COVENTRY Building Society

Annual Report & Accounts 2021

All together, better

Annual Report & Accounts

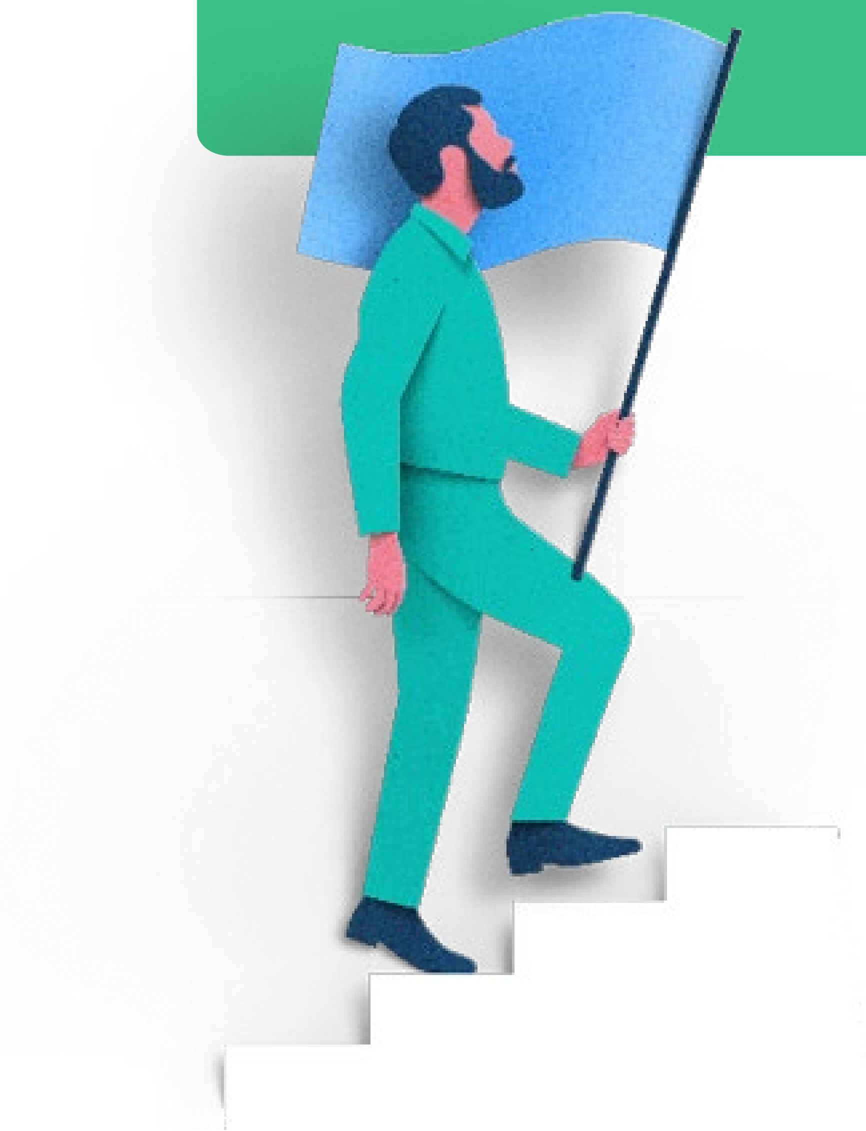
We are a building society, providing savings and residential mortgage products to individual savers and borrowers across the UK. We remain as committed today to mutuality, and our belief in Putting the interests of our Members First, as when we were founded in 1884.

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 1 to 200 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

An overview of our strategy and our financial and non-financial performance in 2021.



Performance highlights

All together, better

From the little things to the life-changing, we make it all add up.

Better for savers

4.6%
Savings balance growth
(2020: 5.3%)

£201m
Value returned to members[1]
(2020: £196m)

2021
Which?
Recommended provider for savings

Better for borrowers

7.2%
Mortgage balance growth
(2020: 3.0%)

We helped
7,100
customers buy their first home
(2020: 3,200)

2022 Fairer Finance Gold Ribbon for mortgages

Better for service

+76
Net Promoter Score[2]
(2020: +73)

49
Seconds average call waiting time[3]
(2020: 74 seconds)

2021 award Fairer Finance Clear and Simple terms and conditions

Better for colleagues and communities

£1.6m
Total community investment[4]
(2020: £1.4m)

73%
Great Places to Work Trust Index® score[5]
(2020: Not applicable)

Certified Great Place To Work

Sustainable financial performance.

Capital ratios

36.2%
Common Equity Tier 1
(2020: 33.0%)

4.8%
UK leverage ratio
(2020: 4.6%)

Profitability

£233m
Profit before tax
(2020: £124m)

0.90%
Net interest margin
(2020: 0.81%)

Efficiency

0.50%
Cost as a percentage of average assets
(2020: 0.49%)

56.3%
Cost to income ratio
(2020: 60.2%)

Low risk

0.10%
Mortgages where arrears are more than 2.5% of the balance
(2020: 0.09%)

187%
Liquidity Coverage Ratio
(2020: 179%)

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts, excluding current accounts and offset savings, for the first 11 months of 2021. This measure and comparative has been updated in the year to use CACI source data for the market rate; previous source Bank of England.
2. A measure of customer advocacy that ranges between -100 and +100 representing how likely a customer is to recommend our products and services.
3. Based on average call waiting times between 1 January 2021 and 31 December 2021.
4. Total community investment made by the Society including donations from the Society and fundraising activities.
5. A measure indicating a trust-based people first workplace based on positive responses to the annual Great Place to Work survey. The survey provider changed from Best Companies in 2021 and no equivalent 2020 measure is available.

All together, better

A statement from your Society's Chair

2021 has been a year of progress. The pandemic continues but our ability to meet the needs of members whilst investing for the future, has shown again the resilience and relevance of our mutual business model. As I come to the end of my time as Chair, I am confident that the Society has the strategy and ambition to succeed in our changing world because it remains committed to Putting Members First.

Last year I talked about the impact of the pandemic on people's lives and livelihoods. We started 2021 in the hope that a successful vaccination programme would bring some relief and, after a tough January and February, that hope appeared justified. The emergence of the Omicron variant in December reminded us how fast things can change, and we go into 2022 with similar hope and uncertainty as we did 12 months ago.

Despite the challenges, 2021 was an encouraging year in many ways. The Government's support schemes helped individuals and businesses alike, and the high levels of unemployment predicted last year have not materialised. This, together with our track record of lower risk lending has kept arrears and repossessions at a very low level compared to industry averages.

The housing market was strong throughout the year. The reasons for this are well known – a combination of the stamp duty holiday and changing attitudes to housing and location. In the latter part of the year, speculation about rising interest rates increased demand for remortgaging loans and product transfers.

The strength of demand was operationally challenging at times, and I would like to thank my colleagues for the superb service they delivered throughout the year.

It was, however, a tough year for savers. Although we are proud of our track record of offering higher savings rates than the average of the market, we cannot ignore the impact of extremely low mortgage rates on the rates we can afford to pay savers. In this context we have done what we can to protect our members' interests, and the increase in balances during the year shows that we have continued to provide competitive value in these challenging times.

Our financial performance in the year has been robust. We have taken advantage of the opportunities afforded by the strong demand for mortgages. But we also moderated our growth to protect capital and savers in the long-term interest of all our members. Our investment programmes continue to deliver tangible improvements to our technology platforms and infrastructure, our digital services and to our branch network.

A purpose-led strategy

The Board is responsible for guiding the Society through these challenging times, with one of the strengths of a mutual organisation being an ability to take the long-term view when making decisions. Covid-19 is just one of the significant changes affecting the world we operate in, and in 2021 we began to deliver against the sustainability agenda which I talked about last year. This focuses on the needs of a wider group of stakeholders including members, colleagues, suppliers and investors, as well as environmental issues and our impact on the communities we serve. It will be an important benchmark of our future success and I'm delighted to report the progress we are making.

Central to our plans are what we can achieve through core propositions. In 2021 we launched products to incentivise saving for a first home, as well as increased support for those in a position to buy for the first time. We also launched a flexible incentive for borrowers looking to improve the energy efficiency of their homes. There is more to do but these examples show the impact of our thinking on sustainability for customers, which in turn is rooted in our mutual beliefs.

'One of the strengths of a mutual organisation is an ability to take the long-term view'

I am also pleased to report that we are taking significant steps forward in our approach to climate change. We committed to being carbon neutral for Scope 1 emissions and claim net zero merits for Scope 2 by the end of 2021, and have done so as planned, with these milestones being underpinned by achieving ISO 14064-1 certification. We are using 100% renewable energy, we have installed solar panels at head office sites and we are transitioning to electric vehicles. We have published our plans, targets and measures, including our target to be net zero for Scope 3 upstream emissions by 2030, in a Climate Action Plan, which we are asking the membership to approve at this year's Annual General Meeting.

The Board has publicly shown its commitment to sustainability in several ways during the year by becoming signatories of the United Nations Global Compact, Sustainable Development Goals and Principles of Responsible Banking. We have also signed national commitments on race and gender and have achieved the Fair Tax Mark.

Chair's statement Continued

Activities of the Board

The Board places great importance on listening to our stakeholders and our 2021 progress has been informed by a materiality assessment covering members, colleagues, investors, community groups and suppliers. The assessment helped identify and prioritise what matters to our stakeholders. It will be repeated in future years to ensure that the views of our stakeholders are embedded in the Board's decision making.

We have adapted our engagement with members to meet the immediate priority of safety during the pandemic, including holding our AGM online in April. This worked well in fact, and I was delighted that so many members joined us and took an active part in proceedings. It is perhaps one of the few silver linings to the pandemic and we will retain online AGM access in future even as the opportunity to meet face to face returns.

We benefit greatly from the interaction we have with members and have continued to run the online talkback events throughout the year. We are using the AGM to raise the profile of our Environment, Social and Governance approach and I believe this is a good example of the value we place on mutuality and the importance of membership at the Society.

The Board have also taken responsibility for engaging stakeholders with elements of our strategy. Brendan O'Connor is leading on member engagement, Catherine Doran does so for IT and Change, and Jo Kenrick is the lead non-executive director for colleague engagement. In this respect, Jo attends My Society, the colleague forum that provides an opportunity to share the content of Board discussions and learn directly from colleague representatives about what's on people's minds. Shamira Mohammed has responsibility for oversight of the Society's Environment, Social and Governance plans, bringing together her interest in the subject and her experience in non-financial reporting.

I am also pleased to report that the triennial independent Board review was undertaken during 2021 with the Board being assessed as effective.

Changes to our Board

As I mentioned in last year's Annual Report & Accounts, Peter Ayliffe, our Deputy Chair at the start of the year, retired from the Board after the 2021 AGM and was succeeded in that role by Jo Kenrick. I also mentioned that Lee Raybould had joined as interim Chief Financial Officer. I'm delighted to say that Lee has now joined us on a permanent basis and has taken up an Executive Director position on the Board.

In October I announced my intention to step down from the Board at an appropriate point during 2022. The Board undertook a thorough and extensive recruitment process, and in January this year, the Society announced that, subject to regulatory approval, David Thorburn would be joining the Board as a Non-Executive Director and assume the role of Chair following the 2022 AGM. David was previously a director of Barclays Bank UK PLC, where he chaired the Board Risk Committee. He is also an Independent Non Executive with Ernst & Young Global Limited and Ernst & Young LLP, where he chairs the Audit Board. David was previously Chief Executive of Clydesdale Bank PLC and an External Member of the Bank of England's Prudential Regulatory Committee. I'd like to wish David every success.

The four years I have spent at the Society have been extraordinary, not just because of our response to the pandemic, but for the progress that we have made in a period of significant change.

My confidence in mutuality as a business model that provides stability and security, as well as long-term value, to its members has been confirmed. My confidence in Coventry Building Society as an organisation that really cares for its members, and in doing so delivers a fantastic service, has been underlined by my interactions with colleagues at all levels. I said when I joined the Board four years ago, that it felt like coming home, and as a Coventry lad it has been a privilege to serve during a time of great challenge, but which has seen such progress too.

Looking ahead

I believe that the Society is well placed to succeed. Its simple business model and mutual ownership provide the foundation of its financial resilience and strong capital position. It is this financial strength that enables it to invest for the long term, ensuring its relevance to future saving and borrowing members. Most fundamentally, its purpose and strategy clearly align the need to serve members with its broader impact on all of its stakeholders. 'All together, better' sums up our promise to you and the reality of a successful mutual building society.

I'd like to thank all of my colleagues for the support they've given me over the last four years, and wish them the very best for the years to come.

Gary Hoffman

Chair of the Board
24 February 2022

Your Chief Executive's review of the year

The Covid-19 pandemic continued to dominate events in 2021, and our priority remained people's safety and wellbeing, whilst ensuring that we run the business in the long-term interest of members. The Society has grown and we delivered the excellent service and value our members and customers want. We made real progress with our transformation plans and our aim to deliver a sustainable future for society as a whole. I am very proud of my colleagues for all they have achieved in these challenging times.

Chief Executive's review Continued

2021 has again been a year of significant change and continued uncertainty. The early predictions that suggested a global pandemic may take some years to work through look increasingly accurate, and we have continued to adjust to new ways of working. It has been a catalyst for change in many ways as people have altered their aspirations and expectations for the way they want to live and work.

Change brings challenge and opportunity, of course. The first six months of 2021 saw a buoyant mortgage market as the impact of the stamp duty holiday aligned with people's desire for homes with more indoor and outdoor space, which didn't need to be close to work. I am very proud of the way my colleagues, the majority working remotely, stepped up and delivered fantastic service to brokers and members during these months. Together we delivered record volumes of mortgage applications and completions.

We also felt the challenge of the low interest rate environment. With more uncertainty and fewer opportunities to spend on entertainment and socialising, many households accumulated higher savings in non-interest earning current accounts. This excess funding, concentrated in the high street banks, resulted in significant competitive pressure in the mortgage market in the latter half of the year and I expect this to continue into 2022. It is clearly a tough time for savers and we continue to pay the best rates we can whilst maintaining the Society's financial resilience and balancing the long-term needs of all our members.

The change caused by the pandemic extends to our own ways of working. Our priority has been people's safety and wellbeing, and I would like to thank everyone - colleagues and members alike – who helped keep each other safe with no interruption to our excellent service throughout this year.

We have adapted to 'hybrid working', learning how to balance the benefits of increased working from home with those of working collaboratively in the office. This will continue to evolve as the pandemic declines. However, I believe that the progress we're making on our digital journey, the developments to our brand, our accreditation as a 'Great Place to Work' and the stride forward on our Environment, Social and Governance (ESG) strategy all point to a business that is adapting successfully to new ways of working and the changing demands of consumers and society as a whole.

Our purpose and strategy

Our purpose and strategy underpin this progress. The pandemic may be a catalyst for change but a broader transformation is happening as businesses, governments and the public recognise the need for sustainable solutions to the big issues – whether climate change, equality of opportunity, the housing market or how we support savers.

We are a simple business, with an absolute focus on savings and mortgages. It is a business model that has stood the test of time with an emphasis on resilience and stability that is as relevant today as it has ever been. Sustainability is part of our DNA, and at the heart of our long-term approach to delivering value to members.

But I believe we can do more, and 18 months into this fantastic role I can see how our ambition is starting to transform what we do.

We describe our purpose as 'Giving people the power to be better off through life'. This is represented externally by our brand promise to be 'All together, better'. These statements reflect both our commitment to mutuality and the importance of all our stakeholders in delivering a sustainable and successful future.

A strong performance

In 2021, we grew our mortgage and savings balances, took the opportunities presented by a growing market to improve our profitability to a more sustainable level, invested in our brand, channels and technology and maintained a strong focus on costs, whilst delivering excellent service and continued value to our members.

Profit before tax of £233 million was significantly higher than in 2020 (£124 million) reflecting the strong demand for mortgages, improved margins and lower credit losses throughout the year. To some extent, this was a game of two halves and we took decisions to slow growth in the latter months in the face of an increasingly competitive market and the sharp contraction of margins – a clear example of both our long-term perspective and member-focused purpose. Our aim is always to optimise profitability rather than maximise it, to underpin our long-term financial resilience, fund investment in future services and keep members' money and data safe and secure.

£233m Profit before tax

(2020: £124m)

7.2% Mortgage balance growth

(2020: 3.0%)

During the year we also updated our accounting estimate for future Standard Variable Rate (SVR) mortgage income, reflecting our view that customers will switch products at the end of their fixed rate periods more quickly in future based on planned improvements to our mortgage systems and market trends. This adjustment reduced our profits by £69 million in the year and as a result has importantly reduced the risk of volatility in our profit in future periods as consumers interact with their mortgage providers in a more automated, digital way.

Our mortgage growth of 7.2% (2020: 3.0%) was not only higher than the previous year but higher than the market overall[1]. The end of the temporary reduction in Stamp duty led to record purchase and redemption activity, followed by rise in remortgage and product transfer transactions towards the end of the year as interest rate expectations increased. Equally important was the strength of the labour market as the furlough scheme ended, which helped support both demand for new mortgages and the continued repayment of our existing loans. At just 0.10%[2] (2020: 0.09%) we continue to record very low levels of arrears and have released £29 million of provisions that were set aside for potential credit losses in 2021 that may have resulted from the economic impact of the pandemic. Although uncertainty remains, these more worrying economic outcomes for our customers did not emerge.

We extended our participation in the first time buyer sector, helping more people move into their first home, as well as launching an incentive for existing or new borrowers to increase the energy efficiency of their property. By designing the Green Together Reward as an addition to any new mortgage or change to existing borrowing, our aim was to encourage the take-up of this environmental incentive.

The modest demand to date, however, shows that industry, government and homeowners collectively have more to do to address the energy inefficiencies of UK housing stock. We see our support for this in the coming years as an intrinsic part of our purpose and strategy.

It's not just the design of our mortgages that makes a difference but the exceptional service we provide too. I want to thank colleagues who supported our mortgage delivery and maintained an exemplary level of service throughout the year despite the increased volume of transactions. I know that their efforts were hugely appreciated by our broker partners and customers aiming to complete moves before stamp duty deadlines, and they thoroughly deserve the independent accolades they have received from Which? and Fairer Finance.

Our savings balances increased by 4.6% (2020: 5.3%) during a year in which we had to balance the returns we offer savings members with our long-term sustainability. However, we continued to pay above market pricing with our average savings rate of 0.83% comparing favourably with a UK average savings rate of 0.27%[3]. This meant we paid additional interest of £201 million to our savings members[3] in 2021 (2020: £196 million) when compared with the market average, and this long-term value is something we are very proud of.

We also launched purposeful savings propositions, which encourage the savings habit and strengthen the relationship between members and the Society. Our First Home Saver is a clear example of this, incentivising and supporting people aiming to take their first step on the housing ladder, and our Regular Saver was singled out as the best in the market. We also ran a successful pilot looking at member loyalty as a means of demonstrating the benefits of mutuality and will do more on this in the future. Our commitment to savings was recognised by Savings Champion, which awarded us 'Best Building Society for Savings'.

7,100

Members helped to buy their first home

(2020: 3,200)

Chief Executive’s review Continued

It is great to receive external recognition for the fantastic service we provide as well as the quality of our products. Overall, the service my colleagues delivered in 2021, as measured by Net Promoter Score[4] (NPS), improved from +73 in 2020 to +76 in 2021 – an incredible achievement given the volume of activity we experienced at times though the year and the challenges of the pandemic.

Our aim is to support the investment we’re making in our future whilst maintaining a cost advantage to compete in today’s market. Our continued growth in 2021 helped ensure that our cost to mean asset ratio remained broadly stable at 0.50%[5] (2020: 0.49%), despite total management expenses increasing to £264 million (2020: £246 million). Our investment of £96 million in technology and change programmes shows the importance we attach to enhancing our digital infrastructure and the Society's IT resilience as well as developing new services. Cost, however, remains a key focus for the Society, which benefits from the simplicity of our business model and focused strategy.

Our profit in the year enabled us to maintain our strong capital ratios. Our Common Equity Tier 1 ratio was 36.2% (2020: 33.0%), well above the regulatory minimum requirements. Our Leverage Ratio was 4.8% (2020: 4.6%) and our Liquidity Coverage Ratio was 187% (2020: 179%).

+76 Net Promoter score

Our measure of excellent service[4]

(2020: +73)

Known for a better service today and investing for tomorrow

Financial services are changing fast, and at times it feels as if you have to run to stand still. However, in 2021 we took significant strides in delivering our change agenda, and can now demonstrate a track record of progress which is essential to our future success.

Central to this is building the strong technology infrastructure and operational resilience that underpin the services we provide today and the services we’ll introduce over the coming months and years. We completed the Infrastructure Transformation Programme so that our new data centres are up and running, and upgraded our databases and testing capability to enable future changes to be introduced more quickly and efficiently.

We made big progress on our digital journey. Our multi-year programme to make our mortgage offer more tailored to individuals, as well as easier and quicker service for borrowers and brokers alike, is delivering tangible results. Borrowers can now complete product transfers online using a new self-service capability that extends to owner-occupier and buy to let products. It is a better service for borrowers, adds scale to our business, reduces risk and is more operationally efficient. Brokers love the new webchat support we launched this year, which complements the intermediary support teams in delivering our leading service. We redesigned our website and upgraded our online services, making them simpler and more accessible and incorporating many changes that members have asked for. The progress can be clearly seen in our online service users NPS[4] which rose from +20% to +46% during the year. This underpins our ability to grow the Society in future years and meet the changing expectations of our members.

We aim to provide a brilliant integrated experience whatever channel our members choose to use and have made great progress with our branch investment too. We have now redesigned and refurbished 50 branches to fantastic feedback from members and colleagues, including relocating a number to better locations and opening our first new branch for many years. The programme is on schedule to complete the refurbishment of all remaining branches during 2022.

We are matching our investment in services with an increased focus on brand. We launched a new ‘look and feel’ that helps us stand out in the crowded financial marketplace. And in May we announced our naming rights sponsorship of the Coventry Building Society Arena, in partnership with Wasps Rugby. The Arena is a sporting hub, hosting elite rugby, netball and football as well as being part of the Commonwealth Games and Rugby League World Cup. It is also a unique entertainment, business conference and exhibition centre that makes it a nationally important venue. We want to be locally loved and nationally famous and with over 1.6 million visitors every year, and in a prime location in the heart of the country, the sponsorship will ensure that more people know about the Society as well as enable many purposeful opportunities to support our ambition, our community partners and other stakeholders.

Making a difference

I mention purpose deliberately. As I said earlier, a transformation is starting to take place in people's attitudes and behaviours which is also reflected in government policy and regulations. Collectively the Environment, Social and Governance (ESG) agenda is challenging businesses to deliver financial and operational success in new and sustainable ways.

Our environmental commitments are set out in our Climate Action Plan which sets out tangible measures covering our use of resources and performance on emissions, as we investigate the wider impact of our lending. In addition to the Green Together proposition I mentioned earlier, we have transitioned to 100% renewable sources of energy, including the installation of solar panels at our head office site. We have achieved net zero merits for our Scope 2 emissions and carbon neutrality for Scope 1. Collectively, these actions show that this is not something we are talking about but doing.

We have transformed our Social agenda helping young people acquire the skills and knowledge on which to base good careers, tackling isolation and homelessness amongst the more vulnerable members of society.

These are tough problems, made worse by the pandemic, and we have had to adapt and change the way we help. For example, we moved all our work with schools online, including a curriculum-based numeracy package called Coventry Counts, developed in conjunction with local educationalists, which was taken up by 50 schools in its first week of operation. We also extended our online employability support to include webinars for all sixth form students in Coventry.

£1.6m total community investment[6]

(2020: £1.4m)

The key is forming long-term partnerships with charities that share our goals, and concentrating our resources on issues and in places where we can make most difference. We now work with six charities across Coventry and in 2021 began to use dormant account funding to support the long-term delivery of programmes across the city. We've also been proud to support Coventry's UK City of Culture year which brought together our commitment to the city and our community goals.

One of our successes over many years has been using the strength of our savings brand to generate funding for charities through affinity products. In particular we have enjoyed a tremendous relationship with The Royal British Legion, which has resulted in donating £19.4 million since 2008, including £0.6 million in 2021, its centenary year. Over the same period, we have also donated over £1 million through affinity accounts to smaller, local charities, primarily in the South-West region. As we look forward, we plan to align our financial and organisational strengths more closely to our new community strategy.

Flexible and engaged colleagues

None of this would have been possible without the hard work and dedication of my colleagues. I strongly believe that our people are our greatest asset and, in what continues to be a very challenging time for them personally and their families, I have been hugely impressed by the way they have stepped up and delivered for our members.

Although 2021 ended in similar fashion to 2020, with concerns about tighter restrictions and an uncertain start to the year ahead, it felt very different overall. Whilst our priority remains the safety of colleagues and members, we are also seeing how working from home for an extended period of time is leading to a fundamental shift in the way many people view their relationship with work.

We have adapted accordingly and moved towards a 'hybrid' way of working that blends home working and time in the office for nearly 2,000 colleagues. This is not 'one size fits all' but varies according to the type of work undertaken and the individuals themselves. In many ways, it meets our ambition to empower colleagues and to offer careers at the Society that challenge and develop our people.

I am proud of the fact that around 200 colleagues per year move into a new role at the Society, meaning 40% of our vacancies are filled through internal moves. We are committed to at least 40% of our senior management roles and above being held by women compared to 37% at the end of 2021. We have also set a target of 25% of all management roles to be held by people from ethnically diverse backgrounds compared to 12% now. Our commitment to making progress is demonstrated by signing the Race at Work Charter, our sponsorship of the MOBO awards and the creation of inclusion and diversity groups. I believe passionately in inclusion, not just as 'the right thing to do' but something with enormous value to us as a firm and to wider society.

Chief Executive's review Continued

Our approach to inclusion and diversity, the support we give colleagues to develop and progress, the flexibility we show in our ways of working, our commitment to a rewarding career and the help that's there when colleagues experience tough times were all tested against the benchmark of the Great Place to Work survey. I was delighted that the Society was accredited as a Great Place to Work at our first go, a benchmark that I am committed to building on in coming years.

There is no doubt that expectations of work are changing fast, and to succeed we must embrace the opportunities that this presents. We will continue to attach great importance to listening to our colleagues, whether virtually, or through My Society, our colleague forum attended by Jo Kenrick, our Deputy Chair. It is a strength of the Society and hugely helpful in informing our decision making.

Looking forward

I started by saying that the pandemic is proving a catalyst for change.

I have no doubt that future success will depend on taking a long-term view. This is a strength of the mutual business model. We will continue to run the Society prudently and in the interests of our members by providing excellent service and propositions that offer great value. We are investing to deliver this integrated service across our branches, contact centres and digital channels, and developing new propositions to help people save and buy their own homes.

At the same time these will be increasingly aligned to our sustainability agenda, and highlight the positive impact we can have on wider society and the environment. We can be 'All together, better' through taking account of our responsibilities to all our stakeholders.

I am confident about the year ahead. We have shown, despite the challenges of the pandemic, that we can meet the needs of today's members whilst laying the foundations for the future. We will continue to change and adapt to new ways of working, and enhance our resilience in the face of any future economic and competitive headwinds. I would like to thank our members, colleagues, customers and partners for their support and loyalty. The pandemic has challenged all of us over the last two years, and I hope that 2022 will see us emerge from the uncertainties and worries it has presented. I look forward to working with colleagues to deliver our exciting and ambitious plans on behalf of our members.

Steve Hughes
Chief Executive
24 February 2022

1. Source: Bank of England.
2. Percentage of mortgages where arrears are more than 2.5% of the balance.
3. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts, excluding current accounts and offset savings, for the first 11 months of the year. This measure and comparative have been updated in the year to use CACI source data for the market rate; previous source Bank of England.
4. 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.
5. Administrative expenses, depreciation and amortisation/Average total assets.
6. Total community investment made by the Society including donations from the Society and fundraising activities.

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 137 years of trading plus other forms of financial capital and funding from outside investors, together with the savings of our membership.

Natural

We complete a range of activities designed to enable us to contribute to a Net Zero world. We use only renewable electricity and FSC certified paper and are committed to reducing the carbon footprint of both our own business activities and the homes that we provide mortgages on.

Infrastructure

Our critical technology systems were available 99.9% of the time during 2021, despite the disruption to activities from the Covid-19 pandemic. These systems supported the distribution of our products via our 66 branches, our telephone channels and self-service options such as our online services and cash machines.

In addition to our branches, we have a number of owned and leased buildings in Coventry and the Midlands that provide accommodation for our other customer service and head office teams.

Suppliers and intermediaries

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 business is supported by over 700 suppliers of which 85 provide critical services and we also buy in specialist expertise and resources where needed to support our own colleagues.

Outputs

Our customers

We provide residential mortgages and savings to personal customers based in the UK. We believe in Putting 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 and data safe and secure, offering good long-term value and ensuring good conduct outcomes for both savers and borrowers. We also support landlords who provide homes to those who rely on the private rental sector for their housing needs. Our buy to let business diversifies our income and helps create value for our wider membership, whether through better savings rates or service.

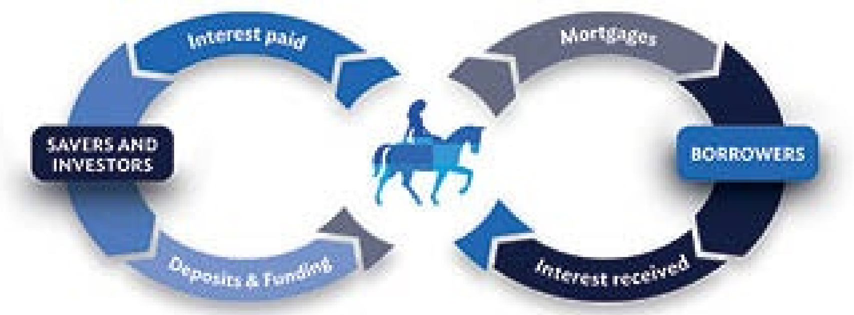
Our business model

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 people 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. Unlike a listed bank, we don't have to pursue profits to pay shareholders dividends. Instead, we balance our need to retain sufficient profit to remain financially resilient with:

- Giving better value and service to our members; and
- Investing so that our service and product propositions continue to meet the needs and expectations of our current and future members.

We also have a lower risk approach to lending than the average UK mortgage provider that supports our financial resilience and strength over the long term. This resilience is reflected in our financial performance, low arrears and low repossession rates relative to others.

A mutual model consistent with the value and ethos of those who founded the Society over 137 years ago.



Our business model and strategy Continued

Inputs	Outputs
Colleagues We depend on an engaged and diverse workforce of 2,800 UK based people to deliver our services to over 2 million customers across every region of the UK.	**Our products and services** We provide residential mortgages to individuals to enable them 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 other firms. 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 save longer term. Our products include instant and restricted 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 or housebuilders. We serve our customers through our network of branches and agencies, online, via the telephone and through our intermediary partners.

Our people and purpose-led strategy

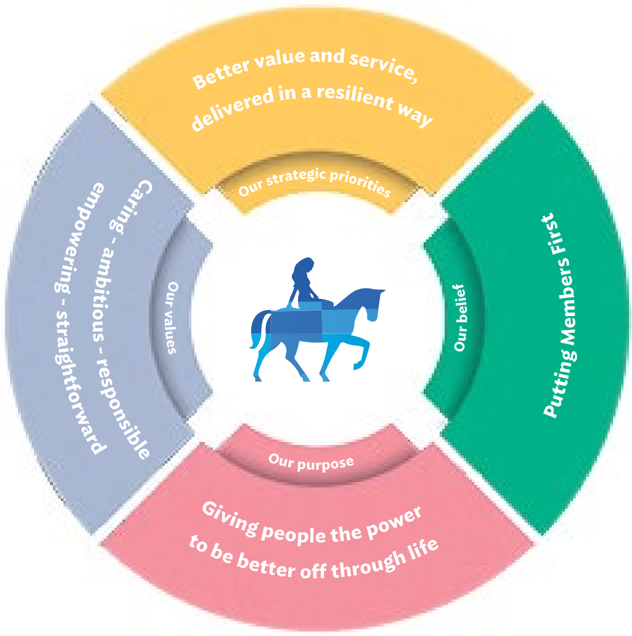
A people and purpose-led building society responding to the needs of all stakeholders.

In 2020 we reviewed our purpose, values and strategic priorities. This review allowed 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 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', to be more resilient and to outperform the markets in which we operate.



Our purpose

Giving people the power to be better off through life

Being purpose-led 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 all the power to be better off through life. Our purpose is at the core of all our decision making, and we 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 purpose is reflected in our brand as adding up to something All together, better.

Our values

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

Our people and purpose-led strategy Continued

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	
A purpose-led approach to business, the environment and wider society	A responsible business supporting sustainable growth and employment. This also means protecting the natural environment and reducing our carbon footprint and use of natural 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 more disadvantaged people in our home city. Our purpose drives us to be open, honest and transparent in our dealings with our members, employees, partners and regulators, and in reporting our performance.
An inclusive and inspiring workplace for everyone	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 services we can	
Helping people to own their own homes and to save for their future	Empowering customers to make better financial decisions and helping them achieve their financial and life goals through simple mortgage and savings propositions that offer good long-term value.
Market-leading customer service	We want customers to feel confident they have chosen the right provider for their mortgage and savings by having friendly, caring and well-trained employees offering tailored support and guidance to customers when they need it most.
Digitising mortgages and savings	Making our customers better off through offering improved choice of product options, better servicing and better technology for our colleagues to support our members too.
Delivered in a resilient way	
Protecting our members' money and operational resilience	Keeping money safe and accessible for our customers and their information secure through investment in resilient technology, processes and infrastructure.
A resilient and sustainable financial performance	Our strategy is to deliver a sustainable and resilient financial performance, consistent with continuing to support 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. We are also careful to spend our members' money wisely and efficiently as an enabler of growth, good long-term value and market-leading customer service, whilst continuing to invest to meet stakeholders' and regulatory expectations.

Our stakeholders

As directors we work to promote the success of the Society for the benefit of all of its stakeholders. In doing so, we voluntarily comply with Section 172 of the Companies Act 2006. More information on who our stakeholders are and how we engage with them is set out below and in the Governance section.

Stakeholder group	Customers	Colleagues	Suppliers
	This group includes our members, other mortgage and savings customers and mortgage brokers.	**This group includes all of the Society's employees.**	**This group includes third party organisations and contractors who provide goods and services to us.**
Stakeholder needs – what do they expect from us?	• Great value savings and mortgage products. • Excellent service through whatever channel they use to interact with us. • Human service where that is the most convenient option with a branch network in our heartland. • A business model which is resilient, so we are safe and secure over the long term. • High availability of IT systems with data kept secure. • Simple and clear communications.	• An inclusive and inspiring workplace for everyone. • A great place to build and develop their careers. • An approach to reward is fair and consistent. • Support for career development and training. • A culture which promotes wellbeing, supported by straightforward policies and processes.	• To do business with us on terms which are commercially beneficial. • To be paid promptly. • To work with consistent and understandable procurement processes. • Decisions that are made in a consistent, ethical and fair way. • For local SME suppliers procurement processes which are proportionate and straightforward.
How do we engage with them?	• Our Member Panel, which is an online forum of 7,000 members. • Regular research with customers, prospects and intermediaries. • Complaints monitoring. • Regular events for executives and Board members to meet customers online and in person. • Our Annual General Meeting where members vote on key matters to the Society and interact with the Board.	• 'My Society', our employee forum. • The annual Great Place to Work survey and surveys on specific issues. • Structured meetings with the Chief Executive and other executives. • Online internal communications tools and networks. • Through our recognised union, Unite.	• Suppliers are provided with feedback on sourcing activities they are involved in, including engaging with unsuccessful suppliers. • Supplier Relationship Management processes. • Bi-annual supplier surveys to gain an understanding of the views of our suppliers. • Supplier strategy events.
What's been important for them in 2021?	• Products that reward loyalty and offer good long-term value. • The ability to access our online services in an easier way whilst maintaining security standards. • Maintaining a consistent presence in the mortgage market. • A safe environment for customers using our branch network. • Less paper and a mobile App.	• Helping everyone stay safe and connected during the pandemic. • Our remuneration strategy given broader economic trends. • How we respond to the broader diversity and inclusion agenda. • Maintaining positive wellbeing, including mental health support. • Improving opportunities for career development.	• Understanding more about our strategy. • Prompt payment during the pandemic. • Finding out about opportunities that might be available to local suppliers.
Our response & key decisions taken by the Board	• The Board approved a multi-year digital strategy and roadmap, backed by customer research. • We significantly improved our digital and self service capabilities. • We introduced loyalty products, and enhanced our mortgage proposition for first time buyers and introduced a "Green Reward" product.	• The Board engaged in two way discussions with the My Society Forum focusing on diversity and inclusion, hybrid working, talent, wellbeing and health and safety. • Committed to giving colleagues the greater flexibility that comes with a hybrid working model.	• The Board approved aligning our procurement practices to the international standards for sustainable procurement. • We made changes to our procurement policies and sustainable procurement strategy based on supplier feedback.

Our stakeholders Continued

Stakeholder group	Investors	Communities	Environment
	This group includes wholesale investors and ratings agencies.	**This group includes those supporting the communities we serve.**	**Our direct and indirect impact on the world around us.**
What do they expect from us?	• A stable and sustainable performance, with resilient capital and liquidity levels. • An organisation that is focused on the mortgage and savings markets, that is well governed and manages risks effectively. • Clear disclosures to enable informed investment decisions to be made. • Focus on environmental and social impacts.	• Support – financial and in kind – and to benefit from our skills and knowledge. • Help to raise awareness of key issues and signposting those in need. • A clear community strategy which makes clear what we support and how this can be accessed. • Funding commitment across the medium term.	• To contribute to the creation of a more low carbon climate resilient world. • Measurement and reporting of our emissions. • The reduction of our own emissions and broader environmental impacts. • Helping members make the transition to housing which reduces greenhouse gas emissions.
How do we engage with them?	• A programme of investor and analyst meetings. • Public updates on our performance or other material matters for disclosure. • Information about our funding programmes and the Annual Report & Accounts published on our website.	• We have built a number of strategic partnerships with charities, the public sector and schools. We engage regularly with these organisations, both individually and as part of the Coventry Business in the Community Place Leadership group. • We have established key points of contact in each of the organisations we work with.	• Working with a range of external bodies and suppliers to monitor, manage and reduce our environmental impacts. • Working with external auditors to conform with ISO 14064-1 standards to validate our GHG emissions data.
What's been important for them in 2021?	• An increasing emphasis on Environment, Social and Governance factors. • Our plans for green or social finance projects. • Impacts on our mortgage portfolio from the pandemic and government initiatives to support the housing market.	• In 2021 our revised community strategy, centred on the City of Coventry, became operational and we created a number of new partnerships regionally. • Our support for Coventry City of Culture helped to make art and cultural activities more accessible. • Being able to adapt our community services and access support virtually.	• In 2021 we produced our first ever Climate Action Plan, which sets out in detail how the Society will respond to the climate challenge. • We achieved our short-term climate targets; we are now carbon neutral for Scope 1 emissions, claim net zero merits for Scope 2 emissions and we achieved ISO 14064-1 certification against our 2020 GHG emissions data.
Our response & key decisions taken by the Board	• Feedback was used to develop this Annual Report and our first Sustainability Report to ensure the emerging needs of investors are met. • The Board discussed the feedback from rating agencies and their assessment of our performance.	• The Board approved our investment in the Coventry Building Society Arena and how this would advance our community strategy. • Our dormant account project meant that we were able to invest an additional £300k to support the most vulnerable.	• The Board considered the impact of climate change on both the Society and its customers and approved the multi year climate action plan contained in this Report and our Sustainability Report for 2021.

Building a sustainable Society
Our achievements in 2021

11,400
Young people helped through our education and employability programmes

107
People supported by Access to Housing advice

50%
Suppliers rated green by EcoVadis

2021 Scope 1 and 2
Emissions targets reached

£1.6m
Total community investment

Our first **Climate Action Plan** approved by the Board

37%
Senior manager and above roles held by women

We are signatories of:

UN Global Compact, UN Sustainable Development Goals, UN Principles for Responsible Banking, Task Force for Climate-related Financial Disclosures, Bankers for Net Zero, UK Sustainable Investment and Finance Association, Race at Work Charter, Women in Finance Charter.

We have been awarded:

Fair Tax Mark - Fair Tax is at the heart of a fair society, a strong economy and a functioning democracy. Its aim is to help those people who believe in a fair society and playing by the rules to say so publicly.

ISO 14064-1 certification - a framework for Green House Gas (GHG) accounting and verification to organisations looking to quantify and reduce GHG emissions.

External benchmarks and memberships

United Nations Global Compact

Sustainable Development Goals

UN environment programme finance initiative – Principles for Responsible Banking

Fair Tax

Great Place To Work. Certified OCT 2021-OCT 2022 UK

Case studies from 2021

Coventry Counts

Fun with numbers

Our Coventry Counts programme was developed in response to consultation with teachers who highlighted the need for more support in basic literacy and numeracy skills, particularly given the widening gap in these subjects following the pandemic. The programme provides funding for numeracy and literacy interventions and online teacher resources providing curriculum linked activities centred on key landmarks in the city.

Additionally, we have partnered with six primary schools to offer additional support from our colleagues. This includes senior leaders volunteering as school governors, one off 'Fun with Numbers' sessions, reading volunteers, team builds to improve the learning environment – anything that we can do to help improve education and aspiration in some of the most disadvantaged communities in Coventry.

Supplier collaboration day

Building local relationships

In November 2021, our Procurement team hosted a Local Supplier Day, along with Jaguar Land Rover and Coventry University. The purpose of the day was to build relationships with local suppliers and share experiences and information about accessing tender opportunities. The Society uses the Coventry and Warwickshire Find It In Portal to publish requirements that are suited to local and smaller firms, where organisations can view the opportunity and express an interest in bidding. In 2021, the Society spent 12% of total supplier expenditure with local firms and aims to increase this in 2022.

The Federation of Small Business (FSB) also joined the event. The presentations featured information about our Procurement process, teams, how to bid and the sustainability goals of each buying organisation. The speakers included two current suppliers, who were able to share their experiences of working with the Society and explain their contribution to social value within the West Midlands.

Solar panels on Coventry House

Improving energy efficiency at head office sites

Our new head office building, Coventry House, is due to open in 2022. This is part of our consolidation of head office buildings, to reduce cost and environmental impact.

As part of making sure that we reduce the impact of this new office on the environment, we have installed over 600 high efficiency solar panels across the roof of the building. These are expected to generate around 211,000 kwh of electricity each year, providing on average 30% of the electricity that the building needs. For context, this is the same amount of electricity that it would take to boil almost a million kettles per year. This is just one example of the steps that we are taking to make sure that the operation of the Society has as little impact on the environment as possible.

Partnership with The Royal British Legion

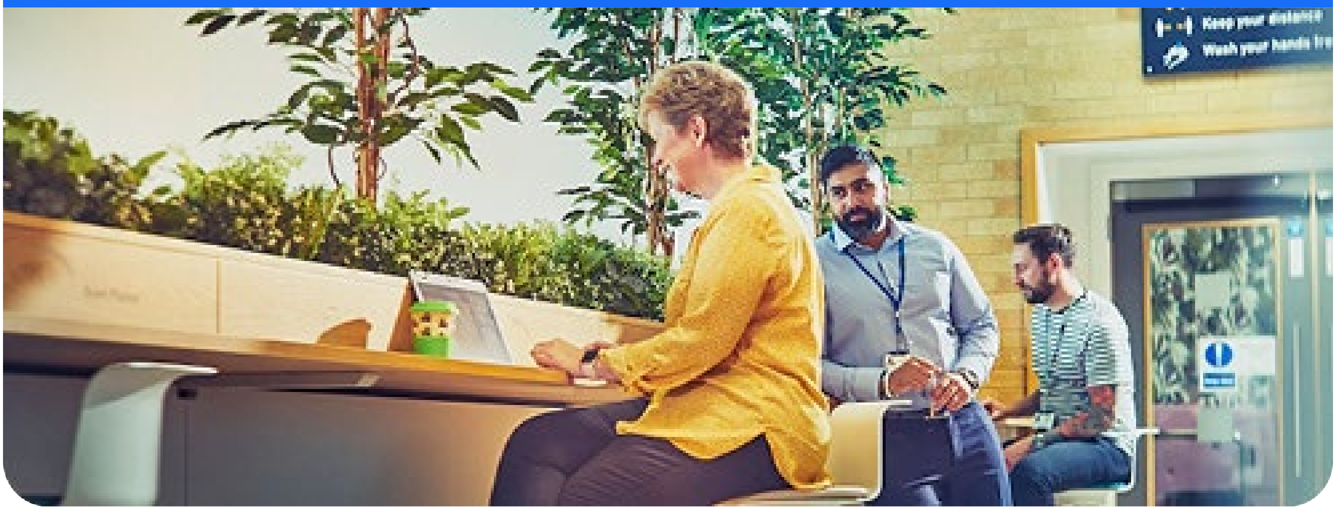
Providing support and opportunities

Over the 14 years of our partnership with The Royal British Legion, we have donated over £19 million to support the armed forces community. Funds raised through the partnership in 2021 were used to fund the Legion's Employment Support Grants. The grants are available for veterans and their family members who are unemployed or in jobs not suitable to their skills. Often the money is needed for training, licenses or specialised equipment.

The grants provide a sustainable solution to some of the problems faced by veterans or their family members as they adjust to life after service. In 2021, over £300,000 of the total funds raised through the Society's Poppy savings products and employee fundraising funded the Legion's Employment Support Grants which benefited 278 ex-service personnel or their family members.

