COVENTRY
Building Society

Annual Report & Accounts 2022

All together, better

Annual Report & Accounts

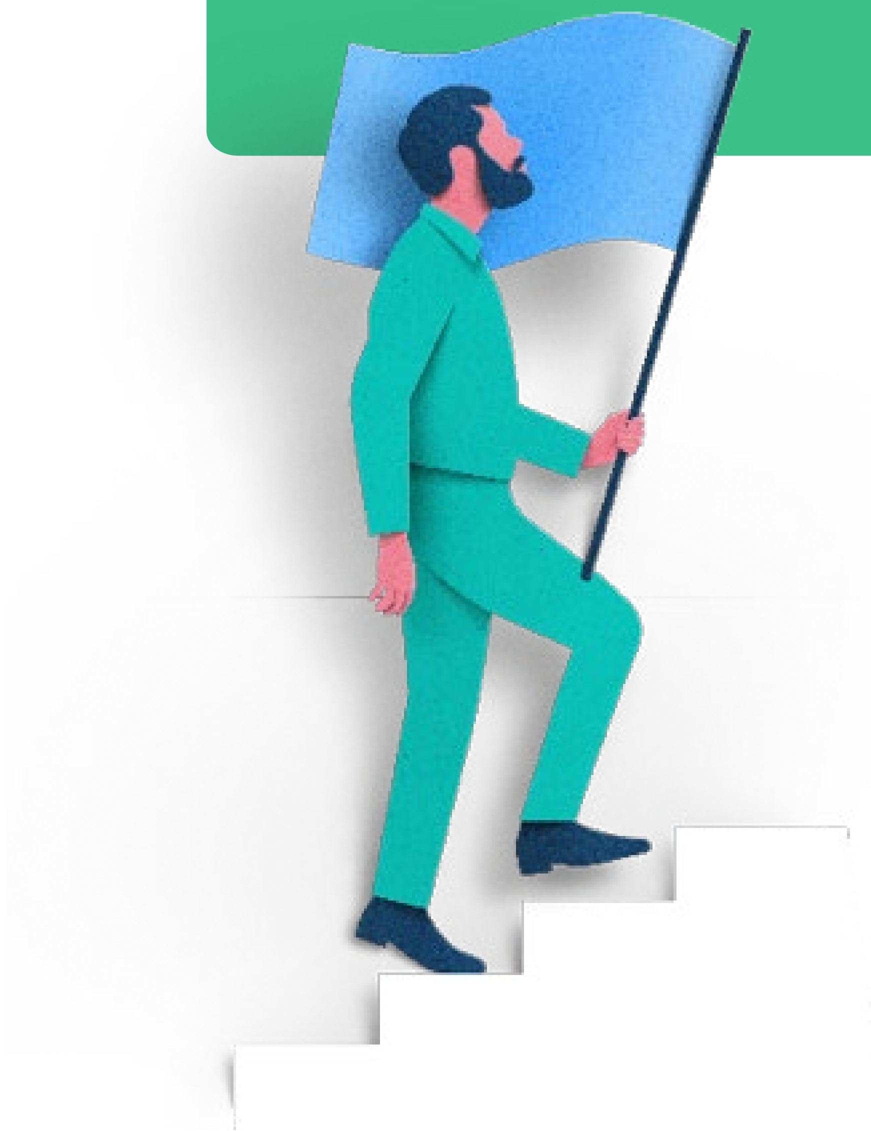
We are a building society, providing savings and residential mortgage products to individual savers and borrowers across the UK. We're as committed today to remaining a mutual organisation, and putting our members first in everything we do, as when we were founded in 1884.

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 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: **Coventry House, Harry Weston Road, Binley, Coventry CV3 2TQ.**

Strategic Report

An overview of our strategy and our financial and non-financial performance in 2022.



Performance highlights

All together, better

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

Delivering value to members

6.0%
Savings balance growth
(2021: 4.6%)

£230m
Value returned to members[1]
(2021: £201m)

WINNER
2022
Savings Champion Best Building Society

3.0%
Mortgage balance growth
(2021: 7.2%)

We helped
5,400
customers buy their first home
(2021: 7,100)

2022 Fairer Finance Gold Ribbon for mortgages

Our commitment to service

+75
Net Promoter Score[2]
(2021: +76)

207
Seconds average call waiting time[3]
(2021: 49 seconds)

2022 award Fairer Finance Clear and Simple terms and conditions

Engaging colleagues and supporting our communities

£3.2m
Total community investment[4]
(2021: £1.6m)

77%
Great Places to Work Trust Index® score[5]
(2021: 73%)

Certified Great Place To Work

Sustainable financial performance.

Capital ratios

27.4%
Common Equity Tier 1
(2021: 36.2%)

5.2%
UK leverage ratio
(2021: 4.8%)

Profitability

£371m
Profit before tax
(2021: £233m)

1.16%
Net interest margin
(2021: 0.90%)

Efficiency

0.52%
Cost as a percentage of average assets
(2021: 0.50%)

43.2%
Cost to income ratio
(2021: 56.3%)

Low risk

0.17%
of mortgages more than 3 months in arrears
(2021: 0.17%)

195%
Liquidity Coverage Ratio
(2021: 187%)

1. Based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year (2021: first 11 months of the year).
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 2022 and 31 December 2022.
4. Total community investment made by the Society in 2022 has been determined in line with the Business for Societal Impact (B4SI) framework.
5. A measure indicating a trust-based people first workplace based on positive responses to the annual Great Place to Work survey.

A statement from our Chair

Welcome to my first annual statement as Chair of Coventry Building Society. I was appointed following the Society's Annual General Meeting in April 2022 and am honoured to undertake this role for an organisation I admire for its purpose-led ethos and its focus on members.

Over forty-years of working in a variety of financial services organisations, has taught me the importance of understanding and delivering to customers' changing expectations and building a resilient business to keep their savings safe.

Coventry Building Society's record of putting members first, the social purpose it delivers through its support for charities and local communities as well as colleagues, together with its impact on societal priorities such as climate change and diversity and inclusion, shows the strength of the mutual model and its relevance in these challenging times.

In 2022, this purposeful ambition has been needed more than ever.

The shocks to the UK economy resulting from the war in Ukraine, the Covid-19 pandemic, leaving the European Union and political uncertainty need no explanation. Each of these events would be significant in its own right, but together they represent a degree of challenge to organisations and individuals that feels unprecedented in peacetime.

The result was a rapid increase in inflation and a strong response from the Bank of England which raised the base rate faster and further than many people expected at the start of the year. Our Chief Executive, Steve Hughes, will cover the impact of these developments on our members, colleagues and the communities we serve and the Society's response, along with the performance highlights of the year, in his review.

But the important thing for me is that our focus throughout has been on our members, and the need to maintain the standards of value and service that they expect from us.

Our ability to do this is underpinned by our simple and straightforward business model which enables us to concentrate on the long term whilst providing reassurance and stability during difficult times. In a year of great uncertainty, the outcome is a strong and balanced performance, which on days, saw record flows of savings and mortgage new business, but also enhanced our financial resilience and technology infrastructure, and means we face the future with confidence. We have delivered profit before tax of £371 million (2021: £233 million) and continued to invest while protecting the interests of our savers and borrowers.

Supporting our members - our highlights in 2022

The Board takes its responsibility to members extremely seriously and we prioritise opportunities to listen to their views and opinions.

Understandably, their current concerns focus on the cost of living crisis and making their money work as hard as possible for them. Providing long-term value is a key measure of the Society's success and a rapidly increasing interest rate environment has created challenges but also opportunities to do this. The Society continues to pay a premium to savers above the average in the market which increased to £230 million in 2022. We have also been quick to reassure members of changes to our savings rates following the Bank of England announcements and we have seen a 6% rise in our savings balances in the year.

The same is true on the mortgage side, where market volatility has placed intermediaries and their clients under considerable pressure at times. It is also equally clear that the Society's pledges to the sector, in particular the notification of product withdrawal, are extremely valued.

The speed of change in our markets, together with our increasing scale, underline the importance of the investment we are making in the technological transformation of the Society. Members expect a resilient, 'always on', service that they can access through a variety of means, including mobile devices, and the digitisation of the Society's savings and mortgage services is a key strategic priority for the Board. It is really encouraging to report that the Society's investment, with its focus on technical resilience as well as enhancements to the services we offer, is clearly delivering real value, with a number of key milestones being achieved in 2022. including implementation of a new contact centre telephony system.

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

As I said at the start of this review, the Society is focused on consistently meeting the needs of its members, and at times this year, whether through the challenges of legacy technology or the unprecedented new business volumes, our service has fallen below the high standards we set ourselves. However, we also made significant progress during the year in modernising our core banking systems and have begun to implement the digital enhancements to our mortgage processes that will lead to a more resilient and scalable service. I expect this progress to continue in 2023 as we make significant enhancements to both our mortgage and savings operations aimed at improving the customer experience.

This combination of digital and personal interactions is clearly what our members want, with the ease and efficiency of digital services being complemented by the warmth and professionalism of services provided by front-line colleagues. The human touch is particularly valued by members who experience our service through branches, and the completion of our four year, multi-million pound redesign of the entire branch network was an important milestone achieved during the year.

Whilst it is understandable that the current priorities of our members are focusing the Board's attention on providing the best value and service possible, the long-term challenges of climate change remain an important driver of the Society's strategy for a sustainable future.

Chair's statement Continued

I attended the Society's Annual General Meeting in April 2022 at which our first Climate Action Plan was overwhelmingly endorsed by our membership, and we will be updating members with our progress this year.

It is vital to retain the trust of the public and our own stakeholders as we transition to the net zero goal in our Climate Action Plan. Our progression towards Science-Based Targets is a part of this, with our position being underpinned in the meantime by ISO 14064-1 accreditation. Despite the external shocks, we remain committed to our long-term sustainable goals.

I believe that the social and economic challenges of the past year or so are having a long-term impact on the social contract between businesses, the Government and the public. There are greater expectations on businesses to play an active role in addressing national issues, whether in reducing the impact of climate change, addressing the country's housing crisis or creating inclusive opportunities for the more marginalised in society. Coventry Building Society is well placed to meet this expectation with its mutual status and track record of supporting people and communities, helping to build trust over a long period.

The Society's approach can be seen in the care it has shown colleagues and local communities as the cost of living crisis has worsened, and the donation of an additional £1 million in 2022 to aid local charities providing front-line support to the most hard-pressed shows how quickly we can make a difference.

Changes to the Board

I believe that one of the strengths of the mutual model is the ability to take a long term view in the interests of the members. The Board's task is to ensure the Society is run in that way by keeping an appropriate blend of experience and fresh perspectives. Recently we announced that Catherine Doran, a non-executive director since 2016, will step down from the Board following our Annual General Meeting in April. And that Peter Frost, executive director and Chief Customer Officer, will retire in 2023 after more than ten years at the Society.

Both have made significant contributions. Catherine's IT and transformational experience has been invaluable as the Society has developed the infrastructure and services enabled by innovations in technology. Peter has been an outstanding advocate of members and colleagues, leading the operational changes needed to protect the Society's future whilst retaining the values and heritage that are the foundation of its success. I would like to take this opportunity to thank them both on behalf of the Board, their colleagues and the Society's members.

I would also like to welcome Vanessa Murden who joined the Board in January as a non-executive director. Vanessa brings great financial services experience in customer service, technology and transformational roles and I look forward to working with her as we continue to invest in the Society's technology foundation, operational resilience and service experience.

Board priorities for the year ahead

I talk more in the Governance section of this report about the Board's priorities, plans and progress in 2023.

But in short, we are committed to maintaining the long-term value we offer members in a market that we expect to remain volatile and subject to change. We are also focussed on delivering the excellent service they expect and deserve, and doing this consistently.

This in turn requires a particular focus on operational risk and resilience, both in view of the external environment and the technological journey the Society is undergoing. I am pleased with the progress we are making, but not complacent and your Board will do all we can to support the delivery of this strategically important investment programme. As part of this, it has been decided to strengthen our governance arrangements with the introduction of a new Board Technology Oversight Committee, to be chaired by Vanessa.

Overall, it has been quite a year. The external shocks and domestic political volatility have meant that markets moved more than anticipated, and I am very aware of the impact of the cost of living crisis on the lives of members and colleagues alike. My role as Chair is to ensure we protect all that is good about the Society whilst supporting its transformation into a digital, resilient, modern mutual. We have strong foundations in place, with the financial strength and strategic clarity to offer our members the security, value and service they expect now and in the future, and I believe that we are well placed to succeed and grow in the coming years.

David Thorburn

Chair of the Board
23 February 2023

Your Chief Executive's review of the year

2022 was marked by a number of significant shocks to the UK economy, strong inflationary pressures and the continued impact of the pandemic. At times of uncertainty, people look for support and stability as well as value, and our priority in 2022 was to provide this for members, colleagues and the communities we serve. We adapted to events, managed our growth in a disciplined way to ensure the Society's long-term security whilst delivering competitive products and services. We kept up the pace of change that is transforming our technology base, digital capability and the way we serve members, so laying the foundations of a successful and sustainable future. The outcome was a strong financial performance which balanced the needs of today's and future members, whilst providing greater support to the people in society who need most help.

Chief Executive's review Continued

The events of 2022 have been well documented and were remarkable in the range and severity of their impact. A UK economy that had little time to recover from the challenges of the Covid-19 pandemic, was hit by supply issues affecting fuel, energy and food, as the consequences of the heartbreaking conflict in Ukraine spread across Europe and the world.

These events were amplified by political instability at home and unprecedented volatility in the financial markets which contributed to significant swings in the costs of borrowing.

The overall economic story was one of rising prices. The UK inflation rate hit its highest level for over 40 years with the Bank of England increasing the base rate eight times during the year, from a position of 0.25% on 1 January to 3.50% on 31 December, in response. The impact on people's day-to-day lives, has left many struggling to cope with the rapidly increasing prices of gas, electricity, fuel and food. The UK economy continues to face economic headwinds with the Bank of England and other commentators forecasting a long period of lower growth.

We've seen that the housing market is not immune to these challenges. Following a period of high demand that began in 2021 and was sustained by supportive government policies, ultra-low interest rates and changes in attitudes to home ownership, this year's economic and political instability, combined with the steep rise in borrowing costs, changed people's behaviours. There was a movement towards re-mortgaging rather than new purchases, and redemptions were higher than usual as many borrowers chose to exit their existing mortgages early and lock into longer-term fixed rates. From late summer, we saw the expected drop in house price inflation and activity levels as confidence fell amongst potential house buyers and sellers alike.

Whilst a rising interest rate environment is generally good news for savers, the cost of living crisis has made the need for value even more important. This has led to a significantly more active savings market as consumers become more alert to the rates on offer and this has benefitted the Society due to the consistent value we offer.

The benefits of mutuality have never been clearer. One of the strengths of our simple and straightforward business model is its resilience to external stresses, and this enables us to take a long-term view even when there are significant short-term challenges. The clarity of direction that comes from mutual ownership, without the need to satisfy shareholder demands, means we make decisions based on what is best for members. This includes ensuring our capital strength and investing for the future, as well as managing our day-to-day products and services.

But it is the day to day that matters most to our members. It is not for them to make the connection between mutual ownership and long-term stability and security. They tell us very clearly what they want – and that is great value, great service, and the support we can give them, their families and their communities through good times and bad. In such a volatile year, our ability to keep delivering these things is how we judge success.

Delivering value to members

We are a simple business, focused purely on savings and mortgages. Doing the right thing for members means balancing the needs of savers and borrowers who are affected by a rising interest rate environment in very different ways. Our aim to offer competitive products over the long term means that members trust us to get this balance right.

We maintained our track record of increasing our savings rates above the market, which meant we paid an additional £230 million of interest to our members than if we'd simply matched the average rates paid in the market (2021: £201 million).[1] This shows very clearly the difference in the way we approached the rising interest rate environment compared with many of our competitors.

The strength of this approach was seen throughout the year, combining leading offers in both ISA and non-ISA markets with consistent and quickly communicated movements as the base rate changed. We developed our loyalty proposition with a range of bonds, and this has proved extremely popular with eligible members, another reminder of the benefits that mutuality can provide and nearly 80,000 members benefited from this. It is not surprising that our product offering has been independently recognised, with Moneynet awarding us 'Best Building Society Saving Provider', Savings Champion naming us Best Building Society and Fairer Finance awarding us its Gold Ribbon for savings for the eighth year in a row.

Our strong response to the rising interest rate environment has driven an increase in savings balances of 6.0% or £2.4 billion (31 December 2021: £1.7 billion), with overall balances exceeding £40 billion for the first time. Our ability to compete, attract and retain savings balances remains a hugely important part of our business model but also our purpose in making people better off through life. This was very clear in the second half of the year when we experienced a significant increase in savings activity. The continued rise in interest rates and broader economic uncertainty meant that, when members needed to talk to us, these conversations were significantly longer and more complex than previously. It put our services under real challenge, and I'm very proud of the way colleagues responded and provided great outcomes even when it took us longer to answer the phone.

Our purpose drives our mortgage lending too. Ensuring the right outcomes for members, whether in terms of individual affordability or protecting people from the possibility of

6.0% Savings balance growth

(2021: 4.6%)

negative equity, are as important as ensuring competitive pricing. We also have a responsibility to ensure our mortgage lending is profitable and supports the Society's future stability and growth. This meant that we took a deliberately cautious approach to lending in the first half of the year. As the market position changed, and despite the incredible volatility following the mini-budget, we kept our pledge to intermediary partners and stayed open for business. We saw record activity levels in the second half of the year as a result, and I want to thank colleagues who put in fantastic efforts to make sure our borrowers were able to change mortgages and move house when they wanted to. I know their efforts were much appreciated by mortgage brokers and their clients, and they continue to deserve the independent recognition they receive from Which? and Fairer Finance and Your Mortgage which awarded us 'Best Building Society'.

Our pricing remained competitive, and we took purposeful decisions not to increase all variable mortgage rates as the Bank of England Base Rate moved. We also extended our participation in the mortgage market and, following a very successful pilot, now includes a new-build proposition in our range. This fits well with our broader sustainability ambitions, being supportive of the first-time buyer market and, through the improved energy efficiency of new builds, our Climate Action Plan as well. It is possible that the immediate cost of living crisis and general economic uncertainty have affected people's desire to invest in enhancing the energy efficiency of existing homes, and the performance of our Green Together Reward, which offers incentives to do so, seems to bear this out. Whilst I believe large-scale changes to people's behaviour requires greater leadership and education from Government as well as business, we will continue to explore ways of encouraging action in this area. We also recognise that our level of lending to first time buyers has fallen in 2022. This is partly driven by fewer first time buyers entering the market and we retain our long term commitment to supporting first time buyers.

Our mortgage growth of 3.0% or £1.4 billion (31 December 2021: 7.2%, £3.1 billion) compares with the overall UK market growth of 4.1%[2]. At just 0.17%[3] (2021: 0.17%) we continue to record very low levels of arrears, but do expect more borrowers will require our support in 2023.

Delivering on our service promise

I said earlier that our members expect a good service, and this is a consistently strong part of who we are and what we do. In many ways, we maintained this through 2022, but it was noticeable as the interest rate environment changed, and under pressure of the cost of living crisis, our members contacted us in greater numbers than ever before and needed more time to deal with the complexity of decisions they were facing.

Offering great products was also a factor in the number of calls being taken, but the result was that our service came under pressure, with some of our members having to wait longer than usual to speak to us. What didn't change was the brilliant support they received from our branch and contact centre teams when they did talk to us and our Net Promoter Score[4] (NPS) – the primary way we judge overall satisfaction with our service – remained outstanding at +75 (2021: +76) for the Society as a whole.

We set a very high bar when it comes to customer service, and I want to thank our members for their patience as well as my colleagues for their fantastic efforts during these tough times. I also want to reassure members and colleagues alike that we are recruiting and training new colleagues and will provide the resources needed to deliver the brilliant service they expect.

Chief Executive's review Continued

+75 Net Promoter Score

Our measure of excellent service[4]

(2021: +76)

One thing that will help with this is the ongoing digitisation of our mortgage and savings services, and we continue to make good progress with this work. We rolled out digital product switching capability across our intermediary network, with more than 80,000 switches undertaken by the end of the year. We launched SMS authentication and are in the final stages of developing our mobile savings app. With self-service options also enhancing our savings maturity process, we are beginning to see the benefits of this investment in terms of the efficiency and scalability which are fundamental to our future growth plans.

Making progress on our digital plans is hugely important to us and to our members. But so is the human touch, and in 2022 we completed the multi-million pound transformation of our branch network by opening our flagship branch in the heart of Coventry city centre. All our branches have now been transformed into warm and welcoming hubs at the heart of their local communities, and we have received great feedback from the members who use them as well as the colleagues who work in them. It underlines our commitment to the high street for many years to come. What people might not see is the integration of our customer-facing channels by which colleagues in the branch network are increasingly able to provide telephony and digital support – a flexible and joined-up approach to providing the best possible service to members however they contact us.

The investment we're making in frontline services is matched, and at times enabled, by the technology transformation that is happening behind the scenes, and here too we are making great progress. These programmes are focused on improving the Society's operational resilience, information security and the transformation of our financial planning, controls and reporting as well as providing the building blocks of new services. During the year, we achieved significant milestones in moving core applications and systems into new more secure data centres, as well as building the underlying components of new digital services. The transformation to new technologies is ongoing and on track, and I expect the benefits to be even more obvious during 2023.

We are making significant investments in our future. Our capital and revenue investment expenditure of £94 million in technology and change programmes shows the importance we attach to this work. Our cost to income ratio has improved to 43% as a result of our strong income performance. However, our cost to mean asset ratio and total management expenses increased to 0.52%[5] (2021: 0.50%) and £295 million (2021: £264 million) respectively.

Investing in our services is hugely important to us. The impending Consumer Duty regulations also lay out the expectations on us to deliver the right customer outcomes. Our purpose and culture are aligned to meet this expectation as we have shown this year, whether by making our branches more accessible, supporting vulnerable customers, delivering value to savers, or proactively contacting borrowers who may be struggling in a rising interest rate environment. Enabling the convenience, accessibility and ease of our digital services will go hand in hand with the warmth of our human touch.

Supporting our communities

I said earlier that members are clear about what they want from us, and I have talked about what we delivered in terms of value and service during 2022. They also want us to support the communities they live in and conduct our business in a way that contributes positively to some of the larger issues facing society, such as financial education, food poverty, climate change and equal opportunities.

Despite the external challenges, I remain absolutely committed to the Society's sustainability agenda, and recommend taking the time to read our annual Sustainability Report which provides more detail on our Environmental, Social and Governance progress and plans.

We have worked hard over the last two years to embed a new community strategy that focuses on issues affecting people in Coventry, the surrounding area and the communities our branches serve. During this time, we have built brilliant partnerships in the public, private and third sectors to deliver against three objectives where we believe we can add resources, knowledge and opportunities: Better Foundations, which targets housing issues; Better Futures, which deals with aspiration, employability and career development; and Better Connections, which supports the isolated and vulnerable members of our community.

