the Risk Management Report.

At the year end no debt securities had been sold under sale and repurchase agreements (2019: £nil). As such, no cash received or accrued interest in relation to these agreements (2019: £nil) was included within Deposits from banks (see note 21).

15. LOANS AND ADVANCES TO CUSTOMERS

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Residential					
Owner-occupier mortgages		25,508.7	25,198.9	25,145.4	24,806.1
Buy to let mortgages		17,740.7	16,732.6	1,636.0	1,679.7
Near-prime mortgages		53.8	59.2	3.1	3.6
Self-certification mortgages		136.9	156.3	69.3	78.6
Other					
Commercial mortgages		1.8	2.0	0.5	0.5
Unsecured personal loans		17.2	20.0	11.3	13.3
Total Gross loans and advances to customers (contractual amounts)		43,459.1	42,169.0	26,865.6	26,581.8
Impairment	12	(48.1)	(12.0)	(27.6)	(5.1)
Total Net loans and advances to customers (contractual amounts)		43,411.0	42,157.0	26,838.0	26,576.7
EIR, fair value and other adjustments		71.8	77.7	76.1	82.7
Total		43,482.8	42,234.7	26,914.1	26,659.4

More detailed analysis at the Balance Sheet date together with a reconciliation of opening and closing balances by IFRS 9 stage is included in the Risk Management Report.

MATURITY ANALYSIS

The remaining contractual maturity of loans and advances to customers at the Balance Sheet date is as follows:

	Notes	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Repayable in less than one year		3,178.5	3,040.9	1,849.0	1,814.9
Repayable in more than one year		40,352.4	39,205.8	25,092.7	24,849.6
		43,530.9	42,246.7	26,941.7	26,664.5
Impairment provision	12	(48.1)	(12.0)	(27.6)	(5.1)
Total		43,482.8	42,234.7	26,914.1	26,659.4

Actual redemption levels experienced by the Group or Society may differ from the contractual analysis.

NOTES TO THE ACCOUNTS CONTINUED

15. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

PLEDGED ASSETS – LOANS AND ADVANCES TO CUSTOMERS

Certain loans and advances to customers have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools with the Bank of England to enable the Group to obtain secured funding.

Loans and advances to customers pledged to support secured funding and the notes in issue are as follows:

2020	Mortgages pledged £m	Notes in issue[1] Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m	Total £m
Loans and advances to customers					
Covered bond programme – Coventry Building Society Covered Bonds LLP	6,513.8	2,394.4	2,250.0	–	4,644.4
Covered bond programme – Coventry Godiva Covered Bonds LLP	1,550.4	–	–	1,000.0	1,000.0
Securitisation programme – Economic Master Issuer plc	1,199.4	450.0	400.0	–	850.0
Securitisation programme – Mercia No.1 plc	1,111.2	–	–	973.6	973.6
Securitisation programme – Offa No.1 plc	221.3	121.7	–	67.5	189.2
Whole mortgage loan pools[2]	9,401.5	–	5,076.6	4,324.9	9,401.5
Total	19,997.6	2,966.1	7,726.6	6,366.0	17,058.7

2019	Mortgages pledged £m	Notes in issue[1] Held by third parties £m	Held by the Group drawn £m	Held by the Group undrawn £m	Total £m
Loans and advances to customers					
Covered bond programme – Coventry Building Society Covered Bonds LLP	6,552.3	2,517.3	695.0	705.0	3,917.3
Securitisation programme – Mercia No.1 plc	1,110.4	–	150.0	823.6	973.6
Securitisation programme – Offa No.1 plc	250.2	139.9	–	77.6	217.5
Whole mortgage loan pools[2]	6,932.1	–	6,355.5	576.7	6,932.2
Total	14,845.0	2,657.2	7,200.5	2,182.9	12,040.6

1. Notes in issue exclude Class Z securitisation notes (which represent either the first loss piece in the structure or a required liquidity reserve) and the Economic Master Issuer plc Sellers Notes (of £252.4 million). All of these notes are held by the Group undrawn.
2. The whole mortgage loan pools are pre-positioned at the Bank of England. Pools are pledged to the Bank of England when drawings are made directly against the eligible collateral, for example under TFS, subject to a 'haircut' as defined by the Bank of England. The amounts under notes in issue are the outstanding balances of mortgages.

Mortgages pledged are not derecognised from the Group or Society Balance Sheets as the Group has retained substantially all the risks and rewards of ownership. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes in issue and held by third parties are included within debt securities in issue (note 22).

Notes in issue, held by the Group and drawn, include debt securities issued by the covered bond programmes to the Society and whole mortgage loan pools all pledged as collateral.

Notes in issue, held by the Group and undrawn, are other debt securities issued by the programmes to the Society, and mortgage loan pools that have been pre-positioned at the Bank of England but not utilised. These are held to provide collateral for potential future use in sale and repurchase agreements or central bank operations.

Notes in issue, and held by the Group, are not recognised on the Group or Society Balance Sheets, thus preventing inappropriate 'grossing up' of the Group and Society Balance Sheets.

During the year, the Group increased the amount of whole mortgage loan pools pre-positioned at the Bank of England and used this as part of its liquidity risk management strategy.

COVERED BOND PROGRAMMES

The Society operates two covered bond programmes which it uses to provide security for issues of self-issued covered bonds and for external issuances. Securities issued under the programmes are secured through certain mortgage loans of Coventry Building Society or of Godiva Mortgages Limited, the Originators. The loans are retained on the Originator's Balance Sheet as they retain substantially all the risks and rewards relating to the loan.

At the reporting date, the Society has overcollateralised these programmes as set out in the table above to secure the ratings of the covered bonds and to provide operational flexibility. The Society maintains the overcollaterisation by adding loans to the loan portfolios throughout the period. From time to time, the obligation of the Society to provide collateral may increase due to the formal requirements of the covered bond programme and the value of the collateral would depend upon conditions at that time. The Society may also voluntarily contribute collateral to support the covered bond ratings; no such contributions were made during 2020 or 2019. The Society undertakes various roles in these programmes, including acting as cash manager and servicer as well as acting as the bank account provider for Coventry Godiva Covered Bonds LLP (Godiva LLP).

COVENTRY BUILDING SOCIETY COVERED BONDS LLP

Coventry Building Society Covered Bonds LLP (CBS LLP) was established in April 2008 and provides security for issued notes secured against certain loans of Coventry Building Society. As at 31 December 2020, the Society had £3,350 million (2019: £2,650 million) and €1,500 million (2019: €1,500 million) of covered bonds in issue, of which £2,250 million (2019: £1,400 million) was retained by the Group.

During the period, the Society voluntarily repurchased £124.5 million (2019: £93.5 million) of mortgages from CBS LLP to maintain the quality of the pool and minimise the overcollateralisation requirement.

COVENTRY GODIVA COVERED BONDS LLP

Coventry Godiva Covered Bonds LLP was incorporated in August 2020 and provides security for issued notes secured against certain mortgage loans of Godiva Mortgages Limited. The Society first issued notes under the programme in October 2020 and as at 31 December 2020, the Society had £1 billion of covered bonds in issue of which all were retained by the Group.

During the period, the Society voluntarily repurchased £3.1 million of mortgages from Godiva LLP to maintain the quality of the pool and minimise the overcollateralisation requirement.

SECURITISATIONS

The Society operates three securitisation vehicles which it uses to obtain collateral and source funding through the internal and external issuances of listed debt securities secured through certain mortgage loans of Coventry Building Society and Godiva Mortgages Limited, the Originators. The loans are retained on the Originator's Balance Sheet as they retain substantially all the risks and rewards relating to the loans. The Society undertakes various roles in these transactions, including acting as cash manager and servicer as well as acting as the bank account provider for Economic Master Issuer plc.

ECONOMIC MASTER ISSUER PLC

Economic Master Issuer plc (EMI) was incorporated in November 2019 and in July 2020 issued £850.0 million of listed debt securities secured against certain mortgage loans of Coventry Building Society. At 31 December 2020 a total of £400.0 million notes were retained by the Group. The Society retains a beneficial interest in the pool through its holding of the Sellers Note in the structure and its obligations in respect of this securitisation vehicle are limited to transferring cash flows from the underlying assets and maintaining its required minimum sellers share in accordance with the rules of programme.

MERCIA NO.1 PLC

Mercia No.1 plc (Mercia) was incorporated in October 2012 and in December 2012 Mercia issued £1,436.4 million of listed debt securities secured against certain mortgage loans of Godiva Mortgages Limited, all of which were retained by the Group. The Society's obligations in respect of this securitisation vehicle are limited to transferring cash flows from the underlying assets.

In March 2016, Godiva Mortgages Limited repurchased £462.8 million of the mortgages from Mercia and Mercia used the proceeds to reduce notes in issue by this same amount.

OFFA NO.1 PLC

Offa No.1 plc (Offa) was incorporated in February 2016 and in March 2016 Offa issued £427.5 million of listed debt securities secured against certain mortgage loans of Godiva Mortgages Limited, of which £152.5 million was held by the Group. The Society's obligations in respect of this securitisation vehicle are limited to transferring cash flows from the underlying assets.

NOTES TO THE ACCOUNTS CONTINUED

Under the terms of the securitisation programme, the nominal amount of the debt securities is paid down to match the payment profile of the mortgages pledged to the programme.

The fair values of assets that have been pledged and their associated liabilities where recourse is limited to the underlying asset are presented in the table below:

	Fair value assets pledged 2020 £m	Fair value liabilities 2020 £m	Fair value net position 2020 £m	Fair value assets pledged 2019 £m	Fair value liabilities 2019 £m	Fair value net position 2019 £m
Securitisation programme – Offa No.1 plc	225.5	122.0	103.5	250.2	140.6	109.6
Securitisation programme – Economic Master Issuer plc	1,208.1	445.5	762.6	–	–	–

The above table excludes the Mercia securitisation programme as all the notes issued were retained by the Society.

16. INVESTMENTS IN GROUP UNDERTAKINGS

Society	Shares £m	Loans £m	Total £m
At 1 January 2020	8.0	15,082.8	15,090.8
Additions	–	1,124.2	1,124.2
At 31 December 2020	8.0	16,207.0	16,215.0

The Society has the following consolidated subsidiary undertakings, all of which operate in the United Kingdom and are wholly owned by Coventry Building Society:

Subsidiary undertakings	Principal activity
Godiva Mortgages Limited	Mortgage lending
ITL Mortgages Limited	Mortgage lending and mortgage acquisition vehicle
Coventry Financial Services Limited	Non-trading
Coventry Property Services Limited	Non-trading
Godiva Financial Services Limited	Non-trading
Godiva Housing Developments Limited	Non-trading
Godiva Savings Limited	Non-trading
Godiva Securities and Investments Limited	Non-trading

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control in accordance with the accounting policy set out in note 1. The following structured entities are consolidated:

Consolidated structured entities	Principal activity
Coventry Building Society Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds
Coventry Godiva Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds
Economic Master Issuer plc	Funding vehicle
Mercia No.1 plc	Funding vehicle
Offa No.1 plc	Funding vehicle

The nature and risks associated with the Society's investments in these entities (including obligations of financial support) are disclosed in note 15.