Our sustainability strategy

Sustainability is at the core of the Society's strategy and aligns with our purpose and values. The Society's sustainability strategy is framed by the three key external benchmarks which we have committed to: the UN Global Compact (UNGC), the UN Principles for Responsible Banking and the UN Sustainable Development Goals (UN SDGs). Delivering against these external benchmarks forms the core of the Society's sustainability strategy.



Our sustainability strategy is included in the Society's Strategic Plan, which is approved by our Board annually and guides decision making for a five year period. More detailed decision making on this topic, including identifying specific actions and accountabilities, is considered by the Board twice annually in specific sustainability strategy updates.

The 2021 Strategic Plan set an objective of the Society being a 'people and purpose-led mutual' contributing to a fair, confident and resilient society and a cleaner, carbon neutral world.

Making this outcome a reality is achieved by three strategic goals:

1. Having a purpose-led approach to business and the environment.
2. Creating an inclusive workplace which prioritises growth and belonging and inspires brilliance.
3. Seeking to create a meaningful impact on the people of Coventry and wider society.

Against these goals, the following key priorities for 2022 have been identified:

- Developing sustainability principles, strategy, and reporting in line with external requirements.
- Defining and developing 'sustainable' products including relevant product propositions, risk appetite and pricing strategy.
- Developing a sustainable supply chain which reflects the Society's purpose and values.
- Continuing to reduce the Society's environmental footprint across its operations and lending activities.
- Defining purpose-led KPIs, reporting and empowering teams to deliver against them.

More information on the Society's approach to sustainability is in the 2021 Sustainability Report which is available on our website at www.thecoventry.co.uk.

Our commitments on sustainability

In 2021 we announced three external commitments, all endorsed by the United Nations (UN). This reflects our contribution to the landscape of sustainable financial services through innovation in the products we offer, thought leadership, risk analysis and partnerships with other organisations.

UN Principles for Responsible Banking

We are pleased to support a single framework for a sustainable banking industry developed through an innovative partnership between banks and mutuals worldwide and the United Nations Environment Programme Finance Initiative (UNEPFI). The UN Principles set out the financial services sector's role and responsibility and aligns the sector with the objectives of the UN Sustainable Development Goals (SDGs) and the 2015 Paris Climate Agreement.

The UN Principles also enable a firm to embed sustainability across all its business areas and to identify where it has the potential to make the most impact in its contributions to a sustainable world. They also position a firm to leverage new business opportunities with the emergence of the sustainable development economy. The requirements of the UN Principles formed the foundation of our sustainability activity in 2021.

UN Global Compact

The UNGC is a strategic policy initiative for firms committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. We are committed to making the ten principles of the UNGC part of the strategy, culture and day-to-day operations of the Society.

UN Sustainable Development Goals

Coventry Building Society is committed to supporting the UN Sustainable Development Goals by integrating sustainability into the products we offer, the way we operate our business and the contribution we make to broader society.

In 2020 we completed a detailed review of the UN Sustainable Development Goals identifying those where the Society could make a material difference. In line with recommended practice, we selected four goals to be our areas of focus.

For each of these goals we agreed ambitions and specific targets, which are detailed below. These measures help to define, measure and report on our broader sustainability activities.

Our priority goals

Sustainable Development Goal - Quality Education

Why we can make a difference

- We are a leading local employer, wanting to provide employment opportunities for our local communities.
- We are committed to enhancing the skills of our employees.
- We have the resources to make a positive impact on education in Coventry.

Our ambition

- Continue to help and encourage employees to develop the skills needed to succeed.
- Make a positive impact on education in Coventry.

Our targets

- 250 apprenticeships over five years from 2021.
- 50% of senior management roles from internal recruits by 2025.
- 10,000 children and young people in Coventry supported via education programmes over the three years from 2021.

In 2021 we delivered:

- 67 apprenticeships (2020: 22).
- 49% of senior managers recruited internally (2020: 22%).
- 11,400 children and young people in Coventry supported by education programmes.

Sustainable Development Goal - Decent Work and Economic Growth

Why we can make a difference

- We provide career opportunities at differing levels of seniority.
- We spend over £165 million annually with our supply chain, enabling us to drive positive changes with our suppliers.
- We can offer underrepresented groups career pathways.

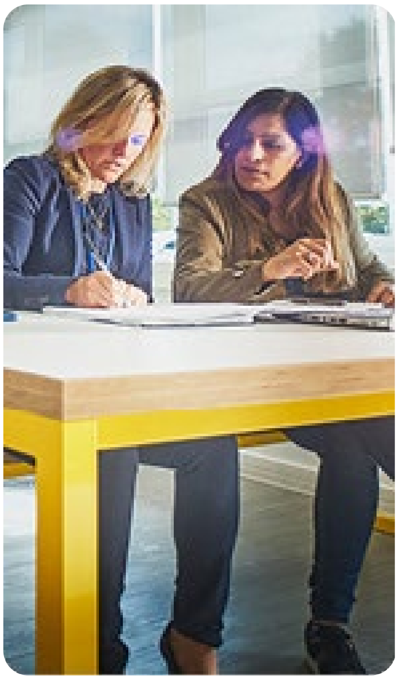
Our ambition

- Offer career development to enable colleagues to achieve their potential.
- Progress the sustainability agenda with our suppliers.

- 40% of all senior manager and above roles held by women by 2025.
- 25% Black, Asian and Minority Ethnic management roles by 2025.
- All key suppliers have committed to the CBS Supplier Code of Conduct by 2023.

In 2021 we delivered:

- 37% of senior manager and above roles held by women (2020: 34%).
- 12% of manager and above roles held by Black, Asian and Minority Ethnic colleagues (2020: 13%).
- 40% of key suppliers were committed to the Society's Supplier Code of Conduct by the end of 2021.
- We supported local firms and 12% of our spend was with local suppliers.



Strategic Report

Our priority goals Continued

Sustainable Development Goal - Sustainable Cities and Communities

Why we can make a difference

- We provide financing for housing and can help first time buyers onto the housing ladder.
- We can help homeowners with the transition to net zero.
- Our community programme focuses on access to housing for the least advantaged.

Our ambition

- 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.
- We will aim to make more funding available to first time buyers.
- We will enhance environmental outcomes through our lending activities.
- We will support communities to improve access to housing and address isolation and vulnerability.

Our targets

- Number of people supported through 'Access to Housing' is 1,000 between 2021 and 2025.
- Double first time buyer numbers in 2021 (3,200 to 7,500) and move to supporting 10,000 first time buyers annually by 2023.

In 2021 we delivered:

- 107 people supported through Access to Housing.
- First time buyers increased to 7,100.

Sustainable Development Goal - Climate Action

Why we can make a difference

- Our own operations emit GHG emissions.
- Our borrowing members will need help to deal with the transition to net zero.

Our ambition

- Developing a GHG 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.

Our targets

- Carbon neutral Scope 1 and claim Net Zero merits for Scope 2 emissions by the end of 2021.
- Net zero Scope 3 upstream emissions by the end of 2030.
- Ambition to be entirely net zero by 2040.
- 50% reduction in paper by 2023 compared with 2017 levels.

In 2021 we delivered:

- Achieved carbon neutrality for Scope 1 and Net Zero for Scope 2 by 2021 deadline.
- Climate Action Plan created and approved by the Board.
- 22% reduction in paper in 2021.
- Achieved ISO 14064-1 certification for our GHG emissions for 2020 data.
- Launched Our Green Together Reward scheme for borrowers.

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.

Information on how the Society has performed across a range of Environment, Social and Governance activities in 2021 is included in our Sustainability Report which is published on our website at www.thecoventry.co.uk.

More information on our activity to meet our environmental targets is included in the Our approach to climate change section of this report.

Diversity and inclusion

We understand there are challenges faced by different communities and aim 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 guide change to build a more diverse and inclusive organisation.

We believe in treating people fairly and recognise that different individuals bring different skills to our Society, and believe that having an inclusive culture also helps us to attract, develop, engage and retain the best, diverse talent, ultimately allowing us to serve our members in the best possible way.

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.

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 (NCSC), 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 at www.thecoventry.co.uk. This all means we can provide an informative and safe service to our members.

Human 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

Economic activity in many sectors continued to be impacted by the pandemic throughout 2021, with lockdown restrictions until May and the reintroduction of working from home and other guidance in November. The restrictions particularly impacted the entertainment, retail and hospitality sectors. Despite this, economic activity increased during the year, with total UK GDP returning to pre-pandemic levels.

Extraordinary government support continued through the first half of the year, with the furlough scheme winding down in September 2021. This supported the labour market with unemployment decreasing to 3.9%[1] (2020: 5.1%) with industry mortgage arrears also remaining at low levels.

The stamp duty holiday continued to support housing and mortgage market activity levels until September and also supported house price growth of 10.4%[2] in 2021 (2020: 7.3%).

Increased consumer and business demand, the disruption to global supply chains and a sharp rise in energy costs caused inflation to increase to 4.8%, well above the Bank of England 2% target. Most economic forecasters expect inflation to rise further in the first half of 2022 if gas and energy prices remain elevated. In response to this, the Bank of England increased interest rates to 0.25% (2020: 0.10%) in December.

Market environment

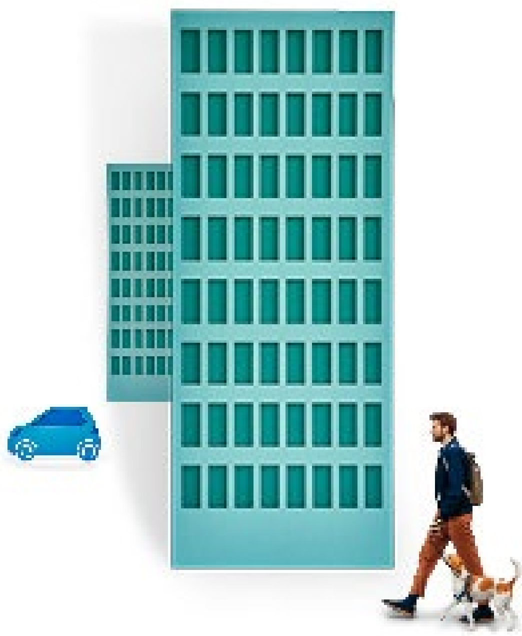
Savings market

UK household deposits have continued to rise, supported by government measures and the lower level of consumer spending. This, together with the low Bank of England Bank Rate, has continued to have a downward impact on savings rates. The level of deposits in retail savings and current accounts remained high at £1.7 trillion (2020: £1.6 trillion), an increase of £277 billion compared with pre-pandemic levels. The weighted average market savings[3] rate reduced from 0.56% to 0.27%, while household savings balances in the UK grew by 7.8%[4] (2020: 10.2%).

Mortgage market

Borrowers in the UK mortgage market continued to benefit from lower rates in 2021, with the competitive environment reducing rates further in the second half of the year.

Demand for longer-term fixed rate mortgages has remained strong, supported by the stamp duty payment holiday for part of the year. Overall the mortgage market grew by 4.6%[4] in 2021 (2020: 3.0%).



Our external environment Continued

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 as a result of the pandemic.

Future interest rate rises and investment in improving the energy performance of rental properties may impact rental yields and lead to lower rental market growth.

Tax changes in buy to let have also led to an increasing number of landlords using limited companies to expand their portfolios.

The remortgage market for landlords remained strong in 2021, again benefitting from the low interest rate environment.

Regulatory change

Regulatory development continued to focus on the 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) has had significant impact on customers' digital experience and nature of support calls to our service centres. The Society also continues to monitor the FCA's focus on the Consumer Duty initiatives and the potential implications for the financial services sector and the Society.

Prudential regulators are also focusing on the need for financial resilience beyond a firm's standard operational activities with examples being capital resilience through changing MREL[5] regulation, and the implementation of Basel IV capital floors Regulations on Operational Continuity in Resolution and the Resolvability Assessment Framework were enhanced.

Technology

Technology is continuing to change the way that customers access and interact with their financial services provider. The impact of the pandemic has accelerated the use of digital channels and the online service experience is seen as increasingly important to customers. It is expected that this acceleration in digital adoption as a result of the pandemic will be permanent.

Data needs to be kept secure and free from cyber attack. Challenger banks continue to focus on digitising traditional banking processes and adding popular functionality, which to date has focused more on current accounts, although online mortgage switching platforms are starting to emerge and digital solutions for both first time savers and borrowers.

Climate change

As evidence of increased climate change risk builds, consumers and regulators are attentive to environmental issues. The UK's commitments to addressing climate related issues were reaffirmed and extended at the COP26 summit in Glasgow in October and November 2021. Regulatory requirements for banks and building societies on the financial risks arising from climate change further increase focus in this area.

Our continued pandemic response

Throughout the pandemic, ensuring the safety and wellbeing of our colleagues and customers has been paramount.

We maintained measures in line with government guidance to ensure colleagues remain safe and supported. This included additional measures in our branches and other workplaces, continuing to support those working from home and with additional care responsibility, and initiatives to support the physical and mental wellbeing of all our people. Our decision to allow hybrid working permanently will benefit our colleagues, but we also recognise the need to focus on maintaining controls and the benefits of face-to-face collaboration, training and development too.

Strategic Report

1. Source: UK Government National Statistics.
2. Source: Nationwide House Price Index.
3. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts, excluding current accounts and offset savings, for the first 11 months of 2021. This measure and comparative has been updated in the year to use CACI source data for the market rate; previous source Bank of England.
4. Source: Bank of England.
5. Minimum Requirement for Own Funds and Eligible Liabilities.

Top and emerging risks

Information on the current risks which could impact the Society and how we mitigate them is set out below. More information on the risks we are exposed to as a UK building society is in the Risk Management Report.

Risk	Mitigation
Macroeconomic environment The economic outlook remains uncertain and the medium term impacts of the pandemic and exit from the European Union may still impact economic activity. Supply chain issues, inflationary pressure and a difficult environment for businesses to hire workers may contribute to this.	The Society performs regular stress testing considering the impact of severe economic downturns and confirms that we expect to withstand severe stresses. The Society's lower risk lending approach, for example using higher affordability stress rates, means that our arrears level remains well below industry levels.
Market environment A reduction in mortgage activity combined with a more volatile interest rate environment could put continued downward pressure on mortgage margins and restrict opportunities for growth relative to other firms.	The Society's simple, lower risk and lower cost business model means that it is well placed to maintain flexibility and strength through a range of market conditions. The Society undertakes a detailed Strategic Plan process which ensures the needs of savings and borrowing members is balanced with the strength and resilience of the Society.
Changing customer behaviour and expectations Customer expectations and increased use of digital channels are changing the way that savings and mortgage products are designed and delivered. This has accelerated since the pandemic and associated social distancing measures. There is a risk that the Society's products do not keep up with the pace of change, or that the requirements challenge the Society's low cost operating model.	The Society continues to focus on developing products and services which keep up with the change in demand and we are increasing our investment in digital servicing and distribution throughout the Strategic Plan period. Our plan includes the requirement for both short-term change and long-term strategic investment.
Technology and innovation There is a risk that the level of investment in technology and innovation could fall behind others in our core markets, reducing the Society's attractiveness to customers, or that the change activity itself could impact service levels, growth or other performance measures.	The Society's new product-based change model is expected to improve resilience, flexibility and efficiency of delivering technology and other change.
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 the increasing threat of cyber attacks, loss of data or service outages. The Society may not be able to attract and retain people with the skills and knowledge to sustain its operational resilience.	The Society manages risk through its Enterprise Risk Management Framework (ERMF) and its response to risk events is tested regularly. This is supported by progress against the regulatory requirements on operational resilience which aim to ensure that the Society's key services are able to recover in a timely manner in the event of disruption.
Regulatory environment There is a risk that the scope and complexity of regulatory changes arising from both the PRA and the FCA could increase the Society's costs and funding requirements.	The Society conducts horizon scanning and engages with trade bodies and its regulators constructively to ensure the impact of regulation on its business model is managed closely.
Climate change The risks of climate change could create material disruption to the Society's business as a result of transition risk as the UK economy transitions to lower carbon activities. This includes the potential impact of new regulations in our core markets.	The Society has enhanced its understanding of climate risk and its impact on the business model. The continued focus on understanding and planning for the impact of climate change is recognised in the Society's Strategic Plan and Sustainability Report.

Chief Financial Officer's review

A strong financial performance underpinned by our mutual values

Let me start by saying that after joining the Society in November 2020 as Interim Chief Financial Officer, I was thrilled to be offered the permanent position and join the Board in April 2021. This is a terrific Building Society which has a great heritage and has been successful over many years, with a real care and empathy for customers and colleagues alike. I am thrilled to have joined the Society who's values and ambition I share.

The Society is focused on delivering value to all of our stakeholders. This delivery is underpinned by a sustainable financial performance and the Society is committed to providing long-term value to members through competitively priced products while ensuring we continue to invest to improve services and the long-term resilience of your Society.

I'm pleased to report that in 2021 our financial performance improved and we were able to deliver against our financial goals.

Our profit before tax increased to £233 million (2020: £124 million), an increase of £109 million from the previous year. This performance was driven by improvements in net interest income, together with a reduction in expected credit losses on our mortgage book.

Our overall net interest income increased to £476 million (2020: £409 million) and net interest margin increased to 0.90% (2020: 0.81%). This increase is a result of above market levels of growth in mortgages and a lower cost of funding as savings and wholesale funding costs reduced in line with market trends. We maintained the level of value returned to savings members compared to market average, but our savings rates did fall in order to manage our level of funding inflows and to deliver a sustainable overall margin performance.

The growth in net interest income is after an adjustment to our estimate of future Standard Variable Rate (SVR) income as a result of changes to assumptions around future customer behaviour. This reduced net interest income by £69 million compared to previous assumptions.

Chief Financial Officer's Review Continued

We continued to prioritise paying interest rates to our savings members above the average seen in the market. In doing so we passed on 'member value' of £201 million[1] (2020: £196 million). On average our savings rates were 0.56% above the market average[1] (2020: 0.55% above market average).

Significant time and money have been invested in improving and modernising services for members. We invested £96 million on improving the resilience of the Society and our underlying infrastructure (2020: £82 million) which, together with an increase in our operational costs, resulted in a slightly increased cost to mean assets ratio of 0.50%[2] (2020: 0.49%), still one of the lowest in the sector. The cost to income ratio improved to 56% (2020: 60%) which is a function of our strong growth in income. Excluding the impact of the accounting adjustment for SVR income, the ratio for the year would have been 49%.

The economic environment remains uncertain and significant judgement and estimation has been applied in calculating expected credit losses.

However, the performance of our mortgage book has been strong, with low arrears balances and just 0.10% of mortgages being 2.5% or more in arrears at 31 December 2021 (2020: 0.09%). As a result, we have released £29 million of expected credit loss provisions (2020: charge of £36 million) as the risk of higher unemployment and lower house prices receded as the economy recovered from the pandemic.

Capital is important to the strength and sustainability of the Society. It underpins future growth as well as our ability to continue improving products and services. Our capital position has improved in 2021 with a Common Equity Tier 1 (CET 1) ratio of 36.2% (2020: 33.0%) and a leverage ratio of 4.8% (2020: 4.6%). Our liquidity position remained significantly ahead of regulatory requirements with a Liquidity Coverage Ratio (LCR) at 187% (2020: 179%).

Your Society remains strong and resilient and is well placed to support your ongoing mortgage and savings needs. We will continue to run the Society prudently in the long-term interest of members and other stakeholders.

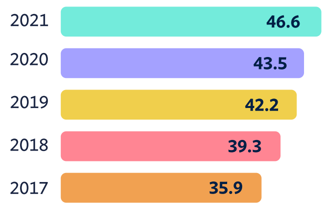
Lee Raybould

Chief Financial Officer

24 February 2022

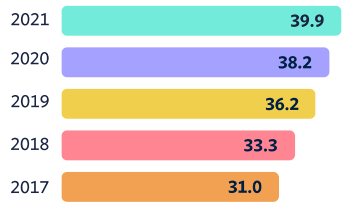
£46.6bn

Mortgage balances



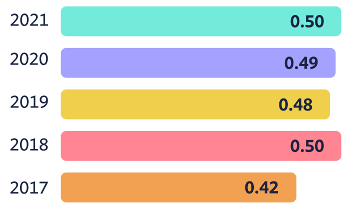
£39.9bn

Savings balances



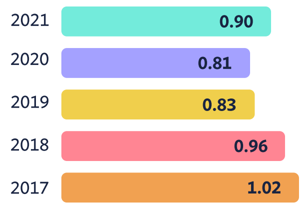
0.50%

Cost to mean assets ratio[2]



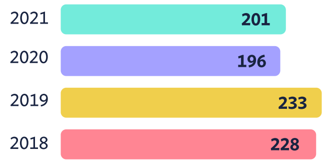
0.90%

Net interest margin



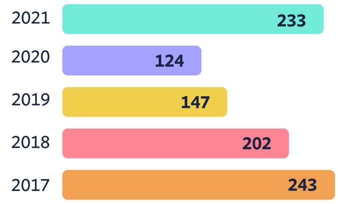
£201m

Value given to members[1]



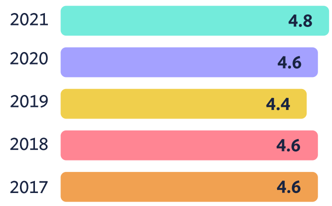
£233m

Profit before tax



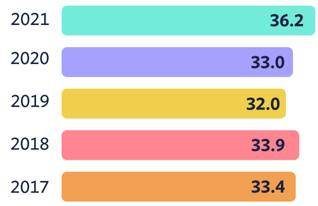
4.8%

Leverage ratio



36.2%

Common equity tier 1 ratio



1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts, excluding current accounts and offset savings, for the first 11 months of the year. This measure and comparative have been updated in the year to use CACI source data for the market rate; previous source Bank of England.
2. Administrative expenses, depreciation and amortisation/Average total assets.

Income Statement

Overview

In 2021, the Society improved its financial performance after the challenges in 2020 as a result of the Covid-19 pandemic. The following significant factors impacted the 2021 financial results:

- Net interest income increased by £67 million, supported by improved mortgage margins in the first half of 2021, lower funding costs and after a £69 million reduction to our expectations for future Standard Variable Rate (SVR) income. The increase in the Bank of England Bank Rate in December 2021 did not have a material impact on our result for the year.
- Expected credit losses (ECLs) did not emerge at the level assessed at the end of 2020 with those mortgage customers who took payment holidays having returned to making full mortgage payments in the vast majority of cases and house price growth remaining strong. As a result £29 million of ECL provisions were released during the year, compared to a charge of £36 million in 2020.

As a result, profit before tax increased to £233 million (2020: £124 million) which is a more normal level of profit relative to our size and high level of growth in the period.

	2021 £m	2020 £m
Interest receivable	**833.9**	859.9
Interest payable	**(357.7)**	(451.4)
Net interest income	**476.2**	408.5
Other income	**(1.4)**	(0.1)
Losses on derivatives and hedge accounting	**(6.6)**	(0.7)
Total income	**468.2**	407.7
Management expenses	**(263.5)**	(245.6)
Impairment release/(charge)	**28.7**	(36.4)
Provisions	**—**	(0.5)
Charitable donation to Poppy Appeal	**(0.6)**	(0.8)
Profit before tax	**232.8**	124.4
Tax	**(42.0)**	(23.0)
Profit after tax	**190.8**	101.4

Net interest income

Net interest income increased to £476 million (2020: £409 million).

Before the adjustment to future SVR income, interest receivable on mortgages increased by £33 million as a result of the growth in balances, although the average interest rate paid by our mortgage customers fell slightly in the year. The remaining £10 million increase related to interest receivable on treasury assets.

Interest payable on retail savings reduced by £86 million as savings rates continued to fall across the market. The Society continued to pay favourable savings rates, returning £201 million (2020: £196 million) in member value compared to market average rates[1], whilst continuing to invest in the Society and maintain its long-term resilience.

The remaining £7 million movement related to lower interest payable on other borrowings and hedging instruments.

The Bank of England Bank Rate remained at 0.10% for most of 2021, and the increase to 0.25% in December 2021 had no material impact on 2021 results.

The increase in net interest income was partly offset by an accounting adjustment of £69 million as a result of an update to the Society's estimate of future SVR income on mortgages.

This estimate was revised lower in 2021 as a result of the change in future assumptions relating to mortgage redemptions with expectations that customers will spend less time paying SVR at the end of their fixed rate period. This flows from our investment in digital mortgage switching being implemented from 2021 to 2023, and similar investment by other firms, making more cautious income recognition assumptions appropriate.

This adjustment has removed the majority of our 'Effective Interest Rate' asset for future SVR income which is now £17.3 million (2020: £71.1 million), reducing the risk of future income volatility. More information on this is in note 3 to the accounts.

Net interest margin

At 0.90%, our net interest margin improved significantly from the 0.81% reported in 2020 as a result of the movements in net interest income outlined above relative to our average total assets. Excluding the impact of the accounting adjustment for SVR the net interest margin for the year would have been 1.03%.

As a result of a more competitive market, new mortgage margins fell in the second half of 2021. This is expected to reduce net interest margin beyond 2022.

	2021 £m	2020 £m
Net interest income	**476**	409
Average total assets	**53,014**	50,515
	%	%
Net interest margin	**0.90**	0.81

Derivatives and hedge accounting

The Society uses derivative financial instruments (swaps) solely for risk management purposes to manage interest rate and currency risk arising from its fixed mortgage and savings activity and from non-sterling and fixed rate wholesale funding.

The Society applies hedge accounting where possible and its approach continued to be effective throughout the period. The overall impact in the Income Statement is significantly reduced compared with the underlying movements in swap valuations seen in the market. The loss of £7 million for the year represents hedge ineffectiveness and fair value movements on derivatives where hedge accounting has not been obtained (2020: £1 million).

Chief Financial Officer's Review Continued

Management expenses

Overall management expenses increased by £18 million or 7%. The majority of the increase was due to the impact of higher variable pay in recognition of the strong performance against our targets, salary and cost inflation, continued investment to improve the resilience of services to members, enhancements to online services and investment in our new mortgage platform. We also continued our refurbishment of branches.

Ensuring that we spend our members money wisely and maintain our cost efficiency advantage is a key part of the Society's strategy. The cost to mean total assets ratio of 0.50%[2] (2020: 0.49%) is expected to remain among the lowest in the UK building society sector. The cost to income ratio improved to 56%[3] (2020: 60%). Excluding the impact of the accounting adjustment for SVR income, the ratio for the year would have been 49%.

Further information regarding management expenses is included in note 9 to the accounts.

Expected credit losses

The performance of our mortgage book improved compared with our expectations following the emergence of the Covid-19 pandemic. In 2020, the Society granted 40,000 mortgage Covid-19 payment holidays, none of which were active at 31 December 2021. The vast majority of customers returned to making full mortgage payments and only 0.10% of all of our mortgage customers were in arrears of greater than 2.5% of the balance at the year end (2020: 0.09%).

Despite a continued cautious approach to estimating expected credit losses (ECLs), our improving credit performance together with an improved economic outlook resulted in a reduction to our provision for ECLs and a release of £29 million (2020: charge of £36 million) has been recognised in the accounts.

Notwithstanding this improved performance, uncertainty remains and judgement has been required in order to calculate the provision required at 31 December 2021. We have continued to consider a range of potential scenarios including a severe downside where house prices fall by around a third and unemployment more than doubles. More information on the ECL calculation methodology including the different scenarios which have been used is included in note 12 to the accounts.

At the year end, total provisions were £19 million, of which £9 million related to post model adjustments (PMAs) where the risks were not assessed as adequately captured in the Society's modelling. This has reduced from 2020 where a total provision of £48 million was recognised, of which £38 million was PMAs.

The adjustments cover the following risk areas:

- The potential for losses as a result of cladding remediation on flats where fire safety standards have not been met.
- Risks relating to Covid-19 payment holidays for accounts with extended payment holidays or additional risk flags.
- A more granular assessment of house price information which provides a more accurate view of indexed loan to values (LTVs) and risks associated with pockets of negative equity.
- Risks which cannot easily be modelled such as for fraud within the portfolio.

In 2020 there were adjustments which covered risks relating to all Covid-19 mortgage payment holiday accounts and for the potential of a house price index (HPI) fall once support measures such as the stamp duty holiday and furlough were removed.

Following the continued good performance of the mortgage book and sustained house price performance, these adjustments are no longer required.

The remaining £9.6 million of ECL provision relates to the modelled losses, including the impact of alternative economic scenarios. The alternative scenarios reflect a range of possible outcomes as the economy recovers from the pandemic.

IFRS 9 requires loans to be assessed as 'stage 2' where there has been a significant increase in credit risk. Loans are held in stage 2 until such a time when they are considered to have 'cured' by performing for a sustained period of time, typically 12 months from the stage 2 trigger event. In 2021 stage 2 accounts reduced to 6.9% (2020: 8.2%). 92.7% of the book remains in stage 1 (2020: 91.3%).

As a result of these changes the ECL provision now equates to 0.04% of the overall mortgage book (2020: 0.11%).

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

Charitable donation to the Poppy Appeal

The Society continued to support The Royal British Legion's Poppy Appeal with £0.6 million donated during the year (2020: £0.8 million), bringing the total donated over the Society's relationship with the Legion to £19.4 million.

Taxation

In 2021, the corporation tax charge was £42 million (2020: £23 million), reflecting an effective tax rate of 18.0% (2020: 18.5%). In 2021 it was announced that from 2023 the Corporation Tax rate is set to increase to 25% and the banking surcharge is set to decrease to 3%. Due to the timing of the royal assents, the corporation tax increase is reflected in the deferred tax liability at the balance sheet date. However, the banking surcharge decrease had not been substantively enacted at the balance sheet date and therefore is not reflected in these financial statements. The changes in rates are not expected to have a significant impact on the effective tax rate in future. Further information is included in note 13 to the accounts.

2. Administrative expenses, depreciation and amortisation/Average total assets.
3. Administrative expenses, depreciation and amortisation/Total income.

Balance Sheet

Overview

Mortgage balances grew by £3.1 billion and liquidity increased by £0.3 billion. Retail savings balances grew by £1.7 billion and wholesale funding increased by £1.5 billion.

Mortgage growth was funded by a mix of growth in retail savings and wholesale funding.

A summarised Balance Sheet is set out below:

	2021 £m	2020 £m
Assets		
Loans and advances to customers	**46,620.6**	43,482.8
Liquidity	**7,622.0**	7,314.5
Other	**287.1**	701.0
Total assets	**54,529.7**	51,498.3
Liabilities		
Retail savings	**39,890.2**	38,151.1
Wholesale funding	**11,907.3**	10,367.9
Subordinated liabilities and subscribed capital	**56.9**	67.2
Other	**215.7**	706.0
Total liabilities	**52,070.1**	49,292.2
Equity		
General reserve	**2,012.6**	1,835.1
Other equity instruments	**415.0**	415.0
Other	**32.0**	(44.0)
Total equity	**2,459.6**	2,206.1
Total liabilities and equity	**54,529.7**	51,498.3

Loans and advances to customers

Our lending strategy remains focused on high quality, low loan to value first charge mortgages 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 way.

In 2021, we advanced a record £9.6 billion of mortgages (2020: £6.7 billion) and mortgage balances grew by £3.1 billion (2020: £1.2 billion). The year on year growth in mortgages of 7.2% was above mortgage market growth of 4.6%[4] resulting in our market share increasing to 3.0% (2020: 2.9%).

We also repurchased two buy to let loan portfolios totalling £0.5 billion. The loans were previously originated by the Society and have been recognised within loans and advances to customers from the point of repurchase.

The Society seeks to adjust growth in response to market pricing and funding conditions; as a result of this growth was moderated in the second half of the year with balance growth of £0.7 billion compared with £2.4 billion in the first six months of the year.

New lending on owner-occupier homes accounted for 65% of total new lending in 2021 (2020: 60%) at an average LTV of 65.7% (2020: 65.5%). During the year the Society introduced a range of 95% LTV loans to support first time buyers entering the market. The number of first time buyer loans advanced was 7,100, an increase from 3,200 in 2020.

Total mortgage assets at 31 December 2021 stood at £46.6 billion (2020: £43.4 billion) which comprised £27.4 billion of owner-occupier loans (2020: £25.7 billion) and £19.2 billion buy to let loans (2020: £17.7 billion). The balance weighted indexed LTV of the mortgage book at 31 December 2021 reduced to 50.9%[5] (2020: 52.8%).

Possessions and forbearance have remained low with 27 cases in possession at the year end (2020: 22), with forbearance levels having increased by 27.1% year on year in value terms and 13.9% in number of cases as the Society continues to support its customers following the Covid-19 pandemic. Despite these increases, the Society continues to have very low arrears with only 0.10% of mortgage balances where arrears are more than 2.5% of the balance (2020: 0.09%) at 31 December 2021 compared with the latest available industry average of 0.67%[6].

Liquidity

Liquidity assets increased to £7.6 billion (2020: £7.3 billion) as we maintained a prudent liquidity buffer, demonstrated by our Liquidity Coverage Ratio (LCR) remaining high at 187% (2020: 179%), 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 98% of the portfolio rated Aaa–Aa3 (2020: 93%). 99% of liquid assets are held in UK sovereign or UK financial institutions (2020: 98%).

Included in liquid assets are £0.7 billion of assets held at fair value through other comprehensive income (FVOCI). As at 31 December 2021, the balance on the FVOCI reserve was a £5 million gain, net of tax (2020: £2 million gain, net of tax).

Retail funding

Retail savings increased in the year by £1.7 billion to £39.9 billion (2020: £38.2 billion), representing growth of 4.6%, compared with market growth of 7.8%[4]. As a result, the Society's savings market share reduced slightly to 2.4%[4] (2020: 2.5%).

The Society continued to support the cash ISA market, increasing our market share to 6.5%[4] (2020: 6.3%).

Our lower growth relative to the household savings market followed a particularly strong savings performance at the end of 2020. Market growth was also strong in current accounts, products that are not offered by the Society.

Our mortgage book continues to be predominantly funded by retail savings with 86% of mortgage loans funded in this way (2020: 88%).

4. Source: Bank of England.
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 2021.

Chief Financial Officer's Review Continued

Wholesale funding

We use wholesale funding to diversify our sources of funding, enabling growth and lowering risk, which then benefits savings members through better savings rates and mortgage customers through enabling us to offer more competitive long-term rates.

Wholesale funding increased by £1.5 billion in the year to £11.9 billion (2020: £10.4 billion) with further drawdowns from the Term Funding Scheme with additional incentives for Small and Medium Sized Enterprises (TFSME).

Wholesale issuances during the year included £0.3 billion from an inaugural issuance in senior non-preferred debt and £0.4 billion issued through the Economic Master Issuer Retail Mortgage Backed Securities (RMBS) programme which was recognised in the year with two industry awards. A further EURO €0.8 billion covered bond was issued in July 2021. There was £5.25 billion of Central Bank Term Funding (TFSME) outstanding as at 31 December 2021 (2020: £4.55 billion).

Equity

The Society's equity is predominantly made up of 137 years of retained profits in the general reserve and Additional Tier 1 (AT 1) capital. The Society made post-tax profits of £191 million in the year and total equity increased £0.3 billion to £2.5 billion, reflecting a £29 million distribution to AT 1 capital holders and movements in the cash flow hedge reserve.

Pension fund

The pension scheme assets and liabilities are recorded in the Society's accounts and the overall position was a surplus of £29 million at the end of 2021 (2020: £10 million). These assets and liabilities are impacted by market movements and the increase in the year was driven by the growth in UK corporate bond yields and the updated valuation of the pension scheme assets. 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[7] as at 31 December 2021 is summarised below. During the year, the capital resources increased to £2,337 million, primarily through the increase in Common Equity Tier 1 (CET 1) driven by profit after tax of £191 million.

The increase in capital, together with a 2% decrease in risk weighted assets (RWAs), has increased our CET 1 ratio to 36.2% (2020: 33.0%).

The Society submitted an updated Internal Ratings Based (IRB) model to the PRA to comply with required regulatory changes due in January 2022. The update addresses changes in the loss given default and the cyclicality of the probability of default model. Initial feedback has been received and further work is being undertaken prior to adopting the model updates in 2022.

Until the updated models are fully approved, the Society has agreed to hold additional risk weighted assets (RWAs) from 1 January 2022, if this was applied at 31 December 2021 it would lead to an increase in RWAs of 43% and a reduction in the CET 1 ratio for the Society to 26.4%. The final model output may vary from this initial assessment, which may further adjust the CET 1 ratio, effectively bringing forward changes of increasing RWAs envisaged in Basel IV. The Society expects that from 2024, Basel IV RWA floors will be phased in and as transition develops will reduce the Society's reported CET 1 ratio, as they will not reflect our low risk mortgage book and long run loss experience. Applying the Basel IV RWA floors to the year end figures on a full transition basis would result in a CET 1 ratio of approximately 18%. It is important to note that whilst we do not have a regulatory leverage requirement today (see below) we do expect leverage will be our binding capital constraint in the future.

The Society's Total Capital Requirement (TCR) at December 2021 was £565 million, equating to 10.7% of RWAs (2020: £574 million; 10.6%). We exceed this requirement using CET 1 capital alone. The setting of the Society's Pillar 2 requirements will be updated in 2022 as it changes from an absolute amount to a percentage of RWAs as set out in recent regulatory guidance.

We are not currently bound by regulatory leverage ratios which measure Tier 1 capital against total exposures, including off-balance sheet items. The PRA confirmed in policy statement PS21/21 that the UK leverage ratio framework only applies to banks and building societies with either retail deposits of £50 billion or more or non-UK assets equal to or greater than £10 billion; neither of these measures currently applies to the Society. The UK leverage ratio has increased slightly to 4.8% (2020: 4.6%) driven by the increase in capital resources in the year.

	End-point 31 Dec 2021 £m	End-point 31 Dec 2020 £m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	**1,921.8**	1,783.3
Total Tier 1 capital	**2,336.8**	2,198.3
Total capital	**2,336.8**	2,198.3
Risk weighted assets	**5,303.6**	5,410.6
Capital and leverage ratios:	**%**	%
Common Equity Tier 1 (CET 1) ratio	**36.2**	33.0
CRR leverage ratio[1]	**4.3**	4.3
UK leverage ratio[2]	**4.8**	4.6

1. The Capital Requirements Regulation (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.

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.

7. Excluding any IFRS 9 transitional provisions which were negligible.

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 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 rate compared to the CACI savings database for market average rate for savings accounts, excluding current accounts and offset savings. This measure and comparative have been updated in the year to use CACI source data for the market rate. The previous source was Bank of England adjusted average rates.
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 asset ratio A measure of cost efficiency through the ratio of the Society's operating expenses in relation to its balance sheet assets. This ratio is not impacted by changes in interest rates and as such aids comparability of the Society's efficiency in times of significant interest rate changes. This measure is widely used across the building society sector.	Administrative expenses, depreciation and amortisation as a percentage of average total assets.
Cost to income ratio A measure of costs relative to income more generally used by banks. Unlike cost to mean asset ratio this ratio will be impacted by significant changes in interest rates or widening margins.	Administrative expenses, depreciation and amortisation as a percentage of total income.

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 13 and 28
Key performance indicators Our performance highlights are presented within this Strategic Report. Our remuneration scorecard and targets are included in the Directors' Remuneration Report. Our key alternative performance measures are explained above.	See page 2 See page 121
Our colleagues • Information relating to colleague engagement is included within this Strategic Report. • 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. • 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. • Disclosures relating to our CEO pay ratio are included in this report. • 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 relationship and delivering excellent service to members.	See page 17 See page 17 www.thecoventry.co.uk See page 25 More information is available at www.thecoventry.co.uk See page 124
Human rights Information on the policies we have in place to address the risk of modern slavery in this Strategic Report.	See page 25
Anti-bribery and corruption Information on our Anti-bribery and Corruption Policy is included in this Strategic Report.	See page 25
Our communities Information on how we interact with our communities is included in this Strategic Report.	See page 18
Our environment Information on the Society's environmental commitments is included in this Strategic Report. Our full Environmental Policy is published on our website.	See page 24 www.thecoventry.co.uk

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

Steve Hughes

Chief Executive
24 February 2022

Risk Management Report

This section outlines the risks that the Society is exposed to and how they are managed.

Risk Management Report

Introduction

This Risk Management Report explains the principal risks that the Society is currently exposed to, and provides information on how these risks are managed.

The report also includes information on the Society's capital position - holding capital is a key tool in ensuring the Society protects members from the impact of any related risk which may materialise.

Principal risks

The principal risk categories to which our business model is inherently exposed are set out below. These risks are managed through the Society's Enterprise Risk Management Framework (ERMF); more information on these risks is included within this report.

Principal risks are those risks that the Society believes could significantly affect the achievement of the Society's purpose. Additionally, top and emerging risks, those risks that could impact the Society's Strategic plan or business model, are regularly considered and reviewed. Information on the Society's top and emerging risks is included in the Strategic Report.

Risk categories	Mitigation
Retail credit risk The risk of loss to the Society if borrowers do not meet their contractual payments in full and/or on time.	We operate robust underwriting and affordability assessments which, together with appropriate credit policies, results in the Society lending responsibly and remaining low risk.
Treasury credit risk The risk that the Society's wholesale creditors are unable to meet their financial obligations or that the underlying value of the wholesale asset suffers due to changes in creditworthiness of the counterparty.	We operate under a treasury risk management framework reviewed annually by the Board which limits the size and breadth of exposures to good quality counterparties with a low risk of failure.
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 and foreign exchange rate swap agreements to mitigate the impact of changes in interest rates and foreign exchange rate.
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, or from external events. Such events could include the increasing threat of cyber attacks, loss of data or service outages. This includes both legal and regulatory risk.	We actively identify, assess and manage the operational risks to which the Society is exposed. During 2021 we continued to adapt, enhancing our operational risk management framework to enable the Society to react effectively to the demands of the Covid-19 pandemic, as well as ongoing regulatory requirements and change. We have built in business continuity capability and have undertaken work to understand the key services to ensure operational resilience. We closely monitor the regulatory environment to understand and model the impact of upcoming regulatory change.
Model risk The risk of an ineffective or incorrectly interpreted model leads to losses, 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 risks and opportunities. We have a robust strategic planning process which includes capital and liquidity stress testing. The strategic planning assumptions are regularly reviewed to ensure there continues to be focus on risks which could become threats to the business model over the medium to long term.

Controlling and managing risk

The Society operates a simple business model. It manages risk through the ERMF, which 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 to ensure it operates effectively. The Society will continue to enhance the ERMF as required to ensure it identifies and manages risk within its low risk appetite.

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.
- Designs, interprets and develops other key frameworks, including Conduct, Model and Operational Risk frameworks.
- 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

- Provides independent and objective assurance and advice on all matters related to the achievement of Society objectives.
- Conducts independent testing and verification of the adequacy and effectiveness of the Society's governance, risk management, controls, policies, processes and first line compliance.
- Is responsible for providing assurance that risk management processes are functioning as designed and that strong evidence regarding compliance with relevant regulation and legislation exists.

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. Where a trigger or limit is breached, an escalation process exists to ensure it is escalated, reported and managed effectively, through the appropriate channels.

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 four elements:

- Tone from above – the Board and executive management act, and encourage employees to act, with openness and integrity, especially in the fair treatment and duty to members. Employees are encouraged to report observed non-compliance, risk incidents and 'near misses'.
- Accountability – employees understand both the core values of the Society and its approach to risk. Where individuals have specific risk management responsibilities, these are included within role profiles and objectives, and employees understand 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.
- Effective communication and challenge - a sound risk culture should promote an environment of open communication and effective challenge in which decision-making processes encourage a broad range of views, allow for testing of current practices, stimulate a constructive critical attitude among colleagues, and promote an environment of open and constructive engagement throughout the Society. The Society has embedded an enhanced and effective Whistleblowing policy with supporting procedures.
- Incentives – the Society makes sure that its performance management and reward frameworks are effectively designed and embedded to promote its desired risk management behaviours and attitudes.

In particular, the Society does not pay any sales incentives to employees.

The Society undertook a risk culture review during 2021 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 decision making. These appetite statements are reviewed on an annual basis to ensure they remain effective.

The Board's strategy towards risk and risk appetite is to achieve operational, conduct and prudential resilience that protects the long-term interests of our membership and the Society, and also reflects our market role in supporting economic growth and financial stability.

Boundary conditions have been developed and calibrated in order to help achieve this. 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 stress testing carried out by the Society including 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 and objective 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

- 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.

Conduct Risk and Compliance Committee (CRCC)

Chair: Ian Baker,
Head of Conduct Risk Oversight and Compliance

- 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.

Asset and Liability Committee (ALCO)

Chair: Lee Raybould,
Chief Financial Officer

- 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.

Retail Credit Risk Committee (RCRC)

Chair: Neil Wilson,
Head of Retail Credit Risk

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

Operational Risk Committee (ORC)

Chair: Peter Frost,
Chief Customer Officer

- Oversees and monitors operational risk (including all sub-categories) in line with the Board's stated risk appetite.