£3.2m total community investment[6]

(2021: £1.6m)

I am very proud that, as the cost of living crisis hit harder in the latter half of the year, we were able to use these partnerships to donate £1 million, in addition to our normal support, directly to Coventry schools and local charities helping those most at risk, as well as a contribution to every one of our branches across the UK to support food banks in their communities.

2022 also brought to an end our long-standing and very successful partnership with The Royal British Legion. We have worked together for nearly 15 years, and during that time, the Society has donated over £20 million to fund the Legion's work. The new community strategy is the reason for the change. We'll announce our new corporate partner very soon and are very excited about the opportunities this partnership will bring in tackling one of our priority issues, nationally and at a local level.

We also continue to make good progress in pursuit of our climate change objectives. We received overwhelming support at our 2022 Annual General Meeting for our Climate Action Plan and have backed that up with a transformation plan to achieve our Net Zero ambition by 2040. This forms part of The Climate Pledge, which we signed early in 2022 and which commits us to report our progress accurately and transparently. I believe our actions in joining the Science-Based Targets initiative shows that we are serious about our climate change ambitions.

Engaging colleagues

The role played by my colleagues across the Society cannot be overstated. In a very challenging year, they continued to do everything possible to meet member expectations and deliver a great service. In turn, we have worked hard to recognise and reward their contribution and give them the support they and their families need.

At a time of great change and uncertainty, when the headlines have been full of discord and instability, it would have been understandable for engagement and motivation to falter. Instead, our second year participating in the Great Place to Work survey showed an increase in overall engagement and a rise in 72 of the 78 measures the survey covered. I am very proud of this result which positions the Society as one of the best organisations of its size and shows the commitment we make on an organisational and individual level to do the right things for our people.

A key aim is to recruit and develop talent that shares our values, and I am really encouraged by the personal and career development we're achieving at the Society. In 2022, over 45% of vacancies were filled by internal candidates, something that I believe is motivational for the individual but also great for the Society's culture and future success.

As part of this, we want to build a colleague base that reflects the diversity of our city and the communities we serve. We have been recognised by Great Place to Work as being one of the best places to work for women, ranking 14th amongst the top 39 super large companies in this regard. Our aim is 50:50 representation on our Board and 40% female representation in our management roles by 2025. We had more women than men on our management development programmes this year and as well as on our apprentice and graduate cohorts too. We continue to develop our working environment to provide whatever support is needed.

We have a similar ambition for 25% of our manager roles to be held by colleagues with an ethnic minority background by 2025. Progress on this is slower than I would wish despite a lot of initiatives and a lot of support across the business. As I have said before, we will make a difference and I am hopeful that initiatives that include a tailored talent programme, mentoring and reverse mentoring and diversity and inclusion programmes for recruiting managers will start to deliver real change.

Colleague wellbeing is something we are passionate about. We measure it every quarter and have been able to track the impact of the cost of living crisis on colleagues' mental and financial wellbeing. We anticipated some of the impact in our 2022 pay award but took the additional step of a £1,000 cost of living allowance for all colleague's that were basic rate taxpayers. This payment was made in a series of instalments from September 2022 through to February 2023 and was massively appreciated. But whether it is being proactive in the face of clear evidence of need or anticipating and surprising colleagues with our range of wellbeing initiatives, the result is clear in the brilliant engagement we have. I have said before that our people are our greatest asset and we will continue to recognise and appreciate them for all that they do.

Chief Executive's review Continued

A strong and balanced performance

I wrote this thinking about what matters most to our members. They expect great value and service, and they expect us to do the right things for the wider community we serve. In times of uncertainty and volatility, they also expect us to keep their money safe and secure, and ensure the Society's financial strength and stability.

£371m Profit before tax

(2021: £233m)

In 2022, we delivered a strong and balanced performance across all these objectives. Our profit before tax of £371 million was higher than in 2021 (£233 million). This has been supported by the increases in the Bank of England Base Rate which has improved our margin and income performance notwithstanding the strong value provided to members. More importantly, we took prudent decisions to deliver the capital strength that will be needed to support future growth and investment, particularly in view of a less certain economic outlook.

It is a very positive thing for the Society and its members that we continue to maintain a strong capital position. Our leverage ratio increased to 5.2% (2021: 4.8%) and our Liquidity Coverage Ratio was 195% (2021: 187%). Our Common Equity Tier 1 ratio at 27.4% (2021: 36.2%), is well above regulatory requirements and the 2022 reduction reflects a change in industry wide regulation. This clearly demonstrates our financial strength and shows that we provide a safe home for savers and borrowers alike.

Looking to the future with confidence

There seems little doubt that 2023 will see further economic challenges. We can hope that inflation has peaked and we see greater market stability, but the impact on our members and colleagues of a 'new normal' in the cost of living will continue with rising mortgage rates for existing members and mortgage demand likely to remain subdued.

Having said that, the Society is well positioned. In 2022, we took prompt decisions to communicate and reassure our savers and continued to pay the best rates we could afford. We protected borrowers from the extremes of the rising interest rate environment, supported them through the flexibility of our product design and kept the confidence of mortgage intermediaries by maintaining our commitments to them despite the fast-moving market. We grew, but grew appropriately, with the right focus on margin, capital strength and economic outlook that balanced the needs of all our stakeholders.

Just as importantly our investment in technology and the transformation of our business is realising the benefits we aimed for. In 2023 we expect to complete further steps towards the digitisation of our savings and mortgage services, which will deliver operational efficiencies, greater capacity and improvements in the ease and convenience our members expect. We will continue to expand our participation in the mortgage market, and support more people in buying their homes. Saving members can expect a consistently great service, supported by new digital capabilities. And our resilience will continue to be strengthened by our ongoing investment in our technological foundations.

Our performance makes me confident that we can continue to protect our members and invest for the future despite the challenges of economic and competitive headwinds. I would like to echo David's words on the fantastic contributions made by Catherine Doran and Peter Frost, who I have thoroughly enjoyed working with and will miss very much. And I join him also in welcoming Vanessa Murden to the Board.

I will finish by thanking our members, customers and partners for their continued support and loyalty, and my colleagues across the Society for their passion, professionalism and commitment.

Steve Hughes
Chief Executive
23 February 2023

1. Based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year (2021: first 11 months of the year).
2. Source: Bank of England.
3. Percentage of mortgages with more than three months of arrears.
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 in 2022 has been determined in line with the Business for Societal Impact (B4SI) framework.

Our business model and strategy

Our business model is how we deliver our products, services and strategy.

Inputs

Financial

We use the retained profits from our 138 years of trading plus other forms of financial capital and funding from outside investors, together with the savings of our members to fund our mortgage loans to customers.

Natural

We are investing and changing 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% of the time during 2022. These systems supported the distribution of our products via our 64 branches, our telephone channels and our 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 Warwickshire 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 600 suppliers of which 90 provide critical services, and we also buy in specialist expertise and additional labour where needed to support our own colleagues.

Outputs

Our customers

We provide residential mortgages and cash savings accounts 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, and providing extra help to customers in vulnerable situations and those in financial difficulty. This means keeping savers' deposits and all 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 use the private rental sector for their current housing needs. Our Buy to Let business diversifies our income and helps create value for our wider membership, through better savings rates and services than we could otherwise afford.

Our business model

We earn interest and fee income from mortgage customers. We then 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 colleagues and suppliers, to cover potential losses on our mortgage loans, to invest in improved technology, products and services. The remaining profit is then retained as capital to fund future growth and provide financial resilience in the event of an economic downturn. Unlike a listed bank, we don't pay shareholders dividends or aim to maximise our share price. Instead, we only retain sufficient profits to remain financially resilient whilst:

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

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

We believe this mutual business model is consistent with the value and ethos of those who founded the Society over 138 years ago and promotes the competitiveness of the UK mortgage and savings market as a whole.

Strategic Report

Our business model and strategy Continued

Inputs

Colleagues

We depend on an engaged and diverse workforce of over 2,800 UK-based colleagues who deliver our services to around 2 million customers across every region of the UK.

Outputs

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 shocks. 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 product range supports those of all ages wanting to save for their future, whether thats for the shorter or longer term. Our products include instant, notice and restricted access products, fixed rate bonds and tax free Individual Savings Accounts (ISAs).

We choose not to provide current accounts or provide investment advice or to lend on anything except secured residential property.

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

All together, better

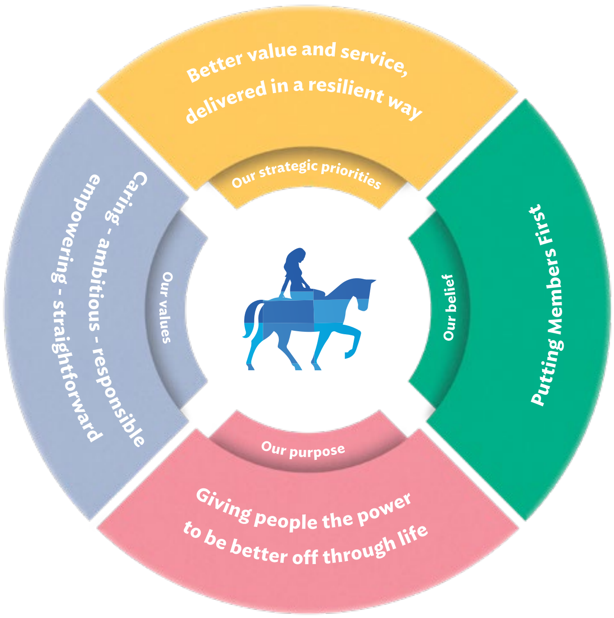
A people and purpose-led building society responding to the needs of all stakeholders.

In recent years, 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 and 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 over the long term.



Our purpose

We exist to make people better off through life.

Our business is made up of a network of relationships with multiple stakeholders. We need to balance the interests of all these stakeholders – making them all better off through life. Delivering on our purpose empowers our customers, colleagues and others to be better off through life at the same time creating a wider society that is fair, confident and resilient. Our purpose is reflected in our branding 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 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 members and people at the core. They guide our activities and are also aligned to our performance measures and targets.

Making people better off through life	
A purpose-led approach to business, the environment and wider society	A responsible business supporting sustainable growth and employment, and whilst doing so, reducing our carbon footprint and use of natural resources. We will also provide lending to support customers with reducing the carbon footprint of their homes. Our purpose extends to our support to our local communities, changing our city for the better through increasing financial literacy and career aspirations, improving access to quality housing and reducing loneliness. Our purpose also 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, communities and membership. We provide a safe and engaging workplace for our employees, supporting their health and wellbeing.
Offering the best value products and services we can	
Making home ownership a reality and building a society of savers	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 'digital first, human always' customer service	We want customers to feel confident they have chosen the right provider for their mortgage and savings by: • Offering digital services that provide a better choice of product options, better servicing and better technology for our colleagues; • Backed up by friendly, caring and well-trained employees offering tailored support and guidance to customers when they need it most.
All 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, whilst 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 scenarios. We are also careful to spend our members' money wisely and efficiently as an enabler of growth, good long-term value and 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 which 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 10,000 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. • By working closely with our recognised union, Unite.	• Suppliers are provided with feedback on sourcing activities they are involved in, and we engage 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 2022?	• 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 savings App.	• Our remuneration strategy and focus on financial wellbeing. • Embedding flexibility in ways of working. • 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. • Finding out about opportunities that might be available to local suppliers.
Our response and 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 Green Together Reward product.	• The Board engaged in two-way discussions with the My Society forum focusing on diversity and inclusion, branding, ESG, reward, wellbeing, and health and safety. • Committed to giving colleagues the greater flexibility that comes with a hybrid working model. • Investment in modern, collaborative working environments	• 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, social and governance 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 community strategy which makes clear what we support and how this can be accessed. • Funding commitment across the medium term.	• To contribute towards tackling climate change • 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 (GHG) 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.	• Engaging regularly with our strategic partnerships, charities, public sector and schools 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 third parties for assurance to conform with ISO 14064-1 standards to validate our GHG emissions data.
What's been important for them in 2022?	• Impact of the cost of living crisis on our borrowers and how we're supporting members. • The Society's roadmap to achieving Net Zero ambitions. • Product propositions aimed at helping members improve the energy efficiciency of their homes. • Our plans for a green or social bond.	• Building successful partnerships which bring value to community organisations. • Certainty of funding as well as responding to changing external events, by providing additional funding to support services through cost of living pressures • Creating access to opportunities and raising aspirations.	• We are reviewing our Climate Action Plan, which was published for the first time in the prior year. This 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 and 2021 GHG emissions data.
Our response and key decisions taken by the Board	• Feedback used to develop the Annual Report and 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.	• £1m additional investment approved to support local communities impacted by the cost of living pressures. • The Board considered our ongoing investment in the Coventry Building Society Arena and its support of our community strategy. • New corporate partnership progressed, to be announced in early 2023.	• The Board considered the impact of climate change on both the Society and its customers and approved the multi-year Climate Action Plan published on our website.

Building a sustainable Society Our achievements in 2022

over **3,500**
Young people helped through our education and employability programmes

561
People supported by Access to Housing advice

43%
Suppliers rated green by EcoVadis

Carbon neutral
since 2021 for our own operations

£3.2m
Total community investment

ISO 14064-1
certification retained

77%
Employee engagement

We are signatories of:

The Climate Pledge, 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 - an international standard that quantifies the reporting of greenhouse gas (GHG) emissions and the verification.

External associations include

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

Our sustainability strategy

Sustainability is at the core of the Society's strategy and aligns with our purpose and values. This sustainability strategy is framed by the three key external United Nations (UN) benchmarks which we have committed to. Delivering against these external benchmarks forms the core of the Society's sustainability strategy.

Sustainability in the Strategic Plan

Our sustainability strategy is embedded within the Society's people and purpose-led Strategic Plan. This 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.

Making the Plan's objective of the Society being a 'people and purpose-led mutual' a reality is achieved by the strategic goals as outlined on page 16:

1. Having a purpose-led approach to business, the environment and wider society.
2. Creating an inclusive and inspiring workplace for everyone.

The term sustainability covers all three areas of Environmental, Social and Governance (ESG) and the Society considers them as follows:

Environmental	We believe that climate change is a critical issue for the UK and the wider world. We are committed to making a positive contribution to the challenge of climate change by reducing the environmental impact of our business activities. At the heart of this is progressing our decarbonisation strategy which aims to deliver on ambitious Net Zero targets.
Social	As a people and purpose-led organisation, we aim to meet the needs of multiple stakeholders. For members, offering long-term value, good customer outcomes and superior customer service. For colleagues, providing work that supports, engages and enables them to unlock their full potential. And we support local communities and national causes, creating opportunities for the most disadvantaged in society.
Governance	Maintaining the highest standards of governance is integral to the successful delivery of the Society's sustainability strategy. Our governance framework ensures that the Board is effective in making decisions and maintaining oversight, whilst keeping to our well-established purpose and values.

The Society's commitment to sustainability

Since 2021, the Society has been committed to the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labour, the environment and anti-corruption.

The Society is also a signatory of the UN Principles for Responsible Banking and has identified four of the 17 UN Sustainable Development Goals (UN SDGs) to prioritise as our areas of focus. The priority goals are:

- UN SDG 4: Quality education;
- UN SDG 8: Decent work and economic growth;
- UN SDG 11: Sustainable cities and communities; and
- UN SDG 13: Climate Action

For each of these priority goals, we have agreed ambitions and specific targets, which are outlined on the following page. These measures help to define, measure and report on our broader sustainability activities.

More information on the Society's approach to sustainability is provided on our website at www.thecoventry.co.uk.

Our sustainability priority goals

Sustainable Development Goal - Quality Education

Why we 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 targets and ambitions

- 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 three years from 2021.

In 2022, we delivered:

- 103 apprenticeships since 2021.
- 57% of senior managers recruited internally (2021: 49%).
- 14,984 children and young people supported since 2021.

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 targets and ambitions

- 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 to 2017 levels.

In 2022, we delivered:

- Remained carbon Neutral for Scope 1 and Net Zero for Scope 2 emissions.
- We have reduced our Scope 3 emissions by 5%.
- Reduced our Scope 1 and 2 emissions by 16%.
- 49% reduction in paper consumption since 2017.

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.

Our targets and ambitions

- 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 2022, we delivered:

- 561 people supported through Access to Housing.
- We supported 5,400 first time buyers and we are working on new build propositions to help them.

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 £172 million annually with our supply chain, enabling us to drive positive changes with our suppliers.
- We can offer underrepresented groups career pathways.

Our targets and ambitions

- We will 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% of manager roles and above held by colleagues from ethic minority groups by 2025.
- All key suppliers have committed to the CBS Supplier Code of Conduct by 2023.

In 2022, we delivered:

- 45% of roles filled by internal candidates.
- Sustainability questions feature in supplier due diligence questionnaires and request for proposal documents.
- 38% of all senior manager and above roles held by women (2021: 37%).
- 12% of manager and above roles held by colleagues from ethnic minority groups (2021: 12%).
- 100% of our suppliers committed to the CBS Supplier Code of Conduct.

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 performed across a range of Environmental, Social and Governance activities in 2022 is included in our Sustainability Report which will be available on our website at www.thecoventry.co.uk.

Climate

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 we 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 and regularly attended by our non-executive directors, 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. We also 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. We have also been awarded the Fair Tax Mark. 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 partner with experienced cyber security firms to help manage our risks and strengthen our capability, and we have comprehensive cyber insurance. The Board receives regular updates with regards the Society's compliance with data protection legislation from the Data Protection Officer, who reports directly to the General Counsel. All employees undertake regular mandatory data protection and information security training as a minimum, and there is a wealth of experience in our data and security teams that support the business. 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

In order to assess the top and emerging risks to the Society, we consider the following key external environmental factors.

Economic environment

The UK economy slowed in 2022 as a result of inflation triggered by the invasion of Ukraine on top of the legacy effects from the Covid-19 pandemic on global supply chains and domestic political uncertainty.

Inflation peaked at 11.1% in October before falling slightly to 10.5% at the end of the year (2021: 4.8%), but was still significantly above the Bank of England's 2% target.

Central banks around the world responded to high inflation by increasing interest rates in order to reduce demand from consumers and businesses. The Bank of England increased its own rate eight times in 2022 to 3.50% (2021: 0.25%)

Forecasts now suggest that this is likely to lead to lower activity in our core markets.

This has yet to impact the labour market, with unemployment reducing to 3.7%[1] (2021: 3.9%).

Housing and mortgage market activity is slowing, with the annual rate of house price growth[2] falling to 2.8% in 2022 (2021: 10.4%). The temporary reduction in stamp duty is unlikely to have a material impact on activity in our view.

The combined effects of rising unemployment and lower house prices is likely to lead to an increase in arrears from historically low levels in 2023.

Market environment

Savings market

UK household deposits have continued to grow, although the savings ratio has fallen as the cost of living has increased and with higher consumer spending following the pandemic period. Savings rates have started to rise albeit not at the same pace as the increase in the Bank of England Base Rate. The level of deposits in retail savings and current accounts remained high at £1.7 trillion (2021: £1.7 trillion), an increase of £323 billion compared with pre-pandemic levels. The weighted average market savings[3] rate increased from 0.27% to 0.63%, while household savings balances in the UK grew by 4.1%[4] (2021: 7.8%).

Mortgage market

Borrowers in the UK mortgage market experienced rising interest rates, particularly in the second half of the year following the market disruption in the UK following the mini-budget.

This is likely to lead to significant increases in monthly payments for those remortgaging in 2023 and beyond, and is likely to reduce the amount borrowers are able and prepared to borrow. This we believe will lead to a fall in the level of mortgage market activity and growth. Overall, the mortgage market grew by 4.1%[4] in 2022 (2021: 4.6%).

Rental market

The UK rental market remained stable in 2022, although landlords are experiencing lower returns in a higher interest rate environment and as house price inflation moderates. Changes to interest tax relief on Buy-to-Let property are also seeing an increasing number of landlords transfer their properties to limited companies.

Tenant demand tends to remain strong as house purchase activity moderates, although landlords may start to experience increased voids and arrears in some parts of the market.

These trends, plus additional costs for landlords to improve the energy performance of rental properties, may impact returns on investment and lead to lower buy to let market growth.

Our external environment Continued

Regulatory change

Regulatory developments 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 the Payment Services Directive 2 (including Strong Customer Authentication) has had a significant impact on customers' digital experience and the nature of support calls to our service centres. The Society is also focusing on preparing for the implementation of the FCA's Consumer Duty initiatives, which will start to be effective later in 2023.

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, the implementation of Basel 3.1 capital floors, Regulations on Operational Continuity in Resolution and the Resolvability Assessment Framework.

Technology

Technology is continuing to change the way that customers access and interact with their financial services provider. Events of recent years have accelerated the use of digital devices and the online service experience is seen as increasingly important to customers. This acceleration in digital adoption is expected to be permanent with a continuing reduction in the use of cash and branches.

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

Climate change

As evidence of increased climate change 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 2021 and at COP27 in Egypt in 2022. Regulatory disclosures for banks and building societies on the financial risks arising from climate change further increase focus in this area.

1. Source: UK Government National Statistics
2. Source: Nationwide house price index.
3. Based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year (2021: first 11 months of the year).
4. Source: Bank of England.
5. Minimum Requirement for Own Funds and Eligible Liabilities.

Top and emerging risks

In common with other financial institutions, the nature of Society's business model results in a number of unavoidable or inherent risks, namely principal risks These risks are closely monitored by the Board through the Risk Management Framework and outlined on page 35 of the Risk Management Report. The top and emerging risks outlined below provide information on the current risks, driven by the external environment, which could impact the Society and how we mitigate them.

Risk	Mitigation
Macroeconomic environment A challenging global and UK economic environment has had an impact on inflation and interest rates. The Bank of England Base Rate rose from 0.25% to 3.5% during 2022, with further increases expected in early 2023. This will impact the rates borrowers will pay on their mortgages and impact affordability and ability to repay their mortgages.	The Society performs regular stress testing considering the impact of plausible 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. The Society is also holding additional expected credit loss provisions to protect against the risks from heightened inflation and cost of living that have yet to emerge in modelled data.
Market environment An elevated interest rate environment could place downward pressure on mortgage activity and mortgage margins, and restrict opportunities for the Society to grow. Increased mortgage rates could lead to a decrease in house prices and further reduce market activity.	The Society's simple, lower risk and low cost business model means that it is well placed to maintain growth flexibility and resilience through a range of market conditions. The Society undertakes a detailed Strategic Planning process which ensures the needs of savings and borrowing members are balanced with maintaining the strength and resilience of the Society and continuing to support the growth of the UK economy and our key markets.
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. There is a risk that the Society's products do not keep up with the pace of change, attract new members, or that the level of investment to keep pace challenges the Society's lower cost operating model.	The Society continues to focus on developing products and services which keep up with these expectations and we have increased our investment in digital servicing and distribution. Our plans balance the requirement to deliver short-term improvements and long-term strategic capabilities. During 2022, the Society improved its digital channels and this will continue to be a priority in 2023.
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 scaled agile change model along with additional investment, is expected to improve the resilience, flexibility and efficiency of delivering technology and other change. Strong financial performance has enabled accelerated investment in cloud strategy and digital platform investment.
Operational resilience A major operational risk event could result in disruption to services, leading to customer harm, financial or regulatory impacts, or 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. The Society has operational resilience processes in place which aim to ensure that the Society's key services are able to recover in a timely manner in the event of disruption. From a people perspective, the Society evolves its proposition in line with external market changes and colleague feedback, with key person dependencies identified and mitigation options reviewed.
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. There is also a risk that regulatory expectations could increase as the Society grows.	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. The Society is currently undertaking work to enhance its preparedness for future regulatory expectations.
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 continues to develop 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. A description of the risks and opportunities to the Society's business model is included on pages 71 to 75.