Consolidated entities	Registered address
Godiva Mortgages Limited	Oakfield House, Binley Business, Park, Harry Weston Road, Coventry CV3 2TQ
ITL Mortgages Limited	Oakfield House P.O. Box 600, Binley Business Park, Coventry, West Midlands CV3 9YR
Coventry Building Society Covered Bonds LLP	Oakfield House, Binley Business Park, Binley, Coventry CV3 2TQ
Coventry Godiva Covered Bonds LLP	Economic House P.O. Box 9, High Street, Coventry CV1 5QN
Economic Master Issuer plc	10th Floor 5 Churchill Place, London E14 5HU
Mercia No.1 plc	1 Bartholomew Lane, London EC2N 2AX
Offa No.1 plc	1 Bartholomew Lane, London EC2N 2AX

All of the other companies are registered at Oakfield House, PO Box 600, Binley Business Park, Coventry CV3 9YR.

17. INTANGIBLE ASSETS

Group and Society	Externally acquired 2020 £m	Internally developed 2020 £m	Total 2020 £m	Externally acquired 2019 £m	Internally developed 2019 £m	Total 2019 £m
Cost						
At 1 January	16.3	73.1	89.4	17.1	66.2	83.3
Additions	2.0	11.0	13.0	1.3	8.2	9.5
Retirements	(2.9)	(4.0)	(6.9)	(2.1)	(1.3)	(3.4)
At 31 December	15.4	80.1	95.5	16.3	73.1	89.4
Amortisation						
At 1 January	12.7	43.5	56.2	12.0	34.1	46.1
Charge for the year	1.9	10.3	12.2	2.8	10.7	13.5
Retirements	(2.8)	(4.0)	(6.8)	(2.1)	(1.3)	(3.4)
At 31 December	11.8	49.8	61.6	12.7	43.5	56.2
Net book value at 31 December	3.6	30.3	33.9	3.6	29.6	33.2

Intangible assets primarily consist of externally acquired and internally developed software that is not an integral part of a related hardware purchase.

Externally and internally developed assets at 31 December 2020 include £0.8 million and £2.5 million respectively (2019: Externally acquired £nil, Internally developed £6.4 million) of assets in course of construction. These assets relate mainly to the Society's investment in new systems and platforms to meet the future needs of the business. To the extent that these new systems and platforms are not yet ready for use by the business, no amortisation has been charged against these assets.

18. PROPERTY, PLANT AND EQUIPMENT

Group and Society	Land and buildings £m	Equipment, fixtures and fittings £m	Right-of-use assets £m	Total £m
Cost				
At 1 January 2020	16.6	70.5	31.3	118.4
Additions	–	9.4	2.6	12.0
Disposals	(0.3)	(0.9)	(2.0)	(3.2)
At 31 December 2020	16.3	79.0	31.9	127.2
Depreciation				
At 1 January 2020	4.6	30.4	5.6	40.6
Charge for the year	0.6	10.2	5.3	16.1
Depreciation on disposals	–	(0.9)	(1.4)	(2.3)
At 31 December 2020	5.2	39.7	9.5	54.4
Net book value at 31 December 2020	11.1	39.3	22.4	72.8

As at 31 December 2019 there was £1.3 million included within right-of-use assets additions associated with lease modifications which relate to changes in lease agreements during the period which do not constitute a new agreement but adaptations or amendments to an existing contract. In 2020 there were no such modifications.

Disposals relate to assets that were retired during the year.

The net book value of right-of-use assets above relates to the following types of assets:

Right-of-use asset:	2020 Total £m	2019 Total £m
Property	17.5	20.7
Enhanced data infrastructure	3.4	4.0
Cars and leased equipment	1.5	1.0
Total	22.4	25.7

FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS CONTINUED

18. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Group and Society	Land and buildings £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost				
At 31 December 2018	18.5	65.5	–	84.0
Transfer of right-of-use assets	–	(3.4)	3.4	–
Recognition of leases upon implementation of IFRS 16	–	–	27.5	27.5
At 1 January 2019	18.5	62.1	30.9	111.5
Additions	–	15.3	3.9	19.2
Disposals	(1.9)	(6.9)	(3.5)	(12.3)
At 31 December 2019	16.6	70.5	31.3	118.4
Depreciation				
At 31 December 2018	5.9	29.3	–	35.2
Transfer of right-of-use assets	–	(1.3)	1.3	–
At 1 January 2019	5.9	28.0	1.3	35.2
Charge for the year	0.5	8.9	4.8	14.2
Depreciation on disposals	(1.8)	(6.5)	(0.5)	(8.8)
At 31 December 2019	4.6	30.4	5.6	40.6
Net book value at 31 December 2019	12.0	40.1	25.7	77.8

The net book value of land and buildings occupied by the Group for its own activities is shown below. These balances relate to land and buildings owned by the Society and not include right-of-use assets.

Group and Society	2020 £m	2019 £m
At 31 December	11.1	12.0

19. PENSION SCHEME

The Society operates both a funded defined benefit and a defined contribution pension scheme.

The Coventry Building Society defined benefit pension scheme (the Fund) is administered by a separate trust that is legally separated from the Society. The Fund has been closed to new members since December 2001 and provides benefits based on final pensionable salary but was closed to future service accrual from 31 December 2012. The trustees of the Fund are required to act in the best interest of the Fund members. The appointment of the trustees is determined by the Fund's trust documentation.

A full actuarial valuation of the Fund carried out by a qualified independent actuary as at 31 December 2017 was finalised in 2019 and at that date there were 1,758 members comprising current employees, former employees and former executive directors. The Society continued to contribute on the basis of the agreed deficit recovery plan until June 2019 when the Society commenced the process of transferring the Fund to a new scheme administered by TPT Retirement Solutions, making at this time a deficit contribution of £6.0 million taking total deficit contributions to £6.6 million for 2019; the process of the transfer of the Fund is ongoing at the year end. Since the Fund is closed to future service accrual no contributions were made in respect of members' pensionable salaries during 2020 (2019: £nil) and in 2020 there have been no further deficit contributions and none are planned ahead of the next actuarial valuation dated 30 September 2019. The Society continues to meet the Fund's expenses through contributions, including levies to the Pension Protection Fund.

The Fund is subject to the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The Fund typically exposes the Society to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities. This would detrimentally impact the Balance Sheet and may give rise to increased charges in future periods. This effect would be partially offset by an increase in the value of the plan's bond and liability matching holdings. Caps on inflationary increases are in place to protect the plan against extreme inflation.

The pension scheme assets include investments in Liability Driven Investment (LDI funds). These are leveraged pooled funds that are used to help manage interest rate and inflation risk. The investment policy of the LDI funds can be summarised as follows:

- Each fund holds a portfolio of assets whose cash flows are designed to broadly replicate the liability cash flows of a typical scheme, and funds may have exposure to both nominal and real rates.
- The particular funds chosen are selected so that, when combined, they provide a suitable match for the Scheme's liability profile.
- The funds will principally hold a combination of gilt repos, interest rate swaps, inflation swaps, gilt total return swaps and physical gilts.
- The leverage of each fund will vary with changes in interest rates and inflation. The fund manager will follow a recapitalisation process if the leverage in any individual fund reaches a heightened level and follow a re-leveraging process if the leverage in any individual fund decreases to a depressed level.
- The fund manager aims to limit the exposure to each counterparty to 30% of each LDI fund's overall exposure.
- The LDI funds will make distributions based on the coupon payments received from the underlying instruments.

For the purposes of IAS 19 Employee Benefits (Revised) the preliminary results of the full actuarial valuation in progress as at 31 December 2017, which was carried out by a qualified independent actuary, have been updated on an approximate basis to 31 December 2020. There have been no changes in the valuation methodology adopted for this period's disclosures compared with the previous period's disclosures.

The cost of the Fund was assessed in accordance with the advice of a qualified actuary on the basis of valuations using the projected unit credit method. The main assumptions used in the valuations were:

- An investment return pre-retirement of 0.6% (2019: 0.2%) per annum in excess of projected pre-retirement benefit increase.
- An investment return post-retirement of -1.35% (2019: -0.6%) per annum in excess of guaranteed pension increases in respect of pensionable service accrued prior to 6 April 2006 and 0.55% (2019: 0.15%) per annum in excess of guaranteed pension increases in respect of pensionable service accrued after 6 April 2006.

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is deducted from the fair value of plan assets and the net surplus is presented on the Balance Sheet as shown below:

Group and Society	2020 £m	2019 £m
Present value of funded obligation	(250.2)	(221.5)
Fair value of plan assets	259.9	245.8
Funded status/pension benefit surplus	9.7	24.3

	2020			2019		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
As at 1 January	(221.5)	245.8	24.3	(196.0)	218.9	22.9
Included within administrative expenses:						
Interest (expense)/income	(4.6)	5.1	0.5	(5.7)	6.5	0.8
Included within other comprehensive income:						
Remeasurements:						
Return on plan assets (excluding amounts in the Income Statement)	–	15.0	15.0	–	19.7	19.7
Losses from changes in financial assumptions[1]	(30.3)	–	(30.3)	(25.9)	–	(25.9)
	(30.3)	15.0	(15.3)	(25.9)	19.7	(6.2)
Other contributions and payments:						
Employer contributions[2]	–	0.2	0.2	–	6.8	6.8
Benefit payments and expenses	6.2	(6.2)	–	6.1	(6.1)	–
	6.2	(6.0)	0.2	6.1	0.7	6.8
As at 31 December	(250.2)	259.9	9.7	(221.5)	245.8	24.3

1. Losses from changes in financial assumptions includes gains from experience of £0.4 million (2019: £nil) and gains from changes in demographic assumptions of £0.4 million (2019: £2.0 million).
2. Employer contributions include a £0.2 million contribution paid by the Society for the Scheme expenses of operating the Fund over the agreed deficit recovery contributions.

NOTES TO THE ACCOUNTS CONTINUED

19. PENSION SCHEME CONTINUED

The surplus reflects the Society's ability to recover a surplus either through reduced contributions in the future or through refunds from the Fund after the last benefit has been paid in line with IAS 19.

The major categories of plan assets are:

	Plan assets at 31.12.2020 £m	Plan assets at 31.12.2019 £m
Quoted		
Corporate bonds and liability matching	148.3	136.6
Diversified growth funds	5.3	9.1
Direct lending	11.4	16.0
Cash	18.8	7.2
Unquoted		
Corporate bonds and liability matching	53.2	54.9
Property	22.9	22.0
Total	259.9	245.8

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligation at	31.12.2020 %	31.12.2019 %
Discount rate	1.45	2.10
Rate of pensionable salary increase	–	–
Rates of inflation (Retail Prices Index)	2.85	2.90
Rates of inflation (Consumer Prices Index)	2.04	1.90

Weighted average assumptions used to determine net pension cost for the year ended	31.12.2020 %	31.12.2019 %
Discount rate	2.10	2.95
Rate of pensionable salary increase	–	–
Rates of inflation (Retail Prices Index)	2.90	3.15
Rates of inflation (Consumer Prices Index)	1.90	2.15

	31.12.2020		31.12.2019	
Weighted average life expectancy for mortality tables used to determine benefit obligation at	Male	Female	Male	Female
Member age 60 (current life expectancy)	26.2	28.2	26.2	28.2
Member age 45 (life expectancy at age 60)	26.5	28.7	27.0	28.7

The assumptions on mortality are 106% for non-pensioners and 100% for pensioners determined by the actuarial table known as the S2PXA table with CMI 2019 projections with a 1.00% p.a long term improvement rate (2019: S2PXA with CMI 2018 projections with a 1.00% p.a long term improvement rate).