Model Risk Committee (MRC)

Chair: Lee Raybould,
Chief Financial Officer

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

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 £56.8 billion in 2021 (2020: £53.5 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 2021 £m	Off-balance sheet exposures[1] 2021 £m	Maximum credit risk exposure 2021 £m	On-balance sheet carrying value 2020 £m	Off-balance sheet exposures[1] 2020 £m	Maximum credit risk exposure 2020 £m
Cash and balances with the Bank of England	6,650.2	—	6,650.2	5,728.9	—	5,728.9
Loans and advances to credit institutions	295.8	—	295.8	590.5	—	590.5
Debt securities	676.0	—	676.0	995.1	—	995.1
Loans and advances to customers	46,620.6	2,105.8	48,726.4	43,482.8	2,534.0	46,016.8
Derivative financial instruments	406.3	—	406.3	173.5	—	173.5
Total	54,648.9	2,105.8	56,754.7	50,970.8	2,534.0	53,504.8

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 0.3% (2020: 0.4%) 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 2021 (2020: 4.9%) with an average loan to value of 34.1% (2020: 37.6%).

Through the early part of 2021 we continued to support customers potentially impacted by the pandemic, in line with government guidance. During 2021 the performance of the mortgage portfolio has been stable with no sign of deterioration including from those customers who took Covid-19 payment holidays.

More information on the performance of the retail portfolio 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)	2021 £m	2021 %	2020 £m	2020 %
Residential mortgages: owner-occupier	**27,203.0**	**58.3**	25,508.7	58.7
Residential mortgages: buy to let	**19,237.7**	**41.3**	17,740.7	40.8
Total traditional residential mortgages	**46,440.7**	**99.6**	43,249.4	99.5
Residential near-prime mortgages	**46.7**	**0.1**	53.8	0.1
Residential self-certification mortgages	**112.8**	**0.2**	136.9	0.3
Commercial mortgages[1]	**1.3**	**—**	1.8	—
Total non-traditional mortgages	**160.8**	**0.3**	192.5	0.4
Unsecured personal loans[1]	**14.5**	**—**	17.2	—
Total gross balance	**46,616.0**	**99.9**	43,459.1	99.9
Impairment	**(18.9)**	**—**	(48.1)	(0.1)
EIR, fair value and other adjustments[2]	**23.5**	**0.1**	71.8	0.2
Total net balance	**46,620.6**	**100.0**	43,482.8	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)	2021 %	2020 %
London	**27.8**	27.9
South East England	**18.5**	18.7
Central England	**14.0**	14.1
Northern England	**13.2**	13.1
East of England	**11.8**	11.7
South West England	**8.8**	8.8
Scotland	**3.4**	3.4
Wales and Northern Ireland	**2.5**	2.3
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 4.49, a slight reduction on the 4.5 of the prior year. The Society lends on multiples of up to 5.0 for very low LTV cases. Any lending at or above 4.49 times income is closely monitored and by value 12.6% (2020: 7.8%) of advances were made at or above this level in 2021, which is 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 174.9% (2020: 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 2021 has improved compared with 2020 as a result of continued growth in HPI offset by an increase in the 85% to 95% banding as a result of additional lending in the year particularly for first time buyers. The overall average LTV (balance weighted) decreased from 52.8% to 50.9% during the year. The following tables calculate LTV based on the weighted average loan balances unless stated otherwise.

Total mortgage book profile by number of accounts (Audited)	2021 %	2020 %
Indexed loan to value:		
< 50%	**56.7**	53.4
50% to 65%	**27.7**	26.4
65% to 75%	**11.0**	13.6
75% to 85%	**3.1**	5.8
85% to 95%	**1.5**	0.8
> 95%	**—**	—
Total	**100.0**	100.0
Average indexed loan to value of stock (simple average)	**44.0**	45.7
Average indexed loan to value of stock (balance weighted)	**50.9**	52.8

The average indexed LTV of loan stock in London has decreased to 51.0% (2020: 51.7%) as a result of increases in house prices during the year. The rest of the portfolio has also seen indexed LTV fall to 50.7% (2020: 53.3%).

The average LTV of gross new lending in 2021 is shown below. In 2021 owner-occupier lending increased reflecting the active house purchase market during the year, in particular during the stamp duty holiday, with continued strong performance in remortgages both for owner-occupier and buy to let.

The average LTV of the new lending book has marginally increased during the year.

Gross lending by balance - new lending profile (Audited)	2021 %	2020 %
Owner-occupier purchase	**39.5**	34.9
Owner-occupier remortgages	**24.5**	23.1
Owner-occupier further advances	**2.0**	2.1
Buy to let purchase	**12.2**	8.1
Buy to let remortgages	**21.0**	31.1
Buy to let further advance	**0.8**	0.7
Total	**100.0**	100.0
Average loan to value (simple average)	**61.7**	59.8
Average loan to value (balance weighted)	**64.8**	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 has remained broadly unchanged in 2021 with a return to normal lending following the measures implemented in response to the Covid-19 pandemic and in particular to periods of lockdown.

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

While all Covid-19 related payment holidays have ended during the year the Society has continued to support its customers who have experienced payment difficulties as a result of the Covid-19 pandemic. In total the Society granted 40,101 mortgage payment holidays all of which had expired at 31 December 2021 (2020: active 2,565).

Of the accounts which took a payment holiday, 98.3% had commenced repayments at 31 December 2021 (2020: 98.3%). A further 1.7% had not resumed payments (2020: 1.7%); these accounts had balances of £95.6 million and a balance weighted LTV of 52.0% (2020: £87.6 million, 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

During 2021, the Society's longer-term arrears position remained broadly stable at £72.7 million (2020: £72.4 million) of accounts three months or more in arrears. This position has been supported by the government payment holiday and furlough schemes which have ended during the year. Despite this the overall credit quality of the book remains high and arrears levels compare favourably to the UK finance average.

Balances greater than one year in arrears as shown below have continued to increase. This is as a result of the moratorium on house repossessions as part of government Covid-19 measures which ended in mid April 2021. Following this, the Society recommenced activity on previously held possessions and has started moving high arrears cases through litigation, which is anticipated to take longer as court speeds remain impacted as lenders resume activity with demand being higher. Due to the ongoing effects of Covid-19 the Society remains diligent in ensuring it has identified any issues affecting borrowers that may influence our decision to proceed and 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. As at 31 December 2021 the Society had 27 properties in possession (2020: 22).

	2021		2020	
(Audited)	**Gross balance £m**	**Arrears balance £m**	Gross balance £m	Arrears balance £m
Greater than three months	**68.5**	**2.7**	69.3	2.7
Greater than six months	**34.8**	**2.1**	38.7	2.1
Greater than one year	**15.8**	**1.3**	12.5	1.1
In possession	**4.2**	**0.1**	3.1	0.2

The accounts in arrears as a percentage of loans and advances to customers reduced during the period with the exception of those cases that are greater than one year in arrears. This is due to the reopening of the economy and for most customers a return to normal payments following payment holidays; however, the ongoing impact of the pandemic for some customers continues. The overall level of arrears remains significantly lower than the UK Finance average, as shown below:

	2021		2020	
(Audited - Society only)	**Society %**	**UK Finance[1] %**	Society %	UK Finance[1] %
Greater than three months	**0.17**	**0.83**	0.18	0.83
Greater than six months	**0.09**	**0.58**	0.10	0.56
Greater than one year	**0.04**	**0.36**	0.03	0.31
In possession	**0.01**	**0.01**	0.01	0.01

1. UK Finance data as at 31 December 2021 (31 December 2020).

This trend has been seen in the marginal increase of loans and advances to customers where arrears are more than 2.5% of the balance from 0.09% to 0.10% in 2021 as a result of the increase in possessions following the moratorium; however, this remains far lower than the industry average of 0.67%[1].

1. Source: Prudential Regulation Authority – latest available information at 30 September 2021.

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:

- 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. The table below provides details of loans which have had forbearance measures granted. The Society applies the Prudential Regulation Authority (PRA) definition of forbearance (which aligns to the European Banking Authority) for the purpose of this disclosure and in the period has updated this disclosure to reflect where forbearance measures have been granted in the last 24 months, regardless of whether the incident of forbearance has now been lifted and the loans back on their original terms. This does not include Covid-19 payment holidays which under guidance from the PRA are not considered to be forbearance but does include customers who have previously had Covid-19 payment holidays and then moved onto forbearance measures as a result of entering financial difficulty.

	2021		2020[1]	
(Unaudited)	No. of accounts	Carrying value £m	No. of accounts	Carrying value £m
Forbearance: Accounts past due				
Concessions	**129**	**18.3**	124	15.6
Payment holidays[2]	**45**	**4.5**	46	5.4
Product transfers	**2**	**0.3**	—	—
Temporary transfer to interest only	**13**	**2.1**	1	0.3
Term extensions	**1**	**0.1**	—	—
Forbearance Indicators: Accounts past due				
Concessions	**189**	**21.4**	198	21.7
Payment holidays[2]	**136**	**15.0**	159	16.4
Product transfers	**11**	**2.0**	14	2.8
Temporary transfer to interest only	**226**	**52.2**	119	29.1
Term extensions	**2**	**0.4**	1	0.2
Total Forbearance	**754**	**116.3**	662	91.5
Of which stage 2	**419**	**70.6**	328	50.5
Of which stage 3	**247**	**32.8**	209	25.6
ECL on forborne accounts		**0.3**		0.7

1. Prior year information has been updated to reflect forbearance measures granted in the last 24 month to aid comparability, previously disclosed showing measures granted in the last 12 months.
2. In line with guidance from the PRA Covid-19 payment holidays are not considered to be a forbearance measure and are not included within this number.

The number of loans in forbearance has increased compared to 2020 reflecting the impact of the end of government support schemes established to combat 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. Despite this increase the average LTV (balance weighted) of accounts in forbearance as at 31 December 2021 remains low at 49.9% (2020: 53.1%) and mitigates the risk of loss to the Society in the event that the borrower defaults on the loan at a future date.

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 ECL for these as an impairment provision. 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 where the requirements under the cure period have not yet been met. More information on ECLs 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 (SICR) 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.

More information on the accounting judgements which have been applied are included in note 12 to the accounts.

At 31 December 2021, 92.7% of the Society's loans and advances to customers were within the stage 1 'performing' category (2020: 91.3%). This proportion has increased during 2021 as a result of the improved credit environment.

The table below shows gross loans and advances to customers split by IFRS 9 stage at 31 December 2021 and at 31 December 2020. 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		
2021 (Unaudited)	**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	**25,078.1**	**2,022.3**	1,970.8	51.5	**102.6**	41.8	60.8	**27,203.0**
Buy to let	**18,051.9**	**1,127.6**	1,090.5	37.1	**58.2**	21.6	36.6	**19,237.7**
Total traditional residential mortgages	**43,130.0**	**3,149.9**	3,061.3	88.6	**160.8**	63.4	97.4	**46,440.7**
Non-traditional mortgages								
Residential near-prime	**19.5**	**14.6**	13.6	1.0	**12.6**	6.3	6.3	**46.7**
Residential self-certified	**39.4**	**58.4**	56.1	2.3	**15.0**	9.3	5.7	**112.8**
Commercial lending	**—**	**1.0**	1.0	—	**0.3**	0.3	—	**1.3**
Total non-traditional mortgages	**58.9**	**74.0**	70.7	3.3	**27.9**	15.9	12.0	**160.8**
Unsecured loans	**11.9**	**2.3**	2.1	0.2	**0.3**	0.2	0.1	**14.5**
Total gross loans	**43,200.8**	**3,226.2**	3,134.1	92.1	**189.0**	79.5	109.5	**46,616.0**
	%	**%**	%	%	**%**	%	%	**%**
Total gross loans	**92.7**	**6.9**	6.7	0.2	**0.4**	0.2	0.2	**100.0**

			Of which			Of which		
2020 (Unaudited)	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

At the reporting date, 92.7% of loans are in stage 1 with 6.9% in stage 2 and 0.4% in stage 3 (2020: 91.3%, 8.2% 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.

Risk Categories Continued

Stage 2 balances were £3,226.2 million (2020: £3,549.1 million) and of these £92.1 million or 2.9% (2020: £81.3 million, 2.3%) are in arrears by 30 days or more. A total of £1,930.0 million (2020: £2,604.1 million) are present within stage 2 as a result of the SICR criteria established in 2020 as a result of the Covid-19 pandemic of which none (2020: £324.9 million or 9.2%) have an active Covid-19 payment holiday at 31 December 2021. All £1,930.0 million of these accounts (2020: £2,561.5 million or 98.4%) were paid up to date as at 31 December 2021 and remain in stage 2 as a result of cure rules or other indicators of increased risk. The reduction in stage 2 balances in the period is predominantly as a result of the cure of these Covid-19 balances transferring back into Stage 1 following application of the cure rules.

Of the £189.0 million (2020: £206.6 million) of loans which are classified as stage 3 at the reporting date, 38.5% or £72.4 million were greater than three months in arrears (2020: 35.0%, £72.4 million), and 42.1% (£79.5 million) were paid up to date (2020: 44.0%, £90.9 million). This position has deteriorated slightly in the year as a result of the moratorium on repossessions which, while it has now ended, has led to delays in loans which have defaulted not moving through to possession. At 31 December 2021 the number of properties which were in possession remained low; a total of £4.2 million of stage 3 loans were in possession (2020: £3.1 million), representing 27 individual properties (2020: 22 properties).

The table below shows total impairment provision split by IFRS 9 stage at 31 December 2021 and the previous year. For stages 2 and 3, further analysis of accounts which are past due and not past due is also shown.

			Of which			Of which		
Impairment provision as at 31 December 2021 (Audited)	**Stage 1 12 month ECL £m**	**Stage 2 lifetime ECL £m**	Not past due £m	Past due £m	**Stage 3 lifetime ECL £m**	Not past due £m	Past due £m	**Total £m**
Residential mortgages								
Owner-occupier	**1.2**	**5.0**	5.0	—	**2.5**	1.8	0.7	**8.7**
Buy to let	**2.3**	**3.2**	3.1	0.1	**3.0**	1.7	1.3	**8.5**
Total traditional residential mortgages	**3.5**	**8.2**	8.1	0.1	**5.5**	3.5	2.0	**17.2**
Non-traditional mortgages								
Residential near-prime	**—**	**—**	—	—	**0.1**	0.1	—	**0.1**
Residential self-certified	**—**	**0.1**	0.1	—	**0.3**	0.3	—	**0.4**
Commercial lending	**—**	**0.1**	0.1	—	**0.1**	0.1	—	**0.2**
Total non-traditional mortgages	**—**	**0.2**	0.2	—	**0.5**	0.5	—	**0.7**
Unsecured loans	**0.1**	**0.6**	0.5	0.1	**0.2**	0.1	0.1	**0.9**
Mortgage pipeline	**0.1**	**—**	—	—	**—**	—	—	**0.1**
Total impairment provision	**3.7**	**9.0**	8.8	0.2	**6.2**	4.1	2.1	**18.9**
	%	%	%	%	%	%	%	%
Total impairment provision	**19.6**	**47.6**	46.5	1.1	**32.8**	21.7	11.1	**100.0**

			Of which			Of which		
Impairment provision as at 31 December 2020 (Audited)	Stage 1 12 month ECL £m	Stage 2 lifetime ECL £m	Not past due £m	Past due £m	Stage 3 lifetime ECL £m	Not past due £m	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

A reconciliation of movements in gross exposures and impairment provision by IFRS 9 stage from 1 January to 31 December 2021 is as follows:

(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 2021	**39,703.4**	8.6	**3,549.1**	28.4	**206.6**	11.1	**43,459.1**	48.1
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	**(1,160.0)**	(0.1)	**1,160.0**	3.5	**—**	—	**—**	3.4
Transfers from Stage 1 to Stage 3	**(27.4)**	—	**—**	—	**27.4**	0.5	**—**	0.5
Transfers from Stage 2 to Stage 3	**—**	—	**(65.9)**	(0.3)	**65.9**	0.3	**—**	—
Transfers from Stage 3 to Stage 2	**—**	—	**40.0**	0.7	**(40.0)**	(0.7)	**—**	—
Transfers from Stage 3 to Stage 1	**14.1**	—	**—**	—	**(14.1)**	(0.1)	**—**	(0.1)
Transfers from Stage 2 to Stage 1	**948.4**	0.1	**(948.4)**	(0.6)	**—**	—	**—**	(0.5)
Net movement arising from transfer of stages	**(224.9)**	—	**185.7**	3.3	**39.2**	—	**—**	3.3
New loans originated[1]	**10,452.3**	0.8	**51.2**	—	**1.3**	—	**10,504.8**	0.8
Remeasurement of ECL due to changes in risk parameters	**—**	—	**—**	(0.9)	**—**	(1.7)	**—**	(2.6)
Increase in post model adjustments	**—**	(5.3)	**—**	(21.4)	**—**	(1.6)	**—**	(28.3)
Remeasurement of ECL due to model refinements	**—**	0.2	**—**	—	**—**	—	**—**	0.2
Loans derecognised in the period	**(4,894.6)**	(0.6)	**(431.2)**	(0.4)	**(48.0)**	(1.0)	**(5,373.8)**	(2.0)
Other items impacting Income Statement reversal	**—**	—	**—**	—	**—**	(0.1)	**—**	(0.1)
Net write offs directly to Income Statement	**—**	0.1	**—**	—	**—**	(0.1)	**—**	—
Income Statement release for the period		(4.8)		(19.4)		(4.5)		(28.7)
Repayment and charges	**(1,835.3)**	—	**(128.6)**	—	**(9.2)**	—	**(1,973.1)**	—
Net write offs and other ECL movements	**(0.1)**	(0.1)	**—**	—	**(0.9)**	(0.4)	**(1.0)**	(0.5)
At 31 December 2021	**43,200.8**	3.7	**3,226.2**	9.0	**189.0**	6.2	**46,616.0**	18.9

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.

Risk Management Report

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 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								
Transfers from Stage 1 to Stage 2	(3,104.2)	(0.1)	3,104.2	0.5	—	—	—	0.4
Transfers from Stage 1 to Stage 3	(39.1)	—	—	—	39.1	0.9	—	0.9
Transfers from Stage 2 to Stage 3	—	—	(57.5)	(0.2)	57.5	0.2	—	—
Transfers from Stage 3 to Stage 2	—	—	36.9	0.9	(36.9)	(0.9)	—	—
Transfers from Stage 3 to Stage 1	10.8	0.1	—	—	(10.8)	(0.1)	—	—
Transfers 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 were made during 2020. These included an update to the calculation of the probability of default for interest rate shock, enhancements to staging methodology for unsecured personal loans (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.

The table below provides more analysis on the reason for presence within stage 2 under the Society's SICR criteria. Where a loan meets more than one of these criteria at the balance sheet date it has been included in only one category, being the first which applied and led to its movement into stage 2:

(Audited)	**2021 Stage 2 balance £m**	**2021 Provision lifetime ECL £m**	**2021 Total £m**	2020 Stage 2 balance £m	2020 Provision lifetime ECL £m	2020 Total £m
Quantitative criteria	**484.0**	**(1.0)**	**483.0**	559.3	(1.8)	557.5
Backstop criteria (arrears of one monthly payment)	**145.5**	**(0.1)**	**145.4**	216.7	(1.0)	215.7
Forbearance applied	**59.5**	**(0.1)**	**59.4**	3.9	—	3.9
Other qualitative criteria	**2,537.2**	**(7.8)**	**2,529.4**	2,769.2	(25.6)	2,743.6
Total	**3,226.2**	**(9.0)**	**3,217.2**	3,549.1	(28.4)	3,520.7

The largest component of Other qualitative criteria above is that of accounts in stage 2 due to the SICR criteria established as a result of the Covid-19 pandemic totalling £1,884.7 million (2020: £2,169.1 million) as at 31 December 2021. Other balances relate to accounts which have missed direct debit payments or county court judgements. See note 2 to the accounts for more information on the SICR criteria applied for stage 2 allocation.

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.

The LTV distribution of the mortgage book by IFRS 9 stage has increased slightly during 2021 with 93% of the mortgage book having an LTV of 75% or lower (2020: 90%). The increase in the higher LTV bandings has been driven by increased lending in this area in the year, in particular to first time buyers. However, the overall average LTV (balance weighted) of the book decreased from 52.8% to 50.9% during the year. This is shown by IFRS 9 stage below:

As at 31 December 2021 Indexed loan to value (Audited)	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
< 50%	19,621.1	1,344.1	95.1	(1.5)	21,058.8
50% to 65%	14,271.5	1,174.6	60.9	(5.3)	15,501.7
65% to 75%	6,250.1	580.3	23.8	(4.7)	6,849.5
75% to 85%	2,080.0	112.1	5.7	(2.2)	2,195.6
85% to 90%	670.4	8.2	0.5	(0.4)	678.7
90% to 95%	275.6	3.8	0.1	(0.3)	279.2
95% to 100%	19.7	0.3	0.1	—	20.1
> 100%	0.5	0.5	2.5	(1.3)	2.2
Unsecured loans	11.9	2.3	0.3	(0.9)	13.6
Mortgage pipeline	—	—	—	(0.1)	(0.1)
Other[1]	—	—	—	(2.2)	(2.2)
Total	43,200.8	3,226.2	189.0	(18.9)	46,597.1

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 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.

The credit quality of the mortgage book has improved, with performance being much better in 2021 than was projected at the end of 2020 whilst the uncertainty around the pandemic was at its highest.

The probability of default (PD) tables below have been updated in the year to incorporate the distribution of the Group's credit exposure by internal risk grade and their respective average 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). These internal risk grades are used in the assessment of SICR as well as within the calculation of regulatory expected losses and capital under IRB; for more information on SICR criteria and the differences between the IFRS 9 ECL calculation and regulatory expected losses see note 1 to the accounts. 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 decrease of impairment reflected in the higher PD bands in the year as a result of the post model adjustments (PMAs) applied as a result of the Covid-19 pandemic in the prior year following application of cure rules. For more information on PMAs see note 12 to the accounts.

Risk Categories Continued

As at 30 December 2021 Risk grades (Audited)	Average life time Probability of default (%)	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
Performing						
A–C	0.18%	38,807.7	1,783.3	—	(3.0)	40,588.0
D–F	1.97%	4,169.3	1,099.8	—	(3.0)	5,266.1
G–J	19.78%	43.3	309.7	—	(1.2)	351.8
Non performing						
K	39.83%	—	13.7	—	(0.1)	13.6
Default and possession	100.00%	—	—	186.7	(4.4)	182.3
Other[1]	Not applicable	180.5	19.7	2.3	(7.1)	195.4
Mortgage pipeline	Not applicable	—	—	—	(0.1)	(0.1)
Total		43,200.8	3,226.2	189.0	(18.9)	46,597.1

1. Other includes 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 risk grades or to Default.

As at 30 December 2020 Risk grades (Audited)	Average life time Probability of default (%)	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
Performing						
A–C	0.14%	35,876.6	1,879.0	—	(15.9)	37,739.7
D–F	1.99%	3,574.8	1,304.9	—	(9.6)	4,870.1
G–J	18.45%	36.0	345.3	—	(1.9)	379.4
Non performing						
K	33.36%	—	12.3	—	(0.1)	12.2
Default and possession	100.00%	—	—	202.1	(7.1)	195.0
Other[1]	Not applicable	216.0	7.6	4.5	(13.4)	214.7
Mortgage pipeline	Not applicable	—	—	—	(0.1)	(0.1)
Total		39,703.4	3,549.1	206.6	(48.1)	43,411.0

1. Other includes 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 risk grades or to Default.

Credit risk outlook

Headwinds persist as a result of the macroeconomic conditions (e.g. high inflation) together with ongoing risks arising from the pandemic (e.g. new variants and their downstream impacts on the economy). We therefore maintain a close watching brief and will continue to manage policy in accordance with any emerging risks.

As at 31 December 2021 we did not see any deterioration in the book as a result of the end of the furlough scheme in September.

The Society's ongoing focus on low risk lending which is geographically spread across the UK continues to offer 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 reflects 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, supplemented by daily monitoring by the Treasury Credit Committee.

Exposures are reviewed continuously to ensure that they remain within the approved limits. Developments with treasury counterparties are closely monitored with detailed internal credit assessments performed annually on key counterparties with limits 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.

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

	Exposure value by Moody's rating				
2021 (Audited)	**Aaa-Aa3 £m**	**A1-A3 £m**	**Baa1-Baa3 £m**	**Unrated £m**	**Total £m**
Central banks and sovereigns	**6,855.1**	**—**	**—**	**—**	**6,855.1**
Multilateral development banks (supranational bonds)	**157.1**	**—**	**—**	**—**	**157.1**
Financial institutions	**434.0**	**155.4**	**—**	**—**	**589.4**
Mortgage backed securities	**20.4**	**—**	**—**	**—**	**20.4**
Total	**7,466.6**	**155.4**	**—**	**—**	**7,622.0**

	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

Risk Categories Continued

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

2021 (Audited)	Treasury assets					Of which, debt securities		
	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	**6,855.1**	**—**	**478.2**	**20.4**	**7,353.7**	**522.5**	**(3.7)**	**518.8**
Supranationals	**—**	**157.1**[1]	**—**	**—**	**157.1**	**156.9**	**0.3**	**157.2**
France	**—**	**—**	**111.2**[2]	**—**	**111.2**	**—**	**—**	**—**
Australia	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Canada	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**6,855.1**	**157.1**	**589.4**	**20.4**	**7,622.0**	**679.4**	**(3.4)**	**676.0**

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.

2020 (Audited)	Treasury assets					Of which, debt securities		
	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.

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 at a later date. Counterparty credit risk includes the risk of default by the derivative counterparty and 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 and Coventry Godiva Covered Bonds LLP). These allow the Society to settle exposures 'net' in the event of a default or other predetermined event.

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

The Society's Covered Bond programmes (Coventry Building Society Covered Bonds LLP and Coventry Godiva Covered Bonds LLP) and Economic Master Issuer plc enter into swaps under separate ISDA agreements. Each agreement includes a CSA which provides for collateralisation of the swap exposure.

The derivative exposures can only be settled net following a default or other predetermined event, and therefore exposures are presented gross on the Balance Sheet.

The Society has a £0.1 million derivative net credit exposure (2020: £7.5 million) all £0.1 million of which is with A1 rated institutions (2020: £7.5 million).

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 2021. Due to the underlying quality of the assets, they have remained resilient to the market movements caused by the impact of the Covid-19 pandemic.

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 2021.

As at 31 December 2021, no treasury assets were past due (2020: none).

Treasury credit risk outlook

There remains significant uncertainty in the economic outlook moving into 2022. 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.

Risk Categories Continued

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 the Market Risk Committee, ALCO, BRC and the Board.

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

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 economic 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.
- Downward shocks allow for negative rates.
- The effect of external hedging is included.
- The Society's reserves and some low interest savings accounts are allocated in line with Board approved limits.

The Society monitors its exposure against the prescribed shocks of the Basel Committee on Banking Supervision (BCBS) outlier tests 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 timeframes 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 Society uses a structural hedge to manage net interest sensitivity arising from its reserves and some of its low interest savings accounts. The structural hedge has a number of Board approved parameters that limit the size, duration and concentration of maturities of the hedge.

The table below shows the exposure to reprice risk against a range of value and earnings-based assessments as at 31 December 2021. 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 so that NII benefits should interest rates rise, i.e. NII disbenefits from 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.

Shock applied (Unaudited)	**2021 £m**	2020 £m
Impact on present value of assets and liabilities at year end from a parallel change in yield curve:		
+100 basis points shift (EV 100)	**(1.3)**	4.4
-100 basis points shift (EV 100)	**5.2**	(1.7)
+200 basis points shift (EV 200)	**60.0**	49.5
-200 basis points shift (EV 200)	**(43.7)**	(12.0)
Impact on net interest income for the year from a parallel change in yield curve:		
+100 basis points shift	**8.2**	14.5
-100 basis points shift	**(33.1)**	(33.1)

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

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 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.

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 Bank 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 saw the Society implement a project to transition all of its exposures to suitable Risk Free Rates. As at 31 December 2021 the Society has remaining a small portfolio of mortgages with balances of £17.7 million (2020: £20.6 million) which are linked to LIBOR which transition to Bank Rate trackers on 1 January 2022. As a result, the Society no longer has LIBOR exposures beyond the 2021 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 in order to fully hedge the foreign exchange risk. Both pre and post-hedged exposures are managed within limits.

Further information is in note 23 to the accounts.

Market risk outlook

The effects of the pandemic and its resulting restrictions continued to be felt through 2021. While question marks remain around the employment situation, a surge in supply driven inflation was enough to encourage the Bank of England to hike rates modestly in December 2021. Their inflation outlook should see further modest rate hikes in 2022 before inflation recedes in 2023 and 2024. While significant uncertainty remains around the progression of the pandemic in 2022, asset prices, and especially residential property, remain strong.

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

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 the Liquidity Management Committee, 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.

Risk Categories Continued

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. During the year the Society has fully repaid all of its TFS drawings (£2.25 billion) and drawn an additional £2.95 billion from TFSME amounting to £5.25 billion in total.

The Board sets limits to avoid both overreliance 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 model 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 severe 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 ad hoc scenarios and reverse stress testing to test both the current balance sheet and the latest projection, thereby ensuring that actual and forecast liquidity remain within appetite. The forecast and actual liquidity levels are monitored by the Liquidity Management Committee, ALCO and BRC, and overseen by the Board.

The Society held a significant buffer above its regulatory liquidity requirement throughout 2021.

Liquidity resources

The Society's liquidity resources include funds in cash accounts held in the Bank of England reserve account and other 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 2021, the Society's LCR was 187% (2020: 179%), significantly above the regulatory minimum.

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

The Society's liquidity resources at 31 December 2021 are set out in the following table. The amount of high quality liquid assets increased in 2021 as the Society drew further funding from the TFSME facility at the Bank of England to supplement its funding growth in 2021-2022. This is ultimately offset by a reduction capacity for contingent liquidity at the Bank of England causing an overall decrease in liquidity resources.

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)	**2021 £m**	2020 £m
Cash and balances with the Bank of England	**6,345.9**	5,225.8
UK Government securities and other qualifying securities	**473.2**	918.4
Sub-total high quality liquid assets	**6,819.1**	6,144.2
Other securities – on-balance sheet	**6.5**	7.2
Contingent liquidity	**4,344.0**	6,358.0
Total	**11,169.6**	12,509.4

Liquidity adequacy and stress testing

The ILAAP ensures that the Society holds sufficient liquidity both to meet 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 adequately captured by the LCR.

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

Wholesale funding

During 2021, the Society was awarded EMEA Structured Finance Issue of Year from International Financing Review and Overall Deal of the Year from Global Capital for its Economic Master Issuer programme. In the year the Society issued an additional £350 million from this programme, and also raised £250 million from an inaugural issuance in Senior Non-Preferred, which is MREL eligible.

Overall, the wholesale funding at 31 December 2021 has increased by £1.5 billion as a result of new issuances in the year which have not been fully offset by maturities, and drawings under the TFSME. Funding from the Term Funding Schemes increased by £0.7 billion which reflects new drawings under the TFSME offset by the final repayment of previous TFS funding.

		2021		2020	
(Audited)	Notes to the accounts	**£m**	**%**	£m	%
Deposits from banks, including repo agreements	21	**788.6**	**6.6**	589.1	5.7
Amounts drawn under the Term Funding Scheme	21	**5,251.6**	**44.1**	4,551.1	43.9
Other deposits and amounts owed to other customers		**614.8**	**5.2**	610.5	5.9
Debt securities in issue					
Medium term notes	22	**1,856.5**	**15.6**	1,607.2	15.5
Covered bonds	22	**2,565.0**	**21.5**	2,440.3	23.5
Residential Mortgage Backed Securities	22	**830.8**	**7.0**	569.7	5.5
Total		**11,907.3**	**100.0**	10,367.9	100.0

Wholesale funding outstanding at 31 December 2021 remained primarily denominated in sterling as shown below:

(Audited)	**GBP £m**	**EUR £m**	**Total £m**
Deposits from banks, including repo agreements	**788.6**	**—**	**788.6**
Amounts drawn under the Term Funding Scheme	**5,251.6**	**—**	**5,251.6**
Other deposits and amounts owed to other customers	**614.8**	**—**	**614.8**
Debt securities in issue			
Medium term notes	**1,856.5**	**—**	**1,856.5**
Covered bonds	**1,098.5**	**1,466.5**	**2,565.0**
Residential Mortgage Backed Securities	**830.9**	**—**	**830.8**
Total as at 31 December 2021	**10,440.9**	**1,466.5**	**11,907.3**
Total as at 31 December 2020	**8,966.0**	**1,401.9**	**10,367.9**

All of the euro denominated 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.

	2021		2020	
(Audited)	**£m**	**%**	£m	%
Less than one year	**1,819.8**	**15.3**	2,260.1	21.8
One to two years	**1,797.1**	**15.1**	2,174.5	21.0
Two to five years	**7,415.6**	**62.3**	5,489.0	52.9
More than five years	**874.8**	**7.3**	444.3	4.3
Total	**11,907.3**	**100.0**	10,367.9	100.0

Risk Categories Continued

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 marginally increased during the year driven by acquisition of 'on demand' retail saving products.

At 31 December 2021 (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]	6,650.2	—	—	—	—	6,650.2
Loans and advances to credit institutions	295.8	—	—	—	—	295.8
Debt securities	—	1.1	24.6	409.4	240.9	676.0
Loans and advances to customers	40.3	861.4	2,439.6	11,822.1	31,457.2	46,620.6
Hedge accounting adjustment	—	0.5	(16.0)	(263.7)	(16.2)	(295.4)
Derivative financial instruments	0.1	0.2	35.2	309.3	61.5	406.3
Investment in equity shares	—	—	—	—	4.9	4.9
Total financial assets	6,986.4	863.2	2,483.4	12,277.1	31,748.3	54,358.4
Liabilities						
Shares	25,072.1	805.2	7,395.7	6,351.1	266.1	39,890.2
Sale and repurchase agreements[2]	—	0.4	524.9	—	—	525.3
Amounts drawn under TFSME[2]	—	1.7	—	5,250.0	—	5,251.7
Deposits from banks - other	261.1	2.1	—	—	—	263.2
Other deposits	—	—	5.0	—	—	5.0
Amounts owed to other customers	—	532.9	76.9	—	—	609.8
Secured debt securities in issue - RMBS and covered bonds	—	3.2	0.3	2,765.1	627.2	3,395.8
Senior unsecured debt funding	—	9.8	401.6	1,197.5	247.6	1,856.5
Hedge accounting adjustment	—	—	(7.8)	(82.8)	(5.5)	(96.1)
Derivative financial instruments	1.9	3.2	21.6	163.1	30.0	219.8
Subordinated liabilities	—	0.3	—	—	15.0	15.3
Subscribed capital	—	1.6	—	—	40.0	41.6
Total financial liabilities	25,335.1	1,360.4	8,418.2	15,644.0	1,220.4	51,978.1
Net liquidity gap (contractual)	(18,348.7)	(497.2)	(5,934.8)	(3,366.9)	30,527.9	2,380.3

1. Includes £164.8 million mandatory reserve with the Bank of England.
2. Included in Deposits from banks on the Balance Sheet.

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.

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 5 years' column but with no accrued interest after this date. The profile has remained broadly similar to the prior year.

At 31 December 2021 (Audited)	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**More than 5 years £m**	**Total £m**
Liabilities					
Shares	**25,877.4**	**7,418.2**	**6,365.6**	**266.0**	**39,927.2**
Deposits, amounts owed to other customers and debt securities in issue	**580.2**	**1,455.1**	**9,291.3**	**899.7**	**12,226.3**
Other liabilities and adjustments	**40.5**	**109.3**	**160.6**	**4.1**	**314.5**
Subordinated liabilities	**0.6**	**0.6**	**4.5**	**16.1**	**21.8**
Subscribed capital	**2.4**	**2.5**	**19.4**	**40.0**	**64.3**
Total liabilities	**26,501.1**	**8,985.7**	**15,841.4**	**1,225.9**	**52,554.1**
Undrawn loan facilities	**26.2**				**26.2**

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

Risk Categories Continued

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 2021 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	—	296.3	6,353.9	—	6,650.2
Loans and advances to credit institutions	295.8	—	—	—	295.8
Debt securities	196.2	—	473.3	6.5	676.0
Loans and advances to customers	14,314.2	—	5,603.4	26,703.0	46,620.6
Hedge accounting adjustments	—	—	—	(295.4)	(295.4)
Derivative financial instruments	—	—	—	406.3	406.3
Other assets	—	—	—	176.2	176.2
Total as at 31 December 2021	**14,806.2**	**296.3**	**12,430.6**	**26,996.6**	**54,529.7**
Total as at 31 December 2020	13,226.8	485.8	13,467.3	24,318.4	51,498.3

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 £15.6 billion at 31 December 2021 (2020: £17.0 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. Both Fitch and Moody's amended their outlooks on the ratings from Negative to Stable during the year, reflecting their view that the UK operating environment has improved. Short and long-term credit ratings as at 24 February 2022 are set out below:

(Audited)	Long-term	Short-term	Outlook	Date of last credit opinion
Moody's	A2	P-1	Stable	July 2021
Fitch	A-	F1	Stable	November 2021

Liquidity and Funding risk outlook

The Society remained committed to prudent liquidity levels and funding levels raising funds via retail and wholesale markets (including TFSME) with beneficial conditions. The Society has £5.25 billion of TFSME drawings which are due to be repaid by the end of 2025, primarily via new issuance from wholesale funding markets. The Society's wholesale funding plan also considers regulation related to meeting Minimum Requirement for own funds and Eligible Liabilities (MREL), and the impact on the Society's ratings of senior preferred debt.

In 2021, the package of government support available helped to create buoyant funding conditions across both retail and wholesale markets; the reduction of these measures combined with growing cost of living increases uncertainty. The Society is satisfied that it can accommodate these funding uncertainties if they arise; 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 being a purpose-led mutual, 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 drives its decision making and actively supports delivery of good customer outcomes. As a result, the Society continues to meet 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 2021, 96%[1] of complaints referred to the Financial Ombudsman Service were decided in the Society's favour (2020: 97%) compared with an industry average of 53%[2] (2020: 51%).

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.

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 rewards customer service.

The Society has embodied its strategic approach in four key elements – Purpose, Belief, Values and Ambition – which are articulated as a set of shared goals across the Society. Employees understand and share the focus on these shared goals and 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 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 reporting into the Chief Risk Officer 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

Ensuring the safety of the Society's colleagues and customers while maintaining excellent service standards has remained at the forefront of the approach to managing the ongoing impact of Covid-19 through 2021. As the country emerged from lockdown we have been able to return branch services to full operation, with some ways of working that reflect the ongoing challenges posed by the virus.

The contact centre has continued to provide excellent standards supported by colleagues working both remotely and on site.

The temporary arrangements for mortgage payment holidays came to an end in July 2021. The Society continues to support borrowers experiencing temporary or longer-term financial difficulties, but in the main borrowers have been able to return to normal monthly mortgage payments.

1. Source: Financial Ombudsman – complaints upheld in the Society's 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.

Risk Categories Continued

Supporting vulnerable customers

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

The Society has a strong track record in supporting vulnerable customers with vulnerability experts in place across our teams, a Vulnerability Working Group that regularly assesses the needs of customers, and a focus on developing services that make dealing with the Society as easy as possible. 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. Through 2021 the Society introduced further improvements to the bereavement process, expanded the range of bespoke services it can offer individual members, and introduced a new vulnerability member panel which enables members to provide practical suggestions and feedback to further improve the experience of members who require additional support. The Society is committed to enhancing its training and development of colleagues, and during the year delivered additional training to colleagues who support mortgage intermediaries, and two bespoke training events focused on hidden disabilities and Age UK support.

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.

Examples of this include the launch in the year of a number of dedicated improvements to our digital channels which previously experienced a higher volume of complaints than other channels. We redesigned our online services making it easier for people to access their online banking and allowing access via mobile devices, letting people manage their money from anywhere. In listening to the complaints from members as well as other sources such as member focus groups, we have improved NPS scores in this area in the year from +20 to +46 in 2021. We have listened to customers and will continue to enhance our service in response to complaints to improve our customer experience.

As a result of this approach complaint volumes remained low with 13% fewer complaints overall in 2021 compared with the previous year. We note the underlying contributors were different as Covid-19 became less impactful and volume was driven mainly by peaks in business activity levels, such as mortgage volumes arising from the stamp duty concessions, but acknowledge the general reductions following service improvements made in areas such as our digital channels as noted above.

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

Conduct risk outlook

The FCA’s plans for 2022 continue to be aligned to its objectives of ensuring that markets continue to function well, that the most vulnerable are protected, that the impact of firm failure is minimised, that scams are tackled, and that consumers and SMEs are treated fairly.

The key developments are expected to include:

Proposals for the introduction of a Consumer Duty which is expected to be implemented in 2023, building upon the present day obligations to treat customers fairly. Given the Society’s commitment to products that provide good customer outcomes as well as long-term value, and its drive to be best in class for customer service, it is well placed to meet the new Consumer Duty expectations.

An ongoing focus on supporting borrowers in financial difficulty, as the outlook for borrowers moves from being short-term and Covid-19 driven to longer-term and driven by the broad macroeconomic impact. We expect any changes to the regulatory guidance to be developed during the second half of 2022, but again, the Society is well placed to respond to and support borrowers who face either short or longer-term affordability challenges.

Further guidance is expected on branch and ATM closures and conversions. While other financial services firms have reduced their branch network footprints, over the last three years the Society has invested significantly in its branch network, delivering a new warm, welcoming and modern look and feel to our branches. During 2022 we will continue this programme, continuing to support and invest in the communities we serve.

The Society is not complacent about the challenges ahead, but its belief in Putting Members First and its focus on delivering excellent customer service combined with high levels of colleague engagement provides a strong base from which to continue to support the delivery of 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 loss arising from inadequate or failed internal processes, people and systems, or from external events.

Operational risk profile

The Society manages operational risks with the objective of protecting members' interests and keeping the Society safe and secure. 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 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 relate to information technology, information security (including cyber threats) and regulatory and financial reporting, which are covered below in addition to updates on operational resilience and the regulatory environment.

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

Operational resilience, which is the ability to prevent, adapt, respond to, recover and learn from operational disruptions, is a strategic priority for the Society. Following the release of operational resilience regulations in March 2021 by both the PRA and the FCA, the Society has defined its important business services and set impact tolerances which provide both strategic and operational scope for developing resilience controls and capabilities.

An extensive exercise was conducted to collect and analyse data in order to determine which of the Society's business services qualify as important for operational resilience purposes and what their associated impact tolerances are. Important business services and corresponding impact tolerances were approved by BRC in September 2021.

Important business services have been assigned senior business owners, and have been mapped to the people, processes, technology, third parties, facilities and information upon which they rely to operate soundly. They have also been assessed by the Society's Operational Resilience team against failure scenarios to baseline existing resilience capabilities.

The work conducted to date, in compliance with the operational resilience regulations, has set Board level scope for service resilience, enabling the ongoing review, development and maintenance of operational resilience controls in line with recovery time objectives and impact tolerance thresholds.

Regulatory environment

Responding to regulatory change is a key priority for the Society. In the second half of the year the focus has been on meeting regulatory expectations in the interrelated areas of operational resilience, outsourcing and third party risk management and operational continuity in resolution. A coordinated programme of work is underway to enhance operations to meet the new requirements which are due at various dates in 2022.

In addition, the regulatory agenda has highlighted the accuracy of regulatory and financial reporting as a key area for the industry. The Society has instigated a programme of improvement work to ensure that requirements in this area continue to be met.

Information technology and security

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 cyber attacks and IT outages. Maintaining systems availability and information security defences in the face of increasing threats remains of critical importance.

During 2021 the Society continued to invest in enhancing its digital capabilities, IT operations and security defences, and in upgrading its IT estate. Good progress has been made with higher priority change projects delivering improvements with the Infrastructure Transformation and Environments and Testing programmes completing during the year. The Society continues to monitor and assess its protection from the increasing threat of cyber crime, implementing incremental improvements, thereby continually strengthening its risk management capabilities. In addition, the Society has continued to enhance its approach to simulation exercises with a strong focus on assessing and managing the threat of cyber attacks.

In-progress programmes, to upgrade the Society's mortgage origination system and Oracle infrastructure, have also made significant progress during the year with notable phased implementations which will continue into 2022.

The Society is transforming and combining its Change and IT functions to execute the future change roadmap under a Product Operating Model. The effective management of change risk remains a key priority of the Society and underpins the Society's delivery of the change roadmap. Change assurance and oversight are provided utilising a three lines of defence model.

Risk Categories Continued

Regulatory and financial reporting

As the Society continues to grow and meet the needs of its stakeholders, including that of greater regulatory interest, it has recognised areas of improvement where further investment in modern technologies can improve operations and drive efficiencies for the present and prepare for the future. To this aim a Finance Transformation Programme has been initiated to transform the finance operating model, including the implementation of a new cloud based general ledger and regulatory reporting solution. This represents a significant investment by the Society in a multi-year programme and is subject to ongoing assurance and oversight activities across the three lines of defence.

People risk

Through the pandemic, ensuring the safety and wellbeing of our people and customers has been paramount. This included the implementation of measures to adapt our branches and other workplaces to comply with government guidance and investment in technology and equipment to enable colleagues to work from home. Looking forward we plan to offer hybrid working permanently whilst continuing to ensure that the needs of the Society and its members are met. Hybrid working creates different people risks around recruitment, employee development and control environment, for example, which we will manage closely, particularly in a very dynamic and competitive labour market.

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 and the following analysis applies to all of these risk categories.

In 2021, the total cost of risk incidents was £0.5 million (2020: £4.2 million). No further costs were recorded in 2021 relating to the Covid-19 pandemic risk incident (2020: £3.0 million).

An analysis of risk incidents by Basel risk category by both value and number of incidents is set out below. There remained no reportable risk events within the Basel risk categories for: Damage to Physical Assets and Injury; Internal Fraud; and Employment Practices and Workplace Safety.