Chief Financial Officer's review

A year of strong financial performance, which enabled the Society to deliver positive outcomes for its stakeholders when it has mattered most.

2022 has been a tumultuous year to say the least and I'm so proud that the Society has continued to deliver for its members, colleagues and our communities. We have taken the right actions at the right time to build on the financial strength of the Society and to ensure we can continue to provide long-term sustainable value to our stakeholders.

In an incredibly challenging economic climate, the Society has passed on value to its members through each of the eight base rate increases during the year. Our competitive savings rates have been incredibly popular with both existing and new members, and we have significantly improved the competitiveness of our mortgage standard variable rate.

The cost of living crisis is a reality for many of our members and with mortgage rates increasing to levels not seen for well over a decade, we have looked to mitigate the impact on borrowing members and continue to focus on providing all the support we can in line with our mutual values.

The Society took the opportunity during 2022 to invest more than ever before on improving services and the long-term resilience of your Society, and we have pushed the bar even higher on our community activities and charitable contributions by doubling our investment year on year.

I'm pleased to report that in 2022 our financial performance improved and we were able to out-perform on our financial goals. Our performance results in a further improvement in the leverage ratio and we continue to hold a strong capital position, improving the financial resilience of the Society and putting us in a strong position to support our members through the uncertain economic times ahead.

Our profit before tax increased to £371 million (2021: £233 million), an increase of £138 million from the previous year. This increase is primarily due to improvements in net interest income and fair value gains on our economic hedges, offset by increased expenses and provisions for expected credit losses.

Overall net interest income increased to £657 million (2021: £476 million) and net interest margin to 1.16% (2021: 0.90%). The increase was mainly driven by the rising base rate environment with mortgage interest receivable rising more quickly than interest payable on retail deposits.

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 £230 million[1] (2021: £201 million). On average, our savings rates were 0.62% above the market average[1] (2021: 0.56% above market average).

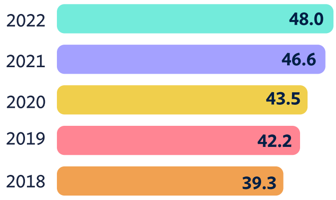
The Society has continued to invest significant time and money on improving and modernising services for our members. We invested £94 million (2021: £96 million) in our strategic investment programme across capital and revenue expenditure. This includes a £10 million increase in revenue expenditure as we look to improve our resilience, infrastructure and digital capability, offset by a reduction in capital spend on our head office estate. Our strong income performance supported this continued investment and resulted in a significant improvement in our cost to income ratio to 43% (2021: 56%).

The Society's mortgage book continues to perform well with low arrears balances of just 0.17% of mortgages being more than three months in arrears (2021: 0.17%). However, we are mindful of the potential impact of ongoing difficulties being experienced by our members and are monitoring this carefully. In the second half of the year, some economic indicators have weakened and we have seen the Bank of England Base Rate reach its highest level in over a decade. So with cost of living pressures combined with increasing mortgage payments we have been deliberately cautious in our approach to provisions for expected credit losses.

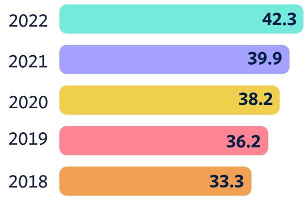
As a result, a charge of £17 million (2021: release of £29 million) has been made increasing balance sheet provisions to £36 million.

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. I'm pleased to report a further improvement in the leverage ratio to 5.2% (2021: 4.8%) and our Common Equity Tier 1 (CET 1) ratio remains strong at 27.4% (2021: 36.2%). The reduction in our CET 1 ratio was in line with previous guidance in our 2021 Annual Report and reflects an increase in risk weighted assets driven by the change in industry wide regulation required from 1 January 2022.

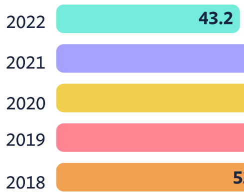
£48.0bn
Mortgage balances



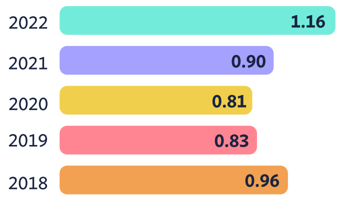
£42.3bn
Savings balances



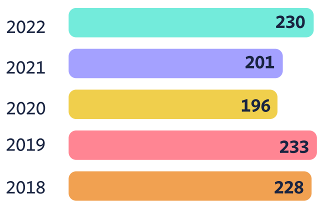
43.2%
Cost to income ratio (%)



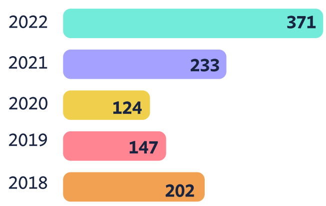
1.16%
Net interest margin



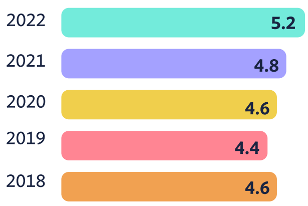
£230m
Value given to members[1]



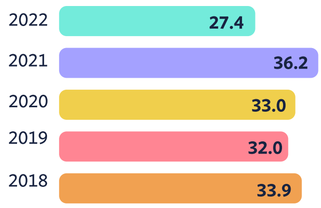
£371m
Profit before tax



5.2%
Leverage ratio



27.4%
Common equity tier 1 ratio



Our liquidity position remained significantly ahead of regulatory requirements with a Liquidity Coverage Ratio (LCR) at 195% (2021: 187%). 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
23 February 2023

1. Based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year (2021: first 11 months of the year).

Chief Financial Officer's Review Continued

Income Statement

Overview

In 2022, the Society improved its financial performance after the challenges in 2021 due to the Covid-19 pandemic and despite the market volatility observed in the year. The following factors impacted the 2022 financial results:

- Net interest income increased by £181 million, driven by the rising base rate environment with mortgage interest receivable rising more quickly than interest payable on retail deposits. The increase was also impacted by the £69 million charge recognised in the prior year due to changes made to the estimations within our Effective Interest Rate (EIR) calculation (2022: £17 million).
- Gains on derivatives and hedge accounting of £27 million (2021: £7 million loss) as a result of market volatility and changes in customer behaviour.
- We have increased our provisions for future expected credit losses (ECLs) in light of the continued uncertainty surrounding the economic outlook. As a result, £17 million of ECL provisions were charged during the year, compared to a release of £29 million in 2021.

As a result, profit before tax for the year increased to £371 million (2021: £233 million).

	2022 £m	2021 £m
Interest receivable	**1,421.1**	833.9
Interest payable	**(763.8)**	(357.7)
Net interest income	**657.3**	476.2
Other income	**(1.6)**	(1.4)
Gain/ (loss) on derivative financial instruments	**26.8**	(6.6)
Total income	**682.5**	468.2
Management expenses	**(294.8)**	(263.5)
Impairment (charge)/release	**(16.6)**	28.7
Charitable donation to Poppy Appeal	**(0.6)**	(0.6)
Profit before tax	**370.5**	232.8
Tax	**(84.3)**	(42.0)
Profit after tax	**286.2**	190.8

Net interest income

Net interest income increased to £657 million (2021: £476 million).

The Bank of England Base Rate increased eight times during the year, increasing from 0.25% at 31 December 2021 to 3.50% at 31 December 2022.

Interest receivable on mortgages increased by £468 million, predominantly as a result of the impact of base rate increases on our mortgage book and growth in balances. The Society consciously improved the competitiveness of the standard variable rate (SVR) product to protect these customers from the impact of rising rates. In addition, we benefitted from a £119 million increase related to interest receivable on higher liquidity balances and rates.

Interest payable on retail savings increased by £286 million following the eight base rate increases during 2022. For each base rate change, we have passed through on average 54% to our savings members. Throughout 2022, the Society continued to pay above average savings rates, returning £230 million (2021: £201 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 £120 million movement related to higher interest payable on our wholesale funding.

Net interest income included a charge of £17m (2021: £69 million) relating to a change to the future assumptions on mortgage redemption behaviour as customers spend less time on SVR (note 3).

Net interest margin

At 1.16%, our net interest margin improved significantly from the 0.90% reported in 2021 (1.03% excluding the impact of the prior year EIR adjustment), as a result of the movements in net interest income outlined above relative to our average total assets.

	2022 £m	2021 £m
Net interest income	**657**	476
Average total assets	**56,698**	53,014
	%	%
Net interest margin	**1.16**	0.90

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 overall throughout the period. The gain of £27 million for the year represents hedge ineffectiveness and fair value movements on derivatives where hedge accounting was not obtained (2021: £7 million loss), and includes net gains from ineffectiveness arising from higher volumes of early redemptions following changes in customer behaviour on both mortgages and savings.

Management expenses

Overall management expenses increased by £31 million. The increase in costs was primarily driven by an increase of £10 million in spending related to the Society's strategic investment programme, salary and cost inflation across all of our operations, accelerated depreciation as we consolidate our head office footprint and the impact of higher variable pay in recognition of the strong performance against our targets. We also finalised the refurbishment of our branches and increased our contribution to community and charitable activities.

1. Based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year (2021: first 11 months of the year).

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 0.52%[1] (2021: 0.50%) is expected to remain among the lowest in the UK building society sector. The cost to income ratio improved to 43%[2] (2021: 56%).

Further details regarding administrative expenses is included in note 9 to the accounts.

Expected credit losses

The performance of our mortgage book has remained strong following the overall economic outlook in the first half of 2022 being better than expected in certain key metrics with the growth in house prices and observed lower unemployment levels. However, in the second half of the year, the economic outlook worsened with the highest inflation levels in over 40 years and base rate now at the highest level in over a decade.

The Society has updated its economic scenarios to account for a period of heightened inflation and the subsequent impact to the economy, including HPI reductions and, in turn, Expected Credit Losses (ECLs).

In addition, we have introduced a new post model adjustment (PMA) to reflect the potential risk associated from the increase in the cost of living and higher mortgage payments for borrowers.

We have taken a deliberately cautious approach to estimating ECLs, given the structural challenges facing our members from the cost of living crisis, which has resulted in an increase to our provision for ECLs, and a charge of £17 million (2021: release of £29 million) being recognised.

At the year end, total provisions were £36 million (2021: £19 million), of which £19 million (2021: £9 million) related to PMAs, where the risks were not assessed as adequately captured in the Society's core modelling.

The post model adjustments cover the following risk areas:

- Risk relating to the impact of the cost of living on our members where we have identified behavioural characteristics which may lead to future difficulties (£14 million).
- The potential for losses as a result of cladding remediation on flats where fire safety standards have not been met.
- 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.
- We have taken the opportunity to remove the Covid-19 payment holiday adjustment following the end of the cure period for impacted customers.

The remaining £16 million (2021: £10 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 but moves into a further period of uncertainty related to the cost of living crisis and inflationary pressures.

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 2022, stage 2 accounts increased to 9% (2021: 7%) principally due to the cost of living PMA put in place. 90% of the book remains in stage 1 (2021: 93%).

As a result of these changes, the ECL provision now equates to 0.07% of the overall mortgage book (2021: 0.04%).

More information on ECL is included in note 14 to the accounts.

Charitable donation to the Poppy Appeal

The Society brought to an end its very successful long-standing support for the Royal British Legion's Poppy Appeal with £0.6 million donated during the year (2021: £0.6 million), bringing the total donated over the Society's relationship with the Legion to £20 million.

Taxation

In 2022, the corporation tax charge was £84 million (2021: £42 million), reflecting an effective tax rate of 22.8% (2021: 18.0%). In 2021, it was announced, that from 2023, the corporation tax rate is set to increase from 19% to 25% and the banking surcharge is set to decrease from 8% to 3%. Both rates were substantially enacted during 2022, and so are reflected in the deferred tax liabilities at the balance sheet date. Further information is included in note 15 to the accounts.

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

Chief Financial Officer's Review Continued

Balance Sheet

Overview

Mortgage balances grew by £1.4 billion and liquidity increased by £2.4 billion. Retail savings balances grew by £2.4 billion and wholesale funding increased by £1.3 billion.

Mortgage growth was funded by retail savings.

A summarised Balance Sheet is set out below:

	2022 £m	2021 £m
Assets		
Loans and advances to customers	**48,014.3**	46,620.6
Liquidity	**10,009.8**	7,622.0
Other	**843.0**	287.1
Total assets	**58,867.1**	54,529.7
Liabilities		
Retail funding	**42,288.7**	39,890.2
Wholesale funding	**13,207.2**	11,907.3
Subordinated liabilities and subscribed capital	**57.0**	56.9
Other	**366.5**	215.7
Total liabilities	**55,919.4**	52,070.1
Equity		
General reserve	**2,250.7**	2,012.6
Other equity instruments	**415.0**	415.0
Other	**282.0**	32.0
Total equity	**2,947.7**	2,459.6
Total liabilities and equity	**58,867.1**	54,529.7

Loans and advances to customers

Our lending strategy remains focused on high quality, low loan to value 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 2022, we advanced £8.7 billion of mortgages (2021: £9.6 billion) and mortgage balances grew by £1.4 billion (2021: £3.1 billion). The year on year growth in mortgages of 3.0% compares with the UK mortgage market growth of 4.1%[1] and our market share remained at 3% (2021: 3%).

The Society manages its growth according to economic conditions, market pricing and funding conditions. As a result, with mortgage margin pressure within the market in the first six months of the year, this led to the overall book remaining stable at 30 June 2022. With changing conditions in mortgage pricing following further base rate increases in the second half of the year, the Society has taken the opportunity to grow its book by 3.0% to over £48 billion at 31 December 2022.

This growth was offset by higher levels of redemptions as customers looked for rate certainty and continued to lock into longer-term fixed products in response to base rate rises.

New lending on owner-occupier homes accounted for 67% of total new lending in 2022 (2021: 65%) at an average LTV of 65.3% (2021: 65.7%). The Society continues to support first time buyers; however, with current market conditions impacting this segment of the market, the number of loans advanced in 2022 reduced to 5,400 (2021: 7,100).

Total mortgage assets at 31 December 2022 stood at £48.0 billion (2021: £46.6 billion) which comprised £28.5 billion of owner-occupier loans (2021: £27.4 billion) and £19.5 billion buy to let loans (2021: £19.2 billion). The balance weighted indexed LTV of the mortgage book at 31 December 2022 remained broadly stable at 51.0%[2] (2021: 50.9%) when compared to prior year.

Possessions and forbearance remained low, with 27 cases in possession at the year end (2021: 27), with forbearance levels having decreased by 23.5% year on year in value terms and 12.9% in number of cases. With the impact of the cost of living crisis expected to materialise more fully in 2023, the Society continues to focus on supporting its members. Despite the current economic conditions, the Society continues to have very low arrears, with only 0.17% of mortgages more than three months in arrears (2021: 0.17%) at 31 December 2022 compared with the latest available industry average of 0.71%[3].

Liquidity

Liquid assets increased to £10.0 billion (2021: £7.6 billion) as we maintained a prudent liquidity buffer, demonstrated by our Liquidity Coverage Ratio (LCR) remaining strong at 195% (2021: 187%), significantly above the minimum regulatory requirement.

Liquid assets are principally held in deposits at the Bank of England and in UK Government investment securities. This means that asset quality remains very high, with 93% of the portfolio rated Aaa–Aa3 (2021: 98%). 98% of liquid assets are held in UK sovereign or UK financial institutions (2021: 99%).

Included in liquid assets are £1.6 billion of assets held at fair value through other comprehensive income (FVOCI). As at 31 December 2022, the balance on the FVOCI reserve was a £5 million gain, net of tax (2021: £5 million gain, net of tax).

Retail funding

Retail savings increased in the year by £2.4 billion to £42.3 billion (2021: £39.9 billion), representing growth of 6.0%, compared with market growth of 4.1%. The Society's overall savings market share is 2.4%[1] (2021: 2.4%).

The Society continued to support the cash ISA market, increasing our market share to 6.7%[1] (2021: 6.5%).

Our increase in market share reflects a more active savings market in 2022 and our competitive product offers, particularly towards the end of the year.

Our mortgage book continues to be predominantly funded by retail savings, with 88% of mortgage loans funded in this way (2021: 86%).

1. Source: Bank of England.
2. LTV is calculated using the Nationwide Building Society quarterly regional house price index (HPI).
3. Source: UK Finance

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 £1.3 billion in the year to £13.2 billion (2021: £11.9 billion) driven by higher swap valuations and the associated change in collateral impacting our short term funding position.

There was one wholesale issuance during the year, with a €0.5 billion covered bond which was issued in September 2022. There was £5.25 billion of Central Bank Term Funding (TFSME) outstanding as at 31 December 2022 (2021: £5.25 billion).

Equity

The Society's equity is predominantly made up of 138 years of retained profits in the general reserve and Additional Tier 1 (AT 1) capital. The Society made post-tax profits of £286 million in the year and total equity increased £0.5 billion to £2.9 billion, including a £29 million distribution to AT 1 capital holders and £250 million movement in the cash flow hedge reserve.

Pension fund

The pension scheme assets and liabilities are recorded in the Society's financial statements and the overall position was a surplus of £3 million at the end of 2022 (2021: £29 million). These assets and liabilities are impacted by market movements, and the decrease in the year was driven by the movement in the UK corporate bond market 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 unexpected future losses. As we grow our mortgage book, the amount of capital we need to hold to meet the UK Capital Requirements Directive (CRD) V increases.

The Society's CRD V capital position7 as at 31 December 2022 is summarised below. During the year, the capital resources increased to £2,584 million, primarily through the increase in Common Equity Tier 1 (CET 1) driven by profit after tax of £286 million.

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

The increase in risk weighted assets (RWAs) in 2022 was due to an update in the IRB modelling approach due to regulatory changes. This increase in RWAs was partially offset by increases in capital resources. The Society's CET 1 and Total Capital ratios consequently reduced to 27.4% (2021: 36.2%) and 32.7% (2021: 44.1%) respectively.

The Society continues to work towards meeting regulatory changes for IRB models that were brought in at the beginning of 2022 and is in the final stages of development work required to address the updated requirements.

Until the updated models are fully approved, and in common with many other IRB institutions, the Society has agreed to hold additional risk weighted assets (RWAs) that represent its best view of the change in capital requirements that will result from the new models once they are implemented. This has contributed to the increase in RWA and hence, the lower CET 1 ratio in 2022.

The final model output may vary from this initial assessment, which may further lower the CET 1 ratio, effectively bringing forward changes of increasing RWAs envisaged in Basel 3.1. The Society expects that from 2025, Basel 3.1 changes to capital requirements will be phased in and, as transition develops, this will reduce the Society's reported CET 1 ratio. Applying the Basel 3.1 RWA floors to the year end figures on a full transition basis would result in a CET 1 ratio of approximately 20%.

The Society's Total Capital Requirement (TCR) at December 2022 was £846 million, equating to 10.7% of RWAs (2021: £565 million; 10.7%). We exceed this requirement using CET 1 capital alone.

	End-point 31 Dec 2022 £m	End-point 31 Dec 2021 £m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	**2,169.0**	1,921.8
Total Tier 1 capital	**2,584.0**	2,336.8
Total capital	**2,584.0**	2,336.8
Risk weighted assets	**7,911.7**	5,303.6
Capital and leverage ratios:	**%**	%
Common Equity Tier 1 (CET 1) ratio	**27.4**	36.2
Leverage ratio including central bank reserves and full AT1 capital amount	**4.5**	4.3
UK leverage ratio[1]	**5.2**	4.8

1. 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.

Strategic Report

Chief Financial Officer's Review Continued

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.
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.

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 25
Key performance indicators	
Our performance highlights are presented within this Strategic Report.	See page 2
Our remuneration scorecard and targets are included in the Directors' Remuneration Report.	See page 118
Our key alternative performance measures are explained above.	
Our colleagues	
Information relating to colleague engagement is included within this Strategic Report.	See page 17
We are committed to creating a balanced and diverse workforce. More information on diversity and inclusion is included in this Strategic Report and on our website.	See page 17 www.thecoventry.co.uk
We aim to reward our people fairly and we have programmes in place to improve our gender pay gap. More information on this is in this Strategic Report.	See page 17 More information is available at www.thecoventry.co.uk
Disclosures relating to our CEO pay ratio are included in this report.	See page 121
The Society has a Code of Conduct which sets out the behaviour which is expected from all our colleagues. We aim to operate in a fair and honest way, and recognise that openness and trust are essential to creating mutually rewarding relationships and delivering excellent service to members.	
Human rights	
Information on the policies we have in place to address the risk of modern slavery is in this Strategic Report.	See page 22
Anti-bribery and corruption	
Information on our Anti-bribery and Corruption Policy is included in this Strategic Report.	See page 22
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.	See page 21 www.thecoventry.co.uk
Our full Environmental Policy is published on our website.	

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

Steve Hughes

Chief Executive
23 February 2023

Risk Management Report

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

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);

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 on page 25.

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.
Capital risk The risk that the Society has insufficient capital resources to absorb losses in benign or stressed macroeconomic conditions, fails to meet regulatory or external expectations, or has insufficient financial resources to recapitalise in the event of resolution.	The Society holds sufficient capital to withstand a severe but plausible stress, and mitigate risks identified through the annual ICAAP process. Risk appetite limits are set to ensure that the Society always maintains compliance with regulatory minima, with Early Warning Indicators in place to identify periods of severe stress as part of the Recovery Planning process.
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 or failed internal processes, people and systems, or from external events. Operational risk includes legal and regulatory risk.	We actively identify, assess and manage the operational risks to which the Society is exposed. During 2022, we continued to enhance our operational risk management framework to enable the Society to manage operational risk effectively. We have built-in business continuity capability and have undertaken work to understand the key services to ensure operational resilience. We closely monitor the regulatory environment to assess and manage the impact of upcoming regulatory change.
Model risk The risk of an ineffective or incorrectly interpreted model leading 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 a focus on risks which could become threats to the business model over the medium to long term.

Risk Management Report Continued

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

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. 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.

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.

The Executive Risk Committee (ERC), the Board Risk Committee (BRC) and the Board all review performance and adherence to Board risk appetite 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 opposite. 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 the BRC and BAC is included in the Governance Report.