The Group has to make assumptions on the discount rate, inflation and life expectancy when valuing the pension fund surplus and changes in these assumptions could affect the reported surplus. The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is indicated below for isolated changes in assumptions; in reality it is likely that assumptions will be related to each other and impact simultaneously:

Impact on present value of obligation:	Change in assumption	Increase in assumption %	Increase in assumption £m	Decrease in assumption %	Decrease in assumption £m
Discount rate	0.25%	(4.6)	(9.9)	4.9	12.1
Rates of inflation (Retail Prices Index and Consumer Prices Index)	0.25%	2.1	5.2	(2.1)	(5.1)
Life expectancy	1 year	3.8	9.6	(3.8)	(9.4)

The average duration of the defined benefit obligation at the period ended 31 December 2020 is 22 years.

20. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following items:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Deferred tax (assets)/liabilities				
Cash flow hedges	(17.1)	4.0	(12.5)	3.0
Other derivatives	(3.8)	(4.6)	(4.8)	(4.6)
Defined benefit pension plan surplus	2.6	6.1	2.6	6.1
Transfer of engagements – fair value adjustments	0.1	0.1	0.1	0.1
Investment in equity shares	0.6	1.0	0.6	1.0
Fair value through other comprehensive income	0.9	1.3	0.9	1.3
Excess of capital allowances over depreciation	(3.7)	(1.2)	(3.7)	(1.2)
Provisions	(0.6)	(0.4)	(0.6)	(0.4)
IFRS 16 transitional adjustments	(0.2)	(0.3)	(0.2)	(0.3)
Pension fund special contribution	(0.7)	(1.0)	(0.7)	(1.0)
Research and development intangible assets	1.8	–	1.8	–
Total	(20.1)	5.0	(16.5)	4.0

Deferred tax assets are recognised where they have arisen on the basis that sufficient future taxable trading profits will be available to utilise the deferred tax assets.

The deferred tax balances at 31 December 2020 reflect tax rates enacted or substantively enacted at the Balance Sheet date. The main rate of corporation tax of 19% was substantively enacted by the Finance Bill 2020 on 17 March 2020.

21. DEPOSITS FROM BANKS

A maturity analysis for the Group's deposits from banks is included in the Risk Management Report Liquidity and Funding section.

For the Group and Society, deposits from banks includes £4,550.0 million (2019: £4,250.0 million) drawn down against the Bank of England Term Funding Scheme (TFS) and TFSME scheme.

Deposits from banks also includes £525.3 million (2019: £532.4 million) in respect of sale and repurchase agreements (repos) of on-balance sheet notes in issue relating to the Coventry Building Society Covered Bonds LLP programme (see note 15) at 31 December 2020.

22. DEBT SECURITIES IN ISSUE

The change in debt securities issued by the Group is as follows:

			Non-cash flows			
2020 Group	Opening £m	Cash flows £m	Foreign exchange movements £m	Change in accrued interest £m	Amortisation £m	Closing £m
Medium term notes	2,158.4	(582.0)	29.6	(0.3)	1.5	1,607.2
Covered bonds	2,517.3	(151.7)	72.6	(0.1)	2.2	2,440.3
Residential Mortgage Backed Securities	139.9	428.8	–	–	1.0	569.7
Total	4,815.6	(304.9)	102.2	(0.4)	4.7	4,617.2

			Non-cash flows			
2019 Group	Opening £m	Cash flows £m	Foreign exchange movements £m	Change in accrued interest £m	Amortisation £m	Closing £m
Medium term notes	2,144.2	48.8	(33.7)	(2.6)	1.7	2,158.4
Covered bonds	2,047.3	539.6	(71.5)	0.5	1.4	2,517.3
Residential Mortgage Backed Securities	162.4	(22.6)	–	–	0.1	139.9
Total	4,353.9	565.8	(105.2)	(2.1)	3.2	4,815.6

NOTES TO THE ACCOUNTS CONTINUED

22. DEBT SECURITIES IN ISSUE CONTINUED

The position for the Society is the same as that for the Group other than the Society had no Residential Mortgage Backed Securities at the reporting date for the current and prior year with the exception of amortising fees of £2.5 million (2019: £nil) associated to the set up of structured entities.

During 2020 the Group established two new structured entities; Coventry Godiva Covered Bonds LLP and Economic Master Issuer plc. All of the £1.0 billion covered bonds issued which are supported by Coventry Godiva Covered Bonds LLP were retained within the Group. Economic Master Issuer plc issued £850.0 million of medium term notes in 2020 and at 31 December 2020 £400.0 million was retained by the Group and the remaining £450.0 million held by external parties.

In the year, secured by the Coventry Building Society Covered Bonds LLP, the Society issued £500.0 million of external covered bonds in January 2020 and an £850.0 million internal bond in April 2020. During the year, £650.0 million of covered bonds were redeemed in March 2020. The Society's change in liabilities from financing activities is the same as the Group, other than they exclude Residential Mortgage Backed Securities (issued by Offa No.1 plc, a consolidated structured entity).

Debt securities in issue are repayable in the ordinary course of business as follows:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Accrued interest	15.4	15.7	15.3	15.6
Other debt securities in issue with residual maturity repayable:				
In not more than one year	568.8	1,550.2	447.2	1,550.2
In more than one year	4,033.0	3,249.7	3,582.5	3,109.9
Total	4,617.2	4,815.6	4,045.0	4,675.7

23. DERIVATIVE FINANCIAL INSTRUMENTS

The Group elected to continue to apply the hedge accounting requirements of IAS 39 as permitted under IFRS 9.

In August 2020 the IASB issued Phase 2 amendments to IFRS 9, IAS 39, and IFRS 7 that provide temporary reliefs from the effects of IBOR reform for hedge accounting relationships directly impacted. The Society has elected to early adopt these amendments and additional disclosure has been included below for the current period only.

RISK MANAGEMENT STRATEGY

Derivative financial instruments, predominantly interest rate and cross currency swaps, are held solely for purposes of mitigating interest rate risk, foreign exchange risk or interest rate and foreign exchange risk together, as explained in the Risk Management Report. Where appropriate, they are designated as hedging instruments within either fair value or cash flow hedge relationships under the terms of IAS 39. Derivatives can hedge specific assets or liabilities such as liquidity or wholesale instruments (sometimes referred to as 'micro' hedges) or portions of a portfolio of fixed rate mortgages or savings products (sometimes referred to as 'macro' hedges).

For micro hedges, the Group establishes the hedging ratio by matching the notional amount of the derivatives with the principal of the instruments being hedged. For macro hedges, the Group establishes the hedging ratio by matching the notional amount of the derivatives with the principal of that portion of the portfolio being hedged and manages this on a monthly basis by entering into interest rate swaps.

Where interest rate risk is hedged, only the interest rate risk element of the underlying position is designated as the hedged item and therefore other risks, such as credit risk, which are managed but not hedged by the Group, are excluded.

The interest rate risk element is determined with regard to the fixed rate that represents the benchmark rate of interest being hedged. Where foreign exchange risk is hedged, the foreign currency risk component is determined as the change in cash flows of the foreign currency debt arising solely from changes in the relevant forward exchange rates.

For fair value hedges, the effectiveness of the hedge relationship is assessed by comparing changes in the fair value of the hedged item attributable to changes in the benchmark rate of interest with changes in the fair value of the derivative.

For cash flow hedges, effectiveness is assessed by comparing the changes in the fair value of the derivative with changes in the fair value of the hedged item attributable to the hedged risk, using the hypothetical derivative method.
Possible sources of ineffectiveness are as follows:

- Differences in the benchmark rates of interest used to value the hedged item and the hedging instrument, such as when cash collateralised interest rate swaps are discounted using SONIA but this is not the benchmark rate of interest for the hedged item.
- Differences in timing of cash flows between the derivative and the hedged item.

- Differences between the expected and actual volume of prepayments where a portfolio is being hedged, as the hedging ratio is calculated with regard to expected repayment dates, taking account of expected prepayments based on past experience.
- Hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument.
- Counterparty credit risk which impacts the fair value of uncollateralised swaps but not the hedged item.

HEDGING INSTRUMENTS

The following tables contain details of the hedging instruments used in the Group's hedging strategies. The notional amount indicates the amount on which payment flows are derived at the Balance Sheet date and do not represent risk. Derivatives assets and liabilities are included in the Balance Sheet at fair value.

	2020			2019		
Group	Notional amount £m	Fair value assets £m	Fair value liabilities £m	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:						
Interest rate risk	40,822.9	108.8	516.7	33,283.4	75.7	240.6
Derivatives designated as cash flow hedges:						
Interest rate risk	854.0	0.1	0.8	1,684.0	8.4	–
Foreign exchange risk[1]	872.6	7.5	16.7	872.6	–	41.2
Foreign exchange and interest rate risk[1]	394.3	57.1	–	935.4	53.8	–
Total derivatives	42,943.8	173.5	534.2	36,775.4	137.9	281.8

1. Cash flows are expected to occur over a six year period (2019: nine).

	2020			2019		
Society	Notional amount £m	Fair value assets £m	Fair value liabilities £m	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:						
Interest rate risk	40,822.9	108.8	516.7	33,283.4	75.7	240.6
Derivatives designated as cash flow hedges:						
Interest rate risk	854.0	0.1	0.8	1,684.0	8.4	–
Foreign exchange risk[1]	–	–	–	–	–	–
Foreign exchange and interest rate risk[1]	–	–	–	541.1	17.4	–
Other derivatives						
Interest rate basis swaps	–	–	–	1,250.0	1.9	–
Total derivatives	41,676.9	108.9	517.5	36,758.5	103.4	240.6

1. Cash flows were expected to occur over a one year period as at 31 December 2019.

The Society has early adopted the amendments to IAS 39 and IFRS 7 (Phase 2) which provide temporary reliefs from the impact of IBOR reform. In applying these reliefs the Group has assumed that the LIBOR rates used in its hedging relationships are not altered by the reforms.

The total Group exposure to LIBOR linked derivatives at 31 December 2020 has a notional value of £126.6 million (2019: £3,356.5 million). This consists of only two equity release mortgage swaps which are due to be replaced in Q1 2021. The Group has no exposure to IBOR linked derivatives in cash flow hedges.

The Society position is the same as Group for both fair value and cash flow hedges.

The Society also has an intra-group interest rate basis swap with one of its residential mortgage backed security programmes. Under this agreement, the Society receives the interest income of the subsidiaries' mortgage book and pays LIBOR on the same basis as the subsidiaries' interest expense. This swap has a nominal principal amount of £223.9 million as at 31 December 2020, and is treated as part of the deemed loan and not separately measured at fair value.