	% of total volume		% of total losses	
Operational risk by Basel category[1] (Unaudited)	**2021**	2020	**2021**	2020
Execution, delivery and process management	**7**	25	**1**	4
Business disruption and system failures	**—**	12	**—**	71
External fraud	**73**	38	**92**	3
Clients, products and business practices[2]	**20**	25	**7**	22
Total	**100**	100	**100**	100
Value of losses (£m)			**0.5**	4.2

1. Losses less than £5,000 have been excluded.
2. Payment Protection Insurance (PPI) included.

Operational risk outlook

Information technology and security will continue to be key areas for assessing, monitoring and enhancing risk mitigation activities. Change, originating from both strategic initiatives and regulation, will also be areas for ongoing focus. The Society is committed to continuing 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, and regulatory modelling requirements, e.g. for minimum capital assessments which are also expanding.

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

Management of model risk

The Society has a Board approved policy on model risk which defines the standards to be applied to mitigate the risk. This policy is supported by the Model Risk Framework (MRF). The MRF defines key governance requirements and processes for the critical models and calculators used throughout the Society. The Chief Financial Officer is accountable for managing model risk within the Society with independent oversight being the responsibility of the Chief Risk Officer.

The Society continued to strengthen its management of model risk in 2021 through the Model Risk Committee (MRC) which has the purpose of ensuring the exposure faced by the Society remains within the appetite prescribed by the Board. Two new technical sub-committees of MRC were established to support its work, the Retail Credit Models Committee (RCMC) and Financial Models Committee (FMC). RCMC and FMC discuss detailed credit and financial model developments, model performance monitoring, model validation reports and make recommendations to MRC on model updates and redevelopments. MRC also receives updates on progress against actions raised by internal and external reviews of the models falling within the scope of the MRF, and on an annual basis reviews and approves the MRF itself.

The MRF categorises 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.

The MRF prescribes certain requirements for critical models that must be met in order for these models to remain in continued use including compliance with governance and formal approval from the MRC. These include:

- Annual first line reviews of the models and independent oversight of these annual reviews.
- Independent model validation of new and incumbent models, with high criticality models validated on an annual basis.
- Governance around model assumptions, compliance and data including sensitivity analysis.
- Model overview statements which identify conditions when the models may fail.
- Requirements on model development and documentation.

In addition, for regulatory capital models, an annual self-assessment against Capital Requirements Regulations and applicable PRA Supervisory Statements is undertaken in order to attest to their compliance with prevailing regulations.

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 submitted updated IRB models to the PRA to reflect the regulations that come into force on 1 January 2022 as set out in PRA Supervisory Statement SS11/13 Updated. The Society is working through a remediation plan to recalibrate aspects of the submitted IRB model set in order to fully fulfil the forthcoming 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.

Risk Categories Continued

Strategic risk

Strategic risk is the disruption to the sustainability of the business model or strategy from:

- Setting an overly ambitious or cautious plan with: inappropriate goals or targets; the wrong risk/reward balance; and/or a lack of capability or investment to deliver.
- The undertaking of initiatives, or a failure to innovate, that then undermines the sustainability of the business model, long-term performance and the independence of the Society.
- A failure to adapt to macroeconomic, political, industry, consumer, regulation or other external factors.
- The risks from climate change including the physical risks from flooding, erosion, subsidence and severe weather as well as the transitional risks as the UK moves to a net zero carbon economy by 2050 and the potential disruption to the UK housing and mortgage markets.

Managing strategic risk

Strategic risks are identified and mitigated as part of the Society's strategic planning process and through regular horizon scanning and oversight by the Board, supported by the Board Risk and Executive Risk Committees. This activity is complemented by regular financial forecasting as well as a range of stress testing activity to consider the longer-term and tail risks to the Society.

These risks are assessed against Board risk appetite, ensuring the right balance between the distribution of value to members, investing in the business and maintaining operational and financial resilience. Strategic risk is mitigated through a range of activities which include:

Strategic planning and financial forecasting – The Society forecasts and costs over a five year horizon with an updated forecast reviewed by management regularly taking into consideration changes in the external operating environment and key risks and sensitivities.

Monitoring of performance – Financial and non-financial performance is monitored monthly against forecasts and key indicators including consideration of emerging risks and mitigating actions.

Stress testing and sensitivity analysis – Strategic risk is regularly stress tested as part of internal management reporting as well as the annual Strategic Plan and Internal Capital and Liquidity Adequacy Assessment Processes. In 2021, the Society also stress tested its loan portfolio against a number of external climate change scenarios. As an output from these activities, the Society identified potential actions that can be taken if risks crystallise. To effectively manage more extreme events the Society also maintains a Recovery Plan in line with regulatory guidance that contains a range of indicators that are regularly monitored and a list of strategic actions that could be taken, if required, to protect the Society and ensure its business model remains sustainable in the long term.

Strategic risk outlook

Strategic risks are closely linked to the top and emerging risks outlined on page 28 in the risk overview.

The Covid-19 pandemic and the fiscal and monetary response to it have materially impacted the economic environment and consumer behaviour, including the acceleration in the use of digital/self-service channels and increased price competition for mortgage lending. This is being driven by increased household deposits, lower credit losses in the banking system and lower mortgage demand following the increase in stamp duty. Inflation and higher bank rates could also impact mortgage affordability, house prices and demand.

A number of capital regulation changes are expected including the implementation of leverage based Minimum Requirements for own funds and Eligible Liabilities (MREL) as well as the phase-in of Basel IV risk weighted capital floors.

Although the currently modelled climate risks to our mortgage stock are limited, the transitional risk as the UK moves towards net zero emissions could be disruptive to our business model. This could include increased capital requirements or minimum Energy Performance Certificate (EPC) requirements for landlords for example.

Stress testing indicates that the Society has sufficient financial resources to remain resilient against these key developments and continues to operate within its strategic risk appetite. This outlook reinforces the importance of the Society's strategic priorities and continues to focus on good value, straightforward lower risk mortgage and savings products delivered in an efficient way.

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, Capital Management Committee, 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 formally bound by its Total Capital Requirement (TCR) plus buffers, which are set by the PRA and FPC. The TCR was updated in 2021 and equates to 10.7% of RWAs or £565 million based on year end RWAs (2020: 10.6% of RWAs or £574 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.

The Society additionally has an MREL requirement of 18% of RWAs, which comfortably meets with CET 1 capital resources alone.

Further information on capital management is included in the Society's 2021 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 2021 (2020: 99%). The remaining retail credit risk exposures on legacy closed products are modelled using the standardised approach.

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 UK Capital Requirements Directive V (CRD V).

CRD V 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.

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 56.25% 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.

In addition to the PRA buffer, which is set individually for firms by the PRA, CRD V requires lenders to hold supplementary capital buffers. As at 31 December 2021, these were:

- A Capital Conservation Buffer (CCoB) of 2.5%.
- A Systemic Risk Buffer (SRB) at 0%[1].
- A macro-prudential Countercyclical Buffer (CCyB) at 0% (due to increase to 1% in December 2022).

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

Capital Continued

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.

The PRA confirmed in policy statement PS21/21 that the UK leverage ratio framework only applies to banks and building societies with either retail deposits of £50 billion or more or non-UK assets equal to or greater than £10 billion, neither of these measures currently applies to the Society.

The UK leverage ratio framework requires a minimum ratio of 3.25% calculated on the basis that the exposure measure excludes any central bank exposure with a maturity less than three months. Of this leverage requirement, a maximum of 25% may be met using high quality AT 1 capital. PS21/21 introduces a supervisory expectation that all banks and building societies meet this requirement.

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 is currently 0% (due to increase in December 2022 to 0.4%, in line with the CCyB, increasing the minimum UK leverage requirement to 3.65% from 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 have been 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 21.4% of RWAs. The Society will also be required to meet capital buffers from CET 1 which cannot be used for MREL compliance.

The Society issued its inaugural £250 million senior non-preferred debt in April, which counts towards MREL.

The amount of MREL required will increase further with the introduction of regulatory changes expected from 2022 onwards. Furthermore, when leverage becomes the binding capital measure, this will significantly 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 V. 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.

Risk weighted capital

The Society's capital position on a CRD V end-point basis is set out below based on all CRD V requirements that were in force during 2021 excluding transitional provisions. Further information on CRD V disclosures on a transitional basis is included in the Society's 2021 Pillar 3 Disclosures at www.thecoventry.co.uk.

At 31 December 2021, and throughout the year, the Society complied in full with the capital requirements that were in force. The CET 1 ratio increased to 36.2% (2020: 33.0%). Total risk weighted assets decreased by 2.0%. Most of this reduction relates to mortgage risk weighted assets, where the impact of 7.2% growth in the mortgage book has been more than offset by the effects of improved credit conditions and the decrease in LTV discussed in the credit risk section.

The Individual consolidated CET 1 ratio on an end-point basis at 31 December 2021 was 0.8% (2020: 0.7%) higher than the Group ratio due to assets held by entities that sit outside of the individual consolidation.

Capital position	**End-point 31 Dec 2021 £m**	End-point 31 Dec 2020 £m
Common Equity Tier 1 (CET 1) (audited)		
General reserve	**2,012.6**	1,835.1
Fair value through other comprehensive income reserve	**4.5**	2.3
Cash flow hedge reserve	**27.5**	(46.3)
Common Equity Tier 1 prior to regulatory adjustments (audited)	**2,044.6**	1,791.1
Common Equity Tier 1 regulatory adjustments		
Prudent additional valuation adjustment[1]	**(0.7)**	(1.0)
Intangible assets[2]	**(32.9)**	(31.0)
Cash flow hedge reserve[2]	**(27.5)**	46.3
Pension fund surplus adjustment[2]	**(19.9)**	(7.7)
Excess of expected loss over impairment[3]	**(31.4)**	(4.0)
Foreseeable distributions[4]	**(10.4)**	(10.4)
Common Equity Tier 1 capital (audited)	**1,921.8**	1,783.3
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 (audited)	**415.0**	415.0
Total Tier 1 capital (audited)	**2,336.8**	2,198.3
Tier 2		
Collective provisions for impairment	**—**	—
Total Tier 2 capital	**—**	—
Total capital (audited)	**2,336.8**	2,198.3
Risk weighted assets (unaudited)		
IRB approach		
Credit risk – retail exposures	**4,265.1**	4,375.7
Standardised approach		
Credit risk – retail exposures	**129.3**	138.1
Credit risk – liquidity book	**91.4**	141.9
Credit risk – other	**114.9**	102.0
Credit valuation adjustment risk	**67.1**	47.5
Operational risk	**635.8**	605.4
Total risk weighted assets (unaudited)	**5,303.6**	5,410.6
Common Equity Tier 1 ratio (unaudited)	**36.2%**	33.0%

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.

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 4.8% and 4.3% respectively (2020: 4.6% and 4.3% 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 2021 £m**	End-point 31 Dec 2020 £m
Total Tier 1 capital – used in CRR calculation	**2,336.8**	2,198.3
Adjustment for AT 1 restriction	**(21.1)**	(37.3)
Total Tier 1 capital – used in UK calculation	**2,315.7**	2,161.0
Leverage ratio exposures		
Total Balance Sheet assets	**54,529.7**	51,498.3
Mortgage pipeline[1]	**415.9**	500.8
Other committed facilities (undrawn lending)[1]	**13.1**	14.9
Repurchase agreements[2]	**74.5**	76.1
Netted derivative adjustments[3]	**(141.5)**	27.8
Other adjustments[4]	**(92.4)**	(429.7)
Total leverage ratio exposures – used in CRR calculation	**54,799.3**	51,688.2
Adjustment to exclude central bank reserves	**(6,327.6)**	(5,208.2)
Total leverage ratio exposure – used in UK calculation	**48,471.7**	46,480.0
CRR leverage ratio	**4.3%**	4.3%
UK leverage ratio	**4.8%**	4.6%

1. Mortgage pipeline are assessed at 20% and other commitments at 50%.
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.

Additional capital disclosures, including the European Banking Authority Templates, are available in the Society's 2021 Pillar 3 Disclosures at www.thecoventry.co.uk.

Capital outlook

In July, the PRA released policy statement PS16/21: 'Internal Ratings Based UK mortgage risk weights: Managing deficiencies', which will introduce the flooring of average IRB UK mortgage risk weights from January 2022. This measure would reduce the Group's year end CET 1 ratio by approximately 4%.

The Society has recently submitted an updated IRB model to the PRA to comply with required regulatory changes. The update addresses changes in the loss given default and the cyclicality of the PD model. Initial feedback has been received and further work is being undertaken prior to adopting the model updates in 2022. Until the updated models are fully approved, the Society has agreed to hold additional RWAs from 1 January 2022, if this was applied at 31 December 2021 it would lead to an increase in risk weighted assets of 43% and a reduction in the CET 1 ratio for the Society to 26.4%.

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 17.7%.

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 financially resilient.

Our approach to climate change

including climate related financial disclosures

This section outlines how the Society is responding to climate change including its climate related financial disclosures.

Climate Strategy and TCFD

This section sets out our understanding of the impact of climate change on the Society and its members. It also explains the activity we have completed during 2021 and have planned for 2022 and beyond in order to achieve our climate change targets.

The Society supports the recommendations provided by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), which call on companies to disclose the impacts of climate change on their businesses. The information disclosed within this report is structured to demonstrate our understanding of the risks associated with climate change, in a way that is transparent and in accordance with the TCFD, but also outlines how we have incorporated the requirements of the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) – Enhancing banks' and insurers' approaches to managing the financial risks from climate change.

The report is structured in the following way:

1. Climate related disclosures overview (below) and climate action plan
2. Our climate strategy
3. Governance
4. Risk management and approach to scenario analysis
5. Metrics and targets

More information is included in the Society's 2021 Sustainability Report which is available at www.thecoventry.co.uk.

Strategy	**Achievements in 2021**
• Developed its insight in to the risks and opportunities of climate change on our business model. • Climate change was considered extensively in the 2022 strategic planning process, including the use of scenario analysis to understand the potential physical and transitional risks on the business model. • Identified strategic partners who can support the Society's focus on climate.	• Produced our first ever Climate Action Plan, which sets out in detail how the Society will respond to the climate challenge. • Completed scenario analysis to assess our exposure to climate risks. • Launched our first ever green mortgage product. **Future focus** • Building the plan to reach net zero for Scope 3 emissions will be a key area of focus in 2022. • Continue to grow our green product range. • Further develop scenario analysis to inform strategic considerations and risks and opportunities.
Governance	**Achievements in 2021**
The Board has the ultimate responsibility for the management of risks relating to climate change. Shamira Mohammed is the nominated Board member who provides support and challenge to the Society's activity on climate in her role as ESG champion. Senior Managers Regime (SMR) accountabilities sit with the General Counsel.	Climate governance established through the activities of Board Risk Committee, the Executive People and Purpose Committee and the Climate Change Working Group. **Future focus** Continue to drive the delivery of the Society's climate commitments and the Climate Action Plan.
Risk management	**Achievements in 2021**
The Society seeks to understand the risks from climate change which will impact its operations, business model and members over time.	• Climate change has been embedded within our Enterprise Risk Management Framework (ERMF). • Enhanced our understanding of climate risk through identifying data gaps and working with strategic partners to enhance these. **Future focus** We will continue to train colleagues across the organisation in climate risk and continue to enhance our data capabilities.
Metrics and Targets	**Achievements in 2021**
The Society's targets for greenhouse gas (GHG) emissions are included within our Climate Action Plan. We also measure other climate targets including those for energy use, paper use, and waste and recycling.	Agreeing the Society's Climate Action Plan and achieving: • Carbon neutrality for Scope 1 emissions. • Net zero merits for Scope 2 emissions. Calculation of Scope 3 emissions in alignment with Partnership for Carbon Accounting Financials (PCAF) methodology. **Future focus** • Aligning our metrics to the Science Based Target initiative (SBTi) by 2024. • Creating credible transition plan which aligns to the 1.5°C pathway.

Our Climate Action Plan

In 2021 we produced our first ever Climate Action Plan, which sets out in detail how the Society will respond to the climate challenge over the next five years. The Plan sets out our ambitions concerning emissions and set out changes we will make to how we operate our business and what we can do to help encourage retrofitting of houses to reduce emissions.

The Climate Action Plan key areas of focus over the next five years are summarised below:

Our climate plan			
To be Carbon Neutral for Scope 1 emissions by 2021	To be Net Zero for Scope 2 emissions by end 2021	To achieve Net Zero for Scope 3 upstream emissions by 2030	An ambition to be fully Net Zero by 2040, including on our Scope 3 mortgage loans
Our operations			
Reduce our demand for energy	Transition to 100% renewable energy	Engage with suppliers to reduce emissions in the products and services we buy	To have 100% electric vehicles in our fleet by 2030

Our products		
Launch green mortgage propositions	Reward energy performance improvements by our customers	Provide loans to finance 1,000 home energy improvements by 2023
Our influence on society		
Proactively engage with our regulators on climate risk	Publish this climate plan and targets to stakeholders	Work with partners to deliver change and educate our employees and customers on climate matters
Governance and risk		
Report annually on progress against our targets aligned to external frameworks	Obtain third party assurance and ISO certification	Seek Member endorsement of our Climate Action Plan

Along with the above, the Societys plan is to achieve a Science Based Target by 2024, whereby we commit to significantly reducing our greenhouse gas emissions, in line with the goals of the 2015 Paris Agreement.

The Society definitions for emissions can be found below and reflect industry standards:

Scope 1

Scope 1 emissions are direct greenhouse gas (GHG) emissions that occur from our own operations (e.g our company vehicles, gas usage and fugitive emissions).

Scope 2

Scope 2 emissions are indirect GHG emissions associated with the purchase of our electricity.

Scope 3

Scope 3 emissions are the result of activities from assets not owned or controlled by the Society, but the Society indirectly impacts in its value chain. Scope 3 emissions include all sources not within an organisation's Scope 1 and 2 boundary and can be separated into the following two categories:

- Upstream Scope 3 emissions; business travel by means not owned or controlled by the Society, waste disposal and purchased goods and services.
- Downstream Scope 3 emissions; the emissions from the properties financed through the Society's operations – i.e. our mortgage customers.

When writing our first Climate section of the Annual Report, we've tried to do so in a way that is transparent and accessible. However, this is a new and emerging area from a reporting perspective and we recognise some of the language in this report requires further defining. A glossary can be found on page 193 which defines they key terminology used in this section.

Our Climate Strategy

We recognise that climate change is a critical issue for our stakeholders as well as for wider society. The impact of climate change also poses potential material risks to our business which need to be effectively managed on behalf of our members.

Our Climate Strategy is consistent with our purpose-led approach to business, as a mutual committed to our members. Our Climate Action Plan sets out a range of activities designed to enable us to contribute to a net zero world. In 2021 the Society committed to taking the necessary actions to positively contribute to addressing this generational challenge as well as effectively managing the risks to our business. Our initial ambition is to be carbon neutral in relation to our own operations. But we will go further along our value chain where we have opportunities to reduce emissions – for example, by encouraging suppliers to reduce their environmental impacts.

Our work in 2021 has been based around three important pillars:

1. The need to identify and set out our overall approach, including setting and agreeing specific emissions targets, which will guide us over the long term.
2. Ensuring our business is climate resilient and can effectively identify and measure climate risks arising from our business model.
3. To provide appropriate products and information to help our members retrofit their homes in order to reduce their environmental impacts.

Our ambition is to be net zero carbon emissions across all emission types by 2040, ten years ahead of the target set out by the Government.

Over the last 12 months we have made great progress towards this objective. However, the climate challenge for the UK's housing stock cannot be solved by the Society on its own. Collaboration will be required from stakeholders in government, the utilities and house builders if this objective is to be successfully achieved.

During 2021 the Society significantly enhanced its understanding of its climate risk exposures, over a range of time horizons. The risks of climate change contribute to a structural change affecting the financial sector at large, and we have sought to understand these impacts by use of scenario analysis. Further detail is provided in the scenario analysis section.

More information on assessing the risks and opportunities from climate change is set out below.

Risks and opportunities from climate change

In 2021 the Society developed its insight into the risks and opportunities of climate change to the Society's business model over the short (0-5 years), medium (6-10 years) and long term (10 years +).

The Board led the strategic planning process which focused on an assessment of the risks and opportunities arising from climate change in the short term, which aligns to the Society's strategic planning period and where most insight could be provided.

This analysis concluded that the Society's savings activities were less likely to be materiality impacted than its mortgage business.

The following themes were identified as opportunities:

- Firms like the Society with a strong and credible sustainability position will be better placed to navigate changing regulatory and societal expectations than many of its peers.
- The Society's expertise in lending, conduct risk position and strong intermediary franchise makes it well placed to lead on innovative climate financing.
- The Society will be more likely to be able to access new sources of funding in the capital markets should it originate substantial amounts of assets which meet the classification of 'green'.
- Demand for financing to retrofit the UK's housing stock looks likely to increase substantially in the short term, enabling the Society to gain market share and enhance its financial performance.
- As a mutual trusted by its members, the Society is well placed to help educate and support customers to mitigate their climate risks.
- The Society will have the opportunity to evolve its product offering to enable this to align to emerging customer demand for 'green' products.

Scenario analysis undertaken by the Society confirmed that the exposure to the physical impact of climate change through rising sea levels and flooding is likely to be limited, based on modelling over a range of timelines, up to 2080. The following risks were identified in relation to the Society's business:

- Mortgage members could experience affordability challenges as a result of climate impacts (e.g. rising transport and home heating costs).
- The regulator could introduce requirements to hold capital against climate risk, to force lenders to originate and hold on their books greater volumes of 'green' assets.
- Risk of 'stranded assets' – as climate events become more frequent and certain areas become too much of a credit risk to lend to.
- The potential for new conduct risks to arise from unintended consequences of policy changes such as home owners in areas prone to flooding being no longer able to obtain mortgage financing.
- The Society's own activities and those of its suppliers could be disrupted by climate increasing costs and risk, such as substantial rises in utility costs and the need to 'retrofit' the Society's own buildings.
- A disorderly transition to a low carbon economy could have a destabilising effect on the financial system impacting the Society's access to the capital markets and macroeconomic stability.
- The enhanced risk of 'greenwashing' as financial services firms look to position products to benefit from emerging consumer demand for environmentally focused products.

This analysis formed part of the 2022 Strategic Plan process, which was approved by the Board in November 2021. In response to the identified risks and opportunities, the Society has agreed its priorities for 2022 in order to mitigate the risks and take advantage of opportunities. These include, but are not limited to, enhancing our data capabilities, working with third parties and launching green mortgage products to encourage and support decarbonising of the UK housing stock. A key focus for 2022 is also to enhance its understanding, metrics and risks and opportunities relating to medium and long-term climate risk.

The assessment of the risks and opportunities of climate change was informed by scenario analysis discussed below. The work undertaken indicated that physical risk, such as flood, coastal erosion and subsidence, is not a material risk for the Society over any time horizon. These figures are only a forecast and the number of variables in this assessment are complex and subject to change, but on the basis of this data the Board Risk Committee endorsed the conclusion that physical risks in the Society were not assessed as being material. As highlighted in the scenario analysis section, the Society will continue to enhance its data capabilities to monitor the short, medium and long-term physical risks.

The position was more nuanced for transitional risks, with less certainty on government policy on minimum EPC requirements for the UK housing stock making it more difficult to model. Currently, the transitional risks in the Society's portfolio are remain highly uncertain but require continued oversight as the broader policy agenda evolves in 2022. This review was overseen by the Board Risk Committee.

Governance

Board oversight of climate risks and opportunities

The Board has ultimate accountability for the management of all risks and opportunities relating to climate change as well as our broader approach to sustainability.

The Board discharges its responsibilities by receiving a number of detailed updates through the year on climate related matters and also reviewing a standardised ESG Management Information Pack on a quarterly basis.

In early 2021 the Board agreed that the Society should become a signatory to the UN Principles for Responsible Banking and agreed a range of climate related targets in the context of the Society's broader ESG strategy and targets relating to the UN SDGs. The Board approved in principle the Society signing up to ambitious targets concerning emissions. In mid 2021 the Board approved the Society's Climate Action Plan and the associated targets and ambitions, which are detailed on page 75. Later in the year the Board received an update setting out the progress made during the year against the goals and objectives set for this area. Also in 2021 the Board approved a range of ESG metrics, including information relating to the Society's environmental performance, which are provided quarterly as part of the regular assurance information provided to the Board.

Our Climate Strategy Continued

The Board's role on this topic extends beyond reviewing those formal climate related agenda matters. Its involvement in the Society's strategy process in 2021 included assessing the risks and opportunities arising from climate change and endorsement of a series of actions designed to respond to these challenges. Its approval of the 2022 Budget for the Society also involved assessing and endorsing amounts designed to address climate change risk. The Society has designated the General Counsel with Senior Managers Regime (SMR) responsibilities.

The Board is supported by a nominated Non-Executive Director, Shamira Mohammed, who provides support and challenge to the Society's activities on climate in the context of her role as ESG champion. Her role extends beyond formal meetings of the Board where climate topics are considered to include regular engagement with executives and other colleagues working on this area and review of climate related management information.

Whilst the Society's Board has overall accountability for the management of all risks and opportunities relating to climate change as part of its role in determining the Society's broader approach to sustainability, it delegates some of its responsibilities in this area to the Board Risk Committee, Board Audit Committee, Remuneration Committee and the Nominations & Governance Committee.

Committee	Responsibilities for climate change
Board Risk Committee	(i) Review and oversight of the activities undertaken by the Society to respond to the financial risks arising from climate change. (ii) Reviewing updates on the management of financial risks arising from climate change.
Board Audit Committee	Oversight of external disclosures relating to the Society's management of the financial risks arising from climate change.
Remuneration Committee	Oversight of the application of climate and other ESG targets to remuneration.
Nominations & Governance Committee	Ensuring that arrangements are in place to manage climate risks and opportunities at Board level.

More information on the activities of each Committee in respect of climate during the period is in the Governance section.

Management oversight of climate related issues

Executive oversight of climate related matters is the ultimate responsibility of the Chief Executive, with day-to-day responsibility delegated to the General Counsel. The General Counsel is the senior manager with responsibility for oversight of the financial risks of climate change at the Society in line with the requirements of the Senior Managers Regime.

Climate related matters, including management information, are considered by the Executive team at a dedicated monthly People & Purpose Meeting. Material outputs from this forum are considered by the Board in the manner described above. Climate topics also form part of the discussions undertaken by the Executive in formulating the Society' strategy.

In 2021 the Executive team reviewed detailed proposals concerning the Society's GHG emissions and broader climate performance, authorising expenditure designed to reduce emissions. It also reviewed the Climate Action Plan in detail and approved its submission to the Board.

The materials considered by the Executive team are reviewed and endorsed by the ESG Steering Group, which includes representatives from a broad group of areas from across the Society. The Group has a particular responsibility in setting and overseeing the Society's environmental targets. The General Counsel and the Chief People Officer co-chair this Group, reflecting their sponsorship of the broader ESG agenda. One of the responsibilities of the Group is the endorsement and oversight of the Society's annual ESG Plan, which provides a detailed list of proposed actions on sustainability including climate matters. Specialists at the Society then work to deliver the activities necessary to achieve these objectives.

The Executive Risk Committee (ERC), chaired by the Chief Risk Officer (CRO) and attended by the Society's Executive team, oversees the management of climate risk. The ERC receives monthly updates on climate risk, including overseeing the Society's activity to comply with the requirements detailed in SS3/19 and the TCFD. The ERC reviewed the key assessments on climate provided to the BRC including on scenario analysis.

Reporting into the ERC is the Climate Change Working Group (CCWG), with membership from areas across the Society with responsibility for climate related matters. The CCWG has overseen all aspects of the changes required to implement SS3/19, including stress testing, risk management and embedding within the risk management framework, as well as reviewing data capabilities. Other important risk governance forums such as the Retail Credit Risk Committee and ALCO have received updates on the impact of climate risk through 2021.

Board training

During the year the Society's Board received training on climate risk including the requirements of SS3/19 and the TCFD. This training was also rolled out to key colleagues across the organisation with climate related responsibilities. Also in 2021 the Society began a programme of training for the organisation's functional leaders on embedding climate risk within the Society's Enterprise Risk Management Framework and incorporating best practice guidance issued by the Climate Financial Risk Forum (CFRF). The Society will continue to enhance learning opportunities throughout the organisation in 2022.

Risk management

In line with the Enterprise Risk Management Framework (ERMF), the Society seeks to understand the climate risks relevant to its operations, and monitor and mitigate these risks over time. The Society enhanced its climate risk management capabilities during 2021, including the adoption of a Climate Risk Management Policy which outlines the Society's approach to managing the financial impacts of climate risk. The Society identifies, monitors, manages and escalates climate related issues in accordance with the ERMF (more detail is in the Risk Management Report on page 39).

Risk categorisation and risk appetite

The Society defines climate risk as:

The financial risks to the Society's business model arising from:

i. Physical risk – the physical risks arising from the direct physical impacts of climate change. Physical risks from climate change arise from a number of factors, and relate to specific weather events (such as heatwaves, floods and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise and rising mean temperatures).

ii. Transition risk – the risks arising from the transition to a low carbon economy. Transition risks arise from the process of adjustment towards a net zero carbon economy. The UK Government has set a target of achieving net zero greenhouse gas emissions by 2050 to respond to the challenge climate change poses. A range of factors influence this risk, including: climate related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences and the potential for 'stranded assets' to be created.

This definition reflects the fact that climate risk is a cross-cutting risk type with potential impacts in a number of risk categories including credit risk, operational risk, reputational risk and market risk. These are captured within the Climate Change Risk Policy, which is overseen by the Board Risk Committee. Climate risk is categorised as a sub-category of strategic risk.

The risk appetite also defines the short (0-5 years), medium (6-10 years) and long-term (10+ years) horizons and includes quantitative metrics which will be monitored and developed further and included in future disclosures. The Board Risk Committee endorsed the Climate Risk Appetite Statement.

The Society has also adopted a methodology for rating the ESG credentials of its wholesale counterparties, which includes minimum environmental standards, with the approach endorsed by the Board Risk Committee.

During 2021 the Society significantly enhanced its understanding of the physical and transitional risks which it is exposed to, over a range of time horizons reflecting the complex and short, medium and long-term impacts that climate risk poses to wider society and our business model. The physical and transition risks of climate change contribute to a structural change affecting the financial sector at large, and we have sought to understand these impacts by use of scenario analysis.

Approach to scenario analysis

The Society used scenario-based approaches through 2021 to assess our exposure to physical and transition risks associated with climate change. We performed both top-down balance sheet stress testing as well as targeted, analysis of exposures in our mortgage book across short, medium and long-term horizons, with the results of the analysis feeding directly into the Society's ICAAP.

Overall, the results of the 2021 climate risk pilots have confirmed we have so far not identified significant climate related financial risk on our balance sheet. Scenario analysis has been used to enhance understanding of both the physical and transitional risks, with further detail provided on the next page.

Physical risks

The Society modelled the impacts of a range of Representative Concentration Pathway (RCP) levels on its portfolio, over short, medium and long-term horizons spanning from 2025 to 2080. RCPs are a recognised series of greenhouse concentration trajectories and have been used in global climate science since 2013. The Society's analysis included undertaking an assessment of the Society's mortgage book in line with the requirements of the Bank of England's Climate Biennial Exploratory Scenario (CBES), published in June 2021. It should be noted that the CBES RCP range is less severe than the scenarios modelled by the Society.

This analysis looked at the value at risk, loss given default, probability of default and realised losses in the event of a downturn. Our analysis has concluded that the Society does not have a material exposure to the physical impacts of climate change, even under severe and long-term modelling. However, whilst we continue to monitor and enhance our approach to understanding the transitional risks, we believe in the medium term this will have implications within the markets we operate as the UK progresses towards a net zero 2050 target. The Society is therefore enhancing its understanding of energy performance certificate (EPC) ratings and the emissions of the mortgages within our portfolio and plans to engage with mortgage customers to help them enhance the energy efficiency of their properties. It is envisaged this will include providing insight and information to mortgage customers and offering specialist lending products designed to enable customers to finance environmental improvements to their property. The Society's EPC data is disclosed in the next section.

Our Climate Strategy Continued

Transition risk

In 2021 our proxy for assessing transition risk was the EPC register which records the EPC for 14 million properties in England, Wales and Scotland, with a separate calculation for Northern Ireland. We completed this exercise in March and October 2021, to enable trend analysis to be reviewed. As shown in the table below, compared to the March 2021 analysis, the EPC position for our portfolio remains broadly unchanged albeit slightly improved to 3.8% (previously 3.9%) for EPC rated F and G properties, a 0.4% decrease in E rated properties, and a 0.4% increase in the A-C range.

	Owner-occupier mortgages					
	As at 30 September 2021[1]			As at 31 December 2020		
Current EPC data	**Number**	**Exposure (£m)**	**% of book**	Number	Exposure (£m)	% of book
A	**203**	**41.3**	**—**	175	33.6	—
B	**9,173**	**1,730.1**	**6.0**	8,397	1,570.7	6.0
C	**28,431**	**4,738.1**	**17.0**	25,643	4,233.8	17.0
D	**55,733**	**9,339.8**	**34.0**	51,526	8,475.8	33.0
E	**23,459**	**4,231.5**	**15.0**	22,085	3,931.5	15.0
F	**5,639**	**1,081.6**	**4.0**	5,302	1,008.6	4.0
G	**1,188**	**212.2**	**1.0**	1,130	202.1	1.0
No EPC[2]	**52,447**	**6,068.1**	**22.0**	56,214	6,148.6	24.0

	Buy to let mortgages					
	As at 30 September 2021[1]			As at 31 December 2020		
Current EPC data	**Number**	**Exposure (£m)**	**% of book**	Number	Exposure (£m)	% of book
A	**49**	**8.9**	**—**	53	9.2	—
B	**6,066**	**1,000.5**	**5.0**	6,118	993.5	5.0
C	**33,827**	**4,934.2**	**26.0**	31,757	4,665.2	26.0
D	**50,398**	**7,513.9**	**40.0**	47,624	7,140.5	39.0
E	**17,346**	**2,549.2**	**13.0**	17,002	2,512.7	14.0
F	**1,563**	**219.6**	**1.0**	1,659	234.5	1.0
G	**414**	**57.3**	**—**	461	62.9	—
No EPC[2]	**18,464**	**2,690.3**	**14.0**	18,967	2,591.2	14.0

1. The Society's latest EPC capture was carried out as at 30 September 2021. In 2022 we have enhanced our data capabilities to assess EPC bands across the portfolio on a more regular basis.
2. No EPC means that at the time of searching the EPC register the property in question did not have a valid EPC carried out within the previous ten years.

The EPC also records the cost of improving the property from the current energy efficiency to the potential energy efficiency. On a portfolio level, the Society is focused on the D-G range. If all properties were retrofitted to their potential, this figure would change materially. Taking this information together, the Society's provider modelled a range of scenarios relevant to transitional risk on the Society's portfolio, including the cost of upgrading all properties to their full potential using Bank of England average cost of transitioning, as well as downgrading the value of all properties rating F-G to land value, as described under the Bank of England climate scenario. This activity is an inherent risk assessment based on what we now know; however, the residual position will be materially impacted in a positive direction by the Government bringing forward initiatives such as grants/subsidies and even innovation to bring down the costs of transitioning through the EPC grades.

The Society has also conducted scenario analysis which explores the impacts of early government intervention on setting minimum EPC requirements for landlords, with assumptions made that buy to let properties are required to have an EPC rating of C or above by 2025, requiring significant upgrades across the industry. The Society's experience of this exercise is that the Society's business model and low LTV profile across the portfolio means that the Society is protected from significant losses, but the impacts have the potential to be far greater than the physical risks modelled, such as flood, subsidence or coastal erosion. The Society will continue to enhance its approach to modelling transitional risks, especially as external developments such as minimum EPC requirements are published.

Conclusions on scenario analysis

The Society undertook scenario analysis for climate risk for the first time in 2021, so therefore caution is required when reviewing the results. Enhancing scenario analysis and the Society's climate data capabilities is a key priority for 2022. The Society's modelling of physical risks has greatly enhanced its understanding of how this may evolve and has provoked interesting questions from a credit risk, conduct risk and operational risk perspective. The Society has agreed a partnership with a supplier in 2022 who will provide an enhanced level of insight into the impacts of physical risks on the Society's portfolio, which will enhance the Society's data and modelling abilities.

From a transitional risk perspective there is an even greater level of complexity and uncertainty. Therefore the Society has entered into a partnership which will enhance the EPC coverage of the Society's portfolio, and enable more regular analysis on transitional risks as well as enhancing our Scope 3 emissions calculations as outlined below.

Metrics and targets

The Society's metrics are driven by our climate change targets which were to be carbon neutral for Scope 1 emissions and to claim net zero merits against Scope 2 emissions by December 2021. Further targets are to be net zero for Scope 1, 2 and partial Scope 3 emissions by 2030, with an ambition to be entirely net zero by 2040.

We are pleased to confirm that we achieved our Scope 1 and Scope 2 emissions targets for 2021. In 2021, we produced 2,320 location based tCO_2e against our Scope 1, 2 and partial Scope 3 emissions which is equal to a 10% reduction compared with 2020. This success was mainly driven by energy management as well as environmental measures.

We manage our energy consumption through strategic measures, like the targeted energy efficiency measures and adaptive measures in portfolio management; therefore we set the framework for continued improvement. This strategic orientation is then implemented throughout the Society, leading to tangible changes such as: implementing measures like switching to LEDs, refurbishing windows, removing gas consumption where possible or optimising building services (such as heating, cooling, ventilation and lighting). To ensure successful implementation, as well as for monitoring purposes, for our 2020 emissions data we have been externally certified for the accuracy of our energy reporting (ISO 14064-1).

Scope 1 and 2 emissions data

Energy consumption		**2021**	**2020**	**Variance**
Scope 1: Combustion of fuel and operation of facilities	Natural gas (kWh)	3,352,305	3,150,749	6%
	Direct transport (kWh)	200,486	229,849	(13)%
	Gas oil (kWh)	19,089	3,932	385%
	Green diesel HVO (kWh)	19,860	—	—%
	Refrigerants (kg)	16	16	—%
	Total Scope 1 energy (kWh) excl refrigerants	**3,591,740**	**3,384,530**	**6%**
Scope 2: Electricity purchased	Total electricity (kWh)	6,694,859	7,216,648	(7)%
Total Scope 1 and 2 energy consumption (kWh)		**10,286,599**	**10,601,178**	**(3)%**

Emissions assessment		**2021**	**2020**	**Variance**
Scope 1: Combustion of fuel and operation of facilities	Natural gas (tCO_2e)	614	580	6%
	Direct transport (tCO_2e)	50	57	(12)%
	Gas oil (tCO_2e)	5	1	400%
	Green diesel HVO (tCO_2e)	0.07	—	—%
	Refrigerants (tCO_2e)	33	33	—%
	Total Scope 1 energy (tCO_2e)	**702**	**671**	**5%**
Scope 2 Electricity purchased heat and steam generated	Location based (LB) (tCO_2e)	1,422	1,682	(15)%
Location based	**Total Scope 1 and 2 emissions (tCO_2e)**	**2,124**	**2,353**	**(10)%**
Scope 3: Indirect emissions	Electricity T&D losses (tCO_2e)	126	145	(13)%
	Water (tCO_2e)	5	12	(58)%
	Indirect transport (tCO_2e)	65	57	14%
	Total Scope 3 (indirect) emissions (tCO_2e)	**196**	**214**	**(8)%**
Total Scope 1, 2 (LB) and 3 (indirect) emissions (tCO_2e)		**2,320**	**2,567**	**(10)%**

Intensity metric assessment		**2021**	**2020**	**Variance**
Intensity ratio (total gross Scope 1 and 2)	**tCO_2e/ net interest income £m**	4.46	5.76	(23)%
Intensity ratio (total gross Scope 1, 2 and 3)	**tCO_2e/ net interest income £m**	4.87	6.28	(22)%

Our Climate Strategy Continued

Notes on the above table emissions data:

- Exclusions: No mandatory emissions have been excluded from this report.
- Emissions factors applied: Defra 2021.
- Methodology: the report is aligned with GHG Protocol and Environmental Reporting Guidelines including streamlined energy and carbon reporting guidance.
- Estimations: 20% of the energy data (kWh) and 19% of the emissions data (tCO_2e) are based on extrapolated values.
- Scope of emissions included in the report: electricity, natural gas, direct transport, gas, oil, green diesel HVO, refrigerants, water and indirect transport.
- We are currently awaiting further renewable energy guarantees of origin (REGO) information to calculate the market-based emissions.

Calculation of Scope 3 emissions

The Society's approach to calculating Scope 3 emissions is aligned to the Partnership for Carbon Accounting Financials (PCAF) methodology, which is the industry standard for calculating Scope 3 emissions. The Scope 3 emissions have been weighted by the LTV of the mortgages on the Society's portfolio, in order to calculate the proportion of emissions financed by the Society, in accordance with PCAF. The approach used by the Society in forming this calculation leverages the property information we have from EPCs, sourced from publicly available government databases, in order to model the level of GHG emissions within the Society's mortgage portfolio.

The Society's first estimate of Scope 3 emissions achieves a PCAF weighted average data quality score of 3.47. Across the Society's mortgage portfolio, 77% of the properties had an EPC rating at the time of the calculation (30 September 2021) across the Society's residential owner-occupier and buy to let mortgaged properties, with the vast majority of other mortgages estimated using postcode averages. Further information on the EPC profile of the Society's mortgage portfolio can be found on page 80. The Society considers that 3.47 is a credible data quality score for its first estimate of its Scope 3 emissions, and this was supported by data quality spot checks to minimise data inconsistencies and anomalies. It is expected that the Society's data quality score will improve over time as the Society continues to focus on enhancing data capabilities connected to all aspects of climate change on its business model.

Calculation outputs

	30 September 2021
Total properties	304,400
Absolute finance emissions (FE) ($MTCO_2e$)	0.71
Average FE per property (TCO_2e)	2.34
FE intensity ($KGCO_2e/m_2$)	44.3
% EPC match	77%
PCAF data score	3.47

Caution in interpreting Scope 3 emission data

Whilst this data is key in driving change, and monitoring our progress against our climate commitments, we would urge particular caution about their usefulness and reliability given the infancy of uniform Scope 3 disclosures, the data gaps that exist on energy efficiency data on UK properties, lack of information on utility usage and the reliability of EPC bands. As outlined above, the Society will continue to enhance its understanding and maturity on this topic and will continue to report in line with PCAF and industry best practice in order to promote transparency.

Looking forward to 2022, we will continue to develop our capabilities to measure, report and mitigate the risks we face arising from climate change. In particular we will develop procedures and tools for the identification, assessment and monitoring of climate risks which are integrated into our standard risk, compliance and operations processes. We will also continue to develop tools, insight and data to better understand our own vulnerability to climate related risks, including using scenario-based stress testing and other analytical methods. We will look to report the output of these activities through both our financial and sustainability reporting. We will develop the capabilities for climate risk assessment and scenario analysis, with alignment to existing credit risk models. This will include the integration into existing credit risk and stress testing processes and models, with outputs that are interpretable in the context of credit risk, profitability, capital and liquidity in line with relevant regulatory requirements.

The report is consistent with the recommendations of the TCFD and we will continue to enhance our reporting on climate and sustainability related issues as the area develops and additional recommendations are released.

Governance

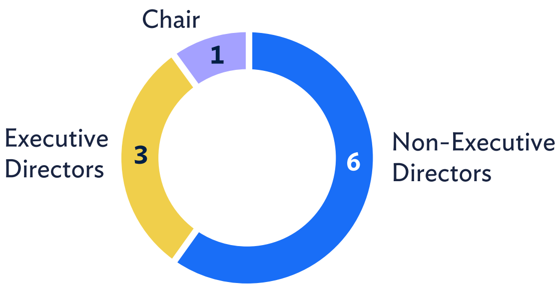
This section outlines how the Society is managed in the interests of members and highlights the role, constitution and governance of the Board and its Committees.

Board of Directors

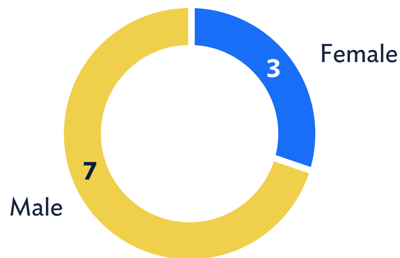
This section provides information about your Board of Directors as at 24 February 2022.

Board composition

Executive and Non-Executive Director split

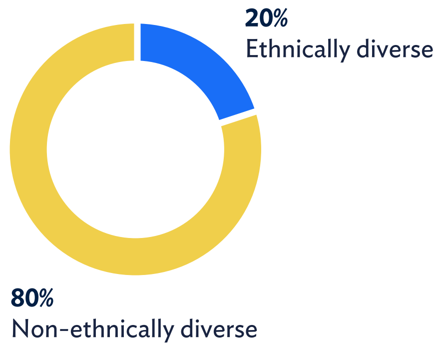


Gender split



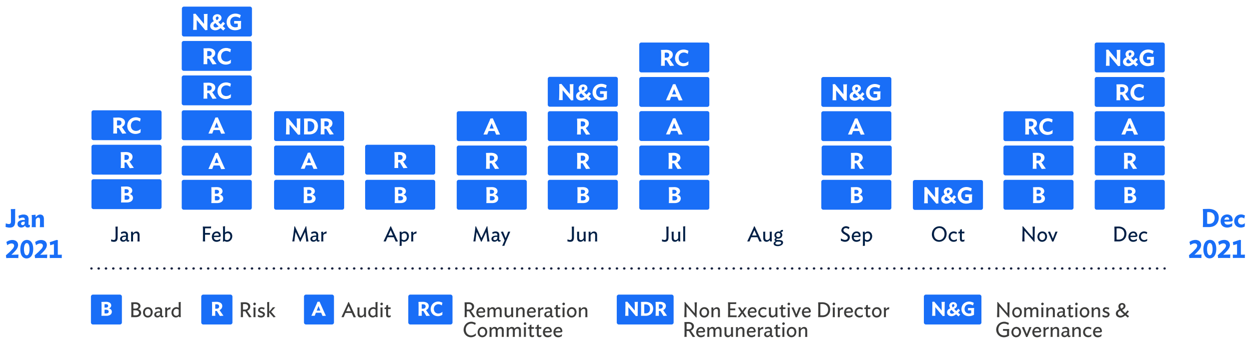
Tenure of Board members

Ethnic diversity



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.