The Board

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

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

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

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

Chief Executive Officer

Executive Risk Committee (ERC)
Chair: Chief Risk Officer

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

Asset and Liability Committee (ALCO)
Chair: Chief Financial Officer

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

Conduct Risk and Compliance Committee (CRCC)
Chair: Head of Conduct Risk

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

Model Risk Committee (MRC)
Chair: Chief Financial Officer

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

Operational Risk Committee (ORC)
Chair: Chief Customer Officer

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

Retail Credit Committee (RCRC)
Chair: Head of Retail Credit Risk

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

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 £62.6 billion in 2022 (2021: £56.8 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 2022 £m**	**Off-balance sheet exposures[1] 2022 £m**	**Maximum credit risk exposure 2022 £m**	On-balance sheet carrying value 2021 £m	Off-balance sheet exposures[1] 2021 £m	Maximum credit risk exposure 2021 £m
Cash and balances with the Bank of England	**7,792.2**	**—**	**7,792.2**	6,650.2	—	6,650.2
Loans and advances to credit institutions	**622.8**	**—**	**622.8**	295.8	—	295.8
Debt securities	**1,594.8**	**—**	**1,594.8**	676.0	—	676.0
Loans and advances to customers	**48,014.3**	**2,316.0**	**50,330.3**	46,620.6	2,105.8	48,726.4
Derivative financial instruments	**2,278.1**	**—**	**2,278.1**	406.3	—	406.3
Total	**60,302.2**	**2,316.0**	**62,618.2**	54,648.9	2,105.8	56,754.7

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 residual legacy products and comprises a negligable amount of total gross loans.

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

More information on the performance of the retail portfolio is included in the following sections.

Risk Categories Continued

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

Loans and advances to customers (Audited)	2022 £m	2022 %	2021 £m	2021 %
Residential mortgages: owner-occupier	**28,529.3**	**59.5**	27,362.5	58.6
Residential mortgages: buy to let	**19,496.2**	**40.6**	19,237.7	41.3
Legacy lending[1]	**13.2**	**—**	15.8	—
Total gross balance	**48,038.7**	**100.1**	46,616.0	99.9
Impairment	**(35.5)**	**(0.1)**	(18.9)	—
EIR, fair value and other adjustments[2]	**11.1**	**—**	23.5	0.1
Total net balance	**48,014.3**	**100.0**	46,620.6	100.0

1. Legacy lending represents residual small portfolios 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)	2022 %	2021 %
London	**27.3**	27.8
South East England	**18.5**	18.5
Central England	**14.2**	14.0
Northern England	**13.4**	13.2
East of England	**11.8**	11.8
South West England	**8.8**	8.8
Scotland	**3.4**	3.4
Wales and Northern Ireland	**2.6**	2.5
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, consistent with 4.49 for 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 4.9% (2021: 12.6%) of advances were made at or above this level in 2022. 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 the borrower.

The Society's actual average interest coverage ratio at the end of the year using a stressed 5% interest rate was 203.4% (2021: 174.9%), 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.

The LTV distribution of the mortgage book as at 31 December 2022 has remained broadly stable with 2021, as a result of continued growth in HPI offset by a slight increase in the 85% to 95% and >95% bandings as a result of additional lending in the year, including first time buyers. The overall average LTV (balance weighted) marginally increased from 50.9% to 51.0% 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)	2022 %	2021 %
Indexed loan to value:		
< 50%	**57.2**	56.7
50% to 65%	**26.8**	27.7
65% to 75%	**10.0**	11.0
75% to 85%	**4.0**	3.1
85% to 95%	**1.7**	1.5
>95%	**0.3**	—
Total	**100.0**	100.0
Average indexed loan to value of stock (simple average)	**44.0**	44.0
Average indexed loan to value of stock (balance weighted)	**51.0**	50.9

The average indexed LTV of loan stock in London has decreased to 50.5% (2021: 51.0%) as a result of movements in house prices during the year. The rest of the portfolio has seen indexed LTV increase marginally to 51.1% (2021: 50.7%).

The average LTV of gross new lending in 2022 is shown below, which has marginally decreased during the year.

Gross lending by balance - new lending profile (Audited)	2022 %	2021 %
Owner-occupier purchase	**36.9**	39.5
Owner-occupier remortgages	**28.3**	24.5
Owner-occupier further advances	**2.3**	2.0
Buy to let purchase	**8.1**	12.2
Buy to let remortgages	**23.4**	21.0
Buy to let further advance	**1.0**	0.8
Total	**100.0**	100.0
Average loan to value (simple average)	**61.0**	61.7
Average loan to value (balance weighted)	**64.4**	64.8

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 Commercial 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 2022.

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.

Risk Categories Continued

The Society's approach to payment difficulties

Cost of living challenges

During the year, the Society used an in-house assessment to identify customers who are potentially vulnerable to the cost of living crisis. The Society has proactively written to members identified as potentially vulnerable, with around two thirds subsequently contacted by a customer service call. Most of those spoken to are happy just to know what support is available, with a limited number being referred on to explore forbearance options. Very few of those spoken to were already financially challenged and are being managed using the forbearance tools available. Customer reaction has been positive and will help engagement in the event of future problems. We will continue to invest in and expand this activity.

The Society takes action to proactively contact mortgage customers who have or will be coming to the end of their initial fixed rate mortgage product period, and who may experience increases in their mortgage rates due to the interest rate environment. The Society has also enhanced communications, including sending a separate mailing to all variable rate borrowers with a view to offering them a fixed rate product to mitigate future interest rate uncertainties.

Member mailings are being issued to highlight the support available for financial difficulty and this will link the members to our own and third-party digital content.

In the event that customers do experience financial difficulties, contact is made on a missed direct debit (pre-arrears) as well as following missed payments (arrears). The full range of forbearance support is available related to the circumstances of the borrower.

Arrears performance

During 2022, the Society's longer-term arrears position remained broadly stable at £70.4 million (2021: £72.7 million) of accounts three months or more in arrears. The overall credit quality of the book remains high and arrears levels compare favourably to the UK Finance average. As at 31 December 2022, the Society had 27 properties in possession (2021: 27).

	2022		2021	
(Audited)	**Gross balance £m**	**Arrears balance £m**	Gross balance £m	Arrears balance £m
Greater than three months	**66.3**	**3.1**	68.5	2.7
Greater than six months	**32.0**	**2.3**	34.8	2.1
Greater than one year	**13.6**	**1.4**	15.8	1.3
In possession	**4.1**	**0.2**	4.2	0.1

The overall level of arrears remains significantly lower than the UK Finance average, as shown below:

	2022		2021	
(Audited - Society only)	**Society %**	**UK Finance[1] %**	Society %	UK Finance[1] %
Greater than three months	**0.17**	**0.71**	0.17	0.83
Greater than six months	**0.08**	**0.45**	0.09	0.58
Greater than one year	**0.03**	**0.25**	0.04	0.36
In possession	**0.01**	**0.02**	0.01	0.01

1. UK Finance data as at 31 December 2022 (31 December 2021).

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, 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 are back on their original terms.

	2022		2021	
(Unaudited)	**No. of accounts**	**Carrying value £m**	No. of accounts	Carrying value £m
Forbearance: Accounts past due				
Concessions	**144**	**19.9**	129	18.3
Payment holidays	**48**	**6.0**	45	4.5
Product transfers	**2**	**0.2**	2	0.3
Temporary transfer to interest only	**15**	**4.1**	13	2.1
Term extensions	**—**	**—**	1	0.1
Forbearance: Accounts not past due				
Concessions	**158**	**19.5**	189	21.4
Payment holidays	**199**	**22.0**	136	15.0
Product transfers	**1**	**0.3**	11	2.0
Temporary transfer to interest only	**87**	**16.5**	226	52.2
Term extensions	**3**	**0.5**	2	0.4
Total Forbearance	**657**	**89.0**	754	116.3
Of which Stage 2	**211**	**26.1**	419	70.6
Of which Stage 3	**242**	**35.8**	247	32.8
ECL on forborne accounts		**0.6**		0.3

The number of loans in forbearance has reduced compared to 2021. This table includes any customers who may have previously had Covid-19 payment holidays and then moved onto forbearance measures as a result of entering financial difficulty. The average LTV (balance weighted) of accounts in forbearance as at 31 December 2022 remains low at 47.2% (2021: 49.9%) 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 forbearance at the reporting period are assessed as either stage 2 or 3 under IFRS 9 and the Society recognises a lifetime ECL for these as an impairment provision.

The table above details all cases which have had forbearance measures granted during the last 24 months, under the PRA definition of forbearance. This therefore includes stage 1 accounts under IFRS 9, as the forbearance measures had been lifted at 31 December 2022.

Risk Categories Continued

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.

Further disclosure on the ECL provisions and the accounting judgements which have been applied are included in note 14 to the accounts.

Credit risk outlook

Economic headwinds persist as a result of macroeconomic conditions, in particular elevated inflation levels driving the cost of living crisis, together with increasing mortgage rates resulting from the Bank of England response to rising inflation. We therefore remain alert to these factors and will continue to manage policy in accordance with any emerging risks.

As at 31 December 2022, we have not yet seen significant increase in arrears levels as a result of the cost of living crisis but remain vigilant to potential increases in arrears levels in the medium term.

The Society has maintained its ongoing focus on low risk lending, which is geographically spread across the UK. This continues to offer protection against forecasted house prices falls in 2023 and increased affordability pressures on borrowers.

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 and systemically important international institutions in addition to multilateral development banks (MDBs), such as the European Investment Bank. The Society also invests in Covered Bonds and Residential Mortgage Backed Securities (RMBS). The treasury credit framework is reviewed annually by the 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:

2022 (Audited)	**Exposure value by Moody's rating**				
	Aaa-Aa3 £m	**A1-A3 £m**	**Baa1-Baa3 £m**	**Unrated[1] £m**	**Total £m**
Central banks and sovereigns	**8,701.1**	**—**	**—**	**—**	**8,701.1**
Multilateral development banks (supranational bonds)	**159.3**	**—**	**—**	**—**	**159.3**
Financial institutions	**345.7**	**193.7**	**—**	**517.1**	**1,056.5**
Mortgage backed securities	**92.9**	**—**	**—**	**—**	**92.9**
Total	**9,299.0**	**193.7**	**—**	**517.1**	**10,009.8**

1. Unrated balances relate to those with the London Clearing House. As at 31 December 2021, the £279.5 million balance with London Clearing House was classified under Aaa-Aa3.

2021 (Audited)	Exposure value by Moody's rating				
	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

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:

2022 (Audited)	Treasury assets Sovereign £m	Supranationals £m	Financial institutions £m	Mortgage backed securities £m	Total liquid assets £m	Of which, debt securities Book value £m	Market value movement £m	Fair value £m
United Kingdom	**8,701.1**	—	**883.3**	**92.9**	**9,677.3**	**1,492.4**	**(57.0)**	**1,435.4**
Supranationals	—	**159.3[1]**	—	—	**159.3**	**161.0**	**(1.6)**	**159.4**
France	—	—	**173.2[2]**	—	**173.2**	—	—	—
Australia	—	—	—	—	—	—	—	—
Canada	—	—	—	—	—	—	—	—
Total	**8,701.1**	**159.3**	**1,056.5**	**92.9**	**10,009.8**	**1,653.4**	**(58.6)**	**1,594.8**

1. Supranationals relate to amounts held with the European Investment Bank (guaranteed by a number of European sovereigns), the Asian Development Bank (guaranteed by a number of global 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.

2021 (Audited)	Treasury assets Sovereign £m	Supranationals £m	Financial institutions £m	Mortgage backed securities £m	Total liquid assets £m	Of which, debt securities 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	—	—	0	—	—	—	—	—
Canada	—	—	0	—	—	—	—	—
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.

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 £0.6 million derivative net credit exposure (2021: £0.1 million) all £0.6 of which is with A1 rated institutions (2021: £0.1 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 2022. Due to the underlying quality of the assets, they have remained resilient to the market movements caused by the market volatility, the war in Ukraine and the cost of living crisis.

ECLs are calculated by applying an externally published Probability of Default (PD) for the applicable credit risk rating to the treasury exposure value. The required provision remained negligible for 2022 and is immaterial to the financial statements.

As at 31 December 2022, no treasury assets were past due (2021: none).

Treasury credit risk outlook

There remains significant uncertainty in the economic outlook moving into 2023. 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 re-price, 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 re-price risk.

Management of market risk

The Board has overall responsibility for determining the Society's appetite to market risks, including interest rate risk in the banking book (IRRBB). 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 ultimately the Board.

Market risk is managed by specifying risk tolerances and operating within 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 its interest rate insensitive balances in fixed rate assets to reduce income volatility.

Re-price risk

The Society is exposed to the risk that interest rates change and its assets and liabilities re-price on different dates, resulting in a negative impact to the future net interest income or the value of the balance sheet. The Society manages this risk by limiting the impacts of different interest rate shocks.

The impact on the economic value of assets and liabilities under parallel and non-parallel interest rate shock 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 interest rate insensitive balances 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 interest rate insensitive balances. 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 re-price risk against a range of value and earnings-based assessments as at 31 December 2022. The relatively small change in value and net interest income measures provides insight into the modest amount of re-price risk the Society runs. The balance sheet is positioned so that net interest income benefits should interest rates rise, i.e. net interest income 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.

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

Shock applied (Unaudited)	2022 £m	2021 £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)	**(14.8)**	(1.3)
-100 basis points shift (EV 100)	**15.6**	5.2
+200 basis points shift (EV 200)	**14.9**	60.0
-200 basis points shift (EV 200)	**(17.1)**	(43.7)
Impact on net interest income for the year from a parallel change in yield curve:		
+100 basis points shift	**10.1**	8.2
-100 basis points shift	**(11.0)**	(33.1)

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 re-price by different amounts than do its assets such that it is negatively impacted. The Society manages basis risk by offsetting assets and liabilities by their reference rate and ensuring that earnings sensitivity to market rates diverging from the Bank of England Base Rate remain within limits. The primary short-term interest rate benchmark that the Society is exposed to is Sterling Overnight Index Average (SONIA). The Society successfully transitioned all of its exposures to suitable risk free rates in the prior year as part of the Interbank Offered Rate (IBOR) reform and therefore as at 1 January 2022, the Society had no remaining LIBOR-linked exposures.

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 included in note 23 to the accounts.

Market risk outlook

2022 saw the volatility in interest rate markets increase significantly. As the year progressed, the fallout of events in Ukraine in February and UK politics in September shook markets and shifted the inflation outlook. This in turn saw central banks increasing interest rates rapidly. The economic outlook for 2023 now looks poor for growth, as previous base rate rises feed through on a lagged basis, reducing both consumer and business confidence. Significant uncertainty remains around asset prices, including residential property. Although supply in the labour market remains tight, the pace of Bank of England Base Rate changes can be expected to slow from here as headline inflation cools through 2023.

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

Risk Categories Continued

Liquidity and funding risk

Liquidity risk is the risk that the Society has insufficient funds to meet its obligations as they fall due. Funding risk is the risk of the inability to access funding markets or to do so only at excessive cost.

Both risks are managed on a Group basis (including all subsidiary entities) with day-to-day responsibility delegated to the Chief Financial Officer and Treasurer, with oversight provided 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.

Over 2020 and 2021, the Society accessed the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME) to further reduce funding costs and diversify exposures. The Society has drawn a total of £5.25 billion from TFSME which is set to be repaid by the end of 2025, with the repayment funded by a mix of new wholesale issuances and retail savings acquisition. No repayments were made in 2022 and the Scheme was closed to new drawings in the prior year.

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 2022.

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 situation. 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 2022, the Society's LCR was 195% (2021: 187%), significantly above the regulatory minimum.

Net Stable Funding Ratio (NSFR) is a measure that compares the stability of the Society's asset and liability base. The Society holds sufficient stable funding to meet the regulatory requirement of 100% NSFR.

The Society's liquidity resources at 31 December 2022 are set out in the following table. Total cash and High Quality Liquid Assets (HQLA) remains high, with the majority of assets held as cash at the Bank of England. Total contingent liquidity remained flat compared to the prior year as the retained £2 billion buy to let covered bond issuance was offset by the run-off of the whole loan pools and the maturity of a £900 million retained covered bond.

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)	2022 £m	2021 £m
Cash and balances with the Bank of England	7,532.3	6,345.9
UK Government securities and other qualifying securities	1,422.1	473.2
Sub-total high quality liquid assets	8,954.4	6,819.1
Other securities – on-balance sheet	6.2	6.5
Contingent liquidity	4,256.0	4,344.0
Total	13,216.6	11,169.6

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 a 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 continued to meet all regulatory liquidity requirements throughout the year.

Wholesale funding

During 2022, the Society issued a €0.5 billion covered bond as well as completing a private long-term bilateral repo trade utilising retained covered bonds as collateral. The Society also drew £250 million from the Bank of England's index Long-Term Repo facility (ILTR), with repayment due in early 2023.

Overall, the wholesale funding at 31 December 2022 has increased by £1.3 billion as a result of repo transactions and an increase in collateral held in relation to swap agreements entered into by the Society.

		2022		2021	
(Audited)	Notes to the accounts	£m	%	£m	%
Deposits from banks, including repo agreements	21	2,255.5	17.1	788.6	6.6
Amounts drawn under TFSME	21	5,287.4	40.0	5,251.6	44.1
Other deposits and amounts owed to other customers		421.1	3.2	614.8	5.2
Debt securities in issue					
Medium term notes	22	1,451.9	11.0	1,856.5	15.6
Covered bonds	22	3,099.6	23.5	2,565.0	21.5
Residential Mortgage Backed Securities	22	691.7	5.2	830.8	7.0
Total		13,207.2	100.0	11,907.3	100.0

Wholesale funding outstanding at 31 December 2022 remained primarily denominated in sterling as shown below:

(Audited)	GBP £m	EUR £m	Total £m
Deposits from banks, including repo agreements	2,255.5	—	2,255.5
Amounts drawn under TFSME	5,287.4	—	5,287.4
Other deposits and amounts owed to other customers	410.3	10.8	421.1
Debt securities in issue			
Medium term notes	1,451.9	—	1,451.9
Covered bonds	1,104.0	1,995.6	3,099.6
Residential Mortgage Backed Securities	691.7	—	691.7
Total as at 31 December 2022	11,200.8	2,006.4	13,207.2
Total as at 31 December 2021	10,440.8	1,466.5	11,907.3

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 one to five year window, reflecting primarily the maturity due on TFSME funding.

Risk Categories Continued

(Audited)	2022 £m	2022 %	2021 £m	2021 %
Less than one year	**4,140.5**	**31.3**	1,819.8	15.3
One to two years	**2,741.8**	**20.8**	1,797.1	15.1
Two to five years	**5,412.8**	**41.0**	7,415.6	62.3
More than five years	**912.1**	**6.9**	874.8	7.3
Total	**13,207.2**	**100.0**	11,907.3	100.0

Contractual maturity profile of financial assets and liabilities

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

At 31 December 2022 (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]	7,792.2	—	—	—	—	7,792.2
Loans and advances to credit institutions	622.8	—	—	—	—	622.8
Debt securities	—	127.9	747.8	514.2	204.9	1,594.8
Loans and advances to customers	44.4	863.2	2,484.3	12,071.2	32,551.2	48,014.3
Hedge accounting adjustment	(1.2)	(9.9)	(128.7)	(1,377.0)	(78.5)	(1,595.3)
Derivative financial instruments	6.8	23.2	202.3	1,843.3	202.5	2,278.1
Investment in equity shares	—	—	—	—	5.8	5.8
Total financial assets	8,465.0	1,004.4	3,305.7	13,051.7	32,885.9	58,712.7
Liabilities						
Shares	24,344.3	837.1	8,573.0	8,237.5	296.8	42,288.7
Sale and repurchase agreements[2]	—	348.2	—	250.0	—	598.2
Amounts drawn under TFSME[2]	—	37.4	—	5,250.0	—	5,287.4
Deposits from banks - other	1,653.4	3.9	—	—	—	1,657.3
Other deposits	—	5.0	—	—	—	5.0
Amounts owed to other customers	—	332.6	83.5	—	—	416.1
Secured debt securities in issue - RMBS and covered bonds	—	8.0	813.4	2,305.6	664.2	3,791.2
Senior unsecured debt funding	—	403.6	451.5	349.0	247.9	1,452.0
Hedge accounting adjustment	(0.7)	—	(118.6)	(280.2)	(53.0)	(452.5)
Derivative financial instruments	4.1	—	164.4	380.1	77.9	626.5
Subordinated liabilities	—	0.4	—	15.0	—	15.4
Subscribed capital	—	1.6	—	—	40.0	41.6
Total financial liabilities	26,001.1	1,977.8	9,967.2	16,507.0	1,273.8	55,726.9
Net liquidity gap (contractual)	(17,536.1)	(973.4)	(6,661.5)	(3,455.3)	31,612.1	2,985.8

1. Includes £169.0 million mandatory reserve with the Bank of England.
2. Included in Deposits from banks on the Balance Sheet.

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 TFS[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.

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 remained broadly similar to the prior year.

At 31 December 2022 (Audited)	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**More than 5 years £m**	**Total £m**
Liabilities					
Shares	**25,193.0**	**8,621.6**	**8,261.5**	**296.9**	**42,373.0**
Deposits, amounts owed to other customers and debt securities in issue	**1,689.1**	**2,313.6**	**7,225.9**	**910.6**	**12,139.2**
Other liabilities and adjustments	**38.1**	**242.3**	**331.2**	**28.6**	**640.2**
Subordinated liabilities	**0.6**	**0.6**	**19.5**	**—**	**20.7**
Subscribed capital	**2.4**	**2.4**	**434.3**	**40.0**	**479.1**
Total liabilities	**26,923.2**	**11,180.5**	**16,272.4**	**1,276.1**	**55,652.2**
Undrawn loan facilities	**23.1**	**—**	**—**	**—**	**23.1**

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

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 2022 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	—	231.1	7,561.1	—	7,792.2
Loans and advances to credit institutions	622.8	—	—	—	622.8
Debt securities	702.0	—	886.5	6.3	1,594.8
Loans and advances to customers	15,882.5	—	4,298.9	27,832.9	48,014.3
Hedge accounting adjustments	—	—	—	(1,595.3)	(1,595.3)
Derivative financial instruments	—	—	—	2,278.1	2,278.1
Other assets	—	—	—	160.2	160.2
Total as at 31 December 2022	17,207.3	231.1	12,746.5	28,682.2	58,867.1
Total as at 31 December 2021	14,806.2	296.3	12,430.6	26,996.6	54,529.7

1. Assets that have been used to support interest rate swap collateralisation agreements, third-party secured funding operations, central bank operations or third-party repo transactions, and cannot be used for any other purpose.
2. Other encumbered assets are assets that cannot be used for secured funding due to legal or other reasons. This includes cash and assets supporting secured funding vehicles.
3. These assets are readily available as collateral to secure funding. Loans and advances to customers in this category comprise Bank of England approved portfolios, and those that although technically encumbered are held in respect of retained self-issued notes in the Society's covered bond and securitisation programmes.
4. Unencumbered other assets are therefore conservatively defined as not readily available for use as collateral. The Loans and advances to customers in this category include £17.4 billion at 31 December 2022 (2021: £15.6 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, with the outlook remaining stable. Short- and long-term credit ratings as at the date of approval the Annual Report & Accounts are set out below:

(Audited)	Long-term	Short-term	Outlook	Date of last credit opinion
Moody's	A2	P-1	Stable	July 2022
Fitch	A-	F1	Stable	November 2022

Liquidity and funding risk outlook

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

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 delivery of good outcomes for 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 it, both of which remain consistently below industry averages. In 2022, 97%[1] of complaints referred to the Financial Ombudsman Service were decided in the Society's favour (2021: 96%) compared with an industry average of 63%[2] (2021: 54%).