The following tables set out the maturity profile and average interest and foreign exchange rates of the hedging instruments used in the Group's hedging strategy at 31 December 2020. Derivative contractual maturities are included in the Risk Management Report.

NOTES TO THE ACCOUNTS CONTINUED

23. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

2020 Group	Maturity Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/notional amount	829.0	626.4	9,686.2	27,701.4	2,833.9
Average fixed interest rate	0.6%	0.9%	0.4%	0.5%	0.8%
Foreign exchange risk:					
Contract/notional amount	–	–	–	428.0	444.6
Average fixed interest rate	–	–	–	1.8%	1.5%
Average £/€ exchange rate	–	–	–	0.86	0.89
Foreign exchange and interest rate risk:					
Contract/notional amount	–	–	394.3	–	–
Average fixed interest rate	–	–	0.1%	–	–
Average £/€ exchange rate	–	–	0.79	–	–

2020 Society	Maturity Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/notional amount	829.0	626.4	9,686.2	27,701.4	2,833.9
Average fixed interest rate	0.6%	0.9%	0.4%	0.5%	0.8%
Foreign exchange risk:					
Contract/notional amount	–	–	–	–	–
Average fixed interest rate	–	–	–	–	–
Average £/€ exchange rate	–	–	–	–	–
Foreign exchange and interest rate risk:					
Contract/notional amount	–	–	–	–	–
Average fixed interest rate	–	–	–	–	–
Average £/€ exchange rate	–	–	–	–	–

2019 Group	Maturity Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/notional amount	179.0	683.6	10,647.7	20,286.5	3,170.6
Average fixed interest rate	0.8%	1.1%	0.9%	0.9%	1.0%
Foreign exchange risk:					
Contract/notional amount	–	–	–	428.0	444.6
Average fixed interest rate	–	–	–	1.8%	1.5%
Average £/€ exchange rate	–	–	–	0.86	0.89
Foreign exchange and interest rate risk:					
Contract/notional amount	–	–	541.1	394.3	–
Average fixed interest rate	–	–	2.3%	1.1%	–
Average £/€ exchange rate	–	–	0.83	0.79	–

2019 Society	Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
	Maturity				
Interest rate risk:					
Contract/notional amount	179.0	683.6	10,647.7	20,286.5	3,170.6
Average fixed interest rate	0.8%	1.1%	0.9%	0.9%	1.0%
Foreign exchange risk:					
Contract/notional amount	–	–	–	–	–
Average fixed interest rate	–	–	–	–	–
Average £/€ exchange rate	–	–	–	–	–
Foreign exchange and interest rate risk:					
Contract/notional amount	–	–	541.1	–	–
Average fixed interest rate	–	–	2.3%	–	–
Average £/€ exchange rate	–	–	0.83	–	–

HEDGED ITEMS

The following table contains details of fair value hedged exposures at 31 December 2020:

2020 Group and Society	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges:				
Interest rate[1,2]	**36,332.7**	**(16,620.4)**	**395.2**	**(88.0)**

2019 Group and Society	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges:				
Interest rate[1,2]	33,231.7	(15,666.8)	161.3	(44.0)

1. Assets presented in Loans and advances to customers and Debt securities in the Balance Sheet.
2. Liabilities presented in Shares and Debt securities in issue in the Balance Sheet.

The accumulated amount of fair value hedge adjustments remaining in the Balance Sheet for hedged items that have ceased to be adjusted for hedging gains and losses at 31 December 2020 is £3.6 million loss (2019: £4.2 million loss).

The following tables provide additional information on cash flow hedges for 2020:

2020 Group	Changes in fair value			Amounts reclassified from reserves to Income Statement		
	Hedging derivative £m	Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Hedged cash flows will no longer occur £m	Hedged item affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	**24.5**	**24.4**	**24.4**	**–**	**42.1**	**0.1**
Foreign exchange and interest rate	**(4.7)**	**(4.3)**	**(4.3)**	**–**	**7.1**	**(0.4)**
Interest rate	**(59.0)**	**(58.6)**	**(58.6)**	**(9.6)**	**–**	**(10.0)**

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

NOTES TO THE ACCOUNTS CONTINUED

23. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

2019 Group	Changes in fair value: Hedging derivative £m	Changes in fair value: Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement: Hedged cash flows will no longer occur £m	Amounts reclassified from reserves to Income Statement: Hedged item affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	(55.0)	(54.9)	(54.9)	–	(46.5)	–
Foreign exchange and interest rate	(73.3)	(73.9)	(73.9)	–	(58.9)	0.6
Interest rate	4.6	4.6	4.6	(0.6)	–	(0.6)

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

As at 31 December 2020, balances remaining in the cash flow hedge reserve, gross of tax, are £18.0 million debit for continuing hedges and £45.6 million debit for discontinued hedges (2019: £20.3 million credit, £5.7 million debit respectively).

2020 Society	Changes in fair value: Hedging derivative £m	Changes in fair value: Hedged item for ineffectiveness assessment £m	Gains/(losses) recognise in OCI £m	Amounts reclassified from reserves to Income Statement: Hedged cash flows will no longer occur £m	Amounts reclassified from reserves to Income Statement: Hedged item affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	–	–	–	–	–	–
Foreign exchange and interest rate	(21.6)	(21.6)	(21.6)	–	(13.8)	–
Interest rate	(59.0)	(58.6)	(58.6)	(9.6)	–	(10.0)

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

2019 Society	Changes in fair value: Hedging derivative £m	Changes in fair value: Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement: Hedged cash flows will no longer occur £m	Amounts reclassified from reserves to Income Statement: Hedged item affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	–	–	–	–	–	–
Foreign exchange and interest rate	(44.1)	(44.1)	(44.1)	–	(33.3)	–
Interest rate	4.6	4.6	4.6	(0.6)	–	(0.6)

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

24. PROVISIONS FOR LIABILITIES AND CHARGES

Group and Society	2020 £m	2019 £m
At 1 January	0.7	3.0
Charge for the year	0.5	–
Provisions utilised	(0.8)	(2.3)
At 31 December	**0.4**	0.7

During the normal course of business, the Group receives complaints from customers in relation to past sales and ongoing administration. The Group is also subject to enquiries from and discussions with its regulators, including the Financial Ombudsman Service (FOS), on a range of matters.

The Group's provisions relate to customer redress and other regulatory provisions and include a charge for the year of £0.5 million.

Provisions held for PPI claims was fully utilised as claims and enquiries received prior to the deadline in August 2019 were settled.

The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings regulatory or other matters to have a material adverse impact on its financial position.

25. SUBORDINATED LIABILITIES

Group and Society	2020 £m	2019 £m
Subordinated liabilities owed to note holders are as follows:		
Fixed rate subordinated notes 2026 – 6.327%	10.2	10.2
Fixed rate subordinated notes 2032 – 7.54%	15.4	15.3
Total	25.6	25.5

All the subordinated liabilities are denominated in sterling and are repayable in the years stated, or earlier in accordance with their terms at the option of the Society, subject to prior consent of the Prudential Regulation Authority (PRA).

The subordinated notes rank equally with each other and behind all other creditors of the Society and the claims of Shareholding Members, other than holders of Permanent Interest Bearing Shares (PIBS) and Perpetual Capital Securities (PCS), for both principal and interest.

26. SUBSCRIBED CAPITAL

Group and Society	Call date	2020 £m	2019 £m
Subscribed capital owed to permanent interest holding members is as follows:			
Permanent Interest Bearing Shares 1992 – 12 1/8%	n/a	41.6	41.6
Total		41.6	41.6

Subscribed capital comprises the Permanent Interest Bearing Shares (PIBS) issued in 1992 that are only repayable in the event of the winding up of the Society. Interest is paid in arrears in half yearly instalments at 12 1/8% per annum.

PIBS rank equally with each other and PCS. They rank behind all other creditors of the Society including subordinated liabilities and the claims of Shareholding Members (other than holders of PCS) for both principal and interest. The holders of PIBS are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

27. OTHER EQUITY INSTRUMENTS

In June 2014, the Society issued £400.0 million of new PCS capital. Following receipt of permission from the PRA, a tender offer for the PCS was completed in April 2019 with £385.1 million of the £400.0 million PCS tendered, which the Society repurchased for £391.3 million (net of tax). The combined cost of tender and initial issuance fees of £9.3 million (net of tax) has been recognised within the Society's general reserve. The remaining £14.9 million was redeemed by the Society in November 2019 on the optional redemption date of the bonds.

In April 2019, the Society issued £415.0 million of new PCS capital. These PCS pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.875% per annum with an optional redemption in September 2024. The rate will reset on 18 September 2024 and every five years thereafter to the prevailing rate on a benchmark gilt plus 6.111%. Coupons are paid semi-annually in September and March. The cost of issuance of £2.5 million (net of tax) has been recognised within the Society's general reserve.

The returns paid to holders of PCS are treated as an appropriation of profit after tax, reflecting their categorisation as equity instruments, distributed directly from the general reserve. During 2019, coupon payments of £28.5 million (2019: £24.6 million) were approved and have been recognised in the Statements of Changes in Members' Interests and Equity.

The instruments have no maturity date. They are repayable at the option of the Society in 2024 and on every fifth anniversary thereafter, but only with the prior consent of the PRA. If the end-point Common Equity Tier 1 ratio for the Group, on either an Individual consolidated or a consolidated basis, falls below 7% they convert to Core Capital Deferred Shares (CCDS) at the rate of one CCDS for every £67 PCS held.

The PCS rank behind all other creditors of the Society including subordinated liabilities and the claims of Shareholding Members (other than PIBS) for both principal and interest. The holders of PCS are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

NOTES TO THE ACCOUNTS CONTINUED

28. FINANCIAL COMMITMENTS

The Group and Society are committed to the following undrawn mortgage loan facilities relating to equity release and flexible mortgage products, which are subject to the satisfaction of previously agreed loan to value ratios:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Undrawn mortgage loan facilities	29.8	34.3	29.8	34.3

In addition, the Group has also committed to advance £2,504.2 million (2019: £1,641.6 million) in respect of loans and advances to customers for mortgages which have been approved but not completed.

29. OTHER LIABILITIES AND CAPITAL COMMITMENTS

CAPITAL COMMITMENTS

Group and Society	2020 £m	2019 £m
Capital expenditure contracted but not provided for in the accounts	6.0	1.4

As at 31 December 2020, the Society had £6.0 million of capital expenditure which had been contracted for but not accrued.

OTHER LIABILITIES

Items presented on the Balance Sheet within Other liabilities as shown below:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Other taxation and social security	4.0	3.7	4.0	3.7
Lease liabilities	25.2	28.7	25.2	28.7
Other creditors	6.8	3.3	6.8	3.0
Amounts due to connected undertakings	–	–	405.0	–
Total	36.0	35.7	441.0	35.4

Amounts due to connected undertakings reflects the deemed loan to Economic Master Issuer plc on consolidation.

The table below shows the maturity profile of the gross contractual cash flows, including interest charge, of the lease liabilities held at 31 December 2020. This analysis differs from the lease liabilities balance above which represent the discounted future cash flows of the operations.