Gary Hoffman

Chair of the Board

Appointed

April 2018

Committee membership

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

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. Previous Chair of the Premier League.

External appointments

Chair of Monzo Bank Limited.

Steve Hughes

Chief Executive and Executive Director

Appointed

April 2020

Committee membership

Chair of the Non-Executive Directors' Remuneration Committee.

Experience

Chartered management accountant with over 16 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 the BSA council.

Board of Directors Continued

Iraj Amiri

Independent Non-Executive Director

Appointed
June 2018

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

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 for six years and is now a member of the Professional Panel of the Central Bank of Ireland.

External appointments
Chair of the Audit and Risk Committee at the Development Bank of Wales Plc and Non-Executive Director, chair of the Audit Committee and member of the Risk Committee at Aon UK Limited.

Catherine Doran

Independent Non-Executive Director

Appointed
August 2016

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

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

External appointments
Non-Executive Director of Clearbank Limited.

Peter Frost

Chief Customer Officer and Executive Director

Appointed

November 2012

Committee membership

None.

Experience

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

External appointments

Chair of Governors of Little Heath Primary School, Coventry.

Jo Kenrick

Deputy Chair of the Board and Senior Independent Director

Appointed

November 2017

Committee membership

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

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 at Principality Building Society.

External appointments

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

Board of Directors Continued

Shamira Mohammed

Independent Non-Executive Director

Appointed
May 2019

Committee membership
Member of the Board Audit Committee.

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

External appointments
Group Chief Accounting Officer, Athora.

Brendan O'Connor

Independent Non-Executive Director

Appointed
January 2021

Committee membership
Member of the Remuneration Committee and Board Risk Committee.

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

External appointments
Non-Executive Director at Ford Credit Europe Bank plc.

Lee Raybould

Chief Financial Officer and Executive Director

Appointed

April 2021

Committee membership

Member of the Non-Executive Directors' Remuneration Committee.

Experience

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

External appointments

None.

Martin Stewart

Independent Non-Executive Director

Appointed

September 2018

Committee membership

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

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). Ten years in various senior roles at Yorkshire Building Society.

External appointments

Non-Executive Director of Northern Bank Limited (Danske Bank UK), Advisory Board Member of OakNorth Bank plc and a visiting professor at the London Institute of Banking & Finance.

Directors' Report on Corporate Governance

Dear Fellow Member

I am pleased to present to you the Society's Report on Corporate Governance. This report details how the Society's governance framework operated in 2021.

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 how we have met this commitment to high standards of governance in 2021. 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 is fundamentally about running a business that is responsible and I believe the Society's Board and its Committees' activities through the year have been designed to achieve this objective.

In my report to you last year, I highlighted three key objectives for your Board in 2021 – they were to progress the diversity and inclusion agenda, provide leadership over the Society's IT and change activities and develop the broader sustainability agenda at the Society. Looking back over the year I believe we have successfully met these objectives.

The Board focused on agreeing targets which will enhance our performance on diversity over the long term. Achieving these goals might be challenging, but we felt it was important to show real leadership in this area. Similarly on the broader sustainability agenda, the Board sought to review and input into our ambitious plans and identify those actions that make a practical difference. As you would expect, there are many organisations talking about this important issue but we are actually doing something about it. In relation to IT and Change, your Board looked at both enhancing the fundamentals and how we could best provide support and challenge on behalf of the Society's members to this area which is so important for our future success.

An important area of focus for myself as well as the broader Board has been the commissioning of an externally facilitated Board Effectiveness evaluation in 2021, which concluded that the Board and its Committees operated effectively in 2021. The evaluation identified a number of key strengths of the Board including the good dynamics between members, their hard-working nature and engagement with the business and the strong emphasis it places on ensuring that the views of stakeholders are considered in its discussions and decision making. It is important that as a Board we continue to improve and enhance our effectiveness. The evaluation concluded that whilst the Board was operating effectively there was scope for small areas of further improvement which the Board have agreed to progress throughout 2022. You can read more about the effectiveness evaluation process and the recommendations that the Board will be progressing this year at page 102 of this report.

This has been my last full year as Chair of the Board and Nominations & Governance Committee and my reflection is that throughout my term I have sought to place great emphasis on maintaining a Board that is effective and comprised of directors with a diverse range of professional backgrounds, skills and perspectives. I believe the record of the last four years indicates that this important objective has been achieved.

The Board have been through an extensive and rigorous recruitment process to select its next Chair and in January this year the Society announced that, subject to regulatory approval, David Thorburn will join the Board as a Non-Executive Director and assume the role of Chair following the AGM in April 2022. I wish David, the Board and the Society every success in the future.

Looking forward to 2022 my view is that the Board's primary objectives will be to:

- Support the new Chair as they assume the role with effect from the AGM in April 2022.
- Provide appropriate support and challenge to the new model for IT and Change which will be introduced in 2022.
- Continue to sponsor and oversee the Society's broader sustainability agenda.

Even though I will not be part of this process, I will be viewing the progress of the Society's Board with much interest and every good wish.

Gary Hoffman
Chair of the Board
24 February 2022

Governance framework

Maintaining the highest standards of governance is integral to the successful delivery of the Society's strategy. Our governance framework ensures that the Board is effective in both making decisions and maintaining oversight, whilst also adhering to our well-established purpose and values.

The Board

Purpose: rigorous challenge to management and oversees the effective management of risk and controls.

Chair: Gary Hoffman

Members: Jo Kenrick, Martin Stewart, Iraj Amiri, Catherin Doran, Shamira Mohammed, Brendan O'Connor, Steve Hughes, Lee Raybould, Peter Frost

Biographies page 85 | Board activities page 94 | Board composition page 84

The Board delegates certain matters to its Committees. Matters discussed at Committee meetings are reported to the Board at each meeting.

Remuneration Committee

Purpose

Determines the Society's remuneration policy and practices, ensuring they are effective, compliant, and reflect the Society's purpose and values. The Committee is also responsible for determining the remuneration framework for the remuneration of all employees, with particular scrutiny given to the remuneration of the Chair of the Board, Executive Directors and executive managers.

Chair:

Jo Kenrick

Members:

Brendan O'Connor
Catherine Doran
Gary Hoffman

See report on page 113

Nominations & Governance Committee

Purpose

Assists the Board in maintaining high standards of corporate governance ensuring these are consistent with best practice. Oversees the implementation of the Society's diversity and inclusion objectives. Regularly reviews the composition of the Board and leads on the appointments process for nominations to the Board and makes recommendations to the Board on succession planning of Board directors.

Chair:

Gary Hoffman

Members:

Catherine Doran
Jo Kenrick
Martin Stewart

See report on page 104

Board Risk Committee

Purpose

Provides oversight and advice to the Board in relation to current and potential future risk exposures of the Society and future risk strategy, including determination of risk appetite and tolerance and the effectiveness of the Society's framework for managing risk. Additionally the Committee ensures the Executive team are held to account in ensuring risks are identified, assessed and managed effectively in accordance with the requirements of the Enterprise Risk Management Framework.

Chair:

Martin Stewart

Members:

Brendan O'Connor
Catherine Doran
Iraj Amiri

See report on page 106

Board Audit Committee

Purpose

Assists the Board in discharging its responsibilities for the integrity of the Society's financial statements, ensuring they are fair, balanced and understandable. The Committee is also responsible for reviewing significant financial reporting judgements and oversees the effectiveness of the system of internal control and the effectiveness of Internal Audit function and external auditors.

Chair:

Iraj Amiri

Members:

Jo Kenrick
Martin Stewart
Shamira Mohammed

See report on page 108

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

Directors' Report on Corporate Governance Continued

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 2021 financial year. The Society has met the requirements of the Code throughout 2021 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 2021. The table below shows where in the report you can find more information on how the Society has applied the principles of the Code.

Section	Code Principles	How the Society has complied
BOARD LEADERSHIP AND COMPANY PURPOSE	A. The role of the Board in promoting the long-term sustainable success of the Society and creating value for members	• Role of the Board • Strategic Report
	B. Establishing purpose, values and strategy, and promoting the desired culture	• Strategic Report • Board responsibilities • Role of the Board
	C. Performance measures, control frameworks and risk management	• Risk Management Report • Board Risk Committee Report • Strategic Report
	D. Stakeholder engagement	• Strategic Report - How we engage with stakeholders • Directors' Report on Corporate Governance - stakeholders
	E. Employee policies and practices	• Whistleblowing
DIVISION OF RESPONSIBILITIES	F. Leadership of the Board and its effective operation	• Responsibilities of the Chair • Operation of the Board
	G. Board composition and division of responsibilities	• Board composition • Division of responsibilities
	H. Directors' responsibilities and time commitment	• Time commitment • Operation of the Board
	I. Board support, information, resources and access to advice	• Training and development
COMPOSITION, SUCCESSION AND EVALUATION	J. Board appointments and succession plans for Board and senior management	• Composition, succession and evaluation • Nominations & Governance Committee Report
	K. Board skills, expertise and knowledge	• Composition, succession and evaluation • Board skills matrix • Training and development
	L. Annual Board Evaluation and assessment of directors' performance	• Board evaluation
AUDIT, RISK AND INTERNAL CONTROL	M. Independence and effectiveness of external auditor and internal audit	• Board Audit Committee Report
	N. Fair, balanced and understandable assessment of the Society's position and prospects	• Board Audit Committee Report
	O. Risk management and internal control framework	• Board Audit Committee Report • Board Risk Committee Report • Risk Management Report
REMUNERATION	P. Remuneration and Society strategy, purpose and values	• Directors' Remuneration Report
	Q. Executive and senior management remuneration	• Directors' Remuneration Report
	R. Authorisation of remuneration outcomes	• Directors' Remuneration Report

Role of the Board

The Board has a collective responsibility to secure the long-term sustainable success of the Society for the benefit of its members and wider stakeholders. It must ensure the delivery of the Society's strategy and that its strategic objectives remain aligned to the Society's purpose and values. Having a robust governance framework is integral to achieving this success. It enables the Board to reach decisions in a focused and balanced way, ensuring that full consideration is given to the impact on each of the Society's key stakeholders.

The Board derives its powers from the Society's Rules and Memorandum (the Rules) which can be found in the corporate governance section of the Society's website. The Rules are based on the provisions of the Building Societies Act 1986 and other applicable law and regulation that the Society must comply with. The responsibilities of the Board are set out in a formal schedule of matters reserved to the Board, which is located on the corporate governance section of the Society's website. The Board reviews its schedule of matters reserved at least annually to ensure they reflect good governance practice, any relevant regulatory changes and the requirements of the business. The Board last reviewed its schedule of matters reserved in January 2022. The Board delegates certain matters to Board Committees so that they can be considered in more detail by directors who have the most relevant skills and experience to do so. A summary of the role of each of the Board's Committees can be found on page 91 of this report and a more detailed account of activities undertaken by the Board Committees can be found in their respective reports from page 104 onwards. Each of the Board Audit, Risk, Remuneration and Nominations & Governance Committees has terms of reference which set out their respective roles and responsibilities. These can be found on the corporate governance section of the Society's website.

The day-to-day running of the business is delegated to the Chief Executive who is supported by an Executive team with the remit of delivering the Society's strategic objectives.

Board responsibilities

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 has a number of important responsibilities designed to achieve this objective extending across a number of areas as summarised below. full list of the Board's responsibilities are detailed in a document called the 'Matters Reserved to the Board' which can be found on the corporate governance section of the Society's website.

Directors' Report on Corporate Governance Continued

Board activities in 2021

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 Committees of the Board.

The Board's activities are planned on a 12 month rolling basis to ensure the responsibilities detailed above are discharged effectively with additional items coming to the Board as appropriate. Each Board meeting is structured using a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the CEO and Society Secretary. The contents of the agenda are made up of a combination of standing items from the Board's 12 month planner and additional ad hoc items which fall within the remit of the Board's responsibilities.

The Board's activities are structured in a way to ensure that at each meeting the Board has an opportunity to review trading and financial performance, track the Society's progress against its strategic aims, assess the Society's risk position, review governance matters and oversee the work of its Committees. As relevant the Board will also carry out in-depth reviews on key IT and Change programmes, the Society's sustainability performance, new product proposals and other matters of strategic importance. Information on directors' attendance at the scheduled meetings that took place during the year can be found on page 96.

The key activities considered by the Board during the year are summarised below.

Activities in 2021

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:

- on the Society's trading and financial performance since the last meeting of the Board.
- 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 2021:

People & Members

- Received the results of the 2021 employee survey and reviewed feedback from colleagues on the matters that were important to them. Members of the Society's employee forum, My Society, were invited to attend the Board presentation to talk about their views of the survey results.
- Received a report on the Society's customer experience initiatives including feedback from the Member Panel on their experiences of the Society and suggestions on what could be improved.
- Received a detailed update on community activity undertaken, including charitable causes that had been supported through the year.

Strategic development

- Approved the Society's first ever Climate Action Plan, which sets out in detail how the Society will respond to the climate challenge. The Plan sets out ambitious targets concerning emissions and set out changes the Society will make as to how it operates the business and what it can do to help encourage retrofitting of houses to reduce emissions.
- 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, particularly focusing on the development of the Society's digital offering, in line with its Strategic Plan, to optimise online services to ensuring they meet customers expectations.
- Continued to oversee the extensive programme of branch refurbishment which continued throughout 2021, despite the challenges of the pandemic. The new format branches have been welcomed by both customers and colleagues and provide increased opportunities for face to face and community engagement.

Finance and 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 2022.
- Approved the Society's Financial Plan for 2022-2026.

Risk and regulatory matters

- Approved the Society's risk appetite and ongoing monitoring of adherence to this.
- Approved the Board Risk Appetite Framework.
- Approved the Society's 2021 Recovery Plan to ensure that adequate provisions and processes are in place to protect the Society's business and its members.
- The Board received an annual update of the Society's health and safety performance confirming that the Society had complied with its health and safety policies and legislation during the past 12 months, including revised government COVID-19 guidelines.

Governance

- Reviewed the results of the 2021 Board and Committee Effectiveness survey and agreed actions to enhance the effectiveness of the Board and its Committees during 2022.
- 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 2021 AGM and the associated member documentation.
- Approved plans to live stream the 2021 AGM – adapting engagement with members to meet the immediate priority of safety during the pandemic.
- Approved recommendations to review the Society's Rules and memorandum and put this to a vote of the members at the 2022 AGM.
- 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.

Directors' Report on Corporate Governance Continued

Operation of the Board

The onset of the Covid-19 pandemic meant that the Board had to adapt its ways of working to ensure it was able to continue to operate effectively and support the Society to remain secure and resilient, both financially and operationally. The challenges created by the Covid-19 pandemic provided the Board with a unique opportunity to review the way in which it operates. During 2020 the Society undertook a detailed review of its governance processes focusing specifically on the operation of the Board and its Committees. The aim of this review was to deliver a simplified Board governance framework that was appropriate and proportionate to the needs of the business and one which allowed the Board to respond to the rapidly changing business environment and take action at pace.

The output of this review was implemented in 2021 and focused on:

- Delivering a revised annual planner for the Board. The Board re-evaluated the matters it had spent time considering in the last 12 months, identifying certain items that could effectively be delegated to its Board Committees. This allowed for more productive Board meetings where more time could be dedicated to the Society's strategic priorities. You can read more on the strategic matters considered by the Board in 2021 on page 95.
- Introducing a new cadence of Board meetings. The Board has revised its annual schedule of Board meetings to include two meetings solely dedicated to a review of financial and operational performance.
- Implementing new Board templates which explicitly highlight the impact that the Board's decisions will have on specific stakeholder groups. This allows the Board to balance decisions in a way that ensures alignment with the Society's purpose and values and enables directors to take into account the interests of all stakeholders when making decisions.

In 2021, there were 10 formal meetings of the Board. This included six routine Board meetings where the Board reviewed a range of matters (as outlined on pages 94) relating to the Society's business, strategy, culture and performance and two meetings dedicated to a review of financial and operational performance only. The Board also held a meeting immediately after the 2021 AGM to deal with the matter of electing the Chair, Deputy Chair and Chairs of the Board Committees and an additional Board meeting was held in December where the Board reviewed the annual Periodic Summary Meeting letter issued by the PRA setting out a summary of the PRA's view on the most material risks facing the Society.

In addition to the scheduled Board meetings, the Board also held two off-site strategy days in June and November where it considered the Society's business model and made choices about the future direction of the business.

Members of the Society's Executive and senior leadership team are invited to attend meetings as required to present and discuss matters relating to their business and subject matter areas. The Chair also holds a meeting with the non-executive directors, without executive directors present, at least once a year. Where directors are unable to attend meetings, they are encouraged to give the Chair their views in advance on the matters to be discussed.

Board and Board Committee attendance 2021

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	Nominations & Governance Committee	Remuneration Committee	Non-Executive Directors' Remuneration Committee
Iraj Amiri[1]	Non-Executive Director	10/10	6/6	7/7			
Catherine Doran[2]	Non-Executive Director	9/10	5/6		3/3	6/6	
Jo Kenrick[3]	Deputy Chair and Senior Independent Director	10/10		7/7	4/4	6/6	
Brendan O'Connor	Non-Executive Director	10/10	6/6			6/6	
Martin Stewart[4]	Non-Executive Director	10/10	6/6	7/7	4/4		
Gary Hoffman[5]	Chair of the Board	10/10			4/4	6/6	1/1
Shamira Mohammed	Non-Executive Director	10/10		7/7			
Steve Hughes[6]	Chief Executive	9/10	5/6	6/7	3/4	6/6	1/1
Peter Frost	Chief Customer Officer	10/10	6/6				
Lee Raybould[7]	Chief Financial Officer	7/7	4/4	5/5			1/1
Peter Ayliffe[8]	Deputy Chair	4/4	3/3		1/1	3/3	

1. Chair of the Board Audit Committee.
2. Appointed as a member of the Nominations & Governance Committee from April 2021.
3. Chair of the Remuneration Committee and appointed to role of Deputy Chair in April 2021.
4. Chair of the Board Risk Committee.
5. Chair of the Board and Nominations & Governance Committee.
6. Chief Executive Officer and Chair of the Non-Executive Directors' Remuneration Committee. Meeting absences due to illness.
7. Appointed to the Board on 6 April 2021.
8. Served on the Board until 22 April 2021.

Division of responsibilities

The Board is comprised of the Chair, six non-executive directors and three executive directors. To ensure an effective working relationship it is important that there is a clear division of roles and responsibilities and that these are well understood and agreed between the individuals holding them as well as by other members of the Board and executive management.

The roles of Chair and Chief Executive are separately held and their responsibilities are well defined, set out in writing and regularly reviewed by the Nominations & Governance Committee, on behalf of the Board.

Each of these roles has a detailed role profile which identifies their areas of responsibility and accountability to the Board and/or Chief Executive, as appropriate, and a Statement of Responsibility, as required under the Senior Managers Regime.

The table below provides a summary of key responsibilities for each of these roles.

Role	Responsibilities
Chair Gary Hoffman	• Manage and provide leadership to the Board and to safeguard and promote the long-term success and sustainability of the Society in the interest of past and future members. • Establish agendas for Board meetings, ensuring they are appropriately focused on strategy, performance, culture and risk management matters and proactively manage the annual calendar of business to ensure the most appropriate use of the Board's time. • Empower Board members to challenge issues openly, and encourage and manage vigorous debate whilst achieving decisions on issues considered by the Board. • Demonstrate ethical leadership and uphold the highest standards of integrity and probity, setting clear expectations concerning the Society's culture, values and behaviour including emphasising 'Members First' principles. • Build an effective and diverse Board reflecting an appropriate balance of skills and experience given the Society's current and future activities. • Lead the development of and monitor the effective implementation of policies and procedures for the training and professional development of all of the non-executive directors. • Ensure effective communication with all stakeholder groups and that the Society's obligations to and interests of its stakeholders are known and understood by the Board. • While the Chief Executive is accountable to the Board as a whole rather than individually to the Chair, the Chair is responsible for facilitating the Chief Executive's relationship with the rest of the Board and for providing support to the Chief Executive.
Deputy Chair and Senior Independent Director Jo Kenrick	• Deputise for the Chair, particularly in relation to chairing Board and members' meetings in the absence of the Chair. • Understand the views of employees of the Society and ensure that these are appropriately raised at Board meetings. • Work closely with the Chair, act as a sounding board and provide support in the delivery of their objectives. • Serve as a trusted intermediary for the directors when necessary. • Be available to other non-executive directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication. • Meet at least annually with the other directors to review the Chair's performance and report the outcome of such meetings to the Board. • Lead succession planning for the Chair of the Board's role, chairing the Nominations & Governance Committee when it considers Chair succession.
Independent non-executive directors Brendan O'Connor Catherine Doran Iraj Amiri Martin Stewart Shamira Mohammed	• Safeguard and promote the long-term success and sustainability of the Society in the interest of past and future members. • Constructively challenge and help develop proposals on strategy and oversee the executive directors' implementation of the agreed strategy. • Challenge established thinking on current strategy or practice for the longer-term benefit of the Society. • Ensure that decisions taken by the Board align to agreed strategies and policies. • Scrutinise the performance of management in meeting agreed goals and objectives and monitor ongoing performance against such goals. • Satisfy themselves that the integrity of financial information, financial controls and systems of risk management are robust and defensible. • Complement the skills and experience of the executive directors, in particular by providing to the Board a range of knowledge, experience and insight.

Directors' Report on Corporate Governance Continued

Role	Responsibilities
Chief Executive (CE) Steve Hughes	• Responsible for the day-to-day running of the business and accountable to the Board for the Society's financial and operational performance. • Responsible for providing leadership and direction to and developing the vision and strategy of the Society, having regard to the duty to promote the success of the Society in the interests of members, colleagues and key stakeholders. • Communicate the vision, strategy and performance of the Society to members, employees, regulators and other stakeholders. • Build and lead an effective Executive team to manage the Society in the longer-term interest of its members. • Ensure that effective succession and development plans are in place and implemented for all key executive roles. • Lead the Executive team to successfully deliver agreed plans, objectives and targets. • Responsible for monitoring the effective implementation of policies and procedures for the induction, training and professional development of all persons performing designated senior management functions on behalf of the Society.
Chief Financial Officer (CFO) Lee Raybould	• With the Chief Executive and Executive team, ensure the development and implementation of the Society's corporate plans, strategies and policies. Approve the Society's strategic aims and ensure that the Society is appropriately resourced to meet its objectives, with regular reviews of performance against objectives. • Ensure the Society remains well funded and has sufficiently liquidity to meet internal and regulatory limits. • Ensure that plans are in place to meet the financial performance targets agreed with the Chief Executive and the Board. • Ensure effective financial control, management and information is in place to support other business areas. • Manage the Society's capital effectively, ensuring capital is managed within agreed risk appetites. • Provide leadership of the Society, and the Finance function in particular, with a framework of prudent and effective controls which enable risk to be assessed and managed.
Chief Customer Officer (CCO) Peter Frost	• With the Chief Executive and Executive team, ensure the development and implementation of the Society's corporate plans, strategies and policies. Approve the Society's strategic aims and ensure that the Society is appropriately resourced to meet its objectives, with regular reviews of performance against objectives. • Lead on the strategic development of the Chief Customer Office, encompassing the branch network, Savings and Lending functions, shared service and customer experience. • Ensure that plans are in place to meet the performance targets agreed with the Chief Executive and the Board. • Ensure excellent customer service is achieved throughout all areas of responsibility and ensure a culture of continuous improvement exists. • Set the Society's standards and values and ensure that its obligations to members and employees are understood and met.

Independence

In January 2022, 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, all of the Non-Executive Directors satisfy the requirements for independence and have demonstrated this in their character and judgement. The Chair of the Board, Gary Hoffman, is a non-executive director and, in accordance with the Code, was independent on appointment.

Letters of appointment for the Society's directors are available from the Society Secretary on request. Details of the directors' external appointments are set out in the Annual Business Statement.

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. The time that non-executive directors are expected to commit to their role at the Society is decided on an individual basis upon appointment and will depend on the director's role and responsibilities. In addition to that spent preparing for and attending Board and Board Committee meetings, the non-executive directors are also expected to dedicate sufficient time to understanding the business through meetings with management, engagement with members, attending call listening, undertaking a programme of branch and department visits, engaging with regulatory bodies and undertaking training. 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 undertaken in 2021 confirmed that all directors were considered to have sufficient time to properly discharge their duties as directors of the Society.

Set out below are details of the average time commitment expected of the non-executive directors.

Role	Expected time commitment
Chair	Approximately 80–100 days per year
Deputy Chair & Senior Independent Director	As is required to fulfil the role
Non-Executive Director	Average time commitment of between 30 and 36 days per year
Committee Chair	Board Risk Committee Chair: approximately 12 days per year in addition to the time spent on normal NED responsibilities Board Audit Committee Chair: approximately 10–12 days per year in addition to the time spent on normal NED responsibilities Remuneration Committee Chair: approximately 10 days per year in addition to the time spent on normal NED responsibilities Nominations & Governance Committee Chair: approximately 6 days per year in addition to the overall time commitment required of the Chair

Conflicts of interest

The Society's directors are subject to a Board Conflicts of Interest Policy which is reviewed regularly by the Nominations & Governance Committee. 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. Prior to appointment all potential directors are required to disclose any actual or potential conflicts of interest that may prevent them from taking on an appointment with the Society. In addition, all directors must seek approval from the Board before committing to any additional, external appointment. Where such approval is sought the director must confirm the existence of any potential or actual conflicts; that the role will not exceed the maximum number of directorships permitted (in accordance with the Capital Requirements Directive IV); and provide assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a director.

The Society's policy and processes for managing conflicts of interest seek to ensure that any actual or potential conflicts of interest are prevented and any associated risks to the organisation of an actual or potential conflict situation materialising are mitigated. In the event of an actual or potential conflict of interest arising, the matter would be dealt with in accordance with the process under the policy and impacted parties would be notified where required.

In accordance with their duties as directors, each director is also obliged to notify the Board of any actual or potential interest that they have in a matter to be transacted at a meeting. If any potential conflict does arise, the Board Conflicts of Interest Policy permits the Board to authorise a conflict subject to any conditions or limitations as it may deem appropriate. The Board maintains a register of conflicts of interest which is reviewed at the start of every Board meeting and actual or potential conflicts of interest are managed by the Chair or Deputy Chair, as required, with advice from the Society Secretary.

Training and development

To enable the Board to be effective and discharge its duties, the Code specifies that each of the directors must be equipped with the necessary resources to update their knowledge and capabilities. This should be in a manner that is appropriate to the particular director, and which has the objective of enhancing that director's effectiveness in the Board or Committees. In addition to the requirements of the Code, the Society's approach to compliance with the Senior Managers Regime requires directors to undergo a "fit and proper" assessment. The Society's Fit and Proper Policy sets out the various criteria that the Society will consider to determine if an individual is "fit and proper", one element of which includes an assessment of competence. Accordingly, it is crucial that the right training topics are determined for members of the Board and Committees to enable the Society to meet these requirements. New directors receive formal induction training on joining the Board. This induction process is tailored to the needs of each director given their existing knowledge and experience, and any Committees on which they will serve. Induction includes extensive engagement with directors and executives, updates on important commercial, regulatory and risk matters and a particular focus on the culture of the Society.

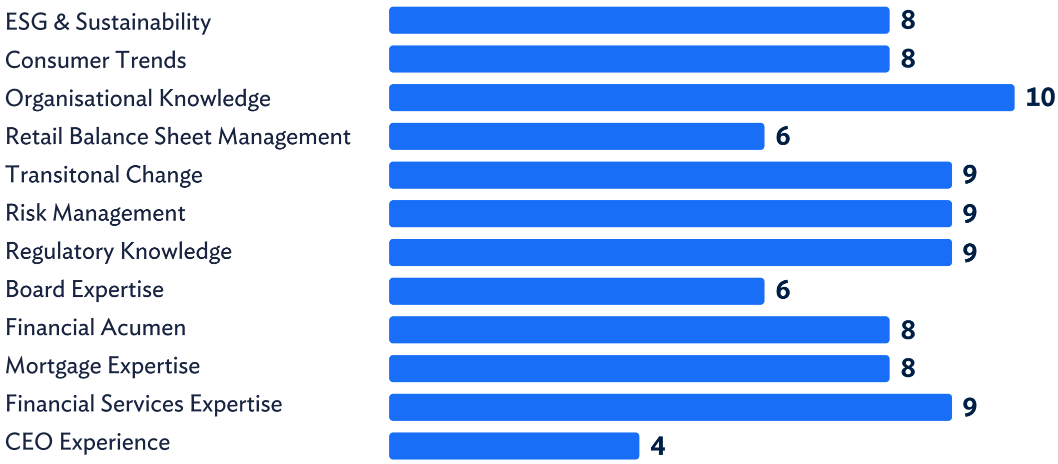
Directors' Report on Corporate Governance Continued

Following appointment, all 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 the Board Training Policy. During 2021 Board members received training on the following topics:

- The rise of green finance and green reporting.
- Cyber security and ransomware awareness.
- ESG and non-financial reporting.
- Diversity and inclusion.

In addition to dedicated training sessions, directors also have access to an online resource library with additional materials including the Society's Board Governance Manual, various directors' policy documents and guidance on regulatory and legislative developments which is updated throughout the year.

Board Skills Matrix



Individual directors may fall into one or more categories.
The number indicates directors with considerable experience and knowledge in each area. Other directors may have some relevant experience and knowledge in these areas. These have not been included in the numbers.

Directors' skills and experience

An effective Board must comprise individuals with the right mix of knowledge, skills and experience. Ensuring this objective is achieved is one of the responsibilities of the Chair, supported by the Nominations & Governance Committee.

The skills matrix above documents the key skills and capabilities that the Nominations & Governance Committee agreed constitutes the key attributes for the Board in 2021. The Society Secretary, under the supervision of the Chair and on the basis of discussion with each director, prepared an assessment of the Board's collective position in relation to each of these capabilities. The results of this exercise confirmed that the Society's Board collectively had the right balance of skills and experience and indicated which capabilities should be prioritised in future appointments to the Society's Board.

Composition, succession and evaluation

The Board delegates responsibility to the Nominations & Governance Committee to oversee:

- Matters relating to the composition of the Board.
- The development of a diverse pipeline for succession to the Board and executive positions.
- The results of the formal annual evaluation performance of the Board, its Committees, the Chair and individual directors.

For more information on the work of the Nominations & Governance Committee in respect of these matters, please see pages 104 to 105 of this report.

In compliance with the Code, each director is required to submit themselves for election or re-election by members, annually, at the Society's AGM. Before doing so, each director is subject to a formal evaluation in which the director must satisfy certain requirements regarding their fitness and propriety to undertake the role of a Board director. These requirements are determined by the rules of the Senior Managers Regime, the Financial Conduct Authority and the Prudential Regulation Authority and include, amongst other things:

- Qualifications obtained.
- Training undertaken.
- Competence and capability.
- Honesty, integrity and reputation.

The competence of each non-executive director who served on the Board in 2021 was reviewed as part of the routine appraisal process undertaken by the Chair in respect of the non-executive directors, the Deputy Chair in respect of the Chair of the Board and the CEO in respect of the executive directors. The assessment of fitness and propriety also took into account directors' independence (as outlined above) and compliance with the Board Training Policy. An independent, third party, screening provider is also used to carry out certain checks to confirm the honesty and integrity of each director.

Individual biographies of the directors are included in the Board of directors section on page 85. These biographies detail the backgrounds and relevant skills of the directors. Further details on the roles and responsibilities of each of the Board directors can be found on page 97. Details of those seeking election and re-election at the Society's 2022 AGM can also be found in the Notice of the 2022 AGM.

The Society's Rules require that the Board comprises between six and 12 directors. There are currently ten directors: the Chair of the Board, six independent non-executive directors (including the Senior Independent Director) and three executive directors. The composition of our Board is consistent with the Code requirements which specify that at least half of the directors, excluding the Chair of the Board, should be non-executive.

Changes to the Board during 2021 were as follows:

Name	Role	Change
Brendan O'Connor	Non-Executive Director	Appointed January 2021
Peter Ayliffe	Deputy Chair	Retired April 2021
Lee Raybould	Chief Financial Officer	Appointed April 2021

Evaluation process

Appointment Process July – September 2021

- Following a thorough procurement process, five providers were selected to submit proposals to the Chair and Society Secretary.
- Following interviews, two providers were shortlisted. The Chair took discussions with both shortlisted providers who were then put forward for recommendation to the Nominations and Governance Committee. Further to consideration by the Nominations and Governance Committee, Ian White was selected to undertake the Board effectiveness evaluation.

Assessment and Observation October – December 2021

- A detailed questionnaire, tailored to the Board or relevant Committee, was issued to Board/Committee members and regular attendees to complete and provide their views of the Board/Committee.
- The external evaluator observed a meeting of the Board and each Board Committee.
- Access to Board and Committee papers from the past two years were provided to the external evaluator for review.
- Detailed interviews were conducted with each Board member as well as certain members of the Executive Committee.
- As a part of his assessment the external evaluator also visited one of the Society's branches to meet with staff members. He also had informal interviews with several Society colleagues across the organization who were not connected to the Board to understand their views of the role of the Board and how visible the Board was to the wider Society. Ian also attended a meeting of the employee forum, My Society.

Evaluation and Report December 2021 – January 2022

- A comprehensive report was compile by the external evaluator based on the information provided and views of those interviewed and observations from the Board and Committee meetings.
- Initial conclusions were shared with the Chair and the draft reports for the Board Committees were shared with the respective Committee Chairs. Feedback was provided and the final report was issued to the Board in January 2022.
- The Board considered the findings of the report at its meeting in January 2022 and a list of recommendations were agreed to be taken forward for 2022.

Directors' Report on Corporate Governance Continued

Board evaluation

Each year the Board and each of its Committees undergo a process to assess the effectiveness of their performance during the year. The Code prescribes that this evaluation should be undertaken by an independent external party at least every three years. This year the Board appointed consultant and board evaluator, Ian White, to facilitate the Board and Board Committee external effectiveness evaluation. Ian does not have any other connection with the Society or individual directors.

Findings

The results of the in-depth external assessment undertaken for 2021 concluded that the Board and its Committees operated effectively, in line with best practice. The review highlighted a number of positive characteristics of the Board all of which were seen as contributing factors towards its effective operation throughout the year. The assessment concluded that the Board was comprised of a talented team of individuals with a good range of skills and experience covering many of the areas the Society needs for its current operation and future direction. The observation identified how the Board worked in a collegiate and inclusive manner with an appropriate balance of challenge and support and that overall it was assessed to be an effective decision making body and one which prioritised well and took the interests of its key stakeholders into account in its decision making. Whilst the evaluation concluded that the Board was operating very effectively, there was scope for small areas of further improvement. In line with the recommendations made in the board evaluation report, the following recommended next steps were agreed with the Board for 2022:

Recommendation	Action plan
Hold a dedicated session annually for the Executive and Non-Executive Directors to discuss how they can best support and work with each other, helping to enhance the dynamics of the Board even further.	A dedicated session will be arranged as a part of the Board strategy away days.
The composition of the Board was considered to be effective. However, focus should be applied to enhancing the diversity of the Board membership,	Diversity remains a key priority for the Board and is reviewed in depth by the Nominations and Governance Committee annually as a part of its review of Diversity and Inclusion at the Society. The Board have agreed that greater focus will be placed on actions to address Board diversity statistics as a part of the diversity and inclusion review in 2022.
To enhance Board dynamics further, opportunities should be created for Board members to engage outside of formal meeting settings	This has been a challenge due to the pandemic but now that social distancing restrictions have been eased there will be more opportunities in the Board's calendar for members to engage with one another outside of formal meeting settings.
Future board succession plans should focus on areas where the Board has identified that it is lacking expertise required for the current or future operation of the Society e.g digital/IT/ change transformation experience.	This has been identified by the Nominations and Governance Committee through its discussions on Board Succession and during its annual assessment of board members' skills and expertise. The Board recognise that there is a gap in its skills and expertise with regards to Digital/IT/Change and have prioritised this core skill for the next Non-Executive Director appointment. Board Succession Planning will also be reviewed again by the Nominations and Governance Committee and Board in H2 2022.
The Board should continue to ensure that it considers the long term strategy and purpose of the Society. This may mean the Board needs to ask some challenging and difficult questions.	The 2022 Board Strategy sessions reflect this requirement and the Board, with support from the Nominations and Governance Committee will review progress against this recommendation in H2 2022.

Directors' performance

The Chair of the Board appraised the performance of the non-executive directors and the Chief Executive. The Chair of the Board's performance review was led by the Deputy Chair and Senior Independent Director and took into account the views of the rest of the Board and certain members of the Executive team. The executive directors' performance was appraised by the Chief Executive. The conclusions of the appraisal process were reviewed by the Board and it was concluded that all directors were fulfilling their duties and responsibilities effectively.

The Board and stakeholders

As a purpose-led building society, our Board understands the importance of engaging with the Society's stakeholders to understand how its 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.

Our Deputy Chair, Jo Kenrick, 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 considering. 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 organisation. The Board also receives detailed update on the results of the Society's employee opinion survey which provides granular insight into the views of the Society's employees.

The Society's 2021 strategy process also included engagement with My Society which gave the Board a perspective from colleagues as it formulated and agreed the 2022 Strategic Plan. The views of colleagues also helped to inform the Society's ESG Strategy and Climate Action Plan which the Board approved in 2021. On page 17 of the Strategic Report you will find more information on the Society's stakeholders and how they influence the decisions that the Board makes. 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 colleagues 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 by the Board 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 ensures that a report is presented to the Society's Board annually regarding the effectiveness of whistleblowing systems and controls. The Society provides training on whistleblowing annually and in 2021 released a new reporting channel for its colleagues to report concerns via an independent third party.

The Society remains committed to continually evaluating its approach to whistleblowing and its effectiveness. The Board Audit Committee plays an active role in overseeing the Society's procedures and policies for whistleblowing and reviews a report on the effectiveness of the Society's whistleblowing procedures on an annual basis. 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. In 2021, the Society investigated 14 matters that were reported through the whistleblowing procedures. Of these 14 disclosures, one has been upheld. This is a decrease of 6.7% since the previous reporting period. No sanctions have been issued. Seven of the cases remained under investigation at the end of the year.

Nominations & governance committee report

Dear Member

As Chair of the Nominations & Governance Committee (the Comittee), I am pleased to present to you a report which outlines the matters that we, as a Committee, have focused on in 2021.

Governance

One of the principal 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 (the 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. For more information on how the Society has complied with the requirements under the Code please see the table on page 92.

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. The Committee reviews the succession plans for the Board and Executive team annually, focusing on enhancing the composition of the Board, taking into account the skills, knowledge, experience and diversity of the existing members of the Board and the capabilities needed.

One of the key activities during the year was the Committee's search for a new Chair. This process was led by a dedicated sub-committee comprised of certain members of the Nominations & Governance Committee and other non-executive directors.

The Society appointed a specialist search firm, Russell Reynolds, to facilitate the external search process. Russell Reynolds have no connection with the Society or individual directors of the Society.

A key factor in the Chair succession plan was the importance of retaining the culture of the Society, which is a valuable core strength of the Society. The Committee was clear that as part of the recruitment process for the new Chair due consideration had to be given to the suitability of the candidate to continue to build on the Society's purpose, values and culture, as well as:

- Relevant experience in the Financial Services sector.
- Relevant experience and competence as a Chair.
- Strategic awareness and commercial acumen.
- The ability to effectively engage with the Society's stakeholders.

The Board approved the Chair's role specification and the sub-committee provided regular feedback to the Nominations & Governance Committee and the Board throughout the recruitment process. Extensive references were sought in respect of the preferred candidates, from peers and companies they had worked for. Following careful deliberation the Committee recommended that David Thorburn be appointed to the Board. This recommendation was endorsed by the Board and in January this year the Society announced that subject to regulatory approval, David Thorburn will join the Board as a Non-Executive Director and assume the role of Chair following the AGM in April 2022.

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 meets 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
Catherine Doran[1]	2021
Martin Stewart	2020

1. Became a member of the Committee on 24 April 2021.

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 and Executive team at the Society and their direct reports. The Committee has engaged with the Executive team to ensure accountability for progress on the Society's inclusion and diversity agenda.

The Society has set a target to achieve 50% female membership on its Board by the end of 2024. We recognise that this is a challenging target and due to changes to the Board's composition in 2020 and 2021, the Board is behind this target with 30% female membership at the reporting date. Whilst good progress has been made to address gender balance across the Society generally, and particularly in respect of improving the number of females in senior manager roles and above at the Society, which has increased from 34.7% to 37.3% in the last year, more work is required to achieve a greater balance of gender diversity on the Board.

Progress in this area remains a priority for the Committee and the Board. The Committee will continue to ensure that appointments and succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic background, cognitive and personal strengths, alongside professional experience. Board appointments will continue to ensure diverse shortlists as standard.

Effectiveness

The Committee is responsible for overseeing the effectiveness assessment of the Board. In 2021 the Board and Board Committee effectiveness review was undertaken by an external consultant and board evaluator, Ian White. Full details of the external evaluation process can be found on page 102 of the report.

The results of the assessment conclude that the Board and each of its Committees operated effectively in 2021. The report did not raise any material issues but identified scope for small areas of further improvement. Details of the recommendations for improvement that the Board will be progressing in 2022 can be found at page 102. With regards to the Nominations and Governance Committee, it was suggested that key areas of focus for 2022 should be:

- Continuing to enhance the the diversity and experience of the Committee's membership following the appointment of the new Chair;
- Ensuring there are timely updates to the other members of the Board in respect of any new appointments to the Board; and
- Continuing to focus on succession planning following the new Chair's appointment.

All of the above listed recommendations were agreed by the Committee and will be progressed throughout the year. The Committee will also continue to monitor the progress of the actions arising out of the review during 2022 in respect of the Board and other Board Committees.

Other key activities in 2021

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.
- Reviewed the appropriateness of the 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.
- Reviewed proposals to enhance the governance arrangements at the Society to ensure they reflect emerging best practice and comply with the regulatory requirements on matters relating to sustainability and climate change.
- Reviewed and approved the Society's Political Lobbying Policy confirming that the Society is a politically neutral organisation and does not participate in political discussions.
- Reviewed the changes proposed to the Society's Rules and endorsed these for recommendation to the Board.

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 2021 AGM have voluntarily submitted themselves for re-election, with the exception of Gary Hoffman who indicated his intention to retire as Chair of the Society.

Gary Hoffman

Chair of the Nominations & Governance Committee
24 February 2022

Board Risk Committee Report

Dear Member

I am pleased to present the Board Risk Committee (the Committee) report for the year ended 31 December 2021. During the year, the Committee continued to focus on risks facing the Society arising from the pandemic, including those relating to the macroeconomic, commercial and regulatory landscape. The Committee, together with management, has continued to proactively manage, monitor and mitigate the key risks facing the Society, ensuring it remains robust and resilient. The Enterprise Risk Management Framework (ERMF) remains suitably embedded within the Society's operations and decision making, with a strong culture of risk awareness. The Committee has continued to provide challenge and influence regarding the Society's strategic goals and initiatives and to ensure fair outcomes for our members.

The Committee has performed oversight across all of the Society's principal risk categories during the year, with performance against risk appetite and boundary conditions reviewed on an ongoing basis. Despite the challenging external environment, the Society's risk profile has remained broadly stable versus prior year, the exception being credit risk, where there has been an improvement versus prior year (as reflected in the provision release, as captured in the Society's 2021 year end position). In order to support the Committee's oversight of retail credit risk, during 2021 it received detailed updates regarding the performance of the mortgage portfolio and has also reviewed the retail credit limit framework, to ensure it remains appropriate.

During 2021, the Committee reviewed the adequacy of the Society's future and forward-looking capital and liquidity position via the ICAAP and ILAAP, which subjected the Society's Strategic Plan to severe but plausible stressed scenarios. The Committee also reviewed the Society's refreshed Recovery Plan. It was determined that the Society continues to have sufficient capital and liquidity resources to support the Strategic Plan.

The impact of climate change and new regulatory standards on climate risk were reviewed, along with the proposed Society response to the climate risks identified on its loans and advances to customers and operations.

The Committee has continued to challenge management on the planning and delivery of key transformational change projects, and has been kept abreast of the Society's engagement with regulators, future regulatory change and relevant policy decisions.

In order to ensure the Society risk tolerance remains appropriate, during 2021 the Committee reviewed the risk appetite statements and policies for all principal risk categories. Model risk was introduced as a principal risk category and has therefore become an increasing focus for the Committee.

During the 2022 financial year, the Committee will again review the Society's risk appetite statements, boundary conditions and policies for principal risk categories. In addition, the Committee will continue to review the Society's future and forward-looking capital and liquidity adequacy via the annual ICAAP and ILAAP, along with focusing on overseeing new regulatory expectations (e.g. Consumer Duty) and monitoring the financial and operational resilience of the Society.