Management of conduct risk

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

Day-to-day management of conduct risk is the responsibility of all of the Society's senior and functional management teams. Oversight is provided by the Conduct Risk and Compliance Committee (CRCC), membership of which includes senior managers from across the Society. CRCC meets formally on a quarterly basis to review conduct performance, and to receive and consider reports on related conduct matters, such as reviews of mortgage and savings products and services, complaints analysis, and terms and conditions.

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 are focused on customer outcomes, in addition to process and policy adherence, and specifically to check members 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 the Society provides to its members are identified and that there are adequate control measures in place to manage, mitigate and monitor such risks. The Society has an established product approval governance framework, which ensures any new or materially adapted products are assessed for consistency with the needs of the identified target market, clarity of terms and conditions, consideration of the implications for customers with characteristics of vulnerability and the mitigation of any risks inherent in the products.

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 the rising cost of living

The Society recognises the challenges the rising cost of living is placing on many of our members. We continue to encourage early contact and to support borrowers experiencing temporary or longer-term financial difficulties. In addition to member communications providing guidance and support, the Society has online support materials to assist members facing financial difficulty and avoiding falling victim to increasing levels of financial crime and scams.

1. Source: Financial Ombudsman – complaints upheld in the Society's favour for the six months to 30 June 2022.
2. Source: Financial Ombudsman – complaints upheld in the banking and credit sector for the six months to 30 June 2022.

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. This focus is supported by the Vulnerability Members Panel, which enables members to provide practical suggestions and feedback to further improve the experience of members who require additional support. 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 2022, the Society introduced further improvements to its support for vulnerable customers, including a new accessibility tool on the consumer website, which provides a range of options for members to select appropriate to their needs, updated support prompts in branches, a guide to vulnerability for mortgage brokers and a new ATM card design to assist visually impaired customers. The Society is committed to enhancing its training and development of colleagues, and during the year, introduced a new 'vulnerability hub' to support the delivery of additional training and support materials. The Society has also subscribed to Communication Access UK, an organisation that has developed training and standards to help support people with communication difficulties. We have now delivered its training content to over 1,200 front-line and head office colleagues.

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 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 led to the launch in the year of a number of dedicated improvements to our digital channels, including a digital option for fixed rate savings account maturities, improvements to the online services authentication methods and a digital rate switch option for mortgages. Further developments are underway, including Confirmation of Payee services and a mobile App. We have listened to customers and will continue to enhance our service in response to complaints to improve our customer experience.

Whilst overall complaint volumes remain low, there was an increase seen in 2022. This reflects a busy year generally for the Society as business activity and customer contact levels, driven in part by the rising interest rate environment, have led to sustained periods of high demand across all areas of our business, especially in relation to savings products. Whilst inbound call wait times have been longer than we would like as a result, with a corresponding increase in complaints, these levels still remain very low. Understanding and resolving the causes of complaints remains embedded in our complaints process and continuous improvement initiatives are progressed to address any issues identified from root cause analysis.

Conduct risk outlook

The FCA's plans for 2023 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 are treated fairly.

The key developments are expected to include the following:

During the year, the FCA published its final rules and guidance for the implementation of a new Consumer Duty, setting higher expectations of firms in their treatment of retail customers and based on a new Principle that firms should 'act to deliver good outcomes for retail customers'. The Principle is underpinned by a set of rules and outcomes. Implementation of the new rules is required by 31 July 2023 for new and open products, and 31 July 2024 for closed products. While the Society is well placed to meet the standards expected by the new regulations, given its focus on Putting Members First, we are not complacent and have established a formal programme of activity to review all products and services, and the support we provide our members throughout their relationship with us.

With the rising cost of living, the FCA maintains a focus on supporting borrowers in financial difficulty. Again, the Society is well placed to respond to and support borrowers who face either short- or longer-term affordability challenges.

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 and Consumer Duty.

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 technology (including information security), statutory, regulatory and internal financial reporting and people, 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 the BRC and the Board.

Operational resilience

Ensuring the Society's operational resilience, which is the ability to prevent, adapt, respond to, recover and learn from operational disruptions, is a top priority for the Society. The Society complied with the initial PRA and FCA 12-month regulatory requirements of defining important business services, setting impact tolerances, mapping operational assets to services and testing resilience capabilities. The Society is now progressing the extended phase of continuously improving and testing controls which ensure the Society is able to safely provide business services within impact tolerances during severe but plausible disruption scenarios. Operational resilience is governed ultimately by the Society's Board Risk Committee, and on a day-to-day basis by the Resilience and Continuity Committee. The Society has individual owners for each important business service, who interact regularly with operational risk category owners to proactively ensure key operational assets have appropriate resilience configurations. Incident response procedures and capabilities have important business service and impact tolerance concepts designed in and regularly tested.

Regulatory environment

Responding to regulatory change is a key priority for the Society. In 2022, the focus was on continuing to meet regulatory expectations in the area of operational resilience and Consumer Duty, which are referred to within the relevant sections above.

In addition, the accuracy of regulatory and financial reporting remains a key area of regulatory focus for the industry. The Society continues to progress improvement work to ensure that requirements in this area continue to be met.

Technology

Keeping pace with technology is important to maintain stability, security and resilience, 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 2022, the Society continued to make significant investment in upgrading its IT estate and enhancing its digital capabilities, IT operations and security defences. Resilience has been enhanced during the year through the successful migration of the legacy infrastructure onto new hardware. 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 assessing and managing the threat of cyber attacks.

The Society transformed its Change and IT functions during 2022 into one combined team, structured around products to execute the future change roadmap and maintain operations. 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.

Statutory, regulatory and internal 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 is underway 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.

Risk Categories Continued

People risk

The dynamic and competitive nature of the labour market continues to be challenging as a result of changed attitudes to work following the Covid-19 pandemic. For the Society, this has resulted in higher than expected attrition and recruitment activity. Hybrid working has continued after the pandemic, allowing employees, in appropriate roles, to work from home or in the office whilst continuing to ensure that the needs of the Society and its members are met. Hybrid working creates different challenges, including recruitment, employee development and maintaining an appropriate control environment.

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 2022, the total cost of risk incidents was £0.9 million (2021: £0.5 million).

An analysis of risk incidents by Basel risk category by both value and number of incidents is set out below. There were no reportable risk events within the Basel risk categories for: business disruption and system failures; 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)	**2022**	2021	**2022**	2021
Execution, delivery and process management	**25**	7	**71**	1
External fraud	**65**	73	**28**	92
Clients, products and business practices[2]	**10**	20	**1**	7
Total	**100**	100	**100**	100
Value of losses (£m)			**0.9**	0.5

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

Operational risk outlook

Information technology and security, statutory and regulatory reporting, and people will continue to be key areas of focus requiring ongoing assessment, monitoring and enhanced risk mitigation activities. 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 of an adverse outcome such as financial loss or reputational damage, as a result of weaknesses or failures in the development, implementation or use of a model.

Model risk profile

The Society is exposed to model risk in both its credit risk models and wider financial and behavioural models. Models are utilised to support the business with the application of accounting standards that rely on forward-looking assessments of behaviour, including IFRS 9, and regulatory modelling requirements, e.g. for minimum capital assessments.

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 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 Model Risk Committee (MRC), chaired by the Chief Financial Officer, provides primary oversight of the management of model risk and has the purpose of ensuring the exposure faced by the Society remains within the appetite prescribed by the Board. MRC is supported by two technical sub-committees, the Retail Credit Models Committee and Financial Models Committee.

The MRF, approved annually by the Board Risk Committee, categorises models by their criticality and complexity, prescribing requirements that must be met in order for these models to remain in continued use. These include:

- Initial and periodic approval by MRC for all critical models, supported by first line reviews and independent oversight.
- Independent model validation of new and incumbent models, with increased validation activity carried out for higher criticality models.
- Governance around model assumptions, overlays, 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

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.

Progress continues in the development and validation of capital models to fulfil the regulatory requirements which came into force on 1 January 2022, as set out in the PRA Supervisory Statement SS11/13.

Risk Categories Continued

Strategic risk

Strategic risks are those that jeopardise the sustainability of the Society's business model or the delivery of its strategic plan. This includes the following risks:

- 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 that undermine the business model or a failure to innovate or invest to sustain long-term performance and independence.
- A failure to adapt to macroeconomic, political, industry, consumer, regulation or other external factors.
- Erosion of the Society's financial sustainability, including a decline in volumes or margin relative to the Society's cost base.

Strategic risk also considers risks that extend beyond the five year strategic planning horizon, including the risks associated with climate change, which is categorised as a cross-cutting risk type and a sub-category of strategic risk under the Society's ERMF.

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 2022, the Society also considered the impacts of climate risks on its portfolio under stress scenarios. To effectively manage more extreme events, the Society also maintains a Recovery Plan in line with regulatory guidance which 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 33 in the risk overview.

During 2022, we saw a period of heightened political and economic uncertainty, high inflation, an increase in the Bank of England Base Rate and borrowing costs, and the potential for a prolonged recession. Persistent inflation could lead to higher costs relative to asset size and income. The key planning assumptions are prudent against the latest market outlook for the base rate, inflation, house price inflation and unemployment. We have included significant sensitivity analysis. Quarterly forecasts are produced to ensure we respond to changing conditions alongside reviews against plan checkpoints.

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. Further detail on the work undertaken to enhance our data capabilities, monitoring of the EPC profile of our portfolio and understanding of climate risks can be found in the 'our approach to climate change' section of this Annual Report.

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

Capital risk is the risk that the Society has insufficient capital resources to absorb losses in benign or stressed macroeconomic conditions, fails to meet prudential regulations and expectations. It is a principal risk within the Enterprise Risk Management Framework (ERMF) and risk appetite limits are approved by the Board.

Management of capital

The primary governance forum for the management of capital is the Assets & Liabilities Committee (ALCO), with delegated authority from the Board Risk Committee (BRC) and supported by the Capital Management Committee (CMC), a sub-committee of ALCO. The first line risk owner is the Chief Financial Officer (CFO), with second line oversight owned by the Chief Risk Officer (CRO).

The Society regularly monitors its capital position against board approved risk appetite limits, recovery plan early warning indicators (R-EWIs), and prescribed regulatory minima. This monitoring is conducted against the current position as well as forecast values, with escalation procedures in place should any of these limits trigger.

The Society performs an Internal Capital Adequacy Assessment Process (ICAAP) annually in which it considers the keys risks to which it is exposed and the capital required to mitigate such risks. As part of the ICAAP, the Society will assess its capital adequacy over the planning horizon under base case strategic plan assumptions, as well as a severe but plausible stress.

Pillar 2A analysis considers the risks to which the Society is exposed and the extent to which additional capital is required to mitigate these risks.

Stress testing is conducted to ensure the Society maintains sufficient capital to withstand a severe but plausible stress, by using scenarios either provided by the regulator or developed internally, and identify mitigating management actions which can be taken.

Reverse stress testing is conducted to identify extreme events that have the capacity to 'break' the Society, identifying risks and control mechanisms which might otherwise be missed.

The Society maintains a Recovery Planning process which has mechanisms in place to identify when the Society may be entering a potential resolution scenario due to extreme stress and may need to invoke the Recovery Plan.

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 2022 and equates to 10.7% of risk weighted assets (RWAs) or £846 million based on year end RWAs (2021: 10.7% of RWAs or £565 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 the non-risk based leverage ratio. Leverage ratio requirements will become binding at the point the Society exceeds £50 billion of retail deposits. The Society also forecasts the impacts of the proposed standardised risk weighted floors that are part of the Basel 3.1 reform package.

The Society currently has an MREL requirement of 18% of RWAs, which it comfortably meets with CET 1 capital resources alone. This increases to 2x TCR in January 2023, and the Society will also meet this requirement with CET 1 capital resources alone. Once the Society exceeds £50 billion of retail deposits, it will be required to hold MREL equivalent to 2x binding leverage requirement subject to any transitional period allowed. The Society is cognisant of this transition and actively monitors and plans MREL issuance in line with the transition to leverage-based requirements.

Further information on capital management is included in the Society's 2022 Pillar 3 Disclosures at www.thecoventry.co.uk.

Capital Continued

Risk weighted capital requirements

The Society uses the IRB basis for the majority of its retail mortgage portfolios, following approval from the PRA in 2008.

Internal IRB models are used to calculate capital requirements for prime owner-occupier and buy to let mortgage exposures, which accounted for around 99% of lending exposures throughout 2022 (2021: 99%). The remaining retail credit risk exposures are legacy closed products with capital requirements calculated via the regulatory prescribed 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 2022, 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 1% (due to increase to 2% in July 2023).

Leverage ratio

The leverage ratio measures Tier 1 capital against total exposures, including off-balance sheet items. The leverage ratio is a non-risk based measure designed to act as a backstop to the risk based capital ratios. Therefore, it does not reflect 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 regulatory requirement 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 currently apply to the Society.

The PRA expects that a minimum ratio of 3.25% is maintained by all firms, including those below the thresholds outlined above, at all times, 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 introduced a supervisory expectation that all banks and building societies meet this requirement.

In addition to the regulatory requirements, there are two additional buffers: these are the Additional Leverage Ratio Buffer (ALRB), which is based on systemic buffers, and a macro-prudential Countercyclical Leverage Buffer (CCLB), which is based on the Countercyclical Capital Buffer. The levels of the additional leverage buffers are set at 35% of the corresponding CET 1 buffers. Only the CCLB is applicable to the Society as it is not a systemic firm and is not required to hold any systemic buffers.

The CCLB is currently 0.4% (due to increase in July 2023 to 0.7%, in line with the CCyB, increasing the minimum UK leverage requirement to 3.95% from 3.65%). The Society's Strategic Plan ensures that it will continue to meet leverage requirements on an ongoing basis and that internal risk appetite limits are in place above regulatory minima.

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

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, generating a total loss-absorbing requirement of 24.9%.

When leverage becomes the binding capital measure, this will significantly increase the MREL requirements to twice the binding leverage exposure measure, and the Society will need to issue more MREL eligible debt. The Society's financial plan provides for these outcomes, and the MREL issuance plan is cognisant of the £50 billion retail deposit threshold.

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 2022 excluding transitional provisions. Further information on CRD V disclosures on a transitional basis is included in the Society's 2022 Pillar 3 Disclosures at www.thecoventry.co.uk.

At 31 December 2022, and throughout the year, the Society complied in full with the capital requirements that were in force. The CET 1 ratio decreased to 27.4% (2021: 36.2%) and the Total capital ratio to 32.7% (2021: 44.1%) . Total risk weighted assets increased by 49.2%, most of which is related to mortgages on the IRB approach. The Society continues to work towards meeting regulatory changes for IRB models that were brought in at the beginning of 2022 and is in the final stages of the development work required to address the updated requirements. Until such time as the models are approved, and in common with many other IRB institutions, the Society has agreed to hold additional RWAs that represent its best view of the change in capital requirements that will result from the new models once they are implemented. This has resulted in a 58% increase over the IRB RWAs calculated using current models. With regard to the RWAs calculated using current models, the impact of 3.0% growth in the mortgage book and the effects less favourable credit conditions has generally been offset by the impact of the decrease in LTV discussed in the credit risk section.

The Individual consolidated CET 1 ratio on an end-point basis at 31 December 2022 was 0.3% (2021: 0.8%) higher than the Group ratio due to assets held by entities that sit outside of the individual consolidation.

Capital Continued

Capital position	End-point 31 Dec 2022 £m	End-point 31 Dec 2021 £m
Common Equity Tier 1 (CET 1) (audited)		
General reserve	**2,250.7**	2,012.6
Fair value through other comprehensive income reserve	**4.9**	4.5
Cash flow hedge reserve	**277.1**	27.5
Common Equity Tier 1 prior to regulatory adjustments (audited)	**2,532.7**	2,044.6
Common Equity Tier 1 regulatory adjustments		
Prudent additional valuation adjustment[1]	**(1.6)**	(0.7)
Intangible assets[2]	**(39.7)**	(32.9)
Cash flow hedge reserve[2]	**(277.1)**	(27.5)
Pension fund surplus adjustment[2]	**(2.4)**	(19.9)
Excess of expected loss over impairment[3]	**(32.5)**	(31.4)
Foreseeable distributions[4]	**(10.4)**	(10.4)
Common Equity Tier 1 capital (audited)	**2,169.0**	1,921.8
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)	**2,584.0**	2,336.8
Total Tier 2 capital	**—**	—
Total capital (audited)	**2,584.0**	2,336.8
Risk weighted assets (unaudited)		
IRB approach		
Credit risk – retail exposures	**6,780.3**	4,265.1
Standardised approach		
Credit risk – retail exposures	**96.6**	129.3
Credit risk – liquidity book	**100.3**	91.4
Credit risk – other	**119.7**	114.9
Credit valuation adjustment risk	**47.8**	67.1
Operational risk	**767.0**	635.8
Total risk weighted assets (unaudited)	**7,911.7**	5,303.6
Common Equity Tier 1 ratio (unaudited)	**27.4%**	36.2%

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.

Leverage ratio analysis (Unaudited)

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

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.

The UK Leverage ratio has increased to 5.2%, 4.5% when including central bank reserves and full AT1 capital amount (2021: 4.8% 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 the leverage ratio at required levels.

Leverage ratio	End-point 31 Dec 2022 £m	End-point 31 Dec 2021 £m
Total Tier 1 capital	**2,584.0**	2,336.8
Adjustment for AT 1 restriction	**(11.4)**	(21.1)
Total Tier 1 capital – used in UK calculation	**2,572.6**	2,315.7
		.
Leverage ratio exposures		
Total Balance Sheet assets	**58,867.1**	54,529.7
Mortgage pipeline[1]	**458.6**	415.9
Other committed facilities (undrawn lending)[1]	**11.5**	13.1
Repurchase agreements[2]	**29.9**	74.5
Netted derivative adjustments[3]	**(2,104.5)**	(141.5)
Other adjustments[4]	**(80.7)**	(92.4)
Total leverage ratio exposures	**57,181.9**	54,799.3
Adjustment to exclude central bank reserves	**(7,513.1)**	(6,327.6)
Total leverage ratio exposure – used in UK calculation	**49,668.8**	48,471.7
Leverage ratio including central bank reserves and full AT1 capital amount	**4.5%**	4.3%
UK leverage ratio	**5.2%**	4.8%

1. Mortgage pipeline is 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 are available in the Society's 2022 Pillar 3 Disclosures at www.thecoventry.co.uk.

Capital outlook

On 30 November 2022, the PRA released CP16/22 'Implementation of the Basel 3.1 standards' – outlining its proposed approach to the UK implementation of the Basel III finalisation package outlined by the Bank for International Settlements. The Society is in the process of reviewing this consultation to ascertain the exact impact on capital requirements and internal processes. The main impact for the Society is the introduction of an output floor which requires IRB firms to floor aggregate IRB outputs to a minimum of 72.5% of the corresponding RWA calculated under the revised standardised approach. This is expected to be punitive for the Society as the equivalent risk weights under the standardised approach for owner occupied and buy to let mortgages are much higher than under internal IRB models. The proposed implementation deadline set by the PRA is 2025, with the output floor being phased in over several years starting at 50%.

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

Considerations and assumptions from the Basel 3.1 standards have 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 and includes 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 completed during 2022 and have planned for 2023 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'.

We recognise that this is a complex, developing area of reporting, as well as being specialist in nature and our understanding ever evolving. Further information is also included in the Society's Sustainability Report which is available at www.thecoventry.co.uk.

Strategy

This section outlines the Society's strategy and how the organisation is adapting to the risks and opportunities of climate change.

Governance

This section describes how the Society has embedded climate change within its governance structure, including the role of the Board.

Risk management

This section outlines how the Society has incorporated climate risk within its Enterprise Risk Management Framework and the risks identified.

Metrics and targets

This section describes the Society's short-, medium- and long-term climate targets and ambition, and provides an update on its emissions calculations.

Climate Strategy and TCFD Continued

The table below outlines the Society's progress on its climate journey with its achievements in 2022 and future planned activity.

	Achievements	Future activity
Strategy	• Developed the Society's Climate Action Plan which was endorsed by our members at the 2022 Annual General Meeting. • Enhanced our assessment of the risks and opportunities of climate change to our business model. • Identified strategic partners who can help us to rise to the climate challenge. • Launched our first ever green mortgage product. • Delivered our first Sustainability Report in accordance with GRI standards. • Developed the Society's Transition Plan to support the delivery of our Climate Action Plan.	• Develop our Transition Plan to deliver on our Climate Action Plan. • Defining further data capabilities required to enhance our understanding and modelling of climate risks and opportunities. • Continuing to work with suppliers and third parties to use the EcoVadis platform. • Developing further our green products. • Engaging with our members and borrowers to support a green transition.
Governance	• Climate governance established and embedded through the Board committee structures. • Appointed an SMF with accountability for the financial risks of climate change. • Appointed a Non-Executive Director as the Society's ESG champion. • Training and upskilling of the Board and senior management.	• Ensuring our Board and senior management continue to receive training on growing regulatory expectations. • Continuing to evolve the governance required to ensure good discussions are held at the right level and drive positive outcomes.
Risk Management	• Embed Climate Risk within our ERMF. • Partnered with third parties to enhance our understanding of the physical and transitional risk impacts on our business model. • Incorporated climate risk modelling and analysis within our ICAAP process.	• Continuing to review lending policy to ensure it remains robust to potential climate risks. • Developing our data capabilities to embed physical and transitional risk considerations in our modelling and decision making.
Metrics and targets	• Published calculations for all of the Society's emissions (Scopes 1, 2 and 3). • Progressed the development of the Society's first Transition Plan which begins the journey of describing how we intend to decarbonise our business.	• Publish calculations for all of the Society's emissions (Scopes 1, 2 and 3). • We are looking to set a Science-Based Target by 2024. • Evolve the developing Transition Plan to inform the progress we're making and drive the required action.

Definitions

When writing this 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. The glossary to this Annual Report includes definitions of key terminology used in this section.