Group and Society	2020 £m	2019 £m
Amounts falling due:		
Less than three months	1.4	1.4
Greater than three months and less than one year	3.9	3.9
Between one and five years	16.8	18.8
After five years	4.7	6.9
Total	26.8	31.0

The Society has elected to adopt the exemption for short term leases or leases of low value and these lease are recognised in the Income Statement as an expense. In 2020 the total expense for these items was £nil (2019: £0.1 million).

Variable lease payments are not included as lease liabilities and are expensed as incurred and they amount to £0.5 million for the year (2019: £0.1 million).

The Society sublets four (2019: four) of its leased properties. The income received from this is negligible and is recognised as rental income.

30. FINANCIAL INSTRUMENTS – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

For the purpose of calculating fair values, fair value is assessed as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: unadjusted quoted prices in active markets for identical instruments.
- Level 2: valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

Where applicable, the Group measures fair value using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where this is not applicable, the Group determines fair values using other valuation techniques.

The following table summarises the fair value of the Group's financial assets and liabilities measured at amortised cost in the Group's Balance Sheet by the fair value hierarchy.

The Society position is not materially different to that of the Group except that it excludes £16,568.7 million (2019: £15,575.8 million) of loans and advances to customers with a fair value of £16,588.0 million (2019: £15,574.4 million) and £59.7 million (2019: £42.2 million) of deposits from banks with a fair value of £59.7 million (2019: £42.3 million) which are held in subsidiaries of the Society. The Society includes within Loans and advances to financial institutions a balance of £62.1 million (2019: £88.9 million) held in collateral accounts relating to swap agreements held in securitisation programmes which are eliminated at Group level. At the year end Society held a deposit within Amounts owed to other customers of £72.8 million (2019: £nil) which was a cash deposit from subsidiaries eliminated at Group level.

2020 Group	Carrying amount £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	590.5	–	590.5	–	590.5
Loans and advances to customers	43,482.8	–	–	43,446.4	43,446.4
Debt securities	10.3	–	3.8	6.9	10.7
Financial liabilities					
Shares	38,151.1	–	–	38,452.6	38,452.6
Deposits from banks	5,140.2	–	5,140.8	–	5,140.8
Other deposits	1.0	–	1.0	–	1.0
Amounts owed to other customers	609.5	–	609.5	–	609.5
Debt securities in issue	4,617.2	–	4,712.1	–	4,712.1
Subordinated liabilities	25.6	–	30.3	–	30.3
Subscribed capital	41.6	83.7	–	–	83.7

2019 Group	Carrying amount £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	336.1	–	336.1	–	336.1
Loans and advances to customers	42,234.7	–	–	42,147.7	42,147.7
Debt securities	16.0	–	9.2	6.6	15.8
Financial liabilities					
Shares	36,238.1	–	–	36,158.5	36,158.5
Deposits from banks	5,318.6	–	5,326.9	–	5,326.9
Other deposits	8.5	–	8.5	–	8.5
Amounts owed to other customers	462.7	–	462.7	–	462.7
Debt securities in issue	4,815.6	–	4,901.3	–	4,901.3
Subordinated liabilities	25.5	–	30.0	–	30.0
Subscribed capital	41.6	82.2	–	–	82.2

NOTES TO THE ACCOUNTS CONTINUED

30. FINANCIAL INSTRUMENTS – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The fair value of loans and advances to credit institutions over the longer term is estimated by discounting expected cash flows at a market discount rate. Amounts maturing in the short term are valued at carrying amount.

LOANS AND ADVANCES TO CUSTOMERS

The fair value of loans and advances to customers is assessed as the value of the expected future cash flows, projected using contractual interest payments and repayments and the expected prepayment behaviour of borrowers.

Conservative assumptions are applied regarding expected levels of customer prepayments and the risk of defaults.

The estimated future cash flows are discounted at current market rates for the loan types and adjusted where necessary to reflect any observable market conditions.

DEBT SECURITIES

Debt securities for which no market price or executable bid is available at the year end date are valued by one of two methods. Where there are recent market prices or executable bids for the security, these are used as the basis for establishing a year end valuation. Otherwise, a security is valued based on its relative value to comparable bonds.

SHARES

The fair value of shares available on demand approximates to the carrying value. The fair value of fixed term or restricted access deposits is determined from the estimated projected cash flows discounted at the current market rates for those types of deposit.

DEPOSITS FROM BANKS, OTHER DEPOSITS AND AMOUNTS OWED TO OTHER CUSTOMERS

The fair value of deposits taken from wholesale counterparties over the longer term is estimated by discounting expected cash flows at a market discount rate. Amounts maturing in the short term are valued at carrying amount.

DEBT SECURITIES IN ISSUE, SUBORDINATED LIABILITIES AND SUBSCRIBED CAPITAL

The estimated fair value of longer-dated liabilities is calculated based on quoted market prices where available or using similar issues as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote.

For those liabilities where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the remaining term to maturity.

The following table summarises the fair value of the Group's financial assets and liabilities measured at fair value on the face of the Group's Balance Sheet by fair value hierarchy and product type.

The Society position is not materially different to that of the Group except that it excludes Level 2 cross currency liabilities of £16.8 million (2019: £41.1 million), which are held in subsidiaries of the Society, and Level 2 cross currency assets of £64.6 million (2019: £36.5 million).

2020 Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments:				
Interest rate swaps	–	108.9	–	108.9
Cross currency swaps	–	64.6	–	64.6
Total	–	173.5	–	173.5
Debt securities:				
UK Government investment securities	640.7	–	–	640.7
Other listed transferable debt securities	325.8	18.3	–	344.1
Total	966.5	18.3	–	984.8
Investment in equity shares:				
Investment in equity shares	0.7	–	4.3	5.0
Total	0.7	–	4.3	5.0
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	–	446.9	70.5	517.4
Cross currency swaps	–	16.8	–	16.8
Total	–	463.7	70.5	534.2

2019 Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivative financial instruments				
Interest rate swaps	–	84.1	–	84.1
Cross currency swaps	–	53.8	–	53.8
Total	–	137.9	–	137.9
Debt securities:				
UK Government investment securities	864.8	–	–	864.8
Other listed transferable debt securities	399.3	12.5	–	411.8
Total	1,264.1	12.5	–	1,276.6
Investment in equity shares:				
Investment in equity shares	0.6	–	3.5[1]	4.1
Total	0.6	–	3.5[1]	4.1
Financial liabilities:				
Derivative financial instruments				
Interest rate swaps	–	178.7	62.0	240.7
Cross currency swaps	–	41.1	–	41.1
Total	–	219.8	62.0	281.8

1. 2019 comparative information has been updated to include equity instruments of £0.6 million held but omitted in the previously reported amount of £2.9 million. This amendment does not impact Investment in equity shares reported on the Balance Sheet.

FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The determination of fair value for financial instruments which are recorded at fair value using valuation techniques is described below, including the assumptions that a market participant would be expected to make when valuing the instruments:

Level 1: Debt securities – fair value through other comprehensive income – Listed

Market prices have been used to determine the fair value of listed debt securities.

Level 1: Investment in equity shares – fair value through profit and loss – Listed

Market prices have been used to determine the fair value of listed equity shares.

Level 2: Derivatives

Derivative products utilise observable market inputs for interest rate swaps and cross currency swaps. Valuations are generated by swap models which use present value calculations and incorporate assumptions for interest rate curves and foreign exchange spot and forward rates.

Level 3: Investment in equity shares – fair value through profit and loss – Unlisted

Investment in equity shares represent the Group's holding in Visa Inc. and VocaLink Holdings Limited shares. These shares are valued based on future cash consideration which the Group expects to receive on sale of these instruments, or the underlying market value.

Level 3: Derivatives

The items included within Level 3 are balance tracking swaps, which have remained in place during the year. These are valued using present value calculations based on market interest rate curves. The unobservable inputs relate to the projection of the swap notional amount, which changes over time to match the balance of the underlying mortgage portfolio. Projected mortgage prepayment amounts are used in the modelling of the mortgage portfolio profile. A change of 10% in the prepayment rates used results in a £0.5 million change in the value of the swaps. The changes in the projection of interest and prepayment rates of the underlying mortgage portfolio affect both the unbounded swap and hedged item so that the net Income Statement and Balance Sheet impact would be minimal. However, the bounded swap had reached its lower bound, so the change in projected mortgage prepayment rate had less impact on the bounded swap than on the hedged item, resulting in an ineffectiveness of £1.8 million loss in 2020.

NOTES TO THE ACCOUNTS CONTINUED

30. FINANCIAL INSTRUMENTS – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

The following table analyses fair value movements in the Level 3 portfolio for both the Group and the Society:

Group and Society	Investment in equity shares 2020 £m	Derivative financial instruments 2020 £m	Investment in equity shares 2019 £m	Derivative financial instruments 2019 £m
As at 1 January	3.5	(62.0)	2.7	(57.1)
Reclassification on IFRS 9 transition			–	–
Gains/(losses) recognised in the Income Statement				
Interest receivable and similar income	–	–	–	–
Interest payable and similar expense	–	(5.8)	–	(5.3)
Net unrealised gains/(losses)	1.4	(8.3)	0.8[1]	5.3
Settlements	(0.6)	5.6	–	(4.9)
As at 31 December	4.3	70.5	3.5	(62.0)

1. 2019 comparative information has been updated to include equity instruments of £0.6 million held but omitted in the previously reported amount of £2.9 million. This amendment does not impact Investment in equity shares reported on the Balance Sheet.

TRANSFERS BETWEEN FAIR VALUE LEVELS

Transfers between fair value levels occur when either it becomes possible to value a financial instrument using a method that is higher up the valuation hierarchy or it is no longer possible to value it using the current method and it must instead be valued using a method lower down the hierarchy. Transfers are considered to have occurred at the end of the reporting period for the purposes of this disclosure.

31. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The Group and Society do not have any financial assets or financial liabilities that are offset with the net amount presented in the Balance Sheets. IAS 32 *Financial Instruments: Presentation* states that there should be both an enforceable right to set-off and the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously to apply this treatment and neither of these conditions is met.

The Group has entered into master netting arrangements such as International Swaps and Derivatives Association (ISDA) master agreements for its derivatives, other than derivatives held by Coventry Building Society Covered Bonds LLP.

Credit Support Annexes (CSAs) are executed in conjunction with these ISDA master agreements, which typically provide for the exchange of collateral to mitigate net mark-to-market credit exposure.

The Group has also entered into Global Master Repurchase Agreements, including margin collateralisation arrangements, whereby outstanding transactions with the same counterparty can be settled net following a default or other predetermined event.

Coventry Building Society Covered Bonds LLP does not enter into a master netting agreement due to the structure of the covered bond programme. However, it has entered into a separate ISDA agreement in respect of each of the derivatives it has transacted with external counterparties. Each agreement includes a CSA which provides for full collateralisation of the swap exposure with exposure thresholds in place for a single agreement before collateral is exchanged. The £7.5 million net derivative credit exposure in the table below is in respect of an arrangement which will only be fully collateralised if the counterparty is downgraded to below its specified credit rating.