Martin Stewart

Chair of the Board Risk Committee
24 February 2022

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 team is held to account to identify, assess and manage risks in accordance with the requirements of the ERMF.
- Monitoring risks on behalf of the Board.

Committee meetings

During 2021 the Committee met on six 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 the Society's risk profile. For example, some of the meetings were held remotely, whilst some were held in person. Details on meeting attendance can be viewed in the Directors' Report on Corporate Governance.

Committee membership

The current members of the Committee are:

Current membership	Member since
Martin Stewart	2018
Iraj Amiri	2018
Catherine Doran	2017
Brendan O'Connor	2021

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 the ongoing Covid-19 pandemic. In addition, during 2021, among other things, the Committee:

- Reviewed the strategic and emerging risks relating to the Society's 2021–2025 Strategic Plan.
- Reviewed the Society's risk appetite framework including risk limits and risk indicators for each of the principal risk categories.
- Reviewed risk policies for principal risk categories.
- 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.
- Reviewed the Society's ICAAP, ILAAP, Recovery Plan and Reverse Stress Testing.
- Reviewed the Model Risk Framework.
- Reviewed the Funds Transfer Pricing Framework.
- Reviewed the Committee's terms of reference.
- Undertook a review regarding the financial risks arising from climate change.
- Reviewed the Operational Resilience framework.
- Received updates relating to IT and security risks.
- Undertook reviews of people, change and remuneration risk.
- Reviewed the Operational Continuity in Resolution (OCIR) Framework and received updates on outsourcing and third party risk management.
- Discussed remote and hybrid working patterns.
- Received updates on regulatory change.
- Reviewed the Cyber Security Strategy.

A private session was also held between Committee 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 effectiveness

As required by the 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 2021.

Looking forward

During 2022 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 continue to be another important priority for the year ahead.

Board Audit Committee Report

Dear Member

As Chair of the Board Audit Committee, I am pleased to present our report for 2021 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 another challenging year. While less of the Committee's activities were affected by the Covid-19 pandemic this year, key impacts on the Society's accounting and financial reporting matters, including but not limited to mortgage provisions, continued to demand specific consideration by the Committee.

During 2021, the impact of the pandemic and the Society's response to it continued to be a key focus for the Committee, specifically in respect of any lasting impacts on the control environment and the Society's ability to continue to provide an effective and safe hybrid business environment for its members and colleagues. The effects of the pandemic have continued to give rise to increased economic uncertainty, which impacts the Society's accounting judgements.

The Committee continued to monitor the integrity of the Society's external reporting and reviewed the significant financial reporting judgements and estimates which underpin the financial statements. More information on these judgements is included in this report. The Committee also presided over the development and implementation of climate change standards and disclosures aligned to the Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI) standards, as presented within the Society's Sustainability Report.

As a result of the work 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 also continued to be a core consideration of the Committee during the year. Again this year, particular focus was given to those aspects of the Society's control environment that experienced impacts and pressures since the emergence of Covid-19, in conjunction with increasing focus on any effects experienced as a result of increased levels of remote working for Society colleagues.

The Committee reviewed 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 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 monitored the external auditors' 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 auditors.

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

Iraj Amiri

Chair of the Board Audit Committee
24 February 2022

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 our 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 2021 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 2021. All Committee meetings are routinely attended by the Chief Executive, Chief Financial Officer, Chief Risk Officer, General Counsel, 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

In 2021, the Committee's effectiveness was assessed as part of the independent evaluation completed by the Board appointed external party that completed the assessment of the Board and its Committees. Details of this exercise are outlined in the Directors' Report on Corporate Governance.

This review included an assessment of the Committee's 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 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.

This external assessment concluded that the Committee operated effectively, in line with corporate governance code requirements and recommended good practice.

The final report did not raise any material issues in respect of the effectiveness and operation of the Committee, but did make a number of recommendations for consideration by the Committee which will be fully assessed and progressed, as appropriate, in 2022.

Key areas of focus during 2021

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 2021 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 continued to review the Society's IFRS 9 accounting policies during 2021 to ensure that they remain appropriate.

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. Information relating to the potential impacts of climate change on the Society's mortgage portfolio was also reviewed by the Committee during the year.

The calculation of ECLs for loans and advances to customers has continued to require a significant degree of management judgement due to the unprecedented impact of the Covid-19 pandemic and the uncertainty regarding the UK's economic recovery. The Committee's role is to make sure that appropriate judgements are applied. The ECL provision has decreased to £18.9 million (2020: £48.1 million) including post model adjustments of £9.3 million (2020: £37.6 million).

The significant decrease in ECLs is largely due to the reduction in post model adjustments relating to the impact of Covid-19 and the wider effects of the pandemic as a result of continued low arrears performance on the Society's mortgages combined with a more optimistic economic outlook than was the case at the previous reporting period. This decrease has been offset partly by a new post model adjustment for the potential impact of fire safety remediation on flats with cladding.

The Committee challenged management on the calculation methodology and is satisfied with the rationale and method for determining the required post model adjustments and for releasing post model adjustments when no longer required.

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 considered the range of sensitivities, which have reduced compared to the prior year given the more favourable economic outlook.

The financial statements disclosures were 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.

Board Audit Committee Report Continued

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 assumptions on loan redemption and the difference between fixed rates and Standard Variable Rates in the future.

In 2021, the Society updated its estimates of future cash flows to take into consideration the expected impact of digital mortgage processing at the Society and reduction in the time customers spend on SVR. The result of this has been to reduce the asset recognised for future SVR income by £69 million when compared with the previous estimate.

The Committee reviewed the rationale for the changes in the EIR calculation methodology, in addition to the key assumptions and expectations of future changes. The Committee concluded that the asset valuation was appropriate and that the change in the year represented a change in accounting estimate. The Committee is also satisfied that the impact of the change has been disclosed appropriately in these financial statements.

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 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. 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 increased to £29.3 million (2020: £9.7 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 and range of macroeconomic scenarios on the Society's business continued to be reviewed including revisions 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 2021 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;
- Ensuring factual content and statements has been verified;
- 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 2021 Annual Report & Accounts are fair, balanced and understandable.

New disclosures

Regular updates and training on financial reporting developments and disclosures were provided to the Committee during the year.

The Committee was updated on the progress of work to implement climate change standards and disclosures aligned to the Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI) for the first time in 2021. The Committee has reviewed the disclosures, along with additional non-financial reporting disclosures made in the year, and 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.

During 2021, Internal Audit continued to assess internal control and risk management systems associated with functions and activities undertaken by the Society that had been impacted by the pandemic. Attention was given to updating prior year evaluations of operational processes directed at recording and managing mortgage payment deferrals, ensuring that the Society's buildings were Covid-safe and provided a safe environment for the Society's members and colleagues, and appropriate adjustments were made to the Society's Change priorities and financial forecasts and provisions.

Increased consideration was given to the impact on internal controls of remote working, in conjunction with measures to protect the wellbeing of colleagues. The Committee received the results of formal assessments related to the key Change initiatives as well as functional control improvement plans related to areas including information security management and privileged access management.

The Committee received regular reports during 2021 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 were 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 annual Internal Audit Plan and the adequacy of resources. These updates included the results of all work directed at assessing the Society's continued response to and management of the impacts of the Covid-19 pandemic and the evaluation of the impacts of hybrid working for many Society colleagues on the internal control framework.

Internal Audit's assessments also considered information security management and access control processes, as well as the risk culture of the Society. Change assurance work included an assessment of the Finance Transformation Programme which commenced during 2021 and is focused on modernising the operations of the Finance function.

Assessments were completed on the programme focused on implementing a new mortgage originations and decisioning platform as well as a number of initiatives to replace or update critical information technology infrastructure.

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.

In addition to approving the annual Internal Audit Plan and budget, the Committee reviewed and approved amendments to the plan and resources throughout the year.

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 two years ago. 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 noted, the report confirmed that the Internal Audit function was effective. The Committee is monitoring implementation of actions following the review.

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 2021 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.

Board Audit Committee Report Continued

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 and assessed by the Committee each March, 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.
- The independence and objectivity of the external auditor.

The Committee also considers any Financial Reporting Council Audit Quality Inspection and Supervision Reports on PwC.

The Committee concluded that the external audit process was effective in March 2021, 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 next assessment will be considered by the Committee in March 2022, at the conclusion of the year end reporting process, with any areas for improvement shared with the lead audit partner for consideration.

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 reflect the guidance in the FRC's Revised Ethical Standard from 2020. 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 2021, 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 this 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.

Covid-19 continued to impact us all in 2021. The Society continued to follow all government guidelines to ensure the safe operation of our branches and offices and to support our colleagues working from home. Our focus on remuneration matters was: to reflect the wellbeing challenges of the pandemic in our reward packages, to understand and respond to hybrid working and a rapidly changing employment market and to reflect our diversity ambitions. We worked hard to support colleagues and they in turn consistently showed great flexibility and commitment and this underpinned another year of exceptional service to members. As in 2020, no employee was furloughed and there were no redundancies resulting from the pandemic.

When assessing variable pay the Society uses a balanced scorecard to underpin both the all employee Success Share scheme and the Executive Variable Pay Plan. The scorecard enables the full range of business performance to be assessed. We reflect our mutual culture and values, giving equal weight to all elements of the scorecard. Measures for customer and colleague outcomes have the same significance as financial and risk measures. The Society's performance in 2021 reflects our commitment to borrowers – with record mortgage lending and our commitment to savers with savings rates well ahead of the market and our commitment to a sustainable Society with a resilient financial performance and continued investment in technology and future services.

Turning to the external context for remuneration, much changed during the course of 2021. You will have read in the Chief Executive's review of the year in the Strategic Report section about positive signs of the UK's economic recovery including a buoyant housing market and employment levels sustained following the end of furlough. In January 2021 inflation (CPIH) was 0.9% with little movement in pay and significant increases in unemployment predicted once the furlough scheme ended. By the end of the year, inflation jumped to 4.8% and much was reported of skills shortages across all sectors with the UK recording over a million job vacancies for the first time since records began. Whilst the Society was successful in attracting new talent during 2021, with circa 400 new joiners, it is also clear that the employment market is changing rapidly with hybrid working opening up opportunities across a much wider geography. I am confident that the Committee will address these challenges, continuing to make decisions aligned with the Remuneration Policy and reflecting our culture and values. This approach will enable the right balance between the needs of employees and those of members.

Jo Kenrick

Chair of the Remuneration Committee
24 February 2022

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 (until 22.04.2021)	2017
Catherine Doran	2016
Brendan O'Connor	2021

1. Chair of the Committee since April 2018.

The Committee seeks input from the Chief People Officer, the Head of Reward and People Services and the Chief Executive, who are invited to attend meetings. The Chief Risk Officer and the General Counsel 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 Directive V (CRD V).

The Society complies with the relevant requirements of the UK Corporate Governance Code in relation to determining executive director remuneration policy. These include ensuring clarity and transparency of policy and arrangements and simplifying remuneration structures, which were considered as part of the Remuneration Policy update. The Committee has also considered and mitigated risk to ensure that we do not incentivise the wrong type of behaviours.

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

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 2021

During 2021, the Committee:

- Considered the outturn of the 2020 balanced scorecard and approved the performance measures for the 2021 scorecard.
- Approved variable pay awards under the 2020 Executive Variable Pay Plan (ExVPP), ensuring awards are in line with the Society's Remuneration Policy.
- Considered and approved the 2020 Success Share scheme payment.
- Considered updates to the Society's existing Remuneration Policy arising from the CRDV regulations.
- Assessed external benchmarking data as an input to ensure remuneration remains competitive and appropriate.
- Approved the Society's salary review approach which was targeted at those in our entry level grades and those who are low in their salary range. This also resulted in a pay freeze for executives.
- 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 2021:

- Received updates from the Committee's advisors regarding the impact of Covid-19 and CRD V on executive remuneration.
- Considered the amended CRD V and its impact on variable pay.
- Considered the Society's approach to the retention of executive variable pay through a share-like instrument.
- Considered the Society's gender pay ratios and CEO pay ratio and in response committed to future diversity and inclusion actions.
- 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 and the key elements of the Policy. The full Policy can be found at www.coventrybuildingsociety.co.uk and applies to all employees.

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.
Application to other employees	Individual performance is considered when setting salaries.
Performance metrics	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 in line with the maximum potential for all employees (or 15% for members of the now closed defined benefit pension scheme).
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 of the ExVPP against a mix of collective performance targets in the balanced scorecard that account for 70% of the total award, and up to three individual objectives that account for 30% of the total award.
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.

Directors' Remuneration Report Continued

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		
2021 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 – Steve Hughes	20.04.2020
Chief Financial Officer – Lee Raybould	06.04.2021
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
Steve Hughes[1]	2020
Lee Raybould (from 06.04.2021)	2021
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 once 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 2021. 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 2021 and 2020 is shown below:

Total remuneration earned by 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	Other £000	Total variable £000	Total remuneration £000
2021									
Steve Hughes	**500**	**13**	**50**	**563**	**75**	**225**	**—**	**300**	**863**
Lee Raybould[3] from 06.04.21	**289**	**6**	**29**	**324**	**43**	**118**	**—**	**161**	**485**
Peter Frost	**301**	**23**	**45**	**369**	**45**	**122**	**—**	**167**	**536**
Total	**1,090**	**42**	**124**	**1,256**	**163**	**465**	**—**	**628**	**1,884**

	Fixed remuneration				Variable remuneration				
(Audited)	Base salary[1] £000	Taxable benefit £000	Pension allowance[2] £000	Total fixed £000	Success Share £000	ExVPP £000	Other £000	Total variable £000	Total remuneration £000
2020									
Steve Hughes[4] from 20.4.20	351	21	35	407	23	120	160	303	710
Mark Parsons[5] until 19.4.20	162	6	32	200	14	—	—	14	214
Andy Deeks[6] until 09.10.20	184	8	32	224	14	43	—	57	281
Michele Faull[7] until 30.11.20	335	9	50	394	27	81	—	108	502
Peter Frost	299	30	45	374	24	72	—	96	470
Total	1,331	74	194	1,599	102	316	160	578	2,177

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 Lee Raybould is from his joining date of 06 April 2021.
4. The remuneration shown for Steve Hughes is from his joining date of 20 April 2020 and includes a full year ExVPP grant and a buy out 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 as a taxable benefit. The 2020 taxable benefit figure has been re-stated, due to the relocation not going ahead as planned due to the pandemic and the full amount being taxable.
5. The remuneration shown for Mark Parsons is up to his leaving date of 19 April 2020 and excludes a payment of £15,446 holiday pay for accrued but untaken holiday.
6. The remuneration shown for Andy Deeks is up to his leaving date of 9 October 2020 and excludes a payment for loss of office of £83,077 and notice pay of £101,073 received in 2020.
7. The remuneration shown for Michele Faull is up to her leaving date of 30 November 2020 and excludes notice pay of £92,748 received in 2020.

Further information on individual remuneration elements: executive directors

Base salary 2021

The annual review of salaries in April 2021 saw a pool of 1.5% which was targeted at those in our entry level grades and those who are low in their salary range. Executive directors did not receive any increases as set out below:

Executive director	Effective 1 April 2021 £	Effective 1 April 2020 £	% increase
Steve Hughes	**500,000**	500,000	0.0%
Lee Raybould	**390,000**	—	—
Peter Frost	**300,655**	300,655	0.0%

Benefits and pension 2021

Executive directors received benefits including a fully expensed Society car or a cash alternative, personal membership of a private medical insurance scheme, permanent health insurance and life assurance.

Executive directors were eligible to participate in the Society's defined contribution pension plan, which is offered to all employees.

The Chief Executive and Chief Financial Officer received cash alternatives in lieu of pension contributions equivalent to 10% of base salary 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%. The Chief Customer Officer received cash alternatives equivalent to 15% as a legacy arrangement, which is in line with the approach for members of the now closed defined benefit pension scheme.

Variable pay 2021

The balanced scorecard reflects the measures used by the executive team and the Board to assess the Society's performance. This ensures alignment of remuneration with the Society's objectives. All measures are deemed to be equally weighted.

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
People and purpose led:			
Employee engagement[1]	735–755/3 star Best Companies	73% Trust Index & GPTW certified	Below target
Savings premium	> 0.45%	0.56%	Above target
Best at mortgages and savings			
Mortgage and Savings balances[2]	6.0%–7.0%	6.0%	On target
Experience NPS - Average[3]	71–75	+76	Above target
Brilliant product manufacturer			
Technology project, initiative and key capability delivery[4]	Qualitative assessment	Qualitative assessment	On target
Financial plan execution			
Cost/income ratio[5]	53%–55%	49%	Above target
Profit before tax (£m)	£155m–£185m	£232.8m	Above target
Mortgage balances in arrears (%)[6]	< 0.20%	0.10%	Above target
Individual objectives:			
3 Main Individual Objectives[7]	Chair of Board/CEO assessment	Chair of Board/CEO assessment	

1. The 2021 engagement survey was provided by Great Place to Work® instead of the Best Companies index. The GPTW employee engagement score reflects the assessment as a large sized company.
2. Growth rate, excluding EIR adjustment, is 6.0% (5.9% including EIR adjustment).
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. Technology project, initiative and key capability delivery is assessed against delivery and financial measures.
5. Cost/income ratio is 49% excluding EIR adjustment (56% including EIR adjustment).
6. Percentage of mortgage balances where arrears are more than 2.5% of the balance.
7. Individual objectives for executives are assessed by the Chair of the Board or the CEO.

Governance

Directors' Remuneration Report Continued

Despite the extremely challenging market conditions in 2021, the Society performed strongly against its balanced scorecard targets which were not adjusted in response to the pandemic. The Society outperformed against five of the eight performance targets which determine variable pay, performed in line with two measures and performed below target in one measure.

A scoring matrix provides guidance to the Remuneration Committee as to potential outturn based on performance against the balanced scorecard. The number of objectives that were deemed to be above or below target determine the range of award that could be considered.

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

Working together towards a set of shared goals is key to the Society's long-term, sustainable success. Each executive has a number of individual goals, which align to the Society's shared goals. Three individual goals are selected for each executive and agreed with the Remuneration Committee. Performance against these goals, together with conduct and behaviours, are considered by the Committee when assessing individual performance.

Steve Hughes individual goals

Inspire leaders to create an inclusive workplace for everyone	Strong leadership team established and D&I plans in delivery. Focus and ambition have secured strong financial performance. Successful delivery across all major transformation programmes and future plans agreed.	Above target performance
Drive the ambition to be the best at Mortgages and Savings for our customers		
Shape and deliver transformation plans with members at the heart		

Lee Raybould individual goals

Lead the development of finance capability, culture and engagement (includes D&I)	Key leadership roles filled which have improved diversity. Finance transformation programme agreed with Board and mobilised well. Outperformance seen against cost ambitions in 2021.	On target performance
Shape & mobilise a Finance Transformation programme to meet the Society's strategic ambitions		
Champion a society-wide focus on cost and efficiency		

Peter Frost individual goals

Sponsor D&I agenda to drive a step change in belonging	Sponsorship enabled colleague voice to increasingly shape D&I activity. Branch and head office accommodation plans delivered in line with expectations and exceptional service reflected in NPS increasing through a difficult year.	On target performance
Property strategy delivers inspiring and sustainable spaces for customers and colleagues		
"Our customer" programme delivers brilliant savings service at all customer touchpoints		

Given the performance outlined above, the Committee considered the vesting outcomes reflected in the underlying business performance and risk appetite of the Society with an appropriate level of variable awards and determined:

- An annual Success Share bonus for all eligible employees, including executive directors, equivalent to 15% of base salary from a potential maximum of 20%.
- An ExVPP award to executive directors equivalent to 40.5% or 45% of base salary from a potential maximum of 60% and to executive managers of 20.25% or 22.5% of base salary from a potential maximum of 30%.
- This assessment reflects the employee engagement measure being behind target. Although the Society comfortably achieved Great Place to Work® certification, the Trust Index© score fell below the Best Places to Work Super Large Benchmark we are treating as the equivalent of the 3 star target under the Best Companies index.

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. All executive directors are deemed to be Higher Paid Material Risk Takers under the CRD V regulations; as a result 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.

Impact of deferral in relation to the 2021 and 2020 performance periods

The table shows the percentage (where applicable) of variable remuneration which will be paid in each year.

Variable pay received		**2021**	**2022**	2023	2024	2025	2026	2027	2028	2029	2030
2021 performance period	%	**—**	**20**	20	—	6	12	12	12	12	6
2020 performance period	%	**20**	**20**	—	6	12	12	12	12	6	—

In 2020, Peter Frost was below the regulatory deferral threshold and therefore was 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

Michele Faull retired from her position as Chief Financial Officer on 30 November 2020. In line with her contractual arrangements, she did not receive any compensation for loss of office. From her leaving date she received monthly pay in lieu of notice for the balance of her 12 month notice period until 30 November 2021. Her monthly payments comprised her salary, car cash allowance and cash in lieu of pension and totalled £396,348 for 2021.

Payments to former Directors

The Committee may determine that retirees or redundancies should be treated as good leavers and any inflight deferred variable pay will be released at the normal time in line with the Remuneration Policy. The following payments relating to deferred variable pay were made to former directors in 2021: £85,838 to Mark Parsons, former Chief Executive, £55,604 to Michele Faull, former Chief Financial Officer, and £67,481 to Andy Deeks, former Product, Marketing & Strategy Director. All of these payments were subject to performance and risk review by the Remuneration Committee in line with the Remuneration Policy.

Remuneration elements in 2022

Base salary 2022

Base salaries for executive directors will be reviewed in April 2022, in line with the approach outlined in the Remuneration Policy.

Benefits including pension 2022

No changes to the Society's approach to benefits are anticipated.

Variable pay 2022

The 2021 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 2022 Directors' Remuneration Report.

Relative importance of spend on pay

The following table sets out the changes in profit after tax in 2021 and 2020 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.

	2021 £m	2020 £m	Percentage change %
Total assets	**54,529.7**	**51,498.3**	5.9
Employee remuneration costs	**124.4**	**111.5**	11.6
Profit after tax	**190.8**	**101.4**	88.2

The increase in employee remuneration costs reflects the increase in salaries following the annual salary and variable pay reviews and an increase to additional full time equivalent headcount to support the growth of the business and investment in our technology and infrastructure.

Directors' Remuneration Report Continued

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:

	2021 %	**2020** %	2019 %	2018 %	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %
Annual Success Share bonus as a percentage of maximum	**75**	40	50	55	60	70	60	60	70	60
LTIP as a percentage of maximum	**n/a**	n/a	n/a	n/a	63	63	—	100	100	97
ExVPP as a percentage of maximum	**75**	40	45	50	60	65	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 2021, 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	27,186	36,454	54,419
Salary	24,005	31,962	48,201

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 £
2021	Option A	32:1	24:1	16:1
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 improved by 11% over the last year and the Society believes it is consistent with the principles of its Remuneration Policy.

Details of the non-executive directors' remuneration

Audited information	Base fees 2021 £000	Committee Chair and other fees 2021 £000	Expense payments 2021 £000	Total fees and expense payments 2021 £000	Base fees 2020 £000	Committee Chair and other fees 2020 £000	Expense payments 2020 £000	Total fees and expense payments 2020 £000
Non-executive director:								
Gary Hoffman								
Chair of the Board from 26.04.18	**181**	**—**	**—**	**181**	179	—	—	179
Peter Ayliffe								
until 22.04.21	**16**	**2**	**—**	**18**	52	7	1	60
Iraj Amiri								
from 28.06.18								
Chair of the Board Audit Committee from 18.09.18	**53**	**14**	**2**	**69**	52	14	5	71
Catherine Doran								
from 01.08.16	**53**	**—**	**1**	**54**	52	—	1	53
Jo Kenrick								
Deputy Chair of the Board from 22.04.21								
Senior Independent Director from 24.04.19								
Chair of the Remuneration Committee from 26.04.18	**53**	**22**	**1**	**76**	52	19	1	72
Shamira Mohammed								
from 01.05.19	**53**	**—**	**1**	**54**	52	—	1	53
Brendan O'Connor								
from 18.01.21	**50**	**—**	**1**	**51**	—	—	—	—
Martin Stewart								
from 01.09.18								
Chair of the Board Risk Committee from 25.09.18	**53**	**14**	**1**	**68**	52	14	2	68
Total	**512**	**52**	**7**	**571**	491	54	11	556

Fees for non-executive directors did not change in April 2021 in line with the approach for executives, as shown in table below. 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	2021 £000	2020 £000
Chair of the Board	**181**	181
Base fee	**53**	53
Deputy Chair of the Board[1]	**7**	7
Senior Independent Director (if different from Deputy Chair of the Board)[1]	**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

1. If both the Deputy Chair and Senior Independent Director roles are held by the same person the fees are combined at £12,000.

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.

Directors’ Remuneration Report Continued

Remuneration committee advisor and fees

Deloitte LLP (Deloitte) was appointed by the Committee in 2012 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 £15,300 (2020: £12,960), including VAT, for the year ended 31 December 2021. In addition to providing advice on remuneration matters, in 2021 Deloitte was engaged by the Society to provide other assurance services to our Treasury and Operational Resilience functions, consultancy and specialist advice to other departments. The costs of such services are not deemed to impact Deloitte’s independence and impartiality in its capacity as advisors to the Remuneration Committee. Deloitte’s fees are determined on a time and material basis.

Consideration of members' 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 2021 AGM, an ordinary resolution (advisory vote) was proposed to members to approve the Annual Remuneration Report for the year ended 31 December 2020 for which the following votes were received:

	Number of votes	% votes cast
	Annual Remuneration Report	
Votes cast for	96,172	92.0
Votes cast against	8,326	8.0
Total votes cast	104,498	100.0
Votes withheld	2,253	

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 2021 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 as adopted by the PRA) 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 53 Material Risk Takers. Of these, 20 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 2021:

Analysis of remuneration by fixed and variable elements	Senior Manager	Other Material Risk Takers	Total
Number of Material Risk Takers	20	33	53
Fixed pay (£000)[1]	3,801	3,777	7,578
Variable pay (£000)[2]	1,015	409	1,424
Total (£000)	4,816	4,186	9,002

1. Fixed pay includes base salary, benefits, pension and severance pay and fees for non-executive directors.
2. Variable pay includes the 2021 annual Success Share bonus and 2021 ExVPP awards.

The Material Risk Takers remuneration table includes one buyout award of £34,160 and no severance payments.

Directors' Report

The directors have pleasure in presenting their Annual Report & Accounts for 2021.

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 2021 was £233 million (2020: £124 million). The profit after tax transferred to the general reserve was £191 million (2020: £101 million).

Total Group reserves and equity at 31 December 2021 were £2,460 million (2020: £2,206 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 2021 was £2,517 million (2020: £2,273 million), including £15 million (2020: £26 million) of subordinated debt, £42 million (2020: £42 million) of subscribed capital and £415 million (2020: £415 million) of Perpetual Capital Securities.

The ratio of gross capital as a percentage of savings and borrowings at 31 December 2021 was 4.87% (2020: 4.68%) and the free capital ratio was 4.65% (2020: 4.46%).

The Annual Business Statement gives an explanation of these ratios.

Mortgage arrears

At 31 December 2021, there were 139 mortgage accounts more than 12 months in arrears (including those in possession) (2020: 119). The balance on these accounts totalled £20.0 million (2020: £15.6 million) and the value of these arrears was £1.4 million (2020: £1.3 million) or 0.003% (2020: 0.003%) 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 2021 the Society continued to support customers with Covid-19 mortgage payment holidays. In total the Society granted 40,101, all of which expired at 31 December 2021 (2020: active 2,565). Of the accounts which took a payment holiday at 31 December 2021, 1.7% had not commenced repayments, with account balances of £95.6 million or 0.2% of gross mortgage balances.

Charitable and political donations

The Board approved donations of £0.7 million (2020: £0.8 million) to charitable organisations during the year. This included an amount of £0.6 million (2020: £0.6 million) to The Royal British Legion's Poppy Appeal and £70,000 (2020: £70,000) to the Coventry Building Society Charitable Foundation. In addition to these the Board approved the release of £0.3 million of dormant funds as a donation 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 11 days as at 31 December 2021 (2020: 17 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' Report Continued

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 139, 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 UK adopted International Accounting Standards, 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 2021 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.

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 are disclosed on page 28.

The Group's forecasts and projections continue to 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 2026. 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 2024. 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 impact and success of vaccination programmes, the impact to 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 2022 to mid 2023.

The review considered emerging regulation where there is sufficient clarity over future standards to inform the analysis. This review includes assessments of the Society's capital position and reflects current understanding of capital buffer and leverage requirements likely to be imposed on the Society. The review has also considered longer term impacts of climate change and new regulatory standards on climate risk, along with the proposed Society response to the climate risks identified on its loans and advances to customers and operations.

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 2024.

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 2022 AGM.

Approved by the Board of directors and signed on its behalf by

Gary Hoffman

Chair of the Board
24 February 2022

Financial Statements

In this section you will find our primary statements and related notes.

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 of the Society’s affairs as at 31 December 2021 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 UK-adopted international accounting standards; 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 2021; 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 opinions

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.

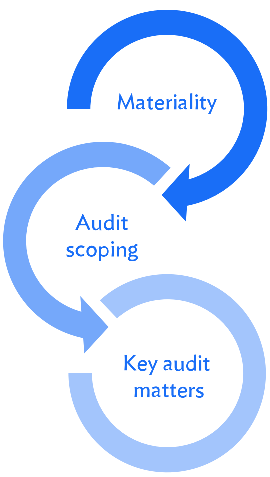
Independence

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 2021 to 31 December 2021.

Our audit approach

Overview



- Overall Group materiality: £11.7 million (2020: £7.8 million), based on 5% of current year Group profit before tax (2020: three year equivalent).
- Overall Society materiality: £7.1 million (2020: £4.5 million), based on 5% of current year Society profit before tax (2020: three year equivalent).

- We performed audit procedures over all material account balances and financial information of the Society, Godiva Mortgages Limited and ITL Mortgages Limited due to their size and significance to the Group; and
- We performed audit procedures over balances in other subsidiary companies where they are material to the Group.

- The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society);
- The appropriateness of assumptions used in the accounting for the effective interest rate of loans and advances to customers (Group and Society);
- The application of hedge accounting in accordance with accounting standards (Group and Society);
- Privileged access to Information technology (‘IT’) systems (Group and Society); and
- The appropriateness of assumptions used to measure the defined benefit pension obligations and the valuation of certain pension assets (Group and Society).

Independent Auditors' Report to the Members of Coventry Building Society Continued

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 in the Auditors' responsibilities for the audit of the financial statements section, 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/industry, we identified that the principal risks of non-compliance with laws and regulations related to, the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's ('PRA') regulations and 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 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 that could be used to manipulate financial performance and the potential for management bias in accounting estimates. Audit procedures performed 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 FCA and PRA;
- 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; and
- 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, which was a key audit matter last year, is no longer included as such, because our consideration of the pandemic in the current year is adequately captured by other key audit matters and it does not represent an area of increased audit focus in its own right. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society)	
The Group held £18.9 million of expected credit loss ('ECL') provisions against residential mortgages in accordance with IFRS 9 (2020: £48.1 million) against total loans and advances to customers of £46,639.5 million (2020: £43,530.9 million). The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty. There continues to be significant uncertainty in calculating expected credit losses due to the potential impacts on customer behaviour and the UK economy from the unwinding of government support for borrowers in response to the Covid-19 pandemic. Furthermore, it is unclear how the 'Omicron' variant of Covid-19 may impact the economy and hence the credit performance of the Group's residential mortgages. In response to the pandemic, during 2020 the Group introduced a material post model adjustment of £32.5 million to capture latent risks caused by the pandemic and the granting of temporary mortgage payment holidays. Due to the Group experiencing a low level of defaults during 2021 and the majority of customers returning to full payments, this adjustment has now been substantially released, giving rise to lower levels of provisions being held. We focussed our 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 on customer loans, and hence whether a 12 month or a lifetime loss provision is recorded; • The application of forward looking economic assumptions used in the models and the weightings assigned to those scenarios, particularly in respect of assumptions relating to future house prices and unemployment levels since these have the largest impact on the provision; and • The completeness and appropriateness of post model adjustments that are recorded to take into account latent risks and known model limitations. These take into account residual risk associated with the pandemic and the potential for reductions in the value of collateral for certain segments of the Group's loan book. The Group's disclosures are given in Note 12. Management's associated accounting policies are detailed on pages 148 to 150. Management's judgements in the application of accounting policy and critical estimates are disclosed on pages 158 to 159 and the considerations of the effect of the future economic environment are given on pages 162 to 165. The Audit Committee's consideration of the matter is described on pages 109 to 110.	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 and loss given default models, to confirm that the implemented methodology was compliant with accounting standards. We tested management's model monitoring controls and independently re-performed a number of the monitoring tests. We validated management's 'staging' thresholds by re-performing 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. We assessed the reasonableness and likelihood of the forward looking economic assumptions and weightings assigned to the scenarios using a benchmarking tool developed by our economic experts. We assessed their reasonableness against known or likely economic, political and other relevant events including the potential future economic impact of developments in the Covid-19 pandemic. The severity and magnitude of the scenarios, specifically the house price inflation forecasts, were compared to external forecasts and data from historical economic downturns. Sensitivities of the ECL provision to the chosen scenarios were considered. We found that the assumptions adopted and assigned weightings to the scenarios were reasonable. 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 to supporting evidence on a sample basis. Overall we found the adjustments to be reasonable. We considered management's risk assessment of physical and transition risks associated with climate change and potential impacts on the ECL provision. The results of management's risk assessment demonstrated that physical risks are not a material ECL risk for the Group, but there is a high level of uncertainty in respect of potential transitional risks such as those that may arise from changes in future government policy. 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 assumptions 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.

Independent Auditors' Report to the Members of Coventry Building Society Continued

Key audit matter	How our audit addressed the key audit matter
The appropriateness of assumptions used in the accounting for the effective interest rate of loans and advances to customers (Group and Society)	
Accounting standards require interest receivable and similar income to be recognised on an effective interest rate ('EIR') 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 integral fees and charges across the expected life of loans and advances to customers. The loans and advances to customers balance is increased by effective interest rate accounting adjustments of £17.3 million at the balance sheet date (2020: £71.1 million). This adjustment is released to the income statement in accordance with the forecast behavioural life of the Group's mortgage book which is the main area of estimation uncertainty. During 2021 the Group has reduced its EIR asset by £53.8 million due to a re-estimation of the behavioural life of the Group's mortgage book which gives rise to lower levels of expected future income following the end of a customer's initial product term. This is because it is anticipated that the current technology investments being made in mortgage processing are likely to give rise to increased product switching which in turn reduces the amount of time customers are likely to retain their mortgage product after the end of the initial product term. The Group has also observed continued reductions in the amount of customer balances that remain on the Group's loan book following the end of the initial product term which is also taken into account in the updated estimate. The reduction to the EIR asset recorded is taken as a charge to interest receivable and similar income within the Group and Society income statements. We focussed our work on the change to the estimate of forecast future cash flows in the year which has been driven by updated behavioural life assumptions. This is because it has given rise to a material reduction in the size of the recognised asset. The Group's disclosures are given in Note 3. Management's associated accounting policies are detailed on page 146. Management's significant estimates are disclosed on page 154. The Audit Committees' consideration of the matter is described on page 110.	We performed a walkthrough of the EIR model logic, methodology and associated calculations and tested their accuracy and validity. We confirmed that all fees and charges included within the EIR calculation are in line with accounting standards. We tested the accuracy of the write down to the asset recorded in the year by auditing the movement in the modelled asset during the year. We challenged management on the assumptions relating to forecast future cash flows arising from anticipated changes in customer behaviour, in particular if there are delays in the implementation of planned improvements to mortgage processing technology. We also challenged management on whether the transformation plans are sufficiently advanced to give rise to changes in customer cash flows. We performed sensitivity analysis on a range of possible alternative outcomes to determine whether the overall estimate lies within a reasonable range of best estimates. We performed substantive testing over the completeness and accuracy of the transfer of critical data elements from the Group's lending 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. From the evidence we obtained, we found that the EIR accounting estimate is reasonable and supportable and it is appropriate for the Group to have revised their estimates of future customer behaviour during the year.

Key audit matter	How our audit addressed the key audit matter
The application of hedge accounting in accordance with accounting standards (Group and Society)	
The Group has designated several hedge accounting relationships linked to the Group's mitigation of interest rate and foreign exchange risks. The Group is exposed to interest rate risk as a result of the mismatch between fixed and floating rate cash flows. The Group is exposed to foreign exchange risks due to some of its debt securities being issued in foreign currency. The risk of future movements in market rates affecting profitability of the Group is mitigated through the use of derivative financial instruments in the form of interest rate and cross currency swap contracts. These are designated in hedge accounting relationships so that both the derivatives and the underlying hedged items are recorded at fair value, as long as the Group can demonstrate that the hedge accounting arrangements are effective in accordance with accounting standards. At 31 December 2021 the fair value of all hedged items in designated hedging relationships was £199.3 million less than their carrying value (2020: £278.6 million greater). The use of hedge accounting in the year also gave rise to a £6.6 million charge (2020: £0.7 million charge) being recognised in the income statement where hedging relationships are no longer effective. We focussed our work on the following types of hedge: • Hedges of the Group's debt securities in issue which hedge interest rate risk and foreign currency risk for non sterling denominated debt issuances. We also focus on hedges of pipeline interest rate risk which are designated as cash flow hedges against deposits from banks and debt securities in issue. These hedges are subject to manual calculations which gives rise to a heightened risk of operational error; and • Hedges of the Group's interest rate risk on its mortgage book. 2021 is the first full year in which the Group has implemented a semi-automated hedging model. We focussed our work on the level of hedge ineffectiveness arising from these hedges. The Group's disclosures are given in Note 23. Management's associated accounting policies are detailed on page 151. Management's significant assumptions and estimates are set out on page 178. The Audit Committee's consideration of the matter is set out on page 110.	We understood the nature of the hedge accounting relationships designated by management in the context of the risk management strategy. We obtained and reviewed the relevant hedge accounting documentation to evaluate and assess whether each hedge was compliant with the requirements of accounting standards. This included testing a sample of newly designated hedges in the year. We independently re-performed a sample of both prospective and retrospective hedge effectiveness tests performed by management for each type of hedge relationship. 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 tests to ensure manual hedging calculations are valid. We assessed the completeness and accuracy of the data flowing into the hedging models and performed tests to ensure that data was being interpreted and categorised appropriately. We tested the reconciliation of the hedging models and the amounts recorded in the general ledger to ensure that the balances recorded in the financial statements are accurate. We tested the disclosures in respect of hedge accounting and confirmed that they were compliant with accounting standards. From the evidence we obtained, we found that the hedge accounting methodology was compliant with accounting standards and the underlying hedging calculations were accurate and valid. We found that the ineffectiveness recorded in the income statement is complete and accurate.

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 the change to an application of underlying data. Improvements are required to privileged access controls. An implementation plan to improve these controls is in place, however remediation remains in progress. As such we did not rely on IT general controls over systems relevant to financial reporting, 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 and 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: • An increased extent of testing on loans and advances to customers and customer deposits ('shares'); • Increased extent of sample testing of administrative expenses; 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 or functionality were identified.
The appropriateness of assumptions used to measure the defined benefit pension obligations and the valuation of certain pension assets (Group and Society)	
The Group and Society operates defined benefit pension schemes for retirement benefits for current and former members of staff. The present value of the schemes was in surplus at £29.3 million at 31 December 2021 (2020: £9.7 million) which is made up of assets carried at fair value of £264.4 million (2020: £259.9 million) and obligations of £235.1 million (2020: £250.2 million). The present value of the scheme obligation is materially sensitive to a number of actuarial assumptions including the discount rate, inflation and mortality rates. Changes in these assumptions can have significant impacts on the valuation. Management performs a review of the valuation methodology and assumptions each year using their third party actuaries. The assumptions are updated to reflect changing market practice and management's future outlook. The pension asset portfolio includes certain complex assets called 'pooled investment vehicles' which are relatively illiquid and therefore inherently more difficult to value. Third party valuations for the pension assets are obtained by the Group on a periodic basis. The valuation of the defined benefit obligations and certain pension assets are relatively complex and judgemental and therefore is considered to be 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 disclosed on page 176. The Audit Committee's consideration of the matter is described on page 110.	**Defined benefit pension obligations** We independently assessed, using our actuarial experts, the discount rate, inflation rate and mortality rates and compared them to external market rates at 31 December 2021 for schemes of a similar duration and to management's estimates derived by their experts. We recalculated the value of the defined benefit obligation using the scheme's membership data which we audited. We considered the independence, objectivity and competence of the third party actuaries engaged by management to perform their valuation. Based on the evidence we obtained, we found the assumptions and methodologies used in the valuation of the defined benefit pension 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 the investment managers and obtained further corroborative evidence of the valuation of the assets at year end, including evidence of transactions close to the balance sheet date. In addition, we obtained and reviewed the relevant third party service auditor reports for the fund managers and assessed the design and operational effectiveness of key valuation controls in respect of the complex 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.

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 owner-occupied and Buy-to-let lending.

The Group is formed of the Society, Godiva Mortgages Limited, ITL Mortgages Limited and several other subsidiary companies, which are small in the context of the Group's overall operations. The Group also consolidates several structured entities which administer the Group's funding programmes by virtue of the Group's control over them.

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 audit opinion on the Group financial statements as a whole. We perform all of the work to support the Group and Society audit opinion and do not involve any other component audit teams.

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 financial statements as a whole as follows:

	Group financial statements	Society financial statements
Overall materiality	£11.7 million (2020: £7.8 million).	£7.1 million (2020: £4.5 million).
How we determined it	5% of current year profit before tax (2020: three year average)	
Rationale for benchmark applied	Profit before tax is one of the principal metrics used when assessing the Group's and Society's performance and is a generally accepted benchmark for determining audit materiality. For our 2020 audit we considered it to be more appropriate to base materiality on a three year average of profit before tax due to the potential for the Covid-19 pandemic to give rise to significant volatility on reported financial performance. For 2021 we have reverted back to calculating materiality based on the current year of profit before tax because business performance has stabilised throughout 2021.	

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £7.1 million to £8.9 million.

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 £8.7 million for the Group financial statements and £5.3 million for the Society.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £580,000 (Group) and £350,000 (Society) (2020: £391,000 (Group) and £227,000 (Society)) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to 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 preparation, 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 strategic and operating plan, including testing key assumptions and performance of sensitivity analysis using our understanding of the Group and its financial and operating performance obtained during the course of our audit. We also considered management's ability to accurately forecast financial performance by comparing past business plans to actual results; and
- Testing of the appropriateness of the disclosures made in the Annual Report and Accounts.

Independent Auditors' Report to the Members of Coventry Building Society Continued

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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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.

Building Societies 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 2021 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.

In light of the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

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 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 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.

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.

We have nothing to report in respect of our responsibility 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of Directors' Responsibilities in respect of the preparation of the Annual Report & 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.

Independent Auditors' Report to the Members of Coventry Building Society Continued

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 22 April 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2019 to 31 December 2021.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Other voluntary reporting

Directors' remuneration

The Society voluntarily prepares a Directors' Remuneration Report 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

24 February 2022

Income Statements

For the year ended 31 December 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**833.9**	859.9	**703.5**	749.2
Interest payable and similar charges	4	**(357.7)**	(451.4)	**(360.5)**	(440.0)
Net interest income		**476.2**	408.5	**343.0**	309.2
Fees and commissions receivable	5	**7.4**	7.2	**5.2**	5.5
Fees and commissions payable	6	**(10.3)**	(9.5)	**(7.4)**	(7.2)
Other operating income	7	**1.5**	2.2	**1.5**	2.2
Net losses from derivative financial instruments	8	**(6.6)**	(0.7)	**(6.1)**	(3.2)
Total income		**468.2**	407.7	**336.2**	306.5
Administrative expenses	9	**(233.2)**	(217.3)	**(185.8)**	(173.5)
Amortisation of intangible assets	17	**(12.5)**	(12.2)	**(12.5)**	(12.2)
Depreciation on property, plant and equipment	18	**(17.8)**	(16.1)	**(17.8)**	(16.1)
Impairment release/(charge) on loans and advances to customers	12	**28.7**	(36.4)	**21.3**	(22.6)
Provisions for liabilities and charges	24	**—**	(0.5)	**—**	(0.5)
Charitable donation to Poppy Appeal		**(0.6)**	(0.8)	**(0.6)**	(0.8)
Profit before tax		**232.8**	124.4	**140.8**	80.8
Taxation	13	**(42.0)**	(23.0)	**(25.8)**	(13.6)
Profit for the financial year		**190.8**	101.4	**115.0**	67.2

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 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Profit for the financial year		**190.8**	101.4	**115.0**	67.2
Other comprehensive income/(expense)					
Items that will not be transferred to the income statement:					
Remeasurement of defined benefit pension plan	19	**21.3**	(15.3)	**21.3**	(15.3)
Taxation	13	**(6.1)**	4.2	**(6.1)**	4.2
Items that may be transferred to the income statement					
Fair value through other comprehensive income investments:					
Fair value movements taken to reserves		**(15.5)**	0.2	**(15.5)**	0.2
Amount transferred to the income statement		**18.8**	(1.9)	**18.8**	(1.9)
Taxation	13	**(1.1)**	0.3	**(1.1)**	0.3
Cash flow hedges:					
Fair value movements taken to reserves		**(34.4)**	(38.5)	**64.8**	(80.2)
Amount transferred to the income statement		**135.6**	(39.6)	**10.0**	23.4
Taxation	13	**(27.4)**	21.0	**(20.1)**	15.1
Other comprehensive income/(expense) for the year, net of tax		**91.2**	(69.6)	**72.1**	(54.2)
Total comprehensive income for the year, net of tax		**282.0**	31.8	**187.1**	13.0

The notes on pages 145 to 190 form part of these accounts.