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

Emissions	Description
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 that 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 two categories:
- Scope 3 upstream	Upstream Scope 3 emissions: business travel by means not owned or controlled by the Society, waste disposal, employee commuting, and purchased goods and services.
- Scope 3 downstream	Downstream Scope 3 emissions: the emissions from the properties financed through the Society's operations – i.e. our mortgage customers.

Our Climate Action Plan

In 2021, we produced our first ever Climate Action Plan, which set out in detail how the Society will respond to the climate challenge and focused on addressing our direct Scope 1 and 2 emissions. We are making good progress on our Net Zero journey and we are already a Carbon Neutral business for our own operations. During 2022, we have begun to focus on how we reduce our indirect Scope 3 emissions. There is further work to do in this area, but what is clear is that this can only be done with the support and collaboration of a variety of external stakeholders. Our Climate Action Plan sets out the activities designed to support our ambitions, and further detail can be found on www.thecoventry.co.uk.

Achieved

- We are Carbon Neutral for our business operations
- We transitioned to procure 100% renewable energy from wind and solar
- ISO 14064-1 certified for our Scope 1, 2 and 3 emissions data and we align with TCFD framework
- Products and propositions designed to support greening of homes

Progress in 2022

- Continued to improve our energy efficiency and transition away from gas consumption
- Developed our transition plan to reach Net Zero
- New and existing customer reward scheme incentivising efficiency improvements
- Annual reporting on progress against our targets and external frameworks
- Member endorsement and engagement with our Climate Action Plan
- Engaged with our suppliers and regulators on climate matters
- Publicly disclosed climate strategy positions
- Continued to obtain third-party assurance and ISO certification

2023 - 2040 ambitions

- Set a Science-Based Target by 2024
- Align capital expenditure to 1.5°c pathway
- Work with partners to deliver change
- New and existing customer retrofit borrowing incentives
- Customer understanding, support and engagement campaigns
- Have 100% electric vehicles in our fleet by 2030 or sooner
- Achieve Scope 3 upstream emissions to be Net Zero by 2030
- Ambition to be fully Net Zero by 2040 across Scope 1, 2 and 3.

Climate Action Plan | Our products | Governance and risk | Our operations | Our influence on society

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 2022, the Society continued to take the necessary actions to positively contribute to addressing this generational challenge as well as effectively managing the risks to our business.

Our approach has been based around three important pillars:

Pillar 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.

Pillar 2

Ensuring our business is climate resilient and can effectively identify and measure climate risks arising from our business model.

Pillar 3

To provide appropriate products and information to help our members retrofit their homes in order to reduce their environmental impacts.

In 2022, we continued to develop our first climate Transition Plan, setting and agreeing our plans to achieving our targets and ambition over the short, medium and long term, including the actions that we will take to deliver our ambition to be Carbon Neutral for our own operations through to being Net Zero across all emissions by 2040. Further information on the Society's emissions can be found in the metrics and targets section on pages 75 to 77.

Whilst we are focused on the positive actions we can take to support a just transition, 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 sector and house builders if this objective is to be successfully achieved. We engaged with industry on this topic in 2022 and will continue to contribute to collaborative engagement in 2023 and beyond. The war in Ukraine and its subsequent impact on energy prices and the cost of living crisis highlights the need to ensure UK housing continues to improve its efficiency.

During 2022, we continued to enhance our understanding of climate risk exposures, which included obtaining quarterly updates on the physical and transition risks to our business model. 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 and more information on assessing the risks and opportunities from climate change is set out below.

Risks and opportunities from climate change

The impact of climate change will prompt substantial structural adjustments to global and UK economies. For the Society's business model, this presents both risks and opportunities which are summarised opposite.

Looking ahead to 2023, we will look to make progress across the opportunities highlighted, as we look to engage with our borrowers in helping them to understand potential energy efficiency improvements that could be made on their homes, and to ensure that we have the right products available to support customers choosing to retrofit their homes.

As well as the opportunities presented by climate change, there are also risks to our business model. As a cross-cutting risk category, the impacts of climate risk have been assessed across the principal risk categories outlined within the Society's Enterprise Risk Management Framework.

Below is a non-exhaustive summary of the risks identified.

Climate opportunities
Green finance: An emerging market and opportunity for the Society to offer innovative financial products which help borrowers to reduce their carbon emissions and improve energy efficiency.
Form strategic partnerships: An opportunity for the Society to partner with firms who share our values and can support the Society and its members on the path to a just transition.
Engage and communicate with our borrowers: The opportunity for the Society to engage with our members' needs to support them on their transition to a Net Zero future.
Access to green funding: By supporting a fair transition, the Society can utilise opportunities to obtain green retail or wholesale funding.

Risk category		Risk description
Retail credit risk	**Transitional**	• Impacts on valuations of properties due to governmental requirements for minimum efficiency standards (EPC). • Borrower affordability declines leading to higher arrears and defaults, due to higher energy costs, structural changes in the economy, tax changes or, for buy to let specifically, other transitional impacts on borrowers' ability to repay.
	Physical	• House are damaged or become inhabitable due to physical impacts such as flooding. • Properties become uninsurable or premiums increase dramatically, impacting affordability and property valuations.
Operational risk	**Transitional**	• Reputational and financial impacts as a result of third-party providers not delivering climate commitments. • Potential for litigation from future impacts of climate change. • Increased regulatory compliance risk associated with climate change.
	Physical	• Adverse impact on business continuity as a result of damages to Society's premises and infrastructure, or failure of suppliers to provide critical services as a result of physical risks.
Conduct risk	**Transitional**	• The risk that borrowers in fuel poor homes are subject to increasing energy bills and unable to afford retrofit costs, and subsequently become 'mortgage prisoners' as lenders judge they do not meet affordability requirements.
Market risk	**Transitional & physical**	• Impacts to markets arising from physical or transitional events. This could impact foreign exchange markets or interest rate movements, and in turn impact the Society's value (or net income from) assets and liabilities.
Liquidity & funding risk	**Transitional & physical**	• Inability to access wholesale markets due to lack of ability to operate in green markets. • Retail funding is challenging as members suffer economic challenges of climate change.
Strategic risk	**Transitional**	• Reputational impacts of the Society not delivering against its climate commitments. • Increased costs associated with transitional risks and emerging regulation and legislation.
Capital risk	**Physical**	• Assets depreciate in value due to physical or transitional impacts of climate change.

Our Climate Strategy Continued

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. In fulfilling these responsibilities, the Board delegates some of its responsibilities in this area to the Board Risk Committee, Board Audit Committee, Remuneration Committee and the Nominations & Governance Committee, as described below.

Committee	Board Risk Committee	Board Audit Committee	Remuneration Committee	Nominations & Governance Committee
responsibilities for climate change	(i) Review and oversight of the activities undertaken by the Society to respond to the financial risks arising from climate change. (ii) Review updates on the management of financial risks arising from climate change.	Oversight of external disclosures relating to the Society's management of the financial risks arising from climate change.	Oversight of the application of climate and other ESG targets to remuneration.	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 related matters during the period is in the Governance section of this Annual Report.

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.

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 2022 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 annual Budget for the Society also involved assessing and endorsing amounts designed to address climate change risk.

Responsibility for managing the financial risks from climate change has been designated to the Society's Chief Risk Officer under the Senior Management Function (SMF). This responsibility has transferred from the General Counsel, during the year and includes ensuring that climate related financial risks are adequately reflected in risk management frameworks, and that the Society can identify, measure, monitor and report on its exposure to these risks.

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.

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 Chief Risk Officer. The Chief Risk Officer 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. This responsibility was previously held by the General Counsel who left the Society in August 2022, and was held temporarily by the Chief Financial Officer until the current Chief Risk Officer joined the organisation in December 2022.

Climate related matters, including management information, are considered by the Executive team at the monthly Executive Committee 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. During 2022, the strategic planning process included an analysis of the opportunities for the Society's business model to support green lending and support our borrowers in make energy efficiency improvements.

In 2022, the Executive team reviewed detailed proposals concerning the Society's GHG emissions and broader climate performance, as well as reviewing the Society's plans to decarbonise and reduce its emissions through its developing Transition Plan. 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 Chief People Officer is the 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 the climate risk appetite measures, and any key regulatory or external developments which may impact the Society. The ERC reviewed the two deep dive assessments on climate risk provided to the BRC.

Reporting into the ERC is the Climate Risk Forum (CRF), with membership from areas across the Society with responsibility for climate related matters. The CRF has overseen all aspects of the regulatory requirements detailed in SS3/19, including stress testing, risk management and embedding within the risk management framework, as well as reviewing data capabilities. The CRF also reviewed other regulatory publications issued during 2022, including the industry-wide feedback on the implementation of SS3-19, the Society's approach to supporting customers and improving energy efficiency of homes, the Society's financed emissions, as well the impacts of climate change across the Society's principal risk categories, both directly and indirectly, including unintended consequences. Other important risk governance forums such as the Retail Credit Risk Committee and Assets and Liabilities Committee have received updates on the impact of climate risk through 2022.

Training

We continue to engage with the organisation as a whole on broadening awareness of the climate agenda and embedding this within the organisation. This includes engaging with all new colleagues on our environmental ambitions as part of the corporate induction programme. We have also made use of tools such as carbon calculators to educate employees on their own personal carbon footprint and share techniques to reduce this. In 2023, we will continue to enhance learning opportunities across the organisation.

Risk management

In line with the Enterprise Risk Management Framework (ERMF), the Society seeks to understand the climate risks relevant to its operations, and to monitor and mitigate these risks over time. The Society enhanced its climate risk management capabilities during 2022, 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 35). The Society also engaged with third parties to enhance our data capabilities in 2022, which included quarterly assessments of the physical and transitional risks of climate change, with the outputs reviewed by the Climate Risk Forum and summaries provided to the ERC and BRC.

Risk categorisation and risk appetite

The Society has a risk appetite statement which 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.

Our Climate Strategy Continued

The Risk Appetite Statement incorporates a methodology for rating the ESG credentials of its treasury wholesale funding counterparties, which includes minimum environmental standards, with the approach endorsed by the Board Risk Committee.

During 2022, the Society continued to enhance 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 to assess our exposure to physical and transition risks associated with climate change. This included 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 scenario analysis undertaken to date have confirmed we have 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 page 74. However, we recognise that climate risk and scenario analysis is in its infancy and we will continue to enhance our analysis and understanding of the risks in 2023 and beyond.

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 provide a recognised methodology for assessing a range of climate impacts and temperature increases 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 that, in the medium term this will have implications within the markets where 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.

Transition risk

In 2022, 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. The below tables demonstrates that the EPC profile of the Society's mortgage portfolio remains broadly flat year on year, with slight improvements to the exposures to properties rated A, B and C, with a corresponding reduction in exposure to lower rated EPC properties such as F and G.

Owner-occupier mortgages

	As at 31 December 2022			As at 31 December 2021		
Current EPC data	**Number**	**Exposure (£m)**	**% of book[2]**	Number	Exposure (£m)	% of book[2]
A	**270**	**62.3**	**0.2**	200	39.2	0.1
B	**9,808**	**1,911.2**	**6.7**	8,834	1,637.2	6.0
C	**30,110**	**5,192.9**	**18.2**	26,943	4,387.5	16.0
D	**56,622**	**9,777.7**	**34.3**	52,870	8,736.7	31.9
E	**22,549**	**4,159.9**	**14.6**	22,118	3,927.0	14.4
F	**5,146**	**1,007.7**	**3.5**	5,207	981.4	3.6
G	**1,084**	**197.7**	**0.7**	1,079	185.9	0.7
No EPC[1]	**50,428**	**6,219.9**	**21.8**	58,238	7,467.6	27.3

Buy to let mortgages

Current EPC data	As at 31 December 2022			As at 31 December 2021		
	Number	**Exposure (£m)**	**% of book[2]**	Number	Exposure (£m)	% of book[2]
A	**50**	**10.2**	**0.1**	45	8.3	0.1
B	**5,916**	**999.4**	**5.1**	5,765	942.4	4.9
C	**35,492**	**5,205.8**	**26.7**	31,640	4,553.1	23.7
D	**50,994**	**7,679.7**	**39.4**	47,113	6,935.6	36.1
E	**15,864**	**2,341.6**	**12.0**	16,150	2,355.5	12.2
F	**1,053**	**150.3**	**0.8**	1,452	202.3	1.1
G	**283**	**37.2**	**0.2**	393	53.6	0.3
No EPC[1]	**19,987**	**3,072.0**	**15.8**	27,037	4,186.9	21.8

1. 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.
2. % of the book is based on the £ value

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 Climate Risk Forum continues to monitor regulatory and governmental policy with a view to ensuring the Society is alert to any strategic implications, risks or opportunities and the need to respond accordingly.

The Society has explored 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. Our experience of this exercise is that the 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

Scenario analysis on climate change remains in its infancy for the Society and the financial service sector, so therefore caution is required when reviewing the results. The Society has enhanced its understanding of how climate change will impact its business model and the steps which will be required to take advantage of the opportunities and mitigate against the risks, but there is still much more work to enhance this further. In 2022, the Society undertook a review of the strategic opportunities, including its role as a green lender, as well as enhancing our risk appetite limits to mitigate against climate risk impacts. As the Society enhances its understanding of the impacts of climate change, it will continue to enhance its mitigating actions and take advantage of the opportunities.

Enhancing scenario analysis and the Society's climate data capabilities is a key priority for 2023. The Society worked with an external partner in 2022, to receive regular updates on the physical risks to the Society's business model and we will continue working to address any potential climate data gaps within our assessments.

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

Our Climate Strategy Continued

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 and we remain carbon neutral. In 2022, we have measured all our greenhouse gas emissions for Scope 3, hence the increase in total emissions reported this year in comparison to 2021.

We manage our direct energy consumption through strategic measures, such as 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: adopting measures like switching to LEDs, refurbishing windows, removing gas consumption where possible or optimising building services (such as heating, cooling, ventilation and lighting). We only purchase 100% renewable energy and we continue to invest in on-site solar energy generation where possible. To tackle our indirect emissions we have partnered with EcoVadis to monitor our suppliers' environment, labour, human rights, ethics and sustainable procurement activities. To ensure successful implementation, as well as for monitoring purposes, for our 2020 and 2021 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		2022	2021	Variance
Scope 1: Combustion of fuel and operation of facilities	Natural gas (kWh)	3,307,633	3,352,305	(1)%
	Direct transport (kWh)	359,876	200,486	80%
	Gas oil (kWh)	—	19,089	(100)%
	Green diesel HVO (kWh)	—	19,860	(100)%
	White Diesel (kWh)	12,410	—	—
	Refrigerants (kg)	15	112	(87)%
	Total Scope 1 energy (kWh) excl refrigerants	**3,679,919**	**3,591,740**	**2%**
Scope 2: Electricity purchased	Total electricity (kWh)	6,449,733	6,694,859	(4)%
Scope 3: Indirect transport	Indirect transport (incl only employee owned vehicles (kWh)	246,337	260,205	(5)%
Total Scope 1, 2 and 3 energy consumption (kWh) excl refrigerants		**10,375,989**	**10,546,804**	**(2)%**

Emissions assessment		2022	2021	Variance
Scope 1: Combustion of fuel and operation of facilities	Natural gas (tCO_2e)	604	614	(2)%
	Direct transport (tCO_2e)	89	64	40%
	Gas oil (tCO_2e)	—	5	(100)%
	Green diesel HVO (tCO_2e)	—	—	(100)%
	White diesel (tCO2e)	3	—	—
	Refrigerants (tCO_2e)	31	235	(87)%
	Total Scope 1 energy (tCO_2e)	**727**	**918**	**(21)%**
Scope 2: Electricity purchased, heat and steam generated	Location based (LB) (tCO_2e)	1,247	1,422	(12)%
	Total Scope 1 and 2 energy (tCO_2e)	**1,974**	**2,340**	**(16)%**
Scope 3: Indirect emissions	Indirect emissions excluding mortgage (tCO_2e)	19,823	19,642	1%
	Mortgages (tCO_2e)	670,000	702,726	(5)%
Total Scope 1, 2 (LB) and 3 (indirect) emissions (tCO_2e)		**691,797**	**724,708**	**(5)%**

Intensity metric assessment		2022	2021	Variance
Intensity ratio (total gross Scope 1 and 2)	**tCO_2e/ net interest income £m**	3.00	4.46	(33)%
Intensity ratio (total gross Scope 1, 2 and partial 3)	**tCO_2e/ net interest income £m**	3.29	5.34	(38)%

During the year, a more detailed assessment of the 2021 emissions data has been completed and this has resulted in more accurate comparative information now being reported. We have also included estimates for the emissions from our mortgage portfolio.

Notes on the above table emissions data:
- No mandatory emissions have been excluded from this report.
- Emissions factors applied: Defra 2022.
- 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 (tCO2e) are based on extrapolated values.
- Scope 3 indirect emissions from mortgages is calculated based on 30 Septemner position.
- A full breakdown of all our Scope 1, 2 and 3 emissions and the Society's environmental data can be found in our Sustainability Report.

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 second estimate of Scope 3 emissions achieves a PCAF weighted average data quality score of 3.47, the same score reported in 2021. Across the Society's mortgage portfolio, 77% of the properties had an EPC rating at the time of the calculation (30 September 2022) 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 pages 74 and 75. The Society considers that 3.47 is a credible data quality score for its estimated 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 as the Society looks to enhance its data capabilities and as there is greater focus on improving the energy efficiency of UK homes and EPC ratings.

Calculation outputs

	30 September 2022	30 September 2021
Total properties	303,695	304,400
Absolute finance emissions (FE) ($MTCO_2e$)[1]	0.67	0.71
Average FE per property (tCO_2e)	2.2	2.3
FE intensity ($KGCO_2e/m_2$)[2]	44.3	44.3
% EPC match	77%	77%
PCAF data score	3.47	3.47

Caution in interpreting Scope 3 emission data

Whilst this data is key in driving change, and monitoring our progress against our climate ambitions, we would urge particular caution about its usefulness and reliability given the infancy of uniform Scope 3 disclosures, the data gaps that exist on energy efficiency data on UK properties, the 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. The Society will also look for opportunities to engage industry on considering how to make EPC ratings and the PCAF methodology more sophisticated, for example, taking into account the carbon intensive production of new homes versus retrofitting current ones.

Looking ahead to 2023, we will continue to develop our capabilities to measure, report and mitigate the risks we face arising from climate change. We will continue to develop tools to assess the impacts of climate change on our business activities and ensure that we embed this within business management information. In 2023, we will continue to work to build a relationship with our mortgage borrowers and to help them understand energy efficiency improvements and how we can support them in making home improvements, by ensuring we have suitable green mortgage products available.

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

1.MTCO2e represents metric tonnes of carbon dioxide equivalent.
2. KGCO2e/m2 represents the carbon dioxide equivalent emitted per square metre.

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 31 December 2022.

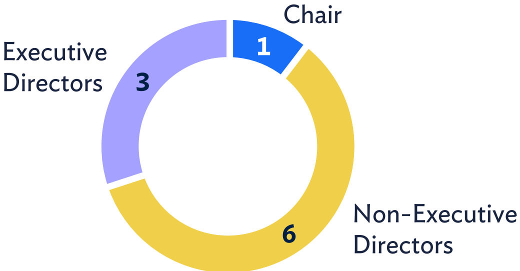
Changes to the Board

Changes post 31 December 2022 and up to the date of signing the Annual Report & Accounts.

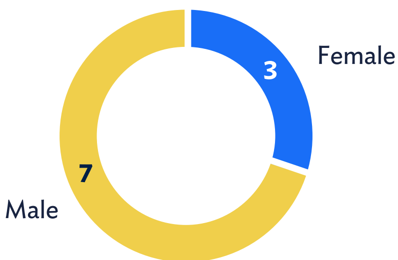
Vanessa Murden was appointed to the Board as a Non-Executive Director on 30 January 2023.

Board composition

Executive and Non-Executive Director split

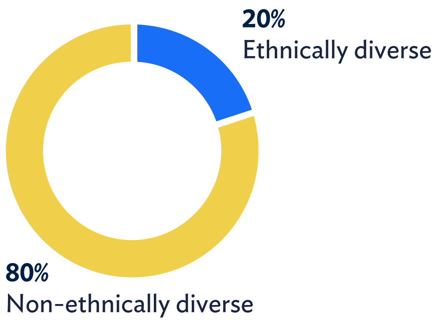


Gender split



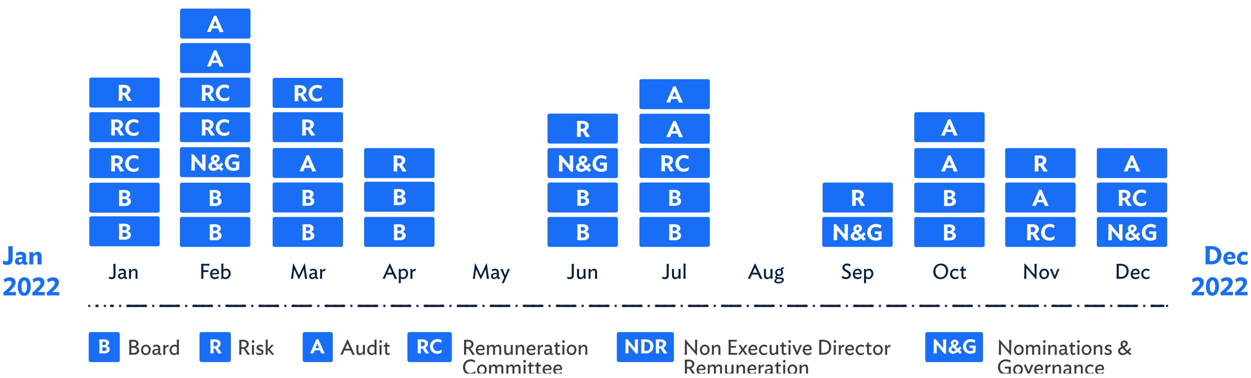
Tenure of Board members

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.



Board of Directors Continued

David Thorburn

Chair of the Board

Appointed
April 2022

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

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

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

Steve Hughes

Chief Executive and Executive Director

Appointed
April 2020

Committee membership
Chair of the Non-Executive Directors' Remuneration Committee.

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

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

Iraj Amiri

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.

External appointments

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

Catherine Doran

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 include BT, NatWest and Capital One.

External appointments

Non-Executive Director of Clearbank Limited.

Board of Directors Continued

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 and Safestore Self Storage Ltd.

External appointments

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

Shamira Mohammed

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.

Board of Directors Continued

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
Chair 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, which details how the Society’s governance framework operated in 2022.

This is my first such report as Chair of Coventry Building Society and I am very aware of the particular importance of good governance in being accountable to members of the Society. This report, together with the reports from the Nominations & Governance Committee, the Board Risk Committee, the Board Audit Committee, and the Remuneration Committee, show how we met this commitment in 2022.

The turbulence in the external environment and the speed of change affecting our operations presented additional challenges to the Society during the year. In such circumstance, it is even more important to ensure that the Society’s strategy and activities remain sustainable and consistent with our purpose and values, as well as member expectations. Good governance is at the heart of this.