The table below shows the net exposure for sale and repurchase agreements or derivative contracts after any netting benefits and collateral. During the year the Group entered into £566.7 million of reverse sale and repurchase agreements with respect to gilts in 2020 with £nil being held on the balance sheet as at 31 December 2020 (2019: £nil, £nil respectively). The Group did not enter into securities lending during the year (2019: £nil).

2020 Group	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	173.5	(108.9)	(57.1)	7.5
Total financial assets	173.5	(108.9)	(57.1)	7.5
Financial liabilities				
Derivative financial instruments	534.2	(108.9)	(396.9)	28.4
Total financial liabilities	534.2	(108.9)	(396.9)	28.4

2019 Group	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	137.9	(66.5)	(64.8)	6.6
Total financial assets	137.9	(66.5)	(64.8)	6.6
Financial liabilities				
Derivative financial instruments				
Sale and repurchase agreements	281.8	(66.5)	(163.5)	51.8
Total financial liabilities	281.8	(66.5)	(163.5)	51.8

1. As reported on the Balance Sheet.
2. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability.

As at 31 December 2020, all £7.5 million exposure is to A1 rated institutions.

2020 Society	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	108.9	(108.9)	–	–
Total financial assets	108.9	(108.9)	–	–
Financial liabilities				
Derivative financial instruments	517.5	(108.9)	(396.9)	11.7
Total financial liabilities	517.5	(108.9)	(396.9)	11.7

2019 Society	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	103.4	(66.5)	(28.3)	8.6
Total financial assets	103.4	(66.5)	(28.3)	8.6
Financial liabilities				
Derivative financial instruments				
Sale and repurchase agreements	240.6	(66.5)	(163.5)	10.6
Total financial liabilities	240.6	(66.5)	(163.5)	10.6

1. As reported on the Balance Sheet.
2. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability.

For derivative financial assets, collateral received can be in the form of cash and UK Government investment securities. Where cash is received it is included as a liability within deposits from banks (see note 21). Where UK Government investment securities are received, these are not recognised on the Balance Sheet, as the Group does not obtain the risks and rewards of ownership.

For derivative financial liabilities, collateral paid is in the form of cash and is included as an asset in Loans and advances to credit institutions.

For sale and repurchase agreements (repos), collateral provided is predominantly in UK Government investment securities with the remainder in cash. Again, cash paid is included as an asset in Loans and advances to credit institutions.

UK Government investment securities are not derecognised as the Group retains substantially all the risks and rewards of ownership.

Cash collateral held and cash collateral pledged are not restricted and are returned at the end of the contract.

32. CAPITAL MANAGEMENT

As at 31 December 2020, and throughout the year, the Group complied in full with the capital requirements that were in force. Further information on the Group's capital resources and capital management can be found in the Capital section of the Risk Management Report.

NOTES TO THE ACCOUNTS CONTINUED

33. RELATED PARTY TRANSACTIONS

The Group is controlled by Coventry Building Society registered in England and Wales, which is also considered to be the ultimate parent.

	Group undertakings		Key management	
	2020 £m	2019 £m	2020 £m	2019 £m
Loans payable to the Society				
Loans outstanding as at 1 January	15,082.8	14,224.6	1.3	1.0
Loans issued during the year	1,124.2	858.2	0.8	0.4
Impairment credit	–	–	–	–
Repayments during the year[1]	–	–	(2.1)	(0.1)
Loans outstanding as at 31 December	16,207.0	15,082.8	–	1.3
Loans and deposits payable by the Society				
Deposits outstanding at 1 January	–	–	2.4	2.8
Deposits received during the year[2]	405.0	–	1.0	2.2
Repayments during the year[1]	–	–	(1.7)	(2.6)
Deposits outstanding at 31 December	405.0	–	1.7	2.4
Net interest income				
Interest receivable	321.4	299.4	–	–
Interest payable	(1.9)	–	–	–
Foreign currency loss[3]	–	(62.7)	–	–
Total	319.5	236.7	–	–
Other income and expenses				
Fees and expenses paid to the Society	43.3	38.6	–	–

1. Includes loans and deposits for key management on retirement from the Society.
2. Includes loans and deposits received from connected undertakings in respect of securitisation transactions during the year (Group undertakings) and existing deposits for key management on appointment (key management).
3. Foreign currency gains and losses are presented on a net basis within Interest payable and similar charges in 2019.

Interest on outstanding loans and deposits accrues at a rate agreed between the Society and its subsidiaries in the normal course of business.

Loans and deposits payable by the Society to Group undertakings relate to amounts owing to the Society's structured entities, in accordance with the accounting policy set out in note 1. These intercompany balances have been presented within Other liabilities on the Society Balance Sheet.

TRANSACTIONS WITH KEY MANAGEMENT

Transactions with key management are on the same terms and conditions applicable to members and other employees within the Group. The Board of Directors is considered to be the only 'key management' for the purposes of the related party transactions disclosures under IAS 24 *Related Party Disclosures*. No director has any interest in the shares or debentures of any connected undertaking of the Society. See the Directors' Remuneration Report in the Governance section for information on directors' remuneration for 2020.

In accordance with Section 68 of the Building Societies Act 1986, the Society maintains a register of loans falling within Section 65 made to directors and connected persons. A statement containing requisite particulars of such transactions may be inspected by members at the Society's Annual General Meeting (AGM) or at the Principal Office of the Society during the period 15 days prior to the AGM.

TRANSACTIONS WITH RELATED UNDERTAKINGS

Transactions are entered into with related parties in the normal course of business. These include loans, deposits, and the payment and recharge of interest and administrative expenses. Where these charges are associated to Group subsidiaries they are settled through the intercompany accounts.

ANNUAL BUSINESS STATEMENT

For the year ended 31 December 2020

1. STATUTORY PERCENTAGES

	2020 %	2019 %	Statutory limits %
Lending limit	**1.6**	1.0	25.0
Funding limit	**21.4**	22.6	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The lending limit measures the proportion of the business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Group plus loan impairment less liquid assets, intangible assets and property, plant and equipment. The value of X used is the value at 31 December 2020.

Y = the principal value of, and interest accrued on, loans owed to the Group which are fully secured on residential property. The value of Y used is the value at 31 December 2020.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of:

I. The principal value of, and interest accrued on, shares in the Society.

II. The principal value of, and interest accrued on, the amounts deposited with the Society or any subsidiary undertaking, by banks, credit institutions and other customers.

III. The principal value of, and interest accrued on, the amounts of debt securities of the Society or any subsidiary undertaking.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals other than bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons that include bodies corporate.

2. OTHER PERCENTAGES

	2020 %	2019 %
As a percentage of shares and borrowings:		
Gross capital	**4.68**	4.84
Free capital	**4.46**	4.60
Liquid assets	**15.0**	14.6
As a percentage of mean total assets:		
Profit for the financial year	**0.20**	0.25
Management expenses	**0.49**	0.48
Net profit as a percentage of total Balance Sheet	**0.20**	0.25

Shares and borrowings represents the total of shares, deposits from banks, other deposits, amounts owed to other customers and debt securities in issue.

Gross capital represents the aggregate of reserves, other equity instruments, subordinated liabilities and subscribed capital.

Free capital represents the aggregate of gross capital and collective impairment less intangible assets and property, plant and equipment.

OTHER INFORMATION

ANNUAL BUSINESS STATEMENT
For the year ended 31 December 2020

3. PRINCIPAL OFFICE
Coventry Building Society is a building society, incorporated and domiciled in the United Kingdom. The address of the Principal Office is: Economic House, PO Box 9, High Street, Coventry CV1 5QN.

4. INFORMATION RELATING TO DIRECTORS

Name (Date of birth)	Occupation	Other directorships and appointments	Date of appointment as a director of the Society
Iraj Amiri, BSc, MSc, ACA (20.02.1954)	Company Director	Development Bank of Wales plc AON UK plc Toronto Dominion Bank	28.06.2018
Peter Ayliffe, BA (Hons), FCIBS, CMgr (05.03.1953)	Company Director	The Pennies Foundation Limited	01.05.2013
Andy Deeks, BA (Hons), MBA (18.03.1981)	Building Society Product, Marketing and Strategy Director	None	27.04.2017
Catherine Doran, BA (11.09.1956)	Company Director	ClearBank Limited	01.08.2016
Peter Frost, BA (Hons) (27.10.1965)	Building Society Chief Customer Officer	Coventry Financial Services Limited Coventry Property Services Limited Godiva Financial Services Limited Godiva Housing Developments Limited Godiva Securities and Investments Limited Godiva Savings Limited	01.11.2012
Gary Hoffman, MEcon, MBA (21.10.1960)	Company Director	Choice Matters Limited FA Premier League Limited Monzo Bank Limited	26.01.2018
Steve Hughes (05.05.1972)	Building Society Chief Executive	Godiva Mortgages Limited ITL Mortgages Limited UK Finance Limited	20.04.2020
Joanne Kenrick, LLB (21.09.1966)	Company Director	Dŵr Cymru Cyfyngedig Glas Cymru Holdings Cyfyngedig Global Charities Global Charities (Trading) Limited Lynmouth Colossus Way Management Limited Pay UK – Mobile Payments Service Company Limited Rhapsody Court Freehold Limited Safestore Holdings plc	06.11.2017
Shamira Mohammed ACA (17.11.1968)	Company Director	Pezula Limited	01.05.2019
Martin Stewart, MEng (08.09.1966)	Company Director	Clayton Stewart Ltd OakNorth Bank plc Northern Bank Limited Paragon Bank plc	01.09.2018

Documents may be served on the above named directors at: Coventry Building Society, Economic House, P.O. Box9, High Street, Coventry, CV1 5QN.

The Society has entered into service contracts with the following directors: Peter Frost (Chief Operating Officer); Steve Hughes (Chief Executive) and Lee Raybould (Interim Chief Financial Officer). These are terminable by the individual on six months' notice and by the Society on one year's notice.