Financial Statements

Balance Sheets

As at 31 December 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Assets					
Cash and balances with the Bank of England		**6,650.2**	5,728.9	**6,514.2**	5,371.0
Loans and advances to financial institutions		**295.8**	590.5	**295.8**	652.7
Debt securities	14	**676.0**	995.1	**676.0**	995.1
Loans and advances to customers	15	**46,620.6**	43,482.8	**28,550.4**	26,914.1
Hedge accounting adjustment		**(295.4)**	366.6	**(295.4)**	366.6
Derivative financial instruments	23	**406.3**	173.5	**406.3**	108.9
Investment in equity shares		**4.9**	5.0	**4.9**	5.0
Current tax assets	13	**5.6**	—	**5.7**	—
Deferred tax asset	20	**—**	20.1	**—**	16.5
Investment in Group undertakings	16	**—**	—	**17,552.7**	16,215.0
Intangible assets	17	**35.7**	33.9	**35.7**	33.9
Property, plant and equipment	18	**76.1**	72.8	**76.1**	72.8
Prepayments and accrued income		**24.6**	19.4	**24.4**	19.2
Pension benefit surplus	19	**29.3**	9.7	**29.3**	9.7
Total assets		**54,529.7**	51,498.3	**53,876.1**	50,780.5
Liabilities					
Shares		**39,890.2**	38,151.1	**39,890.2**	38,151.1
Deposits from banks		**6,040.2**	5,140.2	**6,040.2**	5,080.5
Other deposits		**5.0**	1.0	**5.0**	1.0
Amounts owed to other customers		**609.8**	609.5	**706.6**	682.3
Debt securities in issue	22	**5,252.3**	4,617.2	**4,418.6**	4,045.0
Hedge accounting adjustment		**(96.1)**	88.0	**(96.1)**	88.0
Derivative financial instruments	23	**219.8**	534.2	**163.5**	517.5
Current tax liabilities	13	**—**	5.8	**—**	4.9
Deferred tax liability	20	**13.4**	—	**10.9**	—
Accruals and deferred income		**43.5**	41.6	**38.8**	36.8
Other liabilities	29	**34.7**	36.0	**817.7**	441.0
Provisions for liabilities and charges	24	**0.4**	0.4	**0.4**	0.4
Subordinated liabilities	25	**15.3**	25.6	**15.3**	25.6
Subscribed capital	26	**41.6**	41.6	**41.6**	41.6
Total liabilities		**52,070.1**	49,292.2	**52,052.7**	49,115.7
Members' interests and equity					
General reserve		**2,012.6**	1,835.1	**1,383.1**	1,281.4
Other equity instruments	27	**415.0**	415.0	**415.0**	415.0
Fair value through other comprehensive income reserve		**4.5**	2.3	**4.5**	2.3
Cash flow hedge reserve		**27.5**	(46.3)	**20.8**	(33.9)
Total members' interests and equity		**2,459.6**	2,206.1	**1,823.4**	1,664.8
Total members' interests, liabilities and equity		**54,529.7**	51,498.3	**53,876.1**	50,780.5

The notes on pages 145 to 190 form part of these accounts.

Approved by the Board of Directors on 24 February 2022 and signed on its behalf by

Gary Hoffman
Chair of the Board

Steve Hughes
Chief Executive

Lee Raybould
Chief Financial Officer

Statements of Changes in Members' Interests and Equity

For the year ended 31 December 2021

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 2021	**1,835.1**	**415.0**	**2.3**	**(46.3)**	**2,206.1**
Profit for the financial year	**190.8**	—	—	—	**190.8**
Net remeasurement of defined benefit plan	**15.2**	—	—	—	**15.2**
Net movement in fair value through other comprehensive income reserve	—	—	**2.2**	—	**2.2**
Net movement in cash flow hedge reserve	—	—	—	**73.8**	**73.8**
Total comprehensive income	**206.0**	—	**2.2**	**73.8**	**282.0**
Distribution to Additional Tier 1 capital holders	**(28.5)**	—	—	—	**(28.5)**
As at 31 December 2021	**2,012.6**	**415.0**	**4.5**	**27.5**	**2,459.6**

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

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 2021	**1,281.4**	**415.0**	**2.3**	**(33.9)**	**1,664.8**
Profit for the financial year	**115.0**	—	—	—	**115.0**
Net remeasurement of defined benefit plan	**15.2**	—	—	—	**15.2**
Net movement in fair value through other comprehensive income reserve	—	—	**2.2**	—	**2.2**
Net movement in cash flow hedge reserve	—	—	—	**54.7**	**54.7**
Total comprehensive income	**130.2**	—	**2.2**	**54.7**	**187.1**
Distribution to Additional Tier 1 capital holders	**(28.5)**	—	—	—	**(28.5)**
As at 31 December 2021	**1,383.1**	**415.0**	**4.5**	**20.8**	**1,823.4**

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

The notes on pages 145 to 190 form part of these accounts.

Statements of Cash Flows

For the year ended 31 December 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cash flows from operating activities:					
Profit before tax		**232.8**	124.4	**140.8**	80.8
Adjustments for:					
Expected credit loss provisions and other provisions	12,24	**(28.7)**	36.7	**(21.3)**	22.7
Depreciation and amortisation		**30.3**	28.3	**30.3**	28.3
Interest on subordinated liabilities and subscribed capital		**6.5**	6.7	**6.5**	6.7
Changes to fair value adjustment of hedged risk		**50.7**	(36.1)	**(79.9)**	39.8
Other non-cash movements		**(101.9)**	(78.7)	**(499.8)**	(78.5)
Non-cash items included in profit before tax		**(43.1)**	(43.1)	**(564.2)**	19.0
Loans and advances to credit institutions		**260.8**	(273.7)	**323.0**	(247.0)
Loans and advances to customers		**(2,633.6)**	(1,284.7)	**(1,615.0)**	(277.5)
Prepayments, accrued income and other assets		**(5.2)**	(5.0)	**(5.2)**	(4.8)
Changes in operating assets		**(2,378.0)**	(1,563.4)	**(1,297.2)**	(529.3)
Shares		**1,761.9**	1,985.0	**1,761.9**	1,985.0
Deposits and other borrowings		**904.1**	(29.9)	**987.7**	25.4
Debt securities in issue		**—**	(479.7)	**—**	(930.4)
Accruals and deferred income and other liabilities		**4.9**	8.9	**(12.3)**	(6.1)
Changes in operating liabilities		**2,670.9**	1,484.3	**2,737.3**	1,073.9
Interest paid on subordinated liabilities and subscribed capital		**(6.5)**	(6.6)	**(6.5)**	(6.6)
Interest paid on lease liabilities		**(0.5)**	(0.6)	**(0.5)**	(0.6)
Taxation		**(67.9)**	(31.0)	**(19.0)**	(0.6)
Net cash flows from operating activities		**407.7**	(36.0)	**990.7**	636.6
Cash flows from investing activities					
Purchase of investment securities		**(167.5)**	(921.9)	**(167.5)**	(921.9)
Sale and maturity of investment securities and equities		**470.0**	1,215.9	**470.0**	1,215.9
Proceeds from sale of properties		**1.9**	0.5	**1.9**	0.5
Purchase of mortgage assets (net of fees)		**(476.9)**	—	**—**	—
Purchase of property, plant and equipment and intangible assets		**(37.2)**	(22.4)	**(37.2)**	(22.4)
Net cash flows from investing activities		**(209.7)**	272.1	**267.2**	272.1
Cash flows from financing activities					
Loans to connected undertakings		**—**	—	**(959.7)**	(719.2)
Distributions paid to Additional Tier 1 capital holders		**(28.5)**	(28.5)	**(28.5)**	(28.5)
Repurchase and repayment of debt securities		**(545.6)**	(668.4)	**(423.9)**	(650.0)
Principal elements of lease payments		**(4.9)**	(5.5)	**(4.9)**	(5.5)
Issue of debt securities		**1,278.7**	950.0	**1,278.7**	950.0
Repurchase of subordinated liabilities and subscribed capital		**(10.3)**	—	**(10.3)**	—
Net cash flows from financing activities		**689.4**	247.6	**(148.6)**	(453.2)
Net increase in cash		**887.4**	483.7	**1,109.3**	455.5
Cash and cash equivalents at start of year		**5,598.0**	5,114.3	**5,240.1**	4,784.6
Cash and cash equivalents at end of year		**6,485.4**	5,598.0	**6,349.4**	5,240.1
Cash and cash equivalents:					
Cash and balances with central banks[1]		**6,485.4**	5,598.0	**6,349.4**	5,240.1

1. This does not include the mandatory reserve with the Bank of England of £164.8 million (2020: £130.9 million).

The notes on pages 145 to 190 form part of these accounts

Notes to the accounts

1. Accounting policies

Basis of preparation

These accounts have been prepared in accordance with UK adopted International Accounting Standards, the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 that are applicable to the Society.

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. These accounting policies have been applied consistently throughout the current and prior year. Further information on judgements in the application of accounting policies and significant accounting estimates is set out within note 2.

These accounts are presented in pounds sterling and, except where otherwise stated, all figures in the financial statements have been rounded to the nearest hundred thousand pounds (£0.1 million).

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.

Changes in accounting standards

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) from 1 January 2020, which if not early adopted would have been effective from 1 January 2021. The impact on the Group's reported results in 2021 and 2020 are not material. There are no other amendments to standards effective from 1 January 2021 that apply to or have a material impact on the Group's financial statements.

The IASB has issued a number of amendments to standards with effect from 1 January 2022; however, these are not expected to have a significant impact on the Group's financial statements.

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.

Financial assets and liabilities are derecognised and a new instrument recognised where a renegotiated or new agreement is established on substantially different terms; an example of this would be a product port to a new property on a mortgage loan.

Notes to the accounts Continued

1. Accounting policies continued

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 the issuance of debt to investors, who take security in the underlying assets as collateral.

The structured entities are fully consolidated into the Group accounts where it is determined that the Society has control over the entity.

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.

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 fair value through other comprehensive income (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 £187.6 million (2020: £210.2 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 39% (2020: 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 insurance element of the guarantee is a de minimis feature of the product for substantially all of the loans.

Notes to the accounts Continued

1. Accounting policies continued

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.

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 criterion relates to the impact of Covid-19. Accounts subject to a Covid-19 payment holiday have been moved to stage 2 where a Covid-19 payment holiday was 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. As at the year end date, Covid-19 payment holidays are no longer available to borrowers; however, a significant number of accounts remain in stage 2 until 'cured' after having made 18 consecutive mortgage payments after the higher risk indicator was last observed.

Other criteria include county court judgements, 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 internal risk grade 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 internal risk grade decrease and the remaining lifetime PD has doubled since origination and is greater than 2%.

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 either 12 or 18 months is applied to accounts which had Covid-19 mortgage payment holidays, or showed increased risk indicators through the emergence of the Covid-19 pandemic in 2020. For accounts with extended payment holidays, or with one payment holiday plus additional risk indicators, an 18 month cure period has been applied. For all other accounts, a 12 month cure period has been applied. 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).

These definitions align to the Society's internal definition of arrears for risk management and collection purposes.

A loan is considered to no longer be 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 Societys IFRS 9 ECL calculation differs from that used for regulatory expected loss calculation as follows:

- 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 a hybrid between point in time and through the cycle long run PD 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.

Notes to the accounts Continued

1. Accounting policies continued

Governance of Expected Credit Losses

Governance over ECLs is carried out by the Society's ECL Management Committee which meets on a regular basis, at least quarterly. The Committee is made up of members from the Finance, Treasury and Credit Risk functions in addition to members from the second and third lines of defence. The Committee is responsible for the review of key assumptions and judgements within the ECL calculations such as the staging criteria or need for post model adjustments. The Committee does this by review of key management information and assessing existing and future risks to the portfolio in addition to reviewing model monitoring. Assumptions and judgements are approved by the ECL management committee with oversight performed by the Board Audit Committee.

Governance over the IFRS 9 ECL models is carried out by the Model Risk Committee and includes assessments of model performance and model validation at regular intervals and on an ad hoc basis where significant model enhancements are carried out. See the Risk Management Report for more information on model risk.

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 applies post model adjustments (PMAs) to reflect ECLs relating to items which cannot be adequately captured by existing models.

An example of these PMAs is the covid-19 PMA where there is no historical data regarding the impact and recovery from a global pandemic within the Society's models and as result management judgement and estimation are required in order to reflect the underlying risk. This risk can be reflected in adjustments to the estimation of probability of default for loans subject to covid-19 payment holidays or adjustments to loss given default on loans subject to additional cladding and other fire safety risks.

The assumptions used in calculating ECLs are regularly reviewed and model outputs and components of ECL estimates are assessed by management via back testing. This is used across all aspects of the model including the assessment of the predicted PD or LGD of an account against the actual outturn. An example of this would be estimated PD applied to the identified higher risk segments of the book via the covid-19 PMA recognised in 2020. The average PD of this cohort following the application of the PMA was 9.2% with the actual rate of default in 2021 on these accounts being 0.5%. This lower default rate supporting the overall reduction in the covid-19 PMA at the year end.

Further information on PMA in place at the year end can be found in note 12.

The application of PMAs is considered by the Society's ECL Management Committee. PMAs are reviewed and assessed for reasonableness considering future expectation of performance in context of historical performance and other indicators as well as deriving the basis for cure rules to be applied. Oversight of judgements surrounding PMAs is provided by the Board Audit Committee.

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 or significant increase in credit risk with any impairment recognised in the Income Statement. No impairment on Investment 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. The Phase 1 and Phase 2 amendments provided a series of reliefs from certain hedge accounting requirements when a change required by the Interest Rate Benchmark Reform occurred to a hedged item and/or hedging instrument and consequently the hedge relationship could be continued without interruption.

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 hedge accounting basis.

Fair value hedges

Changes in the fair value of derivatives that are designated in fair value hedge relationships 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

Notes to the accounts Continued

1. Accounting policies continued

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.

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 and 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 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.

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 Auditors' 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 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 (SICR) under IFRS 9	1
Significant accounting assumptions and estimates	
Effective Interest Rate (EIR) on loans and advances to customers – revenue recognition	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
Valuation of the defined benefit pension scheme liabilities	19

Notes to the accounts Continued

3. Interest receivable and similar income

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
On financial assets measured at amortised cost:				
On loans and advances to customers	**946.2**	982.0	**521.8**	549.4
Connected undertakings	**—**	—	**293.8**	321.4
Interest on other liquid assets	**6.9**	12.2	**6.9**	12.1
Interest and other income on debt securities	**0.1**	0.2	**0.1**	0.2
Interest and other income on debt securities measured at FVOCI	**5.3**	15.3	**5.6**	15.9
Net expense on financial instruments in a qualifying hedge relationship	**(124.6)**	(149.8)	**(124.7)**	(149.8)
Total interest receivable and similar income calculated using the EIR method	**833.9**	859.9	**703.5**	749.2

Significant assumptions and estimates – Effective Interest Rate (EIR)

The Group recognises interest on loans and advances to customers using the Effective Interest Rate (EIR) method. This method applies a constant rate of interest that averages out the effect of fixed and variable rates of interest and fees across the expected life of the loan.

The EIR method uses significant accounting estimates in relation to the expected life of the mortgages ('behavioural life') and the expected Standard Variable Rate of interest (SVR) which will apply at the end of the initial product term. These factors determine the assumed period and rate at which customers pay SVR which is a key estimate to the EIR calculation.

During the year the Society adjusted these estimates to reduce the expected time that customers will be paying SVR compared to previous assumptions. This reflects the expected impact of investment in digital product switching and product transfers in 2021 to 2023 and the subsequent reduction in the level of SVR balances and their duration. This is in addition to the existing trend for customers to switch from SVR sooner, a trend that is expected to continue as a result of a competitive re-mortgage market and similar digital investments by other firms.

As a result of these changes, we do not expect SVR to have as meaningful an impact on income beyond 2022. A charge of £69 million has been recognised in the Income Statement to reflect these changes to accounting estimates.

After this adjustment and including other movements in the period, the EIR asset has reduced to £17.3 million at 31 December 2021 (2020: £71.1 million). This asset now represents 0.04% (2020: 0.16%) of the Balance Sheet carrying value of mortgages. The net movement in the period of £53.8 million (2020: £4.7 million) is recognised in the Income Statement within interest receivable and similar income.

These significant accounting estimates are monitored on an ongoing basis to ensure that they remain appropriate, using comparisons against actual product life experience.

As a result of the adjustment applied in the year the EIR asset is now significantly less sensitive to future movements of redemption and SVR reversion rates. 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 £1.4 million (2020: £8.9 million). Future market interest rates also affect the calculation. A decrease in SVR rate of 0.25% would result in a decrease in the EIR asset of £2.0 million (2020: 10.3 million). Both reductions would lead to a corresponding reduction in interest receivable in the Income Statement.

4. Interest payable and similar charges

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Bank and customer				
Subordinated liabilities	**1.6**	1.8	**1.6**	1.8
Other	**9.6**	18.6	**9.6**	18.6
Debt securities in issue	**67.4**	77.3	**63.5**	74.1
Other borrowed funds				
On shares held by individuals	**302.3**	388.5	**302.3**	388.5
On subscribed capital	**4.9**	4.9	**4.9**	4.9
On loans from connected undertakings	**—**	—	**19.4**	1.9
Net income from hedging instruments	**(28.5)**	(40.7)	**(41.3)**	(50.8)
Foreign currency (gains)/losses	**(0.1)**	0.4	**—**	0.4
Other interest payable	**0.5**	0.6	**0.5**	0.6
Total	**357.7**	451.4	**360.5**	440.0

5. Fees and commissions receivable

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Mortgage related administration fees	**5.8**	4.6	**3.6**	2.8
General insurance commissions	**0.6**	0.6	**0.6**	0.6
Other fees and commissions	**1.0**	2.0	**1.0**	2.1
Total	**7.4**	7.2	**5.2**	5.5

6. Fees and commissions payable

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Banking fees	**2.4**	2.3	**2.4**	2.3
Mortgage related fees	**5.1**	4.6	**2.2**	2.2
Other fees and commissions	**2.8**	2.6	**2.8**	2.7
Total	**10.3**	9.5	**7.4**	7.2

7. Other operating income

Operating income of £1.5 million (2020: £2.2 million) includes £1.5 million (2020: £0.3 million) relating to profit on sale of property fixed assets and £nil (2020: £1.8 million) relating to gains on the Society's investments in equity shares which are measured at fair value through profit and loss. The Society's investments in equity shares as at 31 December 2021 relate to Visa Inc. and as at 31 December 2020 also included VocaLink Holdings Limited.

Notes to the accounts Continued

8. Net losses from derivatives and hedge accounting

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Derivatives designated as fair value hedges				
Gains/(losses) on derivatives designated as fair value hedges	**501.5**	(155.2)	**501.5**	(155.2)
Movement in fair value of hedged items attributable to hedged risk	**(497.9)**	163.5	**(497.9)**	163.5
Ineffectiveness on fair value hedges	**3.6**	8.3	**3.6**	8.3
Derivatives designated as cash flow hedges[1]				
Foreign exchange	**(0.1)**	0.1	**—**	—
Foreign exchange and interest rate	**(0.4)**	(0.4)	**—**	—
Interest rate	**(9.7)**	(10.0)	**(9.7)**	(10.0)
Ineffectiveness on cash flow hedges	**(10.2)**	(10.3)	**(9.7)**	(10.0)
Gains/(losses) on other derivatives	**—**	1.3	**—**	(1.5)
Total	**(6.6)**	(0.7)	**(6.1)**	(3.2)

1. Represents ineffectiveness on cash flow hedge relationships which will mature over a period of seven years (2020: six).

Further information on the Society's risk management strategy and how it hedges interest and foreign exchange risk is in note 23.

Gains and losses on other derivatives where hedge accounting relief has not been obtained are £nil over the period (2020: £1.3 million gain). The gains and losses represent timing differences and are expected to reverse over the remaining life of the derivatives although further volatility may also be experienced.

Foreign exchange gains of £96.1 million (2020: £88.3 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 losses of £96.0 million (2020: £88.5 million gain) on derivative financial instruments held at fair value.

9. Administrative expenses

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Employee costs				
Wages and salaries	**104.2**	95.6	**104.2**	95.6
Social security costs	**11.4**	10.0	**11.4**	10.0
Pension costs				
Defined benefit plan (note 19)	**1.9**	(0.5)	**1.9**	(0.5)
Defined contribution plan	**6.9**	6.4	**6.9**	6.4
	124.4	111.5	**124.4**	111.5
Other expenses				
Project costs	**37.8**	40.3	**37.8**	40.3
Information systems	**23.1**	19.4	**23.1**	19.4
Training, recruitment and other employee costs	**7.3**	12.5	**7.3**	12.5
Premises and facilities	**9.6**	9.5	**9.6**	9.5
Legal, professional and consultancy	**6.2**	6.7	**6.0**	6.6
Marketing and communications	**4.6**	3.1	**4.6**	3.1
Loss on disposal of property, plant and equipment and intangibles	**4.2**	0.9	**4.2**	0.9
Other operating expenses	**16.0**	13.4	**15.4**	13.0
Intercompany management charge	**—**	—	**(46.6)**	(43.3)
Total	**233.2**	217.3	**185.8**	173.5

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 remuneration of the auditor, PricewaterhouseCoopers LLP, is set out below:

Group and Society	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Audit of the Group and Society annual accounts	**0.8**	0.9	**0.8**	0.9
Audit of Group subsidiaries	**0.1**	0.2	**—**	—
Audit related assurance services	**0.1**	0.1	**0.1**	0.1
Other non-audit services	**0.1**	0.8	**0.1**	0.8
Total	**1.1**	2.0	**1.0**	1.8

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.

10. Employee numbers

Group and Society	2021 Full time	2021 Part time	2021 Total	2020 Full time	2020 Part time	2020 Total
The average number of persons employed during the year (including executive directors) was:						
Head office and administrative centres	**1,788**	**429**	**2,217**	1,691	432	2,123
Branches	**295**	**307**	**602**	301	309	610
Total	**2,083**	**736**	**2,819**	1,992	741	2,733

The average number of employees on a full time equivalent basis was 2,498 (2020: 2,444) 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 2021			
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	**6,650.2**	**—**	**—**	**6,650.2**
Loans and advances to financial institutions	**295.8**	**—**	**—**	**295.8**
Debt securities	**6.6**	**669.4**	**—**	**676.0**
Loans and advances to customers	**46,620.6**	**—**	**—**	**46,620.6**
Hedge accounting adjustment	**(295.4)**	**—**	**—**	**(295.4)**
Derivative financial instruments	**—**	**—**	**406.3**	**406.3**
Investment in equity shares	**—**	**—**	**4.9**	**4.9**
Total financial assets	**53,277.8**	**669.4**	**411.2**	**54,358.4**
Other non-financial assets	**171.3**	**—**	**—**	**171.3**
Total assets	**53,449.1**	**669.4**	**411.2**	**54,529.7**
Financial liabilities				
Shares	**39,890.2**	**—**	**—**	**39,890.2**
Deposits from banks	**6,040.2**	**—**	**—**	**6,040.2**
Other deposits	**5.0**	**—**	**—**	**5.0**
Amounts owed to other customers	**609.8**	**—**	**—**	**609.8**
Debt securities in issue	**5,252.3**	**—**	**—**	**5,252.3**
Hedge accounting adjustment	**(96.1)**	**—**	**—**	**(96.1)**
Derivative financial instruments	**—**	**—**	**219.8**	**219.8**
Subordinated liabilities	**15.3**	**—**	**—**	**15.3**
Subscribed capital	**41.6**	**—**	**—**	**41.6**
Total financial liabilities	**51,758.3**	**—**	**219.8**	**51,978.1**
Other non-financial liabilities	**92.0**	**—**	**—**	**92.0**
Total liabilities	**51,850.3**	**—**	**219.8**	**52,070.1**

Notes to the accounts Continued

11. Classification and measurement of financial instruments continued

Group	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit and loss £m	Total £m
	31 December 2020			
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

12. Impairment on loans and advances to customers

Under IFRS 9, impairment provisions or expected credit losses (ECLs) are required to be calculated on assets held at amortised cost and fair value through other comprehensive income. For the Society these relevant assets are loans and advances to customers, treasury assets and mortgage pipeline commitments.

Substantially all the Society's ECLs relate to loans and advances to customers and the tables below provide additional information. Further information on the credit quality of these loans is included in the Risk Management Report.

The Society's treasury assets have all been assessed as performing (IFRS 9 stage 1) throughout the period and therefore the resulting ECL is immaterial. More information on these assets is included in the Risk Management Report.

Significant accounting estimates – application of post model adjustments

Included within the ECL provision of £18.9 million (2020: £48.1 million) is £9.3 million (2020: £37.6 million) relating to post model adjustments (PMAs). These post model adjustments have been included where the Society's models do not fully capture the associated risks of future credit loss.

More information on the PMAs recognised at 31 December 2021 is set out below.

Covid-19 post model adjustment

The Covid-19 PMA is derived by segmenting the mortgage book to identify potential areas of higher risk resulting from the Covid-19 pandemic. Higher risk segments include loans where a Covid-19 related payment holiday was taken and where there has been a deterioration in internal risk grade or external credit bureau data which indicates a deterioration in credit quality.

The Covid-19 PMA reduced significantly in the year to £2.1 million (2020: £16.8 million); this is due to previous adjustments made for the impacts of the pandemic including all payment holidays 'curing'. The accounts cure after having made either 12 or 18 consecutive mortgage payments (depending on the cure rule which was applied). An 18 month cure period has been applied for accounts with extended payment holidays or a single payment holiday combined with additional risk indicators. All other accounts have been subject to a 12 month cure period.

The PMA consist of uplifts in the modelled probability of default (PD) for segments which are considered to have increased risk. These uplifts have been estimated using historical data on customer defaults and management judgement, and an average uplift of 5.4% (weighted by value) has been applied to PDs (31 December 2020: uplift of 7.5%).

Cladding and other fire safety risk post model adjustment

In the year the Group has recognised a provision for potential credit losses of £3.7 million (2020: £nil) associated with flats with unsuitable cladding and other fire safety risks which require remediation. The Society has applied assumptions to its affected mortgage book which include an assessment of the likelihood of remediation being required, impacts to property values, remediation costs and customer behaviour in order to calculate the provision.

Other post model adjustments

At the year end the Society held other PMAs in aggregate totalling £3.5 million (2020: £20.8 million).

Other PMAs include an additional adjustments for negative equity accounts which are identified through using automated valuation models (AVM), fraud and for interest only accounts which go past term.

During the prior year there was an adjustment for House Price Inflation (HPI) which has now been fully released following a prolonged period of HPI growth and continued high level of market activity. This PMA was previously held to remove the HPI growth from 1 April 2020 to the 31 December 2021 in reflection of management's expectation of a house price fall in the nearer term. Managements expectation of future house price movement are incorporated within the economic scenarios.

These additional PMAs have been included in ECLs on a consistent basis with previous year with the exception of the adjustment for HPI.

The impairment release in the year was £28.7 million (2020: charge £36.4 million). A reconciliation of movements in gross exposures and ECL provision split by IFRS 9 stage from 1 January 2021 to 31 December 2021 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 2021	39,703.4	8.6	3,549.1	28.4	206.6	11.1	43,459.1	48.1
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(1,160.0)	(0.1)	1,160.0	3.5	—	—	—	3.4
Transfers from Stage 1 to Stage 3	(27.4)	—	—	—	27.4	0.5	—	0.5
Transfers from Stage 2 to Stage 3	—	—	(65.9)	(0.3)	65.9	0.3	—	—
Transfers from Stage 3 to Stage 2	—	—	40.0	0.7	(40.0)	(0.7)	—	—
Transfers from Stage 3 to Stage 1	14.1	—	—	—	(14.1)	(0.1)	—	(0.1)
Transfers from Stage 2 to Stage 1	948.4	0.1	(948.4)	(0.6)	—	—	—	(0.5)
Net movement arising from transfer of stages	(224.9)	—	185.7	3.3	39.2	—	—	3.3
New loans originated[1]	10,452.3	0.8	51.2	—	1.3	—	10,504.8	0.8
Remeasurement of ECL due to changes in risk parameters	—	—	—	(0.9)	—	(1.7)	—	(2.6)
Decrease in post model adjustments	—	(5.3)	—	(21.4)	—	(1.6)	—	(28.3)
Remeasurement of ECL due to model refinements	—	0.2	—	—	—	—	—	0.2
Loans derecognised in the period	(4,894.6)	(0.6)	(431.2)	(0.4)	(48.0)	(1.0)	(5,373.8)	(2.0)
Other items impacting Income Statement reversal	—	—	—	—	—	(0.1)	—	(0.1)
Net write offs directly to Income Statement	—	0.1	—	—	—	(0.1)	—	—
Income Statement release for the period		(4.8)		(19.4)		(4.5)		(28.7)
Repayment and charges	(1,835.3)	—	(128.6)	—	(9.2)	—	(1,973.1)	—
Net write offs and other ECL movements	(0.1)	(0.1)	—	—	(0.9)	(0.4)	(1.0)	(0.5)
At 31 December 2021	43,200.8	3.7	3,226.2	9.0	189.0	6.2	46,616.0	18.9

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.

Notes to the accounts Continued

12. Impairment on loans and advances to customers continued

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 2021	24,317.9	5.1	2,429.5	17.9	118.2	4.6	26,865.6	27.6
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(704.3)	—	704.3	0.1	—	—	—	0.1
Transfers from Stage 1 to Stage 3	(10.1)	—	—	—	10.1	0.1	—	0.1
Transfers from Stage 2 to Stage 3	—	—	(43.0)	(0.1)	43.0	0.1	—	—
Transfers from Stage 3 to Stage 2	—	—	27.1	0.3	(27.1)	(0.3)	—	—
Transfers from Stage 3 to Stage 1	7.1	—	—	—	(7.1)	(0.1)	—	(0.1)
Transfers from Stage 2 to Stage 1	617.1	—	(617.1)	(0.3)	—	—	—	(0.3)
Net movement arising from transfer of stages	(90.2)	—	71.3	—	18.9	(0.2)	—	(0.2)
New loans originated[1]	6,826.1	0.3	14.4	—	0.1	—	6,840.6	0.3
Remeasurement of ECL due to changes in risk parameters	—	(0.2)	—	(0.6)	—	(1.0)	—	(1.8)
Decrease in post model adjustments	—	(3.7)	—	(15.0)	—	—	—	(18.7)
Remeasurement of ECL due to model refinements	—	0.1	—	—	—	—	—	0.1
Loans derecognised in the period	(3,157.3)	(0.2)	(286.3)	(0.1)	(24.6)	(0.5)	(3,468.2)	(0.8)
Other items impacting Income Statement reversal	—	—	—	—	—	(0.1)	—	(0.1)
Net write offs directly to Income Statement	—	—	—	—	—	(0.1)	—	(0.1)
Income Statement release for the period		(3.7)		(15.7)		(1.9)		(21.3)
Repayment and charges	(1,601.5)	—	(111.8)	—	(6.3)	—	(1,719.6)	—
Net write offs and other ECL movements	—	—	—	—	(0.3)	0.1	(0.3)	0.1
At 31 December 2021	26,295.0	1.4	2,117.1	2.2	106.0	2.8	28,518.1	6.4

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.

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2020 to 31 December 2020 is set out in the following table.

Group	Stage 1		Stage 2		Stage 3		Total	
	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								
Transfers from Stage 1 to Stage 2	(3,104.2)	(0.1)	3,104.2	0.5	—	—	—	0.4
Transfers from Stage 1 to Stage 3	(39.1)	—	—	—	39.1	0.9	—	0.9
Transfers from Stage 2 to Stage 3	—	—	(57.5)	(0.2)	57.5	0.2	—	—
Transfers from Stage 3 to Stage 2	—	—	36.9	0.9	(36.9)	(0.9)	—	—
Transfers from Stage 3 to Stage 1	10.8	0.1	—	—	(10.8)	(0.1)	—	—
Transfers 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 were made during 2020. These included 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.

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Notes to the accounts Continued

12. Impairment on loans and advances to customers continued

	Stage 1		Stage 2		Stage 3		Total	
Society	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	25,746.1	0.7	713.1	1.3	122.6	3.1	26,581.8	5.1
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(2,139.7)	—	2,139.7	0.2	—	—	—	0.2
Transfers from Stage 1 to Stage 3	(16.8)	—	—	—	16.8	0.5	—	0.5
Transfers from Stage 2 to Stage 3	—	—	(36.8)	(0.1)	36.8	0.1	—	—
Transfers from Stage 3 to Stage 2	—	—	25.5	0.6	(25.5)	(0.6)	—	—
Transfers from Stage 3 to Stage 1	6.6	—	—	—	(6.6)	(0.1)	—	(0.1)
Transfers 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 were made during 2020. These included an update to the calculation of the probability of default for interest rate shock, enhancements to staging methodology for unsecured personal loans, 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.

Significant accounting assumptions and estimates – forward looking information incorporated in the ECL models

Formulation of economic scenarios and governance

The economic scenarios used by the Society reflect management's best estimate of the future economic conditions under a range of scenarios including a weighting reflecting the loss distribution on the occurrence of each scenario. At 31 December 2021 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.

The assumptions in each of the four scenarios evolve reflecting latest expectations with the Base scenario representing the most likely outcome, complemented by upside and downside scenarios based on potential economic developments. These alternative scenarios are built using management judgement and are calibrated to statistical views of economic cycles ranging from periods of five to 10 years from the beginning of an overall expansion phase to the end of the contraction phase and the beginning of the next initial recovery phase. Available data from the last 50 years has been analysed to draw out the normal range through to extreme outcomes that could be expected to be observed. Outside of these extreme outcomes the severe downside scenario is based on a deliberately extreme case used for stress testing, the severity of which has not been experienced in the last 50 years.

Beyond the five year forecast horizon which aligns to the Strategic Plan period, long-term averages for each economic assumption variable are used. The severe downside scenario transitions to the long-term average level over a period of 10 years, reflecting the negativity of the scenario. The other three scenarios transition over a five year period. These long-term averages hold true throughout various financial and economic crises, and are therefore used until the end of the 35 year forecast.

Scenarios and accompanying weightings are determined following analysis of economic news, forecasts, peer benchmarking and, since the emergence of the Covid-19 pandemic, of scientific developments and results. By their nature, a significant degree of estimation is involved in determining the scenario weightings.

These scenarios and weightings are developed within the Society's Treasury function and are reviewed and approved quarterly by the Society's Asset and Liability Committee with further approval at reporting periods by the Board Audit Committee.

Current year scenarios and weightings

The base scenario has been updated to reflect continued economic recovery from the Covid-19 pandemic and decreasing unemployment, with stable house prices except for a small decrease in 2022 before a return to positive growth in 2023 and beyond. The base scenario is more optimistic than as at 31 December 2020 at which time it was expected the end of furlough, which took place in 2021, would have a greater impact on unemployment, with a higher unemployment rate being a primary cause of house price decreases in 2021 and 2022.

During the period the weightings for each scenario were reviewed and updated from those applied at 2020 year end, most notably an increased weighting assigned to the upside scenario reflecting the increased likelihood of rapid economic recovery. 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. An explanation of each scenario and its relative weighting in calculating ECL is set out below:

Scenario	Weighting
Base – this is the central scenario used to support the business planning of the Society. This scenario is based on the continued strong recovery of the economy following its 2021 reopening with no additional significant lockdown measures being applied despite the prevalence of the Omicron Covid-19 variant. Factored into the assumptions are strong economic growth contributing to low levels of unemployment as the economy recovers from the impact of covid-19 and lockdown measures. High levels of demand versus supply are expected to support current house price levels with annual increases from 2023.	55%
Downside – a scenario which factors in the impact of the Omicron variant and/or another new strain of covid-19 being partially resistant to current vaccine programmes, further delaying recovery from the economic consequences of the pandemic. As a result of this prolonged slowdown, this scenario assumes unemployment rises peaking in 2022 prior to a slower recovery in addition to falls in house prices in 2022 and 2023. The Bank of England Bank Rate would be expected to reduce to 0% to support the economy. This scenario is consistent with effective trade agreements being established with the EU over a longer time period than for the Base scenario.	20%
Severe downside – based on the Internal Capital Adequacy Assessment Process (ICAAP) Solvency Stress. This scenario is considered severe enough to reflect delayed economic recovery from covid-19 due to the emergence of the Omicron variant or a new strain that is resistant to the current vaccine programmes, resulting in further lockdown controls, and negative outcomes from EU trade relations. This scenario incorporates the economic impact of a high inflationary environment however is more extreme than the Society's inflation scenario run as part of stress testing.	10%
Upside – reflects a more rapid recovery leading to lower unemployment, continued and higher house price growth, larger GDP increases in 2022 with a longer growth period and a strong post 2023 performance. The Bank of England Bank Rate would be expected to increase more frequently and to a higher level over the five year forecast period.	15%

Macroeconomic assumptions

The Society's ECL calculation incorporates four key economic assumptions being Unemployment rate, House Price Index, GDP and the Bank of England Bank Rate. While all feed into the economic forecasts and impact the final ECL the models are 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 graphs and table show these two key economic assumptions used in the scenarios over a five year forecast period:

		31 December 2021			31 December 2020		
		Weighting	**Unemployment %**	**HPI %**	Weighting	Unemployment %	HPI %
Base	2022	**55%**	**4.5**	**(1.0)**	58%	7.3	(7.0)
	2023		**4.4**	**3.0**		6.8	7.9
Downside	2022	**20%**	**8.0**	**(10.0)**	20%	9.0	(10.0)
	2023		**7.5**	**(5.0)**		8.0	(1.2)
Severe Downside	2022	**10%**	**11.9**	**(25.9)**	20%	10.0	(18.2)
	2023		**10.0**	**(1.3)**		8.9	(10.9)
Upside	2022	**15%**	**4.3**	**2.5**	2%	4.5	4.0
	2023		**4.0**	**4.0**		4.0	4.0

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Notes to the accounts Continued

12. Impairment on loans and advances to customers continued

Key economic assumptions as at 31 December 2021

While the Society's ECL calculation is particularly sensitive to unemployment and HPI movements, GDP and the Bank of England Bank Rate remain key drivers of the provision calculation and the forward economic outlook. The rates applied to all key measures are shown below for the five year forecast period:

Scenario/ weighting		2022 %	2023 %	2024 %	2025 %	2026 %	Peak to trough %	Range %	Average to 31 Dec 2026 %[1]
Base 55%	Unemployment	4.5	4.4	4.4	4.3	4.3	0.5	4.0 - 4.5	4.3
	HPI	(1.0)	3.0	1.5	1.5	1.5	7.6	(1.0) - 6.6	1.3
	GDP	5.5	2.0	2.0	0.5	0.5	10.4	0.5 - 10.9	2.1
	Bank Rate	0.50	0.50	0.50	0.50	0.50	0.25	0.25 - 0.50	0.48
Downside 20%	Unemployment	8.0	7.5	7.2	6.8	6.8	4.2	4.8 - 9.0	7.2
	HPI	(10.0)	(5.0)	2.0	2.0	2.0	13.7	(14.5) - (0.8)	(1.9)
	GDP	1.0	5.0	2.0	2.0	2.0	12.4	0.1 - 12.5	2.4
	Bank Rate	0.00	0.00	0.00	0.00	0.00	—	—	0.00
Severe downside 10%	Unemployment	11.9	10.0	6.6	5.0	4.8	7.1	4.8 - 11.9	7.9
	HPI	(25.9)	(1.3)	22.3	7.9	6.0	35.1	(32.9) - 2.2	0.4
	GDP	1.8	6.4	3.5	1.5	1.5	15.3	0.2 - 15.5	2.9
	Bank Rate	(0.08)	(0.09)	(0.02)	0.07	0.16	0.26	(0.10) - 0.16	0.00
Upside 15%	Unemployment	4.3	4.0	4.0	4.0	4.0	0.3	4.0 - 4.3	4.1
	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
	Bank Rate	1.00	1.25	1.50	2.00	2.00	1.75	0.25 - 2.00	1.30

1. HPI change and GDP change average to 31 December 2026 are shown as the annual compound growth rates.

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 £4.6 million, or 24.3% (2020: £18.6 million, 38.7%) compared with the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £29.4 million, or 155.6% (2020: £71.6 million, 148.9%).

Scenario	**IFRS 9 provision £m**	**(Decrease)/ increase %**	IFRS 9 provision £m	(Decrease)/ increase %
IFRS 9 weighted average	**18.9**	**—**	48.1	—
Base scenario	**14.3**	**(24.3)**	29.5	(38.7)
Downside scenario	**27.5**	**45.5**	60.8	26.4
Severe downside scenario	**48.3**	**155.6**	119.7	148.9
Upside scenario	**12.2**	**(35.4)**	18.6	(61.3)

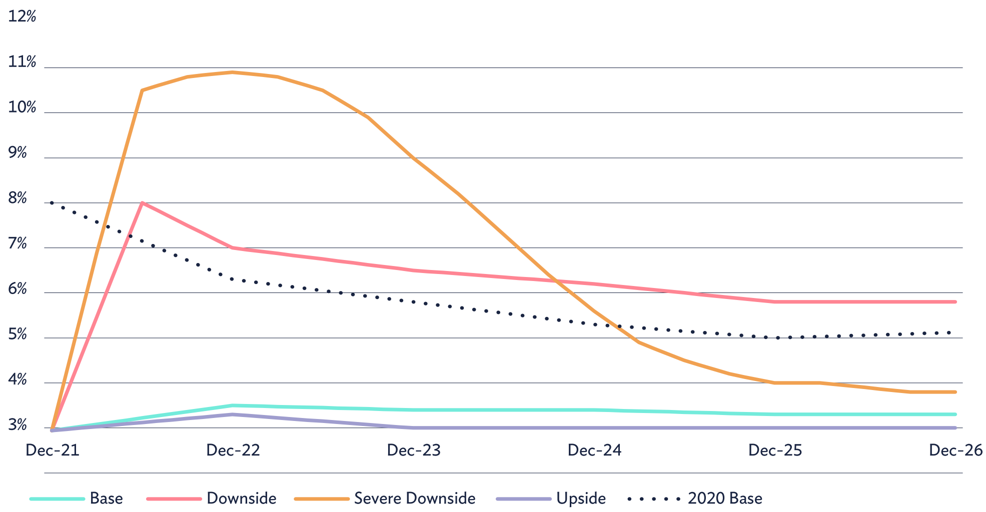
The ECL calculated above for 100% of each scenario multiplied by the scenario probability will not reconcile to the overall provision. This is due to the staging of loans within each scenario varying, however being allocated to a single stage in the overall provision calculation and having a weighted 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 estimated ECL provision is determined using an uplift to account for non-linearity in modelling of unemployment rates beyond 8.5%. This is based on the observed default emergence relationship to unemployment breaking down at higher levels of unemployment, as borrowers faced increased competition for re-employment.

Sensitivity assessment

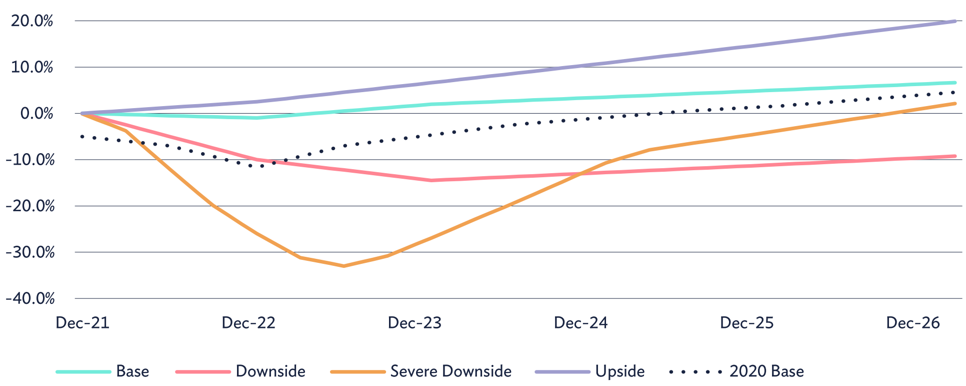
As at 31 December 2021, a decrease to the annual HPI assumption by 10% combined with an increase in the unemployment rate assumption of 10% throughout the forecast period has the impact of increasing the ECL provision by £5.9 million to £24.8 million.

The Society has recognised the economic impact of a high inflationary environment and the impact this could have on its customers and ECL. An inflationary scenario has not been incorporated into the multiple economic scenarios employed for the ECL calculation due to the existing severe scenario incorporating appropriate elements and being more extreme. However, if the provision was to be wholly calculated under this inflationary scenario the total ECL would be £35.6 million, an increase of £16.7 million or 88% on the recognised provision.

Unemployment rate (%)



House Price Index %



ECL coverage ratios

This coverage ratio (ECL provision / loans and advances to customers before ECL provisions and EIR) is 4 basis points (2020: 11 basis points).