This meant that in addition to reviewing the Society’s strategy and strategic priorities, the Board has also considered our response to a rapidly changing economic context, and in particular the impact of the inflation and rising interest rate environment on colleagues, members, both savers and borrowers, and other stakeholders.

The strategic priorities continue to focus on the Society’s digital transformation and operational resilience, particularly in relation to IT. Previous reports have detailed the progress that’s been made to date, but in 2022 the Board agreed to establish a new Board Technology Oversight Committee with the specific responsibility of providing oversight, challenge and support to this critical area of operations. The Board also recognised the need to enhance its own capability in this regard and steps were taken to recruit an additional non-executive director with the change management and technical experience to complement existing Board members. The Board has gone through an extensive and rigorous recruitment process to select the person with the right professional experience, and I was delighted to announce the appointment of Vanessa Murden in January 2023. Vanessa has an extensive track record of delivering digital and IT change in the context of financial services and will be an excellent addition to the Board.

The introduction of the new Consumer Duty has also been an important area of focus for the Board. I believe this regulatory development reflects the changing expectation we are seeing in today’s society, which places greater expectations on the behaviour of organisations and a requirement to do the right thing on behalf of the customer. I believe that Coventry Building Society does operate in this way and has a track record to back this up. However, we are not complacent, and the clear requirements of Consumer Duty will be used to assess our current services and future plans to ensure we perform in accordance with this duty as well as member expectations and our own ambitions.

As it became clear through 2022 that inflation would drive real hardship for some members and colleagues, as well as those in the communities we serve, the Board took action. Actions on savings rates and mortgage lending provided immediate reassurance to members that the Society was indeed focused on doing the right thing on their behalf. We agreed an additional allowance of £1,000 to all colleagues on basic rate income tax, and £1 million of additional funding for local charities supporting those affected by the crisis. The Board and myself are committed to ensuring that the views of all stakeholders continue to be considered in our discussions and decision making.

Looking forward to 2023, the Board’s primary objectives will be to:

- Continue our focus on the medium to long term plans for the Society, to ensure its business model remains fit for purpose and able to continue to provide security, service and value to our members.
- Ensure continued development of the Society’s operational resilience and technological transformation.
- Deliver on the expectations and opportunities of the new Consumer Duty.
- Continue to sponsor and oversee the Society’s broader sustainability agenda.

2022 was remarkable for its economic and political turmoil. In some ways, it proved an excellent introduction for me to the Society, the strength of its purpose and its underlying business model. Our ability to deliver to the expectations of our members depends to a great extent on the transparency and rigour of our corporate governance, and the Board and myself are committed to ensuring this remains of the highest standard.

David Thorburn
Chair of the Board
23 February 2023

Directors' Report on Corporate Governance Continued

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: setting the Society's strategic objectives, and monitoring its overall financial performance, ensuring effective governance, controls and risk management.

Chair: David Thorburn

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

Biographies page 80

Board activities page 89

Board composition page 79

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
David Thorburn

Nominations & Governance Committee

Purpose

Assists the Board in maintaining high standards of corporate governance and 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:

David Thorburn

Members:

Catherine Doran
Jo Kenrick
Martin Stewart

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 is 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

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 the Internal Audit function and external auditors.

Chair:

Iraj Amiri

Members:

Jo Kenrick
Martin Stewart
Shamira Mohammed

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.

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 2022 financial year. The Society met the requirements of the Code throughout 2022 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 throughout 2022.

The table below shows where in the report you can find more information on how the Society has applied the principles of the Code within the Annual Report & Accounts.

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 • Directors' Report on Corporate Governance
	E. Employee policies and practices	• Strategic Report • Directors' Report on Corporate Governance
DIVISION OF RESPONSIBILITIES	F. Leadership of the Board and its effective operation	• Directors' Report on Corporate Governance
	G. Board composition and division of responsibilities	• Board of Directors • Directors' Report on Corporate Governance
	H. Directors' responsibilities and time commitment	• Directors' Report on Corporate Governance
	I. Board support, information, resources and access to advice	• Directors' Report on Corporate Governance
COMPOSITION, SUCCESSION AND EVALUATION	J. Board appointments and succession plans for Board and senior management	• Board of Directors • Nominations & Governance Committee Report
	K. Board skills, expertise and knowledge	• Directors' Report on Corporate Governance
	L. Annual Board Evaluation and assessment of directors' performance	• Directors' Report on Corporate Governance
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

Directors' Report on Corporate Governance Continued

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 2023. The Board delegates certain matters to Board Committees so that they can be considered in more detail by the 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 86 of this report and a more detailed account of activities undertaken by the Board Committees can be found in their respective reports from page 99 onwards. Each of the Board Audit, Board 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. A 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.

Board activities in 2022

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 91.

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

Activities in 2022

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.

Directors' Report on Corporate Governance Continued

In addition to the standing items, listed above, the Board considered the key strategic items during 2022:

People & Members

- Received the results of the 2022 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.
- Carried out a deep-dive review into the Society's approach to talent management and succession planning and considered opportunities to increase the Board's visibility of high potential talent at the Society.

Strategic development

- Approved the Society's Sustainability Strategy and updated 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.
- Received quarterly updates on the progress of the Society's transformational change agenda and key change programmes.

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 2023.
- Approved the Society's Financial Plan for 2023-2027.

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 2022 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

- Approved the appointment of the Chair of the Board and a new non-executive director.
- Reviewed the results of the 2022 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 2022 AGM and the associated member documentation.
- Approved plans to live stream the 2022 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.

Operation of the Board

In 2022, there were 11 formal meetings of the Board. These included six routine Board meetings where the Board reviewed a range of matters (as outlined on page 90) 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 2022 Annual General Meeting to deal with the matter of electing the Chair, Deputy Chair and Chairs of the Board Committees. Two additional Board meetings were held in the year; one in October to endorse the Society's implementation plans in respect of the FCA's new Consumer Duty and the other 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 October 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 2022

The attendance record for Board members is shown in the table below. The table shows the actual number of meetings attended, together with the number of meetings 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
David Thorburn[1]	Chair of the Board	7/7			3/3	3/3	
Jo Kenrick[2]	Deputy Chair and Senior Independent Director	10/11		8/9	4/4	6/6	
Catherine Doran	Non-Executive Director	10/11	6/6		4/4	6/6	
Iraj Amiri[3]	Non-Executive Director	11/11	6/6	9/9			
Martin Stewart[4]	Non-Executive Director	11/11	6/6	9/9	4/4		
Shamira Mohammed	Non-Executive Director	11/11		9/9			
Brendan O'Connor	Non-Executive Director	11/11	6/6			6/6	
Steve Hughes[5]	Chief Executive	11/11					1/1
Lee Raybould	Chief Financial Officer	11/11					1/1
Peter Frost	Chief Customer Officer	11/11					
Gary Hoffman[6]	Chair of the Board	3/4			1/1	3/3	1/1

1. Appointed as Chair of the Board, Chair of the Nominations & Governance Committee and member of the Remuneration Committee from 28 April 2022.
2. Chair of the Remuneration Committee.
3. Chair of the Board Audit Committee.
4. Chair of the Board Risk Committee.
5. Chief Executive Officer and Chair of the Non-Executive Directors' Remuneration Committee.
6. Served on the Board until 28 April 2022.

Governance

Directors' Report on Corporate Governance Continued

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 the 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 David Thorburn	• Manage and provide leadership to the Board and to safeguard and promote the long-term success and sustainability of the Society in the interests 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 Putting 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 the directors' 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 interests 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.

Role	Responsibilities
Chief Executive Officer (CEO) 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 interests 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 sufficient 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 are 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, David Thorburn, 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 2022 confirmed that all directors were considered to have sufficient time to properly discharge their duties as directors of the Society.

Directors' Report on Corporate Governance Continued

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 non-executive director responsibilities.
	Board Audit Committee Chair:
	Approximately 10–12 days per year in addition to the time spent on normal non-executive director responsibilities.
	Remuneration Committee Chair:
	Approximately 10 days per year in addition to the time spent on normal non-executive director 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 and that the role will not exceed the maximum number of directorships permitted (in accordance with the Capital Requirements Directive V). The director must 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.

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 2022, Board members received training on the following topics:

- The FCA's new Consumer Duty.
- Cyber risk and ransomware awareness.
- Bank of England Resolution and Resolvability Framework.
- Change delivery and agile operating models.

Training needs for the Board's committees are also assessed on an annual basis. In 2022, hedge accounting training was delivered to the Chair and Board Audit Committee members and an update on the BEIS consultation on Audit and Corporate Governance Reforms was delivered to the Nominations and Governance Committee and Board Audit Committee members. 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.

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.

Each year the Nominations and Governance Committee agree a set of key skills and capabilities that provide a collective view of the Board's knowledge, experience and composition. These attributes are compiled by reference to the Society's Strategic Plan and in particular its Purpose, Values and Principles and seek to define what skills, attributes and experience are needed to make the Society a success over the long term. A full list of the skills and capabilities are set out below:-

- ESG & Sustainability
- Consumer Trends
- Organisational Knowledge
- Retail Balance Sheet Management
- Transitional Change
- Risk Management
- Regulatory Knowledge
- Board Expertise
- Financial Acumen
- Mortgage Expertise
- Financial Services Expertise
- CEO Experience

In 2022, 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 99 to 100 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 Annual General Meeting. 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 2022 was reviewed as part of the routine appraisal process undertaken by the Chair in respect of the non-executive directors and CEO, 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 79. 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 92. Details of those seeking election and re-election at the Society's 2023 Annual General Meeting can also be found in the Notice of the 2023 Annual General Meeting.

Directors' Report on Corporate Governance Continued

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 2022 were as follows:

Name	Role	Change
David Thorburn	Chair	Appointed April 2022
Gary Hoffman	Chair	Retired April 2022

Board evaluation

Each year, the Board and each of its Committees undergo a process to assess the effectiveness of their performance during the year. This is a key mechanism for ensuring that the Board and its Committees continue to operate effectively and for setting objectives and development areas for the forthcoming year. The Code prescribes that this evaluation should be undertaken by an independent external party at least every three years. Last year, the Board appointed consultant and board evaluator, Ian White, to facilitate the Board and Board Committee external effectiveness evaluation.This assessment 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. It was 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.

Findings

Whilst the evaluation concluded that the Board was operating very effectively, there was scope for small areas of further improvement. The table below outlines how these recommendations have been progressed in 2022:

Recommendation	Action plan
Board succession and diversity	
• Future board succession plans should focus on areas where the Board has identified that it is lacking the expertise required for the current or future operation of the Society, e.g. digital/IT/ change transformation experience. • The composition of the Board was considered to be effective. However, continued focus should be applied to enhancing the diversity of the Board membership.	This matter had 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. It was recognised that there was a gap in the Board's skills and expertise with regards to Digital/IT/Change. As a result, the decision was taken to appoint a new non-executive director to the Board with specific skills in Digital/IT/Change to enhance the Board's oversight of its technology strategy. This process was successfully concluded with the appointment of Vanessa Murden in January 2023. Vanessa has an extensive track record of delivering digital and IT change in the context of financial services and will be an excellent addition to the Board. Board succession planning will continue to be monitored by the Nominations and Governance Committee annually. 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 remains committed to achieving 50% female membership on its Board by the end of 2024, but recognises this is a challenging target. The Board will continue to ensure that appointments and succession plans promote diversity in its widest sense.
Board dynamics	
To enhance Board dynamics further, opportunities should be created for Board members to engage outside of formal meeting settings.	More opportunities have been created in the Board's calendar for members to engage with one another outside of formal meeting settings.

2022 Board Evaluation

In 2022 the Board and Board Committee evaluation was conducted internally. The performance review was conducted by a self-assessment questionnaire completed by all Board directors and members of the Society's Leadership Team who are regular attendees at Board and Board committee meetings. The questionnaire covered general areas of effectiveness including Board composition and succession planning, Board dynamics and operations, strategic oversight and risk management. A similar process was followed for each of the respective Board Committees. A report of the findings and feedback from the review of the Board was presented and discussed at the Board meeting in January 2023. Feedback regarding the effectiveness of each Board committee was discussed at each relevant committee meeting.

Overall, the findings of the 2022 Board effectiveness assessment concluded that the Board and its Committees operated effectively in 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 members 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 its culture

The Board is also responsible for providing leadership to the Society on culture, values and ethics which are central to supporting the organisation's purpose, and the delivery of its strategic ambitions. The Board receive regular updates through its reviews of the Society's People Strategy, the results of Great Place to Work Survey and other specific employee surveys which help provide the Board with a good understanding of the Society's current culture. By reviewing qualitative and quantitative information from a range of sources, the Board is able to track progress and ensure that the culture reflects the shared set of values, beliefs and behaviours which are central to the Society's values.

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. These meetings, alongside insight shared from our wider listening approach, inform conversations and provide qualitative insights to inform decisions made by the Board.

In 2022, the Board agreed to pilot an initiative to enhance engagement between Society colleagues and the Board's Committees. Throughout the year, members of My Society have attended meetings of the Board Committees and have had the opportunity to assist the Committees on specific projects including oversight of the 2023 Internal Audit Plan and commissioning a Society wide survey to evaluate how well Risk Management was embedded within the organisation. This has proven to be a valuable exercise for both colleagues and Board members. Employee engagement activities will continue in 2023 to ensure that the Board has direct mechanisms for engaging throughout the year to understand what employees really value.

In addition, to the engagement through the My Society forum, 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 2022 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 pages 17 to 18 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.

Directors’ Report on Corporate Governance Continued

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 has a specific 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 2022, 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 Committee), I am pleased to present a report to you which outlines the matters that we, as a Committee, have focused on in 2022.

Operation of the Committee

The Committee is chaired by the Chair of the Board and the members are independent non-executive directors. Details of the skills and experience of the Committee members can be found in their biographies on pages 80 to 84. The Committee meets at least four times a year and otherwise as required. The number of meetings held in the year can be found in the table on page 91. The attendance record of Committee members is set out on page 91. In addition to the members, regular attendees of the Committee include: the CEO, Chief People Officer, General Counsel and Society Secretary.

Following each meeting, the Chair of the Committee provides updates to the Board, summarising activities undertaken, and key decisions taken.

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 interests 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, see page 87.

Board composition and succession planning

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.

Through discussions on Board Succession and during its annual assessment of board members' skills and expertise, the Committee recognised that there was a gap on the Board in respect of digital/IT/ change transformation experience. As such, the Committee oversaw and recommended to the Board the appointments of Vanessa Murden as independent non-executive director. The Society appointed a specialist search firm, Carbon, to facilitate the external search process. Carbon has no connection with the Society or individual directors of the Society. The Committee, supported by the search firm, prepared a candidate specification based on objective criteria, setting out the knowledge, skills, experience and attributes required. From the candidate specification, a longlist of potential candidates was drawn up from which a shortlist was compiled. Following a review of the shortlisted candidates, two preferred candidates emerged for the role. They met with the Chair and other members of the Board. Feedback on the candidates was obtained through professional references and these, together with the feedback from the Board members, were considered alongside the relative characters, skills and experience of the candidates. Following due and careful consideration of each of the candidates and the current needs of the Board, the Committee selected Vanessa Murden for the role.

Vanessa has an extensive track record of delivering technology change in the context of financial services and the Committee agreed that she would be an invaluable addition to the Board considering the direction of the Society's strategy and transformational change agenda.

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 the 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
David Thorburn[1]	2022
Jo Kenrick	2018
Catherine Doran	2021
Martin Stewart	2020

1. Became a member and Chair of the Committee on 28 April 2022.

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 part of its remit, the Committee oversees the implementation of the Society's diversity and inclusion 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

Nominations & governance committee report Continued

of the Board and Executive team and their direct reports. The Committee has engaged with the Executive team to ensure accountability for progress on the Society's diversity and inclusion 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 recent years, the Board is behind this target with 30% female membership at the reporting date. While 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. The Code states that this review should be externally facilitated, every three years. In 2021, the external review was conducted by an external consultant and board evaluator, Ian White. The Committee oversaw the work conducted by Ian White, which looked at the overall effectiveness of the Board and its committees and provided an objective assessment of the strengths, capabilities, effectiveness and dynamics of the Board. In 2022, the Committee spent considerable time overseeing progress of the improvement actions arising out of the external review in respect of the Board and other Board Committees. Further details can be found on pages 96 to 97.

The Committee also oversaw the approach for the 2022 internal Board and Board Committee effectiveness evaluation. The performance review was conducted by a self-assessment questionnaire, the questions for which were overseen by the Committee in conjunction with the respective Board and Board Committee Chairs. The questionnaire covered general areas of effectiveness including Board/Committee composition and succession planning, dynamics and operations, strategic oversight and risk management.

The Committee considered the results of its effectiveness assessment in December 2022 and determined that a report could be made to the Board that it operated effectively in discharging its responsibilities during 2022.

Overall, the findings of the 2022 Board effectiveness assessment concluded that the Board and its committees operated effectively in 2022.

Any recommendations arising from the 2022 review will be overseen by the Committee throughout 2023.

Other key activities in 2022

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 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.

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 meant that for the April 2022 Annual General Meeting, all of the current directors voluntarily submitted themselves for re-election, with the exception of Gary Hoffman who indicated his intention to retire as Chair of the Society. All current directors at the reporting date will submit themselves for re-election at the 2023 Annual General Meeting, with the exception of Catherine Doran and Peter Frost, who have announced their intention to retire.

David Thorburn

Chair of the Nominations & Governance Committee
23 February 2023

Board Risk Committee Report

Dear Member

I am pleased to present the Board Risk Committee (the Committee) report for the year ended 31 December 2022. During the year, the Committee continued to focus on the current and emerging risks to the Society's business model, 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 reviewed on an ongoing basis. Despite the challenging external environment, the Society's risk profile has remained broadly stable versus the prior year.

During 2022, 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 stress 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, including Consumer Duty, and emerging capital regulation and relevant policy decisions.

In order to ensure the Society risk tolerance remains appropriate, during 2022, the Committee reviewed the risk appetite statements and policies for all principal risk categories. Model risk was introduced as a principal risk category to recognise the prominence it already had at the Society.

During the 2023 financial year, the Committee will again review the Society's risk appetite statements, board limits 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 (including Consumer Duty) and monitoring the financial and operational resilience of the Society.

Towards the end of 2022, the Society welcomed a new Chief Risk Officer to the organisation who shares the Society's values, and I look forward to working with him as we continue to prioritise a strong risk culture at the Coventry.

Martin Stewart

Chair of the Board Risk Committee
23 February 2023

Board Risk Committee Report Continued

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 2022, the Committee met on six separate occasions. The Committee continues to operate in a flexible manner with a mixture of meetings held remotely and in person throughout the year to ensure that the Committee could appropriately oversee the Society's risk profile. 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 prepared by the Society's Risk function. These reports highlighted key and emerging risks for consideration by the Committee. In addition, during 2022, among other things, the Committee:

- Reviewed the strategic and emerging risks relating to the Society's 2023–2027 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 a risk oversight plan and monitored second line risk oversight and progress in delivering a programme of thematic reviews.
- Reviewed the Society's ICAAP, ILAAP, Recovery Plan and Resolution Pack.
- 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.
- Reviewed the Regulatory Reporting Framework.
- Reviewed an update on progress in delivering the Consumer Duty.
- 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 the implications of the risks arising from the invasion of Ukraine.
- Reviewed an assessment by the Internal Audit function of the independence and performance of the Risk function.
- Received updates on regulatory change.
- Oversaw progress on Internal Ratings Based (IRB) model remediation.

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 2022.

Looking forward

During 2023, the Committee will continue to provide oversight of risk management across the Society, including the risks emerging from the cost of living crisis and a volatile macroeconomic environment. 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 2022, which sets out the work carried out by the Committee throughout the year. My role continues to be 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.

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 ongoing adoption 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. 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
23 February 2023

Board Audit Committee Report Continued

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 2022 and no material 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 nine times during 2022. All Committee meetings are routinely attended by the Chief Executive, Chief Financial Officer, Chief Internal Auditor and the external auditor. With the departure of the Chief Risk Officer in March 2022, the meeting has been attended by the Interim Director of Financial and Enterprise Risk and the Interim Director of Operational and Conduct Risk, with the Society's new Chief Risk Officer attending his first Committee meeting in December 2022. Similarly, the General Counsel left the Society in July 2022 and the Committee meetings were attended by the Interim General Counsel from this date until the end of 2022. Other senior managers are invited to attend meetings as required.

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

The effectiveness of the Committee

The Committee carried out a review of its effectiveness during 2022, including an assessment of its work against its terms of reference, published guidance and recommended good practice. The review considered the views of members and attendees, provided anonymously, and focused on how the Committee had considered key financial reporting judgements and controls, the work of the Society's internal and external auditors, and the skills and competencies of the Committee.

The assessment of effectiveness is provided to the Board to enable it to make an overall assessment of the effectiveness of corporate governance arrangements in 2022 and make a report on this matter in the Society's Annual Report & Accounts.

The review concluded that the Committee operated effectively throughout the year, in line with corporate governance code requirements and recommended good practice, with the Board approving the Committee's revised terms of reference.

Key areas of focus during 2022

Significant matters that 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 2022 financial statements, the Committee carefully considered 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 2022 to ensure that they remain appropriate.

The Committee reviewed the basis of calculating ECLs, including the method for identifying a significant increase in credit risk and the application of post model adjustments to the overall ECL provision, and the potential impact of climate change on the Society's mortgage portfolio.

The calculation of ECLs for loans and advances to customers has continued to require a significant degree of management judgement due to the unprecedented impact of the uncertainty regarding the UK's economic volatility and inflationary pressures. The Committee's role is to make sure that appropriate judgements are applied. The ECL provision has increased to £35.5 million (2021: £18.9 million) including post model adjustments of £19.4 million (2021: £9.3 million).

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 recognising or releasing post model adjustments as 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 and other key assumptions. The Committee considered the range of sensitivities, which have increased compared to the prior year given the worsening 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.

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.

The Committee considered the key assumptions of EIR methodology and expectations of future changes. The Committee concluded that the accounting treatment was appropriate.

Derivatives and hedge accounting

The Committee reviewed the Society's approach to hedge accounting in the context of the market volatility seen in the year. 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 reduced to £3.3 million (2021: £29.3 million) as a result of market movements during the year and the Committee is satisfied that it is appropriately stated.

Going concern and long-term viability

The Committee evaluated whether adopting the going concern basis of accounting was appropriate and separately considered the Society's long-term viability, taking account of the principal risks facing the Society, including those that could threaten the Society's business model, future performance, solvency and liquidity. The 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 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. Its review 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 have 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 Annual Report & Accounts were fair, balanced and understandable.

New disclosures

Regular updates and training on financial reporting developments and disclosures were provided to the Committee during the year. This included the latest updates to the Taskforce on Disclosures about Expected Credit Losses.