GLOSSARY

The following glossary defines terminology within the Annual Report & Accounts to assist the reader and to facilitate comparison with publications by other institutions:

Additional Tier 1 (AT 1) capital	Capital that meets certain criteria set out in CRD IV. In particular, the criteria require that upon the occurrence of a trigger event, the AT 1 capital instrument converts to a form of Common Equity Tier 1 capital or the principal is written down on a permanent basis; or grandfathered instruments such as Permanent Interest Bearing Shares (PIBS).
Arrears	The financial value of unpaid obligations, which arise when contractual payments are not paid as they fall due.
Automated Valuation Model (AVM)	A service used by the Society to estimate a property's value using mathematical or statistical modelling combined with databases of existing properties and transactions to calculate real estate values at a point in time.
Average loan to value	The average of individual loan to values (simple average). The average loan to value of the residential mortgage book, weighted by balance (balance weighted). For indexed loan to value – see 'Indexed loan to value'.
Basel IV	The alternative industry name given to the Basel Committee's final implementation of its Basel III Banking Supervision reforms published in December 2017 addressing credit risk (including regulatory floors on IRB risk weights), operational risk and the leverage ratio. They are applicable from January 2023 and are phased in over five years.
Basis point	One hundredth of a percent (0.01 percent). Used when quoting movements in interest rates and yields on securities.
Brexit	The process of the UK having left the European Union (EU) on 31 January 2020, the EU single market and customs union on 31 December 2020, and EU law having ceased to apply to the UK on 31 December 2020.
Buy to let mortgage	A mortgage secured on a residential property that is rented out to tenants.
Capital Conservation Buffer (CCoB)	A CRD IV risk adjusted capital requirement for all banks that can be used to absorb losses whilst avoiding breaching minimum capital requirements.
Capital requirements	Amount of capital required to be held by the Group to cover the risk of losses and to protect against excessive leverage. The level is set by regulators and the firm's own assessment of its risk profile.
Capital Requirements Regulation and Capital Requirements Directive IV (CRD IV)	CRD IV is the European Union legislation (part regulation and part directive) which came into force from 1 January 2014 to implement Basel III, revising the capital requirements framework and introducing liquidity requirements, which regulators use when supervising firms.
Capital Requirements Regulation (CRR) leverage ratio	A ratio defined by the Capital Requirements Regulation (CRR) which measures Tier 1 capital as a proportion of total CRR leverage ratio exposures. These exposures are the sum of the on-balance sheet exposures, adjusted for derivatives and securities financing transaction exposures, and off-balance sheet items.
Capital resources	Capital comprising the general reserve, fair value through other comprehensive income reserve, eligible Additional Tier 1 capital less all required regulatory adjustments.
Central clearing	The process by which parties to an over-the-counter derivative contract replace this with a separate contract with a central counterparty, which takes over each party's positions under the original contract.
Certificates of deposit	Bearer-negotiable instruments issued on the receipt of a fixed term deposit at a specified interest rate.
Collateral	Security pledged by the borrower to the lender in case of default.
Common Equity Tier 1 (CET 1) capital	Common Equity Tier 1 capital comprises general reserve and the fair value through other comprehensive income reserve, less regulatory deductions. Common Equity Tier 1 must absorb losses on a going concern basis.
Common Equity Tier 1 ratio	Common Equity Tier 1 capital as a percentage of risk weighted assets.
Conduct risk	The risk that the Society's behaviour and decision making fails to deliver good customer outcomes.
Contractual maturity	The date in the terms of a financial instrument on which the last payment or receipt under the contract is due for settlement.
Core Capital Deferred Shares (CCDS)	A form of Common Equity Tier 1 (CET 1) capital. The Society's Perpetual Capital Securities (PCS) convert into CCDS at the rate of one CCDS for every £67 PCS held if the end-point CET 1 ratio, calculated on either an individual or consolidated basis, falls below 7%.

GLOSSARY CONTINUED

Countercyclical Buffer (CCyB)	A CRD IV risk adjusted capital requirement for all banks that is varied over the financial cycle to match the resilience of the banking system to the scale of risks faced.
Countercyclical Leverage Buffer (CCLB)	A leverage capital requirement under the UK leverage regime that is set at 35% of the corresponding risk adjusted Countercyclical Buffer (CCyB).
Covered bonds	Debt securities that are backed by both the resources of the issuer and a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The Society issues covered bonds as part of its funding activities.
Covid-safe/ Covid-secure	The term used by the Society to show compliance with Government guidance on operating safely during the Covid-19 pandemic.
Credit risk	The risk that borrowers or counterparties do not meet their financial obligations to the Society as they fall due. Within this class, the Society considers risks arising from retail credit risk and treasury credit risk to be individual principal risk categories.
Credit valuation adjustment	An adjustment to the valuation of financial instruments held at fair value to reflect the creditworthiness of the counterparty.
Currency swap	An arrangement in which two parties exchange equivalent principal amounts of different currencies at inception and subsequently exchange interest payments on the principal amounts. At the maturity of the swap, the principal amounts are re-exchanged at the original rates, protecting the participants from changes in exchange rates.
Debt securities	Transferable instruments creating or acknowledging indebtedness. They include bonds, certificates of deposit and loan notes. The holder of a debt security is typically entitled to the payment of principal and interest, together with other contractual rights under the terms of the issue. Debt securities are generally issued for a fixed term and redeemable by the issuer at the end of that term. Debt securities can be secured on other assets or unsecured.
Debt securities in issue	Liabilities of the Group that are transferable by external investors that operate within the global financial markets.
Deferred tax asset/(liability)	Corporation tax recoverable (or payable) in future periods as a result of the carry-forward of tax losses or unused tax credits, or from deductible (or taxable) temporary differences between the accounting value of assets and liabilities and the tax base of those assets and liabilities.
Defined benefit obligation	The present value of expected future payments required to settle the obligations of a defined benefit pension plan resulting from past employee service.
Defined benefit pension scheme	A pension or other post-retirement benefit plan offering guaranteed benefits, usually as a fraction of the final salary.
Defined contribution plan	Pension or other post-retirement benefit plan where the employer's obligation is limited to its contributions to the fund.
Derivative financial instrument	A contract or agreement which derives its value or cash flows from changes in an underlying index such as an interest rate, foreign exchange rate or market index. The most common type of derivative instruments are interest rate swaps.
Effective Interest Rate (EIR)	The rate of interest earned over the life of an instrument that is equivalent to the discounted rate of projected cash flows of the instrument, adjusted for compounding.
Effective tax rate	The tax charge in the Income Statement as a percentage of profit before tax.
Encumbered assets	Assets used to secure liabilities or otherwise pledged. This excludes loans and advances to customers that, although technically encumbered, are held in respect of undrawn self-issued notes under the Group's covered bond and securitisation programmes.
End-point	Full implementation of regulation (for example, CRD IV) with no transitional provisions.
Enterprise Risk Management Framework (ERMF)	A Board approved framework which provides the context, guidance and principles needed for cohesive risk management activity across the Society and its subsidiaries.
European Banking Authority	An independent European Union authority which works to ensure effective and consistent financial regulation and supervision across the European banking sector.
EURIBOR	The Euro Interbank Offered Rate is a daily reference rate, published by the European Money Markets Institute, based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the Euro wholesale money market.
Eurozone	An economic and monetary union of European Union member states that have adopted the euro (€) as their common currency and sole legal tender.
Expected credit loss (ECL)	The present value of all cash shortfalls over the expected life of a financial instrument. The term is used for the accounting for impairment provisions under the IFRS 9 standard.

ECL – 12 month	Cash shortfalls resulting from default events that are possible in the next 12 months weighted by the probability of that default occurring.
ECL – lifetime	Cash shortfalls resulting from default events that are possible over the remaining expected life of the loan, weighted by the probability of that default occurring.
EV100	Economic Value 100. Measure of the change in the net present value of interest rate sensitive instruments over their remaining life resulting from a 100 basis points (1%) parallel shock to the yield curve.
EV200	Economic Value 200. Measure of the change in the net present value of interest rate sensitive instruments over their remaining life resulting from a 200 basis points (2%) parallel shock to the yield curve.
Expected loss	A calculation under the IRB approach to estimate the potential losses on current exposures due to expected defaults over a 12 month time period.
Exposure	The quantified potential for loss that might occur as a result of a risk occurring.
Exposure at default (EAD)	A calculation of the amount expected to be outstanding at the time of default.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.
Fair value through other comprehensive income (FVOCI)	Financial assets held at fair value on the Balance Sheet with changes on the fair value recognised through other comprehensive income.
Fair value through profit and loss (FVTPL)	Financial assets held at fair value on the Balance Sheet with changes in fair value being recognised through the Income Statement.
Financial Conduct Authority (FCA)	A statutory body responsible for the conduct of business regulation and supervision of UK financial institutions in the UK.
Financial Ombudsman Service	The Financial Ombudsman Service provides an independent and impartial service to resolve individual complaints that consumers and financial institutions have been unable to settle themselves.
Financial Policy Committee (FPC)	A committee based at the Bank of England, charged with identifying, monitoring and taking action to reduce or remove systemic risks with a view to protect and enhance the resilience of the UK financial system. It is also responsible for supporting the economic policy of the UK Government.
Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every deposit taking firm authorised by the PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Fitch	A credit rating agency which provides credit ratings and research covering financial institutions and governments and their debt instruments and securities.
Forbearance	Forbearance takes place when a concession, which can be temporary or permanent, is made on the contractual terms of a loan in response to the borrower's financial difficulties.
Foreign currency risk	The risk of loss arising as a result of movements in exchange rates on investments, obligations or derivatives in foreign currencies.
General reserve	The general reserve is the accumulation of historical and current year profits and includes remeasurements of the defined benefit pension plan and distributions to holders of Perpetual Capital Securities (net of tax).
Government investment securities (gilts)	The name given to long term fixed income debt securities (bonds) issued by the UK Government.
Gross capital	The aggregate of reserves, other equity instruments, subscribed capital and subordinated liabilities.
IBOR	The Interbank Offered Rate (IBOR) is the interest rate at which banks lend to and borrow from one another in interbank markets. IBORs serve as an indicator of levels of demand and supply in all financial markets.
IFRIC	The International Financial Reporting Interpretations Committee. IFRIC interprets the application of IAS and IFRS and provides timely guidance on financial reporting issues not specifically addressed in IAS and IFRS, in the context of the International Accounting Standards Board framework.

GLOSSARY CONTINUED

IFRS/IAS	International Financial Reporting Standards/International Accounting Standards. A set of international accounting standards stating how particular types of transactions and other disclosures should be reported in financial statements.
Impaired loans	Impaired loans are defined as those which are defaulted loans in IFRS 9 stage 3.
Impairment provision	Either 12 months or lifetime expected credit losses (ECLs) held under IFRS 9 – see ECL glossary definition.
Indexed loan to value	Loan to value calculated on the basis of the latest property valuation being adjusted by the relevant House Price Index movement since that date.
Individual Liquidity Guidance (ILG)	Guidance from the PRA on a firm's required quantity of liquidity resources and funding profile.
Interest rate risk	Interest rate risk arises from the different interest rate characteristics of the Society's mortgages and savings products and from other financial instruments. The Society is subject to the risk that changes in interest rates will cause material variations in earnings because of differences between interest rates received and paid on mortgages, deposits and financial instruments.
Interest rate swap	A contract under which two counterparties agree to exchange periodic interest payments based on a predetermined notional principal amount.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment of the amount of capital that it needs to hold to support all relevant current and future risks. This assessment includes determination of a number of capital buffers to be held in case of potential future economic stress, and provides confirmation that the Society has appropriate processes in place to ensure compliance with regulatory requirements.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment of the liquidity resources that are required to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on regulatory benchmarks and on Society-specific tests.
Internal Ratings Based (IRB) approach	An advanced approach to measuring capital requirements in respect of credit risk under Pillar 1. The IRB approach may only be used with permission from the PRA.
ISDA	International Swaps and Derivatives Association is the global trade association for over-thecounter derivatives and providers of the industry-standard documentation for derivative transactions.
Leverage ratio	A calculation brought in as part of CRD IV which measures the relationship between eligible Tier 1 capital and exposures to on and off-balance sheet items. There are two bases of calculation – see Capital Requirements Regulation (CRR) leverage ratio and UK leverage ratio.
LIBOR	London Interbank Offered Rate. A benchmark interest rate at which banks can borrow funds from other banks in the London interbank market. This is expected to cease at the end of 2022.
Liquid assets	An amount as defined by the Building Societies (Accounts and Related Provisions) Regulations 1998. This comprises cash in hand, balances with the Bank of England, debt securities (including Government investment securities (gilts)), loans to credit institutions and other liquid assets.
Liquidity and Funding risk	Liquidity risk is the risk that the Society has insufficient funds to meet its obligations as and when they fall due. Funding risk is the inability to access funding markets or to only do so at excessive cost and/or liquidity risk. Liquidity and Funding risks are principal risks of the Society.
Liquidity Coverage Ratio (LCR)	A measure brought in as part of CRD IV which aims to ensure that an entity maintains an adequate level of liquidity to meet its needs for a 30 day period under severe stress conditions.
Liquidity resources	Assets held in order to manage liquidity risk. Liquidity resources comprise cash and balances with the Bank of England, UK Government securities and multilateral development banks, other securities and bank deposits and self-issued covered bonds, RMBS and Bank of England approved mortgage portfolios.
Loan to value (LTV)	The amount of mortgage loan as a percentage of the value of the property.
Loss given default (LGD)	A parameter used to estimate the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Market risk	Market risk is defined as the risk of a reduction in Society earnings and/or value resulting from adverse movements in financial markets.
Medium term notes	Securities offered by a company to investors, through a dealer, across a range of maturity periods.
Member	A person who holds a share in the Society or has a mortgage loan with the Society.