		31 Dec 2021	31 Dec 2020
Total ECL provision	£m	**18.9**	48.1
Total gross loans and advances to customers before ECL and EIR	£m	**46,616.0**	43,459.1
ECL coverage ratio	%	**0.04**	0.11

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Notes to the accounts Continued

12. Impairment on loans and advances to customers continued

The Group's gross loans and advances by stage, impairment provision and the resulting coverage ratios is set out below:

As at 31 December 2021	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Total £m
Gross balances						
Owner-occupier	**25,078.1**	**1,970.8**	**51.5**	**41.8**	**60.8**	**27,203.0**
Buy to Let	**18,051.9**	**1,090.5**	**37.1**	**21.6**	**36.6**	**19,237.7**
Other loans[1]	**70.8**	**72.8**	**3.5**	**16.1**	**12.1**	**175.3**
Total	**43,200.8**	**3,134.1**	**92.1**	**79.5**	**109.5**	**46,616.0**
ECL						
Owner-occupier	**1.2**	**5.0**	**—**	**1.8**	**0.7**	**8.7**
Buy to Let	**2.3**	**3.1**	**0.1**	**1.7**	**1.3**	**8.5**
Other loans[1]	**0.2**	**0.7**	**0.1**	**0.6**	**0.1**	**1.7**
Total	**3.7**	**8.8**	**0.2**	**4.1**	**2.1**	**18.9**
ECL coverage as a % of total balance						
Owner-occupier	**—**	**0.25%**	**—**	**4.31%**	**1.15%**	**0.03%**
Buy to Let	**0.01%**	**0.28%**	**0.27%**	**7.87%**	**3.55%**	**0.04%**
Other loans[1]	**0.28%**	**0.96%**	**2.86%**	**3.73%**	**0.83%**	**0.97%**
Total coverage	**0.01%**	**0.28%**	**0.22%**	**5.16%**	**1.92%**	**0.04%**

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0. 1 million has been included in Other loans.

As at 31 December 2020	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Total £m
Gross balances						
Owner-occupier	23,089.8	2,252.4	47.9	54.7	63.9	25,508.7
Buy to Let	16,532.8	1,122.1	30.2	21.7	33.9	17,740.7
Other[1]	80.8	93.3	3.2	14.5	17.9	209.7
Total	39,703.4	3,467.8	81.3	90.9	115.7	43,459.1
ECL						
Owner-occupier	4.8	16.4	0.1	3.7	1.5	26.5
Buy to Let	3.5	10.2	0.1	2.7	2.0	18.5
Other[1]	0.3	1.5	0.1	0.8	0.4	3.1
Total	8.6	28.1	0.3	7.2	3.9	48.1
ECL coverage as a % of total balance						
Owner-occupier	0.02%	0.73%	0.21%	6.76%	2.35%	0.10%
Buy to Let	0.02%	0.91%	0.33%	12.44%	5.90%	0.10%
Other[1]	0.37%	1.61%	3.13%	5.52%	2.23%	1.48%
Total coverage	0.02%	0.81%	0.37%	7.92%	3.37%	0.11%

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.1 million has been included in Other loans.

The reduction in ECL in the period has reduced the coverage to 18.9 times (31 December 2020: 43.7 times) the gross impairment losses before recoveries in the last 12 months as shown below.

		Year ended 31 Dec 2021	Year ended 31 Dec 2020
Impairment losses before recoveries	£m	**1.0**	1.1
Total ECL provision	£m	**18.9**	48.1
ECL coverage	Years	**18.9**	43.7

13. Taxation

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Current tax				
UK corporation tax	**45.9**	22.5	**28.5**	14.0
UK corporation tax – adjustment in respect of prior years	**(2.4)**	0.5	**(2.2)**	0.6
Total current tax	**43.5**	23.0	**26.3**	14.6
Deferred tax				
Current year	**(3.0)**	(1.2)	**(2.0)**	(2.2)
Adjustment in respect of prior years	**1.5**	1.2	**1.5**	1.2
Total deferred tax	**(1.5)**	—	**(0.5)**	(1.0)
Total	**42.0**	23.0	**25.8**	13.6

A reconciliation between the actual tax expense and tax that would be due if the UK standard corporation tax rate of 19.0% (2020: 19.0%) was applied to the profit before tax without adjustment is as follows:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Profit before tax (PBT)	**232.8**	124.4	**140.8**	80.8
Tax at UK standard rate of corporation tax on PBT of 19.0% (2020: 19.0%)	**44.2**	23.6	**26.8**	15.4
Recurring items				
Surcharge on banking profits[1]	**7.0**	3.0	**7.0**	3.0
Tax credit on Additional Tier 1 capital distribution[2]	**(5.4)**	(5.4)	**(5.4)**	(5.4)
Expenses not deductible for tax purposes[3]	**0.1**	1.2	**0.1**	1.3
Non-recurring items				
Adjustments in respect of prior years (current tax)[4]	**(2.4)**	0.6	**(2.2)**	0.6
Other (current tax)	—	—	—	(0.3)
Total current tax	**43.5**	23.0	**26.3**	14.6
Movements in deferred taxes	**(3.3)**	(1.4)	**(2.4)**	(2.4)
Adjustments in respect of prior years (deferred tax)[4]	**1.5**	1.2	**1.5**	1.2
Deferred tax arising from rate change	**0.3**	0.2	**0.4**	0.2
Total	**42.0**	23.0	**25.8**	13.6

1. From 1 January 2016 banking companies and building societies have been required to pay a surcharge of 8% on their taxable profits in addition to the main rate of corporation tax, subject to an annual allowance of £25 million. Only the profits of the Society are subject to the surcharge.
2. The Society's AT 1 capital instrument is categorised as a Hybrid Capital Instrument (HCI) and is taxable under the HCI regime. Under the HCI regime, the distributions made to holders of the Society's AT1 instruments are deductible for tax purposes.
3. Some business expenses, although entirely appropriate for inclusion the Society's accounts, are not allowed as a deduction against taxable income when calculating the Society's tax liability. Examples of these expenses are client entertaining and capital expenditure (which is subject to capital allowances instead).
4. These adjustments largely relate to the differences between the calculated tax charge in prior year's Statements of Financial Position and the final tax charge calculated upon completion of the prior year Corporation Tax return.

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 18.0% (2020: 18.5%) for the Group and 18.3% (2020: 16.8%) for the Society. The effective tax rates for 2021 are below the UK standard corporation tax rate, because of the £5.4 million (2020: £5.4 million) tax credit in relation to distributions to holders of the Group's AT 1 instrument and the £7.0 million (2020: £3.0 million) surcharge on banking profits.

The March 2021 Budget announced an increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023), which was substantively enacted on 24 May 2021. The deferred tax liability at 31 December 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2020: 19%).

In October 2021 the Government also announced that the Bank Corporation Tax Surcharge will be reduced from 8% to 3%, and that it will be chargeable on banking profits in excess of £100 million (previously £25 million). The changes will be effective from 1 April 2023 for current tax, aligning with the already enacted rise in the main rate of Corporation Tax, so that the combined rate of tax on Banking profits in excess of £100 million will be 28%. Once enacted, this reduction in surcharge rate will drive a rate change credit and reduce the value of the Balance Sheet deferred tax liability. Had the new rate been enacted by 31 December 2021, the impact on the Group's net deferred tax liability would be a reduction of £2.4 million.

The Society publishes its tax strategy on the website at www.thecoventry.co.uk.

Notes to the accounts Continued

13. Taxation continued

Tax on items reported through the Statements of Comprehensive Income is as follows:

Statements of Comprehensive Income	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Tax charge/(credit) on remeasurement of defined benefit pension plan	**5.7**	(4.2)	**5.7**	(4.2)
Tax charge/(credit) on fair value through other comprehensive income movements	**0.9**	(0.4)	**0.9**	(0.4)
Tax charge/(credit) on cash flow hedges	**27.3**	(21.1)	**20.2**	(15.2)
Effect of change in corporation tax rate	**0.7**	0.2	**0.5**	0.2
Total	**34.6**	(25.5)	**27.3**	(19.6)

14. Debt securities

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Fair value through other comprehensive income:				
UK Government investment securities	**363.3**	640.7	**363.3**	640.7
Other listed transferable debt securities	**306.2**	344.1	**306.2**	344.1
Amortised cost				
Other listed transferable debt securities	**6.5**	10.3	**6.5**	10.3
Total	**676.0**	995.1	**676.0**	995.1
Movements during the year are analysed below:				
At 1 January	**995.1**	1,292.6	**995.1**	1,292.6
Additions	**167.5**	921.9	**167.5**	921.9
Maturities and disposals	**(470.0)**	(1,215.9)	**(470.0)**	(1,215.9)
Changes in fair value	**(16.6)**	(3.5)	**(16.6)**	(3.5)
At 31 December	**676.0**	995.1	**676.0**	995.1

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 (2020: £nil).

15. Loans and advances to customers

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Residential					
Owner-occupier mortgages		**27,203.0**	25,508.7	**26,880.4**	25,145.4
Buy to let mortgages		**19,237.7**	17,740.7	**1,567.2**	1,636.0
Near-prime mortgages		**46.7**	53.8	**2.9**	3.1
Self-certification mortgages		**112.8**	136.9	**57.8**	69.3
Other					
Commercial mortgages		**1.3**	1.8	**0.3**	0.5
Unsecured personal loans		**14.5**	17.2	**9.5**	11.3
Total Gross loans and advances to customers (contractual amounts)		**46,616.0**	43,459.1	**28,518.1**	26,865.6
Impairment	12	**(18.9)**	(48.1)	**(6.4)**	(27.6)
Total Net loans and advances to customers (contractual amounts)		**46,597.1**	43,411.0	**28,511.7**	26,838.0
EIR, fair value and other adjustments		**23.5**	71.8	**38.7**	76.1
Total		**46,620.6**	43,482.8	**28,550.4**	26,914.1

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 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Repayable in less than one year		**3,342.6**	3,178.5	**1,903.2**	1,849.0
Repayable in more than one year		**43,296.9**	40,352.4	**26,653.6**	25,092.7
		46,639.5	43,530.9	**28,556.8**	26,941.7
Impairment provision	12	**(18.9)**	(48.1)	**(6.4)**	(27.6)
Total		**46,620.6**	43,482.8	**28,550.4**	26,914.1

Actual redemption levels experienced by the Group or Society may differ from the contractual analysis.

Repurchase of Buy to Let mortgage portfolios

During the year, the Group has recognised £477.0 million of loans and advances to customers following the repurchase of two buy to let mortgage portfolios. The purchase price includes an acquisition premium on the carrying value of the assets to reflect their fair value at the acquisition date. The premium is included within Loans and advances to customers and is being amortised to the Income statement within Interest receivable over the expected behavioural life of the portfolio at acquisition. The two buy to let mortgage portfolios were originated by Godiva Mortgages Limited and sold to third parties in 2015 and 2018 respectively, at which point they were derecognised from the Group's Balance Sheet. The Group continued to service the loans in the period subsequent to their sale to third parties and was paid a service fee which was set on an arm's-length basis and on market terms.

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:

		Notes in issue[1]			
2021	**Mortgages pledged £m**	**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	**7,586.7**	**2,572.9**	**1,900.0**	**350.0**	**4,822.9**
Covered bond programme – Coventry Godiva Covered Bonds LLP	**2,737.0**	**—**	**—**	**2,000.0**	**2,000.0**
Securitisation programme – Economic Master Issuer plc	**2,179.0**	**833.0**	**367.0**	**—**	**1,200.0**
Whole mortgage loan pools[2]	**7,581.6**	**—**	**6,083.1**	**1,498.6**	**7,581.7**
Total	**20,084.3**	**3,405.9**	**8,350.1**	**3,848.6**	**15,604.6**

		Notes in issue[1]			
2020	Mortgages pledged £m	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

1. Notes in issue exclude Class Z securitisation notes (which represent either the first loss tranche in the structure or a required liquidity reserve) and the Economic Master Issuer plc Sellers Notes (2021: £793.5 million, 2020: £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 to the accounts Continued

15. Loans and advances to customers continued

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 under the covered bond programmes and retained by 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 amount of whole mortgage loan pools pre-positioned at the Bank of England and held by the group drawn increased in order to support additional drawings made under the TFSME scheme.

Covered bond programmes

The Society operates two covered bond programmes which it uses to provide security for issues of retained and externally issued covered bonds. 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 programmes 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 2021 or 2020. 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 2021, the Society had £3,350 million (2020: £3,350 million) and €1,750 million (2020: €1,500 million) of covered bonds in issue, of which £2,250 million (2020: £2,250 million) were retained by the Group.

During the period, the Society voluntarily repurchased £87.1 million (2020: £124.5 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. As at 31 December 2021, the Society had £2.0 billion (2020: £1.0 billion) of covered bonds in issue of which all were retained by the Group.

During the period, the Society voluntarily repurchased £18.2 million (2020: £3.1 million) of mortgages from Godiva LLP to maintain the quality of the pool and minimise the overcollateralisation requirement.

Securitisations

During the period, the Society operated 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. At the reporting date, only Economic Master Issuer plc remained active following the redeeming of the notes of Mercia No.1 plc and Offa No.1 plc in June 2021.

Economic Master Issuer PLC

Economic Master Issuer plc (EMI) was incorporated in November 2019 and has subsequently issued £1.2 billion of listed debt securities secured against certain mortgage loans of Coventry Building Society. At 31 December 2021 a total of £367.0 million (2020: £400.0 million) of notes were retained by the Group and £833.0 million (2020: £450.0 million) are held by parties external to 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.

Securitisations – Offa No.1 plc and Mercia No.1 plc

The outstanding listed debt securities of Offa No.1 plc (Offa) and Mercia No.1 plc (Mercia) were redeemed in June 2021, when an optional call on the Offa notes was exercised and the Mercia notes were redeemed on their June interest payment date. 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 retained by the Group. Prior to being redeemed in June 2021, the amount held by the Group was £67.7 million. Mercia was incorporated and issued listed debt securities secured against certain mortgage loans of Godiva Mortgages Limited in 2012, all of which were retained by the Group prior to being redeemed.

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 2021 £m	**Fair value liabilities 2021 £m**	**Fair value net position 2021 £m**	Fair value assets pledged 2020 £m	Fair value liabilities 2020 £m	Fair value net position 2020 £m
Securitisation programme – Offa No. 1 plc	—	—	—	225.5	122.0	103.5
Securitisation programme – Economic Master Issuer plc	**2,110.3**	**834.7**	**1,275.6**	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. Investment in Group undertakings

Society	**Shares £m**	**Loans £m**	**Total £m**
At 1 January 2021	**8.0**	**16,207.0**	**16,215.0**
Additions	**—**	**1,337.7**	**1,337.7**
At 31 December 2021	**8.0**	**17,544.7**	**17,552.7**

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
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.

Notes to the accounts Continued

16. Investment in Group undertakings continued

Consolidated entities	Principal activity
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

During 2021 Mercia No.1 plc and Offa No.1 plc are subject to winding up proceedings following the redemption of all notes in issue in June 2021 and this is expected to be completed during 2022.

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 2021 £m	Internally developed 2021 £m	Total 2021 £m	Externally acquired 2020 £m	Internally developed 2020 £m	Total 2020 £m
Cost						
At 1 January	**15.4**	**80.1**	**95.5**	16.3	73.1	89.4
Additions	**0.8**	**13.9**	**14.7**	2.0	11.0	13.0
Retirements	**(1.6)**	**(3.8)**	**(5.4)**	(2.9)	(4.0)	(6.9)
At 31 December	**14.6**	**90.2**	**104.8**	15.4	80.1	95.5
Amortisation						
At 1 January	**11.8**	**49.8**	**61.6**	12.7	43.5	56.2
Charge for the year	**1.5**	**11.0**	**12.5**	1.9	10.3	12.2
Retirements	**(1.6)**	**(3.4)**	**(5.0)**	(2.8)	(4.0)	(6.8)
At 31 December	**11.7**	**57.4**	**69.1**	11.8	49.8	61.6
Net book value at 31 December	**2.9**	**32.8**	**35.7**	3.6	30.3	33.9

Intangible assets primarily consist of externally acquired and internally developed software that is not an integral part of a related hardware purchase.

Externally acquired and internally developed assets at 31 December 2021 include £0.9 million and £6.1 million respectively (2020: externally acquired £0.8 million, internally developed £2.5 million) of assets in the 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 2021	**16.3**	**79.0**	**31.9**	**127.2**
Additions	**5.3**	**17.2**	**2.8**	**25.3**
Disposals	**(0.7)**	**(12.0)**	**(1.3)**	**(14.0)**
At 31 December 2021	**20.9**	**84.2**	**33.4**	**138.5**
Depreciation				
At 1 January 2021	**5.2**	**39.7**	**9.5**	**54.4**
Charge for the year	**0.5**	**11.8**	**5.5**	**17.8**
Depreciation on disposals	**(0.3)**	**(8.4)**	**(1.1)**	**(9.8)**
At 31 December 2021	**5.4**	**43.1**	**13.9**	**62.4**
Net book value at 31 December 2021	**15.5**	**41.1**	**19.5**	**76.1**

The amount included within right-of-use assets Additions includes new leases entered into by the Group during the year and 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.

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:	2021 Total £m	2020 Total £m
Property	**14.8**	17.5
Enhanced data infrastructure	**3.0**	3.4
Cars and leased equipment	**1.7**	1.5
Total	**19.5**	22.4

Group and Society	Land and Buildings £m	Equipment, fixtures and fittings £m	Right-of-use assets £m	Total £m
Cost				
Balance 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				
Balance 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

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 do not include right-of-use assets.

Group and Society	2021 £m	2020 £m
At 31 December	**15.5**	11.1

Notes to the accounts Continued

19. Pension scheme

The Society operates both a funded defined benefit and a defined contribution pension scheme.

The Coventry Building Society Staff Superannuation Fund (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 and was closed to future service accrual from 31 December 2012. The trustees of the Fund are required to act in the best interests of the Fund members. The appointment of the trustees is determined by the Fund's trust documentation.

In June 2019 the Society commenced the process of transferring the Fund to a new scheme administered by TPT Retirement Solutions (TPT) (the Scheme); the process of the transfer is ongoing at the year end. Following the transfer a full actuarial valuation was carried out and, following approval by the Trustees in the year, the calculation of the total liabilities has been updated to reflect this latest valuation at the year end date.

The latest actuarial valuation of the Scheme showed a surplus and since the Fund is closed to future service accrual no contributions were made in respect of members' pensionable salaries during 2021 (2020: £nil) and in 2021 there have been no further deficit contributions and none are planned ahead of the next actuarial valuation however the Society continues to meet the Scheme's expenses through contributions, including levies to the Pension Protection Fund.

Both Schemes are 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, sets out the framework for funding defined benefit occupational pension plans in the UK.

Both Schemes typically expose 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 Fund 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 bonds and liability matched holdings. Caps on inflationary increases are in place to protect the Fund against extreme inflation.

The Fund 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 Fund'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.

A full actuarial valuation was carried out as at 30 September 2019 on the TPT Scheme with a funding update carried out for the elements of the Fund still in the process of transfer. These have been updated to 31 December 2021 by a qualified actuary, independent of the schemes sponsoring employer. The significant assumptions used are shown below. 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 schemes 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 -0.73% (2020: -0.6%) per annum in excess of projected pre-retirement benefit increases.
- An investment return post-retirement of -1.3% (2020: -1.35%) per annum in excess of guaranteed pension increases in respect of pensionable service accrued prior to 6 April 2006 and -0.35% (2020: -0.55%) per annum in excess of guaranteed pension increases in respect of pensionable service accrued after 6 April 2006.

The present value of the Fund liabilities is measured by discounting the best estimate of future cash flows to be paid out by the Fund using the projected unit credit method. The value calculated in this way is deducted from the fair value of Fund assets and the net surplus is presented on the Balance Sheet as shown below:

Group and Society	2021 £m	2020 £m
Present value of funded obligation	(235.1)	(250.2)
Fair value of Fund assets	264.4	259.9
Funded status/pension benefit surplus	29.3	9.7

	2021			2020		
	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	(250.2)	259.9	9.7	(221.5)	245.8	24.3
Included within administrative expenses:						
Interest (expense)/income	(5.6)	3.7	(1.9)	(4.6)	5.1	0.5
Included within other comprehensive income:						
Remeasurements:						
Return on plan assets (excluding amounts in the Income Statement)	—	6.5	6.5	—	15.0	15.0
Gains/(Losses) from changes in financial assumptions[1]	14.8	—	14.8	(30.3)	—	(30.3)
	14.8	6.5	21.3	(30.3)	15.0	(15.3)
Other contributions and payments:						
Employer contributions[2]	—	0.2	0.2	—	0.2	0.2
Benefit payments and expenses	5.9	(5.9)	—	6.2	(6.2)	—
	5.9	(5.7)	0.2	6.2	(6.0)	0.2
As at 31 December	(235.1)	264.4	29.3	(250.2)	259.9	9.7

1. Gains/(Losses) from changes in financial assumptions includes gains from experience of £14.0 million (2020: £0.4 million) and loss from changes in demographic assumptions of £2.2 million (2020: £0.4 million gain).
2. Employer contributions include a £0.2 million contribution paid by the Society for the Scheme expenses of operating the Fund.

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 31.12.2021 £m	Plan assets at 31.12.2020 £m
Quoted		
Corporate bonds and liability matching	153.3	148.3
Diversified growth funds	9.8	5.3
Direct lending	9.5	11.4
Equities	1.1	—
Cash	6.8	18.8
Unquoted		
Corporate bonds and liability matching	49.3	53.2
Property	34.6	22.9
Total	264.4	259.9

Notes to the accounts Continued

19. Pension scheme continued

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligation at	**31.12.2021 %**	31.12.2020 %
Discount rate	**1.80**	1.45
Rate of pensionable salary increase	**—**	—
Rates of inflation (Retail Prices Index)	**3.25**	2.85
Rates of inflation (Consumer Prices Index)	**2.53**	2.04

Weighted average assumptions used to determine net pension cost for the year ended	**31.12.2021 %**	31.12.2020 %
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

	31.12.2021		31.12.2020	
Weighted average life expectancy for mortality tables used to determine benefit obligation at	**Male**	**Female**	Male	Female
Member age 60 (current life expectancy)	**26.5**	**28.4**	26.2	28.2
Member age 45 (life expectancy at age 60)	**27.3**	**29.3**	26.5	28.7

The assumptions on mortality are 101% of the actuarial table known as the S3PMA table (males)/S3PFA_M table (females) with CMI 2020 projections with a 1.00% p.a. long-term improvement rate (2020: S2PXA with CMI 2019 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 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%**	**(4.3)**	**(9.9)**	**4.5**	**10.5**
Rates of inflation (Retail Prices Index and Consumer Prices Index)	**0.25%**	**2.9**	**6.7**	**(2.9)**	**(6.7)**
Life expectancy	**1 year**	**3.8**	**8.8**	**(3.7)**	**(8.6)**

The average duration of the defined benefit obligation at the period ended 31 December 2021 is 22 years.

20. Deferred tax

Deferred tax assets and liabilities are attributable to the following items:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Deferred tax liabilities/assets				
Cash flow hedges	**10.2**	(17.1)	**7.7**	(12.5)
Other derivatives	**(5.5)**	(3.8)	**(5.5)**	(4.8)
Defined benefit pension plan surplus	**9.6**	2.6	**9.6**	2.6
Transfer of engagements – fair value adjustments	**0.1**	0.1	**0.1**	0.1
Investment in equity shares	**0.7**	0.6	**0.7**	0.6
Fair value through other comprehensive income	**2.0**	0.9	**2.0**	0.9
Excess of capital allowances over depreciation	**(4.6)**	(3.7)	**(4.6)**	(3.7)
Provisions	**(0.6)**	(0.6)	**(0.6)**	(0.6)
IFRS 16 transitional adjustments	**(0.2)**	(0.2)	**(0.2)**	(0.2)
Pension fund special contribution	**(0.3)**	(0.7)	**(0.3)**	(0.7)
Research and development intangible assets	**2.0**	1.8	**2.0**	1.8
Total	**13.4**	(20.1)	**10.9**	(16.5)

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 2021 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 £5,250.0 million (2020: £4,550.0 million) drawn down against the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME) with the final repayment of all TFS funding being repaid in December 2021.

Deposits from banks also includes £525.3 million (2020: £525.3 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 2021.

22. Debt securities in issue

The change in debt securities issued by the Group is as follows:

			Non-cash flows			
2021 Group	Opening £m	Cash flows £m	Foreign exchange movements £m	Change in accrued interest £m	Amortisation £m	Closing £m
Medium term notes	**1,607.2**	**247.5**	**—**	**0.2**	**1.6**	**1,856.5**
Covered bonds	**2,440.3**	**219.0**	**(96.1)**	**(0.5)**	**2.3**	**2,565.0**
Residential Mortgage Backed Securities	**569.7**	**260.3**	**—**	**(0.1)**	**0.9**	**830.8**
Total	**4,617.2**	**726.8**	**(96.1)**	**(0.4)**	**4.8**	**5,252.3**

			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

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 £2.8 million (2020: £2.5 million)

Notes to the accounts Continued

22. Debt securities in issue continued

associated to the set up of structured entities and subsequent issuances.

During 2021, secured by Coventry Building Society Covered Bonds LLP, the Society issued €750.0 million of external covered bonds in July 2021; and €500.0 million of covered bonds were redeemed in November 2021.

In June 2021, Coventry Godiva Covered Bonds LLP issued £1.0 billion internal covered bonds which are retained by the Group and Economic Master Issuer plc issued £350.0 million of medium term notes to external parties. Also in June 2021, the outstanding listed debt securities of Offa No.1 plc (Offa) were redeemed when an optional call was exercised by the Group.

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 Economic Master Issuer plc and Offa No.1 plc, consolidated structured entities).

Debt securities in issue are repayable in the ordinary course of business as follows:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Accrued interest	**15.0**	15.4	**15.0**	15.3
Other debt securities				
In not more than one year	**399.8**	568.8	**399.8**	447.2
In more than one year	**4,837.5**	4,033.0	**4,003.8**	3,582.5
Total	**5,252.3**	4,617.2	**4,418.6**	4,045.0

23. Derivative financial instruments

The Group elected to continue to apply the hedge accounting requirements of IAS 39 as permitted under IFRS 9.

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. Derivative assets and liabilities are included in the Balance Sheet at fair value.

Group	2021 Notional amount £m	2021 Fair value assets £m	2021 Fair value liabilities £m	2020 Notional amount £m	2020 Fair value assets £m	2020 Fair value liabilities £m
Derivatives designated as fair value hedges:						
Interest rate risk	**44,656.3**	**374.0**	**153.5**	40,822.9	108.8	516.7
Derivatives designated as cash flow hedges:						
Interest rate risk	**3,125.4**	**22.9**	**1.0**	854.0	0.1	0.8
Foreign exchange risk[1]	**1,518.0**	**—**	**56.3**	872.6	7.5	16.7
Foreign exchange and interest rate risk[1]	**—**	**—**	**—**	394.3	57.1	—
Other derivatives:						
Interest rate risk	**2,495.0**	**9.4**	**9.0**	—	—	—
Total derivatives	**51,794.7**	**406.3**	**219.8**	42,943.8	173.5	534.2

1. Cash flows are expected to occur over a seven year period (2020: six).

Society	2021 Notional amount £m	2021 Fair value assets £m	2021 Fair value liabilities £m	2020 Notional amount £m	2020 Fair value assets £m	2020 Fair value liabilities £m
Derivatives designated as fair value hedges:						
Interest rate risk	**44,656.3**	**374.0**	**153.5**	40,822.9	108.8	516.7
Derivatives designated as cash flow hedges:						
Interest rate risk	**3,125.4**	**22.9**	**1.0**	854.0	0.1	0.8
Foreign exchange risk[1]	**—**	**—**	**—**	—	—	—
Foreign exchange and interest rate risk[1]	**—**	**—**	**—**	—	—	—
Other derivatives:						
Interest rate risk	**2,495.0**	**9.4**	**9.0**	—	—	—
Total derivatives	**50,276.7**	**406.3**	**163.5**	41,676.9	108.9	517.5

The Society early adopted the amendments to IAS 39 and IFRS 7 (Phase 2) which provide temporary reliefs from the impact of IBOR reform from 1 January 2020. In applying these reliefs the Group has assumed that the LIBOR rates used in its hedging relationships are not altered by the reforms.

As at 31 December 2021 the Group has no IBOR linked derivatives following the completion of its project to rebase or remove all IBOR exposures. The exposure at 31 December 2020 of £126.6 million consisted of two equity release mortgage swaps which were both transitioned to SONIA during the period. The Society position in respect of IBOR exposure is the same as Group.

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 2021. Derivative contractual maturities are included in the Risk Management Report.

Notes to the accounts Continued

23. Derivative financial instruments continued

The following table contains details of fair value hedged exposures at 31 December 2021:

2021 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	**668.2**	**1,217.0**	**14,428.4**	**29,636.9**	**4,176.2**
Average fixed interest rate	**0.4%**	**0.5%**	**0.4%**	**0.5%**	**0.8%**
Foreign exchange risk:					
Contract/notional amount	**—**	**—**	**—**	**872.6**	**645.4**
Average fixed interest rate	**—**	**—**	**—**	**1.6%**	**1.0%**
Average £/€ exchange rate	**—**	**—**	**—**	**0.9**	**0.9**
Foreign exchange and interest rate risk:					
Contract/notional amount	**—**	**—**	**—**	**—**	**—**
Average fixed interest rate	**—**	**—**	**—**	**—**	**—**
Average £/€ exchange rate	**—**	**—**	**—**	**—**	**—**

2021 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	**668.2**	**1,217.0**	**14,428.4**	**29,636.9**	**4,176.2**
Average fixed interest rate	**0.4%**	**0.5%**	**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	**—**	**—**	**—**	**—**	**—**

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	—	—	—	—	—

Hedged items

The following table contains details of fair value hedged exposures at 31 December 2021:

2021 Group and Society	Carrying amount of hedged item Assets £m	 Liabilities £m	Accumulated amount of fair value adjustments on the hedged item Assets £m	 Liabilities £m
Fair value hedges:				
Interest rate[1,2]	**39,901.4**	**(16,657.0)**	**(290.1)**	**96.1**

2020 Group and Society	Carrying amount of hedged item Assets £m	 Liabilities £m	Accumulated amount of fair value adjustments on the hedged item Assets £m	 Liabilities £m
Fair value hedges:				
Interest rate[1,2]	36,332.7	(16,620.4)	395.2	(88.0)

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 2021 is £3.0 million loss (2020: £3.6 million loss).

The following tables provide additional information on cash flow hedges for 2021:

2021 Group	Changes in Fair Value Hedging derivative £m	 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	 Hedged item for affected Income Statement £m	 Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	**(42.5)**	**(42.4)**	**(42.4)**	**—**	**(72.1)**	**(0.1)**
Foreign exchange and interest rate	**(57.2)**	**(56.7)**	**(56.8)**	**—**	**(53.5)**	**(0.4)**
Interest rate	**65.0**	**64.8**	**64.8**	**(10.0)**	**—**	**(9.7)**

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

2020 Group	Changes in Fair Value Hedging derivative £m	 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	 Hedged item for 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

As at 31 December 2021, balances remaining in the cash flow hedge reserve, gross of tax, are £52.4 million credit for continuing hedges and £5.7 million credit for discontinued hedges (2020: 18.0 million debit, £45.6 million debit respectively).

2021 Society	Changes in Fair Value Hedging derivative £m	 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	 Hedged item for affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	—	—	—	—	—	—
Foreign exchange and interest rate	—	—	—	—	—	—
Interest rate	**65.0**	**64.8**	**64.8**	**(10.0)**	**—**	**(9.7)**

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

2020 Society	Changes in Fair Value Hedging derivative £m	 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	 Hedged item for 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.

24. Provisions for liabilities and charges

Group and Society	2021 £m	2020 £m
At 1 January	**0.4**	0.7
Charge for the year	**—**	0.5
Provisions utilised	**—**	(0.8)
At 31 December	**0.4**	0.4

The Group's provisions relate to customer redress and other regulatory provisions. 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, on a range of matters.

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	2021 £m	2020 £m
Subordinated liabilities owed to note holders are as follows:		
Fixed rate subordinated notes 2026 - 6.327%	**—**	10.2
Fixed rate subordinated notes 2032 - 7.54%	**15.3**	15.4
Total	**15.3**	25.6

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.

During the year the £10.0 million fixed rate subordinated notes 2026 – 6.327% were redeemed by the Society on a call date at the £10.0 million par value with prior consent of the PRA.

The fixed rate subordinated notes 2032 – 7.54% can be called at the option of the Society in August 2027 in accordance with their terms, subject to prior consent of the PRA.

26. Subscribed capital

Group and Society	Call date	**2021 £m**	2020 £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

The £415.0 million balance of Other equity instruments relates to PCS capital issued in April 2019. 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 2021, coupon payments of £28.5 million (2020: £28.5 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.

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 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Undrawn mortgage loan facilities	**26.2**	29.8	**26.2**	29.8

In addition, the Group has also committed to advance £2,079.6 million (2020: £2,504.2 million) in respect of loans and advances to customers for mortgages which have been approved but not completed.

Notes to the accounts Continued

29. Other liabilities and capital commitments

Capital commitments

Group and Society	2021 £m	2020 £m
Capital expenditure contracted but not provided for in the accounts	**2.9**	6.0

Other liabilities

Items presented on the Balance Sheet within Other liabilities as shown below:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Other taxation and social security	**7.4**	4.0	**7.4**	4.0
Lease liabilities	**22.6**	25.2	**22.6**	25.2
Other creditors	**4.7**	6.8	**4.7**	6.8
Amounts due to connected undertakings	**—**	—	**783.0**	405.0
Total	**34.7**	36.0	**817.7**	441.0

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 2021. This analysis differs from the lease liabilities balance above which represent the discounted future cash flows of the operations.

Group and Society	2021 £m	2020 £m
Amounts falling due:		
Less than three months	**1.3**	1.4
Greater than three months and less than one year	**3.9**	3.9
Between one and five years	**14.5**	16.8
After five years	**4.1**	4.7
Total	**23.8**	26.8

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 2021 the total expense for these items was £0.1 million (2020: £nil).

Variable lease payments are not included as lease liabilities and are expensed as incurred and they amount to £0.4 million for the year (2020: £0.5 million).

The Society sublets four (2020: 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 £18,068.6 million (2020: £16,568.7 million) of loans and advances to customers with a fair value of £17,895.9 million (2020: £16,588.0 million) and £nil (2020: £59.7 million) of deposits from banks with a fair value of £nil (2020: £59.7 million) which are held in subsidiaries of the Society. The Society includes within Loans and advances to financial institutions a balance of £nil (2020: £62.1 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 £96.8 million (2020: £72.8 million) which was a cash deposit from subsidiaries eliminated at Group level.

2021 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	**295.8**	**—**	**295.7**	**—**	**295.7**
Loans and advances to customers	**46,620.6**	**—**	**—**	**46,285.0**	**46,285.0**
Debt securities	**6.6**	**—**	**—**	**6.2**	**6.2**
Financial liabilities					
Shares	**39,890.2**	**—**	**—**	**39,890.3**	**39,890.3**
Deposits from banks	**6,040.2**	**—**	**6,040.6**	**—**	**6,040.6**
Other deposits	**5.0**	**—**	**5.0**	**—**	**5.0**
Amounts owed to other customers	**609.8**	**—**	**607.8**	**—**	**607.8**
Debt securities in issue	**5,252.3**	**—**	**5,273.1**	**—**	**5,273.1**
Subordinated liabilities	**15.3**	**—**	**20.9**	**—**	**20.9**
Subscribed capital	**41.6**	**85.2**	**—**	**—**	**85.2**

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

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.

Notes to the accounts Continued

30. Financial instruments – fair value of financial assets and liabilities continued

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 £56.2 million (2020: £16.8 million), which are held in subsidiaries of the Society, and Level 2 cross currency assets of £nil (2020: £64.6 million).

2021 Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments:				
Interest rate swaps	—	406.3	—	406.3
Cross currency swaps	—	—	—	—
Total	—	406.3	—	406.3
Debt securities:				
UK Government investment securities	363.3	—	—	363.3
Other listed transferable debt securities	292.3	13.8	—	306.1
Total	655.6	13.8	—	669.4
Investment in equity shares:				
Investment in equity shares	0.6	—	4.3	4.9
Total	0.6	—	4.3	4.9
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	—	157.0	6.6	163.6
Cross currency swaps	—	56.2	—	56.2
Total	—	213.2	6.6	219.8

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

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. 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. During 2020 the Group's holding in VocaLink was disposed and is included within Settlements in the table below analysing fair value movements in the Level 3 portfolio.

Level 3: Derivatives

The items included within Level 3 are balance tracking swaps; one of these instruments was terminated and replaced with vanilla swaps in March 2021. Balance tracking swaps 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 £0.2 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 remaining swap and hedged item so that the net Income Statement and Balance Sheet impact would be minimal. However, the terminated swap had reached its lower bound, so the change in projected mortgage prepayment rate had less impact on the terminated swap than on the hedged item, resulting in a £2.0 million gain in the period prior to its termination.

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 2021 £m**	**Derivative financial instruments 2021 £m**	Investment in equity shares 2020 £m	Derivative financial instruments 2020 £m
As at 1 January	**4.3**	**(70.5)**	3.5	(62.0)
Gains/(losses) recognised in the Income Statement				
Interest receivable and similar income	**—**	**—**	—	—
Interest payable and similar expense	**—**	**(2.5)**	—	(5.8)
Net unrealised gains/(losses)	**—**	**63.2**	1.4	(8.3)
Settlements	**—**	**3.2**	(0.6)	5.6
As at 31 December	**4.3**	**(6.6)**	4.3	(70.5)

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.

Notes to the accounts Continued

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 £0.1 million net derivative credit exposure in the table below relates to A1 rated institutions (2020: £7.5 million).

The table below shows the net exposure for sale and repurchase agreements or derivative contracts after any netting benefits and collateral. The Group did not enter into securities lending (2020: £nil) or reverse sale and repurchase agreements (2020: £566.7 million with £nil being held on the Balance Sheet as at the end of the period) during the year.

2021 Group	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	**406.3**	**(155.6)**	**(250.6)**	**0.1**
Total financial assets	**406.3**	**(155.6)**	**(250.6)**	**0.1**
Financial liabilities				
Derivative financial instruments	**219.8**	**(155.6)**	**(4.2)**	**60.0**
Total financial liabilities	**219.8**	**(155.6)**	**(4.2)**	**60.0**

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

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.

2021 Society	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	**406.3**	**(155.6)**	**(250.6)**	**0.1**
Total financial assets	**406.3**	**(155.6)**	**(250.6)**	**0.1**
Financial liabilities				
Derivative financial instruments	**163.5**	**(155.6)**	**(4.2)**	**3.7**
Total financial liabilities	**163.5**	**(155.6)**	**(4.2)**	**3.7**

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

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 2021, 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	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Loans payable to the Society				
Loans outstanding as at 1 January	**16,207.0**	15,082.8	**—**	1.3
Loans issued during the year	**1,337.7**	1,124.2	**0.5**	0.8
Impairment credit	**—**	—	**—**	—
Repayments during the year[1]	**—**	—	**—**	(2.1)
Loans outstanding as at 31 December	**17,544.7**	16,207.0	**0.5**	—
Loans and deposits payable by the Society				
Deposits outstanding at 1 January	**405.0**	—	**1.7**	2.4
Deposits received during the year[2]	**378.0**	405.0	**0.5**	1.0
Repayments during the year[1]	**—**	—	**(1.5)**	(1.7)
Deposits outstanding at 31 December	**783.0**	405.0	**0.7**	1.7
Net interest income				
Interest receivable	**293.8**	321.4	**—**	—
Interest payable	**(19.4)**	(1.9)	**—**	—
Total	**274.4**	319.5	**—**	—
Other income and expenses				
Fees and expenses paid to the Society	**46.6**	43.3	**—**	—

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).

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 2021.

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 2021

1. Statutory percentages

	2021 %	2020 %	Statutory limits %
Lending limit	**0.5**	1.6	25.0
Funding limit	**22.8**	21.4	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 2021.

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 2021.

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

	2021 %	2020 %
As a percentage of shares and borrowings:		
Gross capital	**4.87**	4.68
Free capital	**4.65**	4.46
Liquid assets	**14.7**	15.0
As a percentage of mean total assets:		
Profit for the financial year	**0.36**	0.20
Management expenses	**0.50**	0.49
Net profit as a percentage of total Balance Sheet	**0.35**	0.20

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.

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.

Annual Business Statement Continued

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 Limited	28.06.2018
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
Stephen Hughes, CIMA (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	Dwr Cymru Cyfyngedig Glas Cymru Holdings Cyfyngedig Global Charities Global Charities (Trading) Limited Pay UK – Mobile Payments Service Company Limited Rhapsody Court Freehold Limited Sirius Real Estate Limited	06.11.2017
Shamira Mohammed, ACA (17.11.1968)	Company Director	Pezula Limited	01.05.2019
Brendan O'Connor, MBA (21.06.1965)	Company Director	FCE Bank plc	18.01.2021
Lee Raybould, FCCA (05.03.1973)	Building Society Chief Financial Officer	Godiva Mortgages Limited ITL Mortgages Limited	06.04.2021
Martin Stewart, MEng (08.09.1966)	Company Director	Clayton Stewart Properties Ltd OakNorth Bank plc Northern Bank Limited	01.09.2018

Documents may be served on the above named directors at: Coventry Building Society, Economic House, P.O. Box 9, 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 (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.
Climate Biennial Exploratory Scenario exercise (CBES)	Bank of England initiative to explore the financial risks posed by climate change. The exercise will test the resilience of the current business models of the largest banks, insurers and the financial system to climate-related risks and therefore the scale of adjustment that will need to be undertaken in coming decades for the system to remain resilient.
Climate-related risks - physical	The physical risks arising from the direct physical impacts of climate change. Physical risks from climate change arise from a number of factors, and relate to specific weather events (such as heatwaves, floods and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise, and rising mean temperatures).

Glossary Continued

Climate-related risks - transition	The transition risks arising from the transition to a low-carbon economy. Transition risks arise from the process of adjustment towards a net-zero carbon economy. The UK Government has set a target of achieving net zero greenhouse gas emissions by 2050 to respond to the challenge climate change poses. A range of factors influence this risk, including: climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences and the potential for "stranded assets" to be created.
Climate-related opportunities	Refers to the potential positive impacts that climate change may have on the Society's business model and the opportunities this may present, for example by growing our lending by supporting borrowers make energy efficiency improvements on their homes.
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%.
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.
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 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.
Energy Performance Certificate (EPC)	A report that assesses the energy efficiency of a property and recommends specific ways in which the efficiency of a property could be improved. Certification is graded from A (most efficient) to G (least efficient).
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.
EV 100	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.
EV 200	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 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.
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.
Fitch	A credit rating agency which provides credit ratings and research covering financial institutions and governments and their debt instruments and securities.

Glossary Continued

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.
Greenhouse Gas (GHG) Emissions	GHGs are atmospheric gases that absorb and emit radiation within the thermal infrared range and that contribute to the greenhouse effect and global climate change. Many different GHGs are produced as a result of human activities. The seven gases mandated under the Kyoto Protocol and to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC)—carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF), and nitrogen trifluoride (NF3)
Gross capital	The aggregate of reserves, other equity instruments, subscribed capital and subordinated liabilities.
Hedge accounting	The Society issues fixed rate instruments, particularly fixed rate mortgages products, that create interest rate risk. This risk is offset, or hedged, by purchasing other financial instruments (swaps) that convert a fixed rate of interest to a variable one. Hedge accounting matches these swaps to the fixed rate products to reduce the fair value volatility that would otherwise exist if they were unmatched which would lead to volatility within the income statement. Where the matching of items in a hedged relationship is not 100% effective, this gives rise to a hedge accounting adjustment in the income statement. For information on our hedging strategy see note 23 to the accounts.
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.
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-the-counter 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 risk are principal risk 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.

Glossary Continued

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.
Operational risk	The risk of loss arising from inadequate internal processes, systems or people, or from external events.
Owner-occupier mortgage	A mortgage on residential property that is to be occupied by the borrower.
Partnership for Carbon Accounting Financial (PCAF)	Global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas emissions associated with their loans and investments.
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.
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 credits	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 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.
Retail deposits	See Shares.
Reverse stress test	A 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.
Scope 1 emissions	Scope 1 emissions are direct greenhouse (GHG) emissions that occur from our own operations (e.g. our company vehicles, gas usage & fugitive emissions).
Scope 2 emissions	Scope 2 emissions are indirect GHG emissions associated with the purchase of our electricity.
Scope 3 emissions	Scope 3 emissions are the result of activities from assets not owned or controlled by the Society, but that Society indirectly impacts in its value chain. Scope 3 emissions include all sources not within an organization's scope 1 and 2 boundary and can be separated into the following two categories: • Upstream Scope 3 emissions; business travel by means not owned or controlled by the Society, waste disposal and purchased goods & services; and • Downstream Scope 3 emissions; the emissions from the properties financed through the Society's operations – i.e. our mortgage customers
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.
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.

Glossary Continued

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.
Task Force for Climate Related Financial Disclosures (TCFD)	The Financial Stability Board created the TCFD to improve the quality and quantity of reporting of climate-related financial information, including the concentration of carbon-related assets within the financial sector and the financial system's exposure to climate-related risks.
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 Bank 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.
Term Funding Scheme with additional incentives for SMEs (TFSME)	The Term Funding Scheme with additional incentives for SMEs was launched in March 2020 as part of measures to respond to the economic shock from Covid-19. The objectives of TFSME were consistent with those of TFS, which was being wound down at the time of the emergence of Covid-19. TFSME provides additional incentives for banks to support lending to SMEs, which typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.
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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