Minimum Requirement for own funds and Eligible Liabilities (MREL)	A requirement under the Bank Recovery and Resolution Directive which requires deposit takers to hold minimum levels of capital plus debt eligible for bail-in.
Model risk	The risk that an ineffective model or incorrectly interpreted model output leads to a loss, reputational damage or regulatory censure.
Moody's	Moody's Investor Services is a credit rating agency which provides credit ratings and research covering financial institutions and governments and their debt instruments and securities.
Mortgage backed securities	Asset backed securities that represent interests in a group of mortgages which give the investor the right to cash received from future mortgage payments of both principal and interest.
Near-prime	Loans to borrowers with marginally weakened credit histories such that their credit risk is greater than 'prime' customers, but is not considered heavily adverse.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Net interest margin	Net interest income as a percentage of average total assets.
Net Promoter Score (NPS)	A measure of customer advocacy that ranges between -100 and +100 and represents how likely a customer is to recommend a brand, product or service to a friend or colleague. Net Promoter®, Net Promoter Score® and NPS® are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc. and Fred Reichheld.
Net Stable Funding Ratio (NSFR)	A ratio which assesses the amount of stable funding in place as a proportion of the on and off-balance sheet funding requirements of an institution. The requirement is still to be formally implemented.
Open Banking	The term used to describe activity mandated by the Competition and Markets Authority through the Retail Banking Market Investigation Order 2017. This requires the nine largest UK banks and building societies to develop and use open standards to enable the sharing of customer payment account data. The term 'open banking' is also used to refer to the elements of Payment Services Directive II (PSD2) that oblige financial institutions such as the Society to provide authorised third party organisations with payment account transactional data, or the ability for them to initiate a payment, where the member has requested this and provided consent.
Operational risk	The risk of loss arising from inadequate internal processes, systems or people, or from external events.
Output floor	A future requirement of Basel IV that sets a floor on the determination of risk weights. The floor will be a proportion of the standardised approach and will be phased in for firms using IRB models.
Owner-occupier mortgage	A mortgage on residential property that is to be occupied by the borrower.
Past due	A financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.
Pension fund surplus	The assets in a pension fund that are in excess of its liabilities.
Permanent Interest Bearing Shares (PIBS)	Unsecured, perpetual deferred shares of the Society offering a fixed coupon. Under Basel III, PIBS are included as Tier 1 under transitional rules only.
Perpetual Capital Securities (PCS)	Securities that pay a non-cumulative coupon at the discretion of the Society and qualify as Additional Tier 1 capital.
Pillar 1/2/2A/3	Components of the Basel capital framework. Pillar 1 covers the minimum requirement, Pillar 2 covers capital requirement of risks not covered in Pillar 1 and Pillar 3 covers disclosures.
PRA buffer	A buffer to ensure that banks that are more at risk of loss than the system in aggregate have additional capital buffers to reflect that risk.
Post-Model Adjustment	A PMA is 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.
PRA/FCA Remuneration Code	The PRA Remuneration Code sets out the expectations of firms in relation to: proportionality; Material Risk Takers (MRTs); application of malus and clawback to variable remuneration; governing body/remuneration committees; risk management and control functions; remuneration and capital; risk adjustment (including long term incentive plans); personal investment strategies; remuneration structures (including guaranteed variable remuneration, buyouts and retention awards); deferral; and breaches of the remuneration rules.

GLOSSARY CONTINUED

Probability of default (PD)	An estimate of the probability that a borrower will default on their credit obligations over a fixed time period. With respect to impairment provisions under IFRS 9, 12 month ECLs use 12 month PDs, whilst a lifetime ECL uses the estimated PD over the remaining contractual life of the loan. With respect to IRB, PD is the probability of a loan defaulting in the next 12 months calculated as an average over an economic cycle.
Principal risk	Principal risk is a class of significant inherent risk which could materially compromise the Society's ability to grow and provide attractive products to savings and borrowing members.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA is a subsidiary of the Bank of England.
Research and development expenditure credit	A UK Government tax incentive that rewards companies for investing in research and development.
Residential Mortgage Backed Securities (RMBS)	Securities issued with interest and principal backed by that it represent interests in a group of residential mortgages which give the investor the right to cash received from future mortgage payments of both principal and interest.
Residual maturity	The remaining period to the contractual maturity date of a financial asset or financial liability.
Resolution Authority	In the UK, the Resolution Authority is the Bank of England. It is responsible for taking control of the resolution process which may include recapitalising and/or restructuring, as a result of a realised or expected failure.
Retail deposits	See Shares.
Reverse stress test	Regulatory stress test that requires a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.
Risk appetite	An articulation of the level of risk that the Society is willing to accept in order to safeguard the interests of the Society's members, whilst also achieving its business objectives.
Risk weighted assets (RWAs)	The value of assets, after adjustment to reflect the degree of risk they represent in accordance with the relevant capital rules.
Sale and repurchase agreement (repo)	An agreement to sell a financial security together with a commitment by the seller to repurchase the asset at a specified price on a given date. In substance this forms a secured loan, with the difference between the purchase price and repurchase price being the interest rate.
Securitisation	A pool of loans used to back the issuance of new securities. The loans are transferred to a structured entity which then issues securities (RMBS) backed by the assets. The Group has used residential mortgages as the loan pool for securitisation purposes.
Self-certified mortgage	An owner-occupier mortgage where the lending decision with respect to affordability has been based solely on the borrower's declaration of their income.
Senior unsecured debt funding	Bonds issued by corporate bodies and financial institutions, which are not secured by any collateral and are not subordinated to any other wholesale liabilities of the issuer.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities of the Society.
Shares and borrowings	The total of shares, deposits from banks, other deposits, amounts due to customers and debt securities in issue.
Significant increase in credit risk	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment, using quantitative and qualitative factors, identifies at a reporting date that the credit risk has increased significantly since the asset was originally recognised.
SONIA	A rate reflecting the interest earned or paid in respect of sterling overnight interbank loans.
Solely payment of principal and interest (SPPI) test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payment of principal and interest.
Sovereign exposure	Exposures to governments and on account of cash balances and deposits with central banks.
Stage 1	Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the Balance Sheet. 12 month ECLs are recognised as the impairment provision for all financial assets on initial recognition. Interest revenue is the EIR on the gross carrying amount.
Stage 2	Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision. Interest revenue is EIR on the gross carrying amount.

Stage 3	Stage 3 assets are identified as in default and considered credit impaired. Lifetime ECL is also recognised as an impairment provision. Interest revenue is the EIR on the net carrying amount.
Standardised approach	The basic method used to calculate capital requirements for credit and operational risk. In this approach the risk weighting used in the capital calculation is determined by specified percentages.
Strategic investment	A significant one-off programme instigated from strategic intent rather than business as usual or regulatory change activity.
Strategic risk	Strategic Risk is the risk that changes to business model or macroeconomic, geopolitical, regulatory or other factors may lead to the business model, strategy or Strategic Plan becoming inappropriate. This includes the risk of an overly ambitious Strategic Plan as well as unforeseen market, consumer, competitor or regulatory changes.
Stress testing	Testing undertaken to provide an understanding of the Society's resilience to internal and external shocks.
Structured entity	An entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.
Subordinated liabilities	A form of Tier 2 capital that is unsecured. Subordinated notes rank equally with each other and behind all other creditors of the Society and the claims of Shareholding Members (other than holders of Permanent Interest Bearing Shares and Perpetual Capital Securities) as to principal and interest. Under Basel III they are included as Tier 2 under transitional rules only.
Subscribed capital	See Permanent Interest Bearing Shares.
Supplementary Leverage Ratio Buffer (SLRB)	Applied to systemically important banks and building societies. As a guiding principle, the FPC sets the buffer at 35% of the risk weighted Systemic Risk Buffers.
Surcharge	An 8% surcharge on the profits of banking companies which was introduced from 1 January 2016 by the Finance (No. 2) Act 2015.
Systemic Risk Buffer (SRB)	Buffer set for ring-fenced banks and large building societies to reduce their probability of failure or distress commensurately with the greater cost their failure or distress would have for the UK economy.
Term Funding Scheme (TFS)	The Term Funding Scheme is a tool of the Monetary Policy Committee designed to reinforce the transmission of Bank of England Base Rate cuts to those interest rates actually faced by households and businesses by providing term funding to banks and building societies at rates close to Bank of England Base Rate.
Tier 1 capital	A component of regulatory capital comprising Common Equity Tier 1 and Additional Tier 1 capital.
Tier 2 capital	A component of regulatory capital comprising qualifying subordinated debt and eligible collective impairment allowances.
Total Capital Requirement (TCR)	The minimum amount of capital the Society should hold as set by the PRA under Pillar 1 and Pillar 2A and informed by the Internal Capital Adequacy Assessment Process (ICAAP).
UK Corporate Governance Code (the Code)	The code (formerly known as the Combined Code), issued by the Financial Reporting Council, that sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.
UK Finance	A trade association that incorporates residential mortgage lending.
UK leverage ratio	A ratio prescribed by the PRA based on the CRR leverage ratio but modified to restrict the amount of AT 1 capital that can be included in Tier 1 capital and to exclude eligible central bank holdings from leverage ratio exposures.
Unencumbered assets	Assets readily available as collateral to secure funding. This includes loans and advances to customers that, although technically encumbered, are held in respect of undrawn self-issued notes under the Group's covered bond and securitisation programmes and are therefore readily available as collateral to secure funding or to pledge as collateral against margin calls.
Wholesale funding	Funding received from external counterparties that operate within the global financial markets (for example insurance companies, pension funds, large businesses, financial institutions and sovereign entities).
Write off	To write off a financial asset when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

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