Board Audit Committee Report Continued

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 2022, Internal Audit continued to assess internal control and risk management systems associated with the functions and activities undertaken by the Society that reflect the challenging economic circumstances that the Society is experiencing and new ways of working for Society colleagues. Attention was given to the Society's preparedness for cost of living shocks to its operational processes and the impact on internal controls of remote working for many 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 data governance and management.

The Committee received regular reports during 2022 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 that was 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).

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.

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.

Internal Audit's assessments also considered the Society's progress with delivering multiple, complex change initiatives directed at replacing or updating critical information technology infrastructure, including work to upgrade the Oracle database management environment and progress the digitisation of mortgage and savings channels. Change assurance work also included the continued assessment of the Finance Transformation Programme, which commenced during 2021, and is focused on implementing a new General Ledger system in 2023 and introducing more modern practices across the operations of the Finance function.

Significant findings and thematic issues identified were considered by the Committee, together with management's response and completion of remedial action commitments made in respect of previously issued audit reports.

During the year, the Committee oversaw a review of the effectiveness of the Internal Audit function led by the Chief Internal Auditor. 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'. The Committee was satisfied that the Internal Audit function remained effective.

The 'Guidance on Effective Internal Audit in the Financial Services Sector' published by the Chartered Institute of Internal Auditors (second edition published in September 2017) requires the Committee to obtain an independent and objective external assessment of the effectiveness of the Internal Audit function at least every five years. The Chair of the Committee is required to oversee the process and approve the appointment of the independent assessor.

The effectiveness of the Society's Internal Audit function was last subject to independent external assessment in early 2019. The Committee will therefore look to establish the next external review to conclude in the second half of 2023.

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. As part of the review of the 2022 Interim Financial Report and audit of the annual financial statements, the Committee received a report setting out: the work performed in areas of significant risk and management judgement and conclusions for each area; a summary of adjustments and differences; and internal control recommendations. In recommending approval of the interim and annual financial statements, the Committee considered the matters set out in these reports.

Audit quality

The Committee oversees external audit quality. Committee meetings consider factors which impact external audit quality, and conclusions on external audit effectiveness are formalised 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 2022, 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 2023, 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 are maintained at all times. The Committee has developed a policy and framework which defines 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 2022, the Society engaged the external audit firm to provide certain non-audit services, including assurance engagements 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 dominated the external landscape in 2020 and 2021, driving a focus for the Society on protecting jobs and supporting physical and mental health. 2022 saw a marked shift in the external landscape. Competition for talent is fierce, with hybrid working opening up the employment market like never before. At the same time, the cost of living crisis is presenting very real challenges for colleagues. The Committee has spent time understanding the external talent landscape and benchmarking our offering for Executives and the wider employee base. Our aim is to ensure we can attract future talent and retain the colleagues who deliver a brilliant service to you, our members. We have also paid particular attention to financial wellbeing, taking action to support colleagues. This has included a pay review approach with increased investment for lower earners, a cost of living allowance paid over six months to 81% of colleagues (also targeted to lower earners) and enhancements to important benefits such as our maternity provision. We have also extended our existing financial education programme covering topics from pensions, to savings, budgeting and individual financial wellbeing checks.

You will have read in the Chief Executive's review within the Strategic Report section about the strong and balanced business performance in 2022. The Society has outperformed in six of the ten measures in the balanced scorecard, which is used to underpin both the all-employee Success Share scheme and the Executive Variable Pay Plan (ExVPP). The scorecard enables the full range of business performance to be assessed against stretching targets. We reflect our mutual culture and values by giving equal weight to all elements of the scorecard - so measures for customer, ESG and colleague outcomes have the same significance as financial and risk measures. The 2022 performance reflects our commitment to both borrowers and savers. We report growth in lending, exceptional service to mortgage brokers and customers alike, saving rates which are above the market average for our customers as a whole and the completion of our branch redesign programme. The branch redesign is just one of many examples of continued investment in the future relevance and resilience of the Society made possible by our strong financial performance.

The Committee takes action to reflect the views of stakeholders in our decision making. I sit on our employee forum 'My Society' and find this extremely useful to understand the views of colleagues. We have been trialling inviting members of My Society to attend the Remuneration Committee for relevant agenda items.

As a mutual organisation, we believe it is also right to understand and be guided by the views of our members. The Annual Remuneration Report is submitted to a vote by you, the members, each year at the Annual General Meeting. In addition, the Remuneration Policy is submitted to an advisory vote by members every three years. In line with this commitment, we will ask for your vote on the Policy again this year. While not required by regulation, these voting arrangements are advisory and the directors' remuneration is not conditional upon them. However, the Committee believes it is important to understand members' views and intends to take account of your feedback in its decision making.

There is one change to the Remuneration Policy to highlight here. The Committee have reviewed arrangements for the deferral and retention of executive variable pay. 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 (SLI). The SLI mechanism was driven by profit but from 2023 it is replaced by leverage ratio (excluding AT1). Leverage ratio has been selected as it drives the right financial discipline to preserve enough capital to support the growth of the Society and would provide a downside in an adverse event. The change also provides for an upside if leverage is exceeded. Further details can be found in the Remuneration policy which follows this report. There are no other changes to the remuneration policy. The Committee considered the policy in detail, with reference to both internal factors and the external landscape and remain confident that the structure and application of the policy remain consistent with our values, regulatory expectations and remuneration objectives.

Whilst there are many changes and challenges impacting colleagues, communities and our members, I am confident that the Committee's work will continue to reflect and respond positively to these.

Jo Kenrick

Chair of the Remuneration Committee
23 February 2023

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 (until 28.04.22)	2018
David Thorburn (from 28.04.22)	2022
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 Company Secretary are invitees where appropriate. The Committee also benefits from specialist advice from its independent remuneration advisor (Deloitte LLP).

We have been trialling asking representatives from My Society to attend meetings to give employees a greater voice on the Committee. They do not have voting rights and cannot be present when the Committee is discussing remuneration subjects that could directly impact their remuneration (i.e. pay recommendations for individuals or groups of employees or matters relating to variable pay).

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 purpose, values and 'Putting Members First' belief. Decisions align with the approach taken for all employees and take account of the long-term sustainable success of the Society.

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

The Committee's work has involved ensuring predictability in the remuneration structure; considering proportionate variable pay awards for colleagues and executive directors that reward good performance and are not excessive, and aligning policy and practice to the Society's purpose, values and belief.

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 2022

During 2022, the Committee:

- Considered the outturn of the 2021 balanced scorecard; to determine the 2021 Success Share scheme payment and the 2021 Executive Variable Pay Plan (ExVPP) payment.
- Approved the performance measures for the 2022 remuneration scorecard.
- Approved deferred and retained payments from in-flight executive variable pay plans, ensuring these are in line with the Society's Remuneration Policy.
- Considered updates to the Society's Remuneration Policy.
- Assessed external benchmarking data as an input to ensure remuneration remains competitive and appropriate.
- Approved the Society's salary review approach.
- Received a report from the Risk function that gave assurance that the Society's remuneration framework had not encouraged excessive risk taking.
- Considered the Risk function'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 and Material Risk Taker (MRT) disclosures.
- Approved the Directors' Remuneration Report.

The Committee also undertook the following activities in 2022:

- Considered and approved an amendment to 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.
- Considered and approved proposals for cost of living payments.
- Approved remuneration packages for new executive managers and arrangements for exiting executive managers.
- Considered the Society's benefit offering to ensure it offered sufficient flexibility and choice, and remained fit for purpose.
- Received updates from the Committee's advisors and from the Society's secretarial function.
- 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.

Directors' Remuneration Report Continued

Remuneration Policy

The Society's Remuneration Policy (as approved by our members at the 2020 Annual General Meeting) 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 Policy Review that has been undertaken, the principles that underpin the Policy and the key elements of the Policy. For reference, the Policy approved by members at the 2020 Annual General Meeting can be found at www.coventrybuildingsociety.co.uk and applies to all employees.

Approach to the Remuneration Policy review

It has been three years since the Committee last asked the Society's members to vote on the Remuneration Policy and in line with the normal three year cycle , we are asking our members to approve the new Policy at the 2023 Annual General Meeting. A lot has happened in that time. There have been significant changes in the regulatory landscape with the introduction of the Capital Requirements Directive V (CRD V) and in particular, the impact on executive variable pay, which is outlined in the Annual Remuneration Report, and closer regulatory scrutiny as the Society has grown to become a proportionality Level 1 firm for remuneration purposes by exceeding £50 billion of assets.

The Committee have recently been reviewing the arrangements for the deferral and retention of executive variable pay and have approved a change to the Remuneration Policy here. 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 (SLI). For several years now, the Society's SLI has not provided for any uplift in award; however, the award can be reduced if capital strengths and profit levels are not in line with plans. An instrument with downsides only does not truly reflect a share-like instrument. Additionally, profit as a mechanism is not consistent with our purpose, values and membership. As a result, from 2023 onwards, leverage ratio (excluding AT1) has been selected as the most appropriate capital measure to provide the mechanism for the SLI as it drives the right financial discipline to preserve enough capital to support the growth of the Society and would provide a downside in an adverse event. There are no other changes proposed to the Remuneration Policy.

The Committee asked its advisors, Deloitte LLP, to contribute to the review of the Remuneration Policy to ensure that the Society aligns with current best practice and regulatory requirements, and anticipates future regulatory changes. The Policy will apply for three years following the advisory vote at the 2023 Annual General Meeting.

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 cars, where applicable) are paid through the payroll.

In determining the 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 purpose, values and belief 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:

<table>
<tr><th colspan="2">Base salary</th></tr>
<tr><td>Purpose and link to strategy</td><td>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.</td></tr>
<tr><td>Operation</td><td>Executive director salaries are normally reviewed annually, with any increases usually taking effect from 1 April, taking into account a number of factors, including but not exclusively:
• 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.</td></tr>
<tr><td>Risk mitigation</td><td>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.</td></tr>
<tr><td>Maximum potential</td><td>Any increases will generally be no higher than the average 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.</td></tr>
<tr><td>Performance metrics</td><td>Individual performance is considered when setting salaries.</td></tr>
<tr><td>Consistency with other employees</td><td>The Society uses the same approach when setting salaries for all its employees and executive directors.</td></tr>
</table>

<table>
<tr><th colspan="2">Benefits (excluding pension)</th></tr>
<tr><td>Purpose and link to strategy</td><td>The Society provides a competitive benefits package to all its employees to support their physical, mental and financial wellbeing.</td></tr>
<tr><td>Operation</td><td>Each executive director receives benefits that are in line with the external market. These may include a company car or cash alternative, private medical insurance, health screening, permanent health insurance and life insurance.</td></tr>
<tr><td>Risk mitigation</td><td>Not applicable.</td></tr>
<tr><td>Maximum potential</td><td>Not applicable.</td></tr>
<tr><td>Performance metrics</td><td>Not applicable.</td></tr>
<tr><td>Consistency with other employees</td><td>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.</td></tr>
<tr><th colspan="2">Pension</th></tr>
<tr><td>Purpose and link to strategy</td><td>The Society provides post-retirement financial security for all its employees at a cost that is sustainable for the Society over the long term and in line with market practice.</td></tr>
<tr><td>Operation</td><td>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.</td></tr>
<tr><td>Risk mitigation</td><td>No executive director is involved in exercising discretion over judgements that could influence their level of pension contribution.</td></tr>
<tr><td>Maximum potential</td><td>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).</td></tr>
<tr><td>Performance metrics</td><td>Not applicable.</td></tr>
<tr><td>Consistency with other employees</td><td>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).</td></tr>
</table>

Directors' Remuneration Report Continued

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).
Consistency with other employees	All employees of the Society are in scope for 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 are made in cash (as opposed to shares) 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 is based on leverage ratio (excluding AT1) and provides for both uplift and reduction of awards. 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 executive director' remuneration packages are 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 up to 30% of salary for executive directors (up to 15% for executive managers). The maximum award (up to 60% of base salary at the date of grant for executive directors and up to 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 typically account for 30% of the total award. These goals are agreed with the Remuneration Committee at the outset of the scheme year.
Consistency with 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 leading 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. The Committee does not expect to make such changes intra-year.

Malus and clawback

Malus, clawback, deferral and retention arrangements are in place for executive directors and executive managers. The Committee ensures that an objective assessment of business risk and long-term sustainability is included with any assessment of variable pay awards and it may decide to exercise its discretion and adjust Success Share or ExVPP payments. Further details about malus and clawback arrangements are set out below:

	Malus	Clawback
What is it?	The Committee can decide to reduce or cancel any variable pay award, before the payment has been made.	The Committee may decide that an individual must repay part or all of a variable pay award after the payment has been made.
Which awards does it apply to?	Malus applies to any payments under the annual Success Share bonus and ExVPP schemes, as well as any future variable pay schemes.	Clawback applies to payments under the annual Success Share bonus and ExVPP variable pay schemes, for up to seven years even if an individual leaves the Society's employment.
When would this be used?	Can be applied in circumstances including, but not limited to: • Reasonable evidence of misbehaviour or material error by the executive director. • The Society suffering a material downturn in its financial performance. • The Society suffering a material failure of risk management.	Can be applied in circumstances including, but not limited to: • Reasonable evidence of misbehaviour or material error by the executive director. • The Society or function suffering a material failure of risk management. • A material misstatement of the Society's financial results, such that the payment made under the variable pay arrangement was greater than it would have been.

Approach to recruitment remuneration

Ongoing remuneration

When agreeing the remuneration package for a new executive director, the Committee considers:

- Whether the overall package is sufficient to recruit a high calibre executive with the right level of experience, capability and potential required for the role, noting external benchmarks.
- The remuneration packages of other executive directors in the Society and maximum variable pay limits.

The Committee retains discretion to include other elements of remuneration which are not included in the provisions of the Remuneration Policy set out above should business needs require. However, this discretion is subject to the following principles and limitations, and the commercial rationale for taking such action will be disclosed in the following Annual Report on Remuneration.

The maximum level of variable remuneration which may be granted to a new executive director on appointment (excluding any award to take account of remuneration relinquished when leaving the former employer) will be 80% of salary in line with the Policy table set out above (reflecting the Success Share bonus and ExVPP).

Other elements may be included in the following circumstances:

- An interim appointment being made to fill an executive director role on a short-term basis.
- If exceptional circumstances require that the Chair of the Board or a non-executive director takes an executive function on a short-term basis.
- If a director is required to relocate in order to take up the position, it is the Society's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.

Buy-out awards

When hiring an external candidate, the Committee may decide to compensate them for any variable pay awards from their previous employer that they will forfeit as a result of joining the Society, known as 'buy-out'. In determining any buy-out, the Remuneration Committee will conduct rigorous due diligence and consider all relevant factors, including the likelihood of the awards vesting, the form in which they were awarded and the time over which they would have vested. Any buy-out will be made in line with the Remuneration Policy wherever possible. The Society will always comply with the regulatory requirements in effect at the time of making any awards of this nature.

Internal appointments

For an internal executive director appointment, any variable pay element awarded in respect of the prior role will be paid according to its terms.

Directors' Remuneration Report Continued

Approach to payment for loss of office

If an individual ceases to be an executive director, the Society will take a different approach to paying them for the loss of office, depending on the circumstance of their leaving:

In all circumstances, termination payments will include any base salary or other contractual benefits due for the notice period, although these may be reduced if the executive director finds alternative employment during the notice period.

If an individual ceases to be an executive director due to: retirement, redundancy, death, ill-health, injury/disability or certain reasons as determined by the Remuneration Committee, they are considered to be a 'good leaver'. Under good leaver circumstances, the scheme rules state that any annual Success Share bonus or ExVPP award will be paid on a pro rata basis, depending on the time served during the performance period. Any deferred and retained awards will be subject to any necessary performance or malus adjustments and paid at the same time as awards for executive directors remaining in employment. Clawback rules will continue to apply.

If an individual ceases to be an executive director under any circumstance not covered by the good leaver provisions, no annual Success Share bonus or ExVPP payments will be made, and any unvested awards will be forfeited.

The Remuneration Committee reserves the right to make any other payments in connection with an executive director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with their cessation of office or employment.

Other considerations when setting executive director remuneration

When approving executive director pay, the Committee will take decisions aligned to the Society's Remuneration Policy. The Committee's decisions take into account wider market benchmarking across financial services and remuneration paid to other employees across the Society.

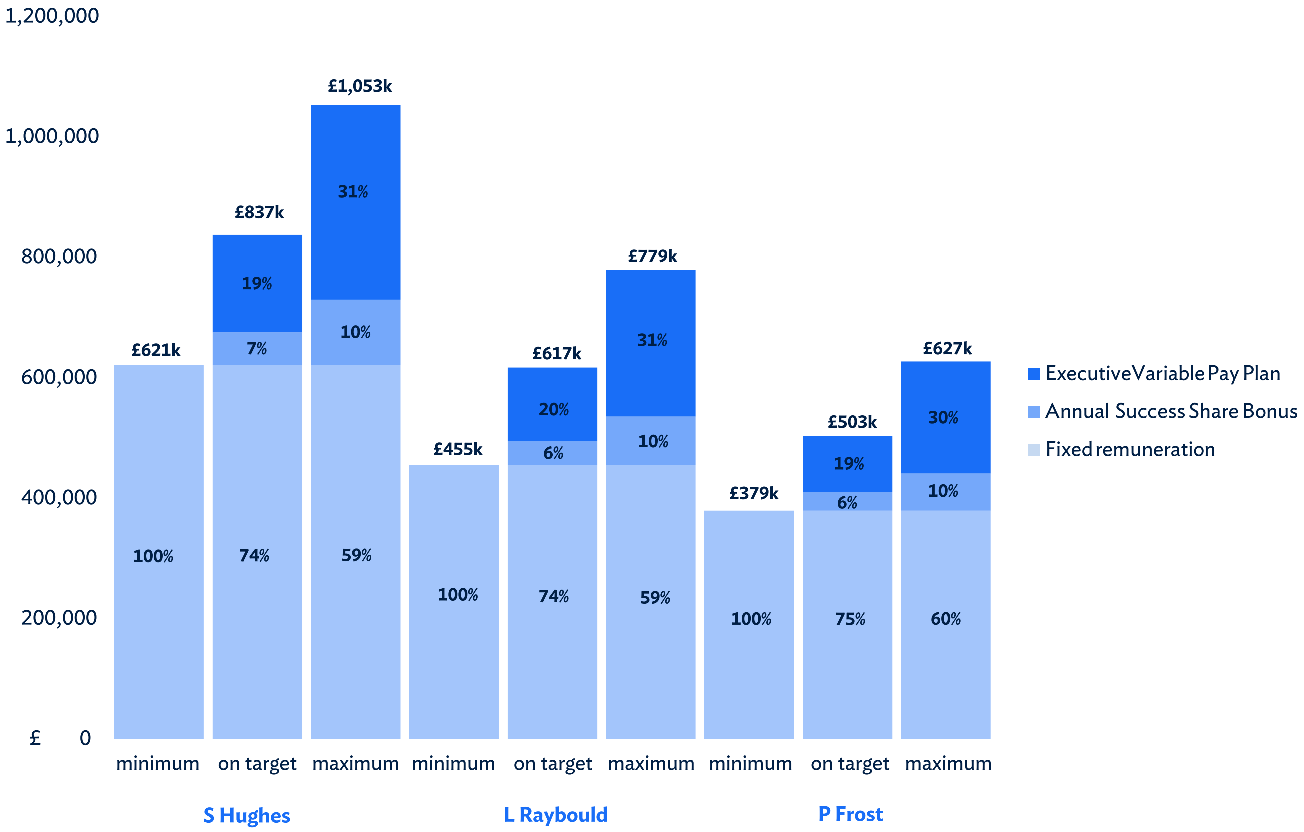
Application of the Remuneration Policy

The following table shows the maximum variable pay for executive directors, as a percentage of base salary:

	As a percentage of base salary		
2022 performance scenarios	Success Share %	ExVPP %	Total variable pay %
Minimum	**0**	**0**	**0**
On target	**10**	**30**	**40**
Maximum	**20**	**60**	**80**

The graph below illustrates what executive directors could earn, based on the Remuneration Policy in three potential performance scenarios – minimum, on target and maximum variable payments. The Society has never paid at maximum.

In applying these performance scenarios, the following assumptions apply: fixed remuneration is the current base salary, pension as a percentage of base salary and benefits paid over the course of the calendar year. Benefits figures are the same as those disclosed in the single figure table below. Also see the impact of deferral on variable pay on page 118 which shows how awards made in 2022 pay out between 2022 and 2031.



Service contracts

Executive directors' terms and conditions of employment are detailed in their individual service contracts, which are available at the Principal Office. An executive director's contract can be terminated by the director or by the Society giving six or 12 months' notice (dependent on role).

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 Customer Officer – Peter Frost	01.11.2012
Chief Financial Officer – Lee Raybould	06.04.2021

All of the Society's executive directors must voluntarily stand for re-election by its members each year. Peter Frost has decided not to seek re-election in 2023 after announcing his retirement.

Governance

Directors' Remuneration Report Continued

Non-executive directors

The Committee oversees remuneration for all employees, including executive directors and executive managers, and the Chair of the Board. 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	2021
Gary Hoffman (until 28.04.22)	2018
David Thorburn (from 28.04.22)	2022

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, which is to offer fees that are competitive when compared with similar financial services organisations and, as such, allow 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 reimbursement of expenses for travel and accommodation costs and tax thereof.
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 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 only change being the SLI mechanism for retained variable pay; the following pages outline how the current Policy was implemented in the annual Remuneration Report.

Annual Remuneration Report

This report sets out remuneration awarded to executive and non-executive directors for 2022. All remuneration decisions are taken in accordance with the Remuneration Policy approved by an advisory vote at the Annual General Meeting in 2020.

The total pay package that was earned by each executive director for 2022 and 2021 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	Total variable £000	Total remuneration £000
2022								
Steve Hughes	**530**	**10**	**53**	**593**	**97**	**277**	**374**	**967**
Lee Raybould	**402**	**9**	**40**	**451**	**73**	**208**	**281**	**732**
Peter Frost	**308**	**23**	**46**	**377**	**56**	**145**	**201**	**578**
Total	**1,240**	**42**	**139**	**1,421**	**226**	**630**	**856**	**2,277**

	Fixed remuneration				Variable remuneration			
(Audited)	Base salary[1] £000	Taxable benefit £000	Pension allowance[2] £000	Total fixed £000	Success Share £000	ExVPP £000	Total variable £000	Total remuneration £000
2021								
Steve Hughes	500	13	50	563	75	225	300	863
Lee Raybould[3]	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

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 contribution pension scheme and cash payments in lieu of contributions.
3. The remuneration shown for Lee Raybould is from his joining date of 6 April 2021.

Further information on individual remuneration elements: executive directors

Base salary 2022

The annual review of salaries in April 2022 saw a pool of 6.0% which was targeted at those in our entry level grades and those who are low in their salary range. Executive directors received increases in line with the approach for all employees as set out below:

Executive director	Effective 1 April 2022 £	Effective 1 April 2021 £	% increase
Steve Hughes	**540,000**	500,000	8.0%
Lee Raybould	**405,500**	390,000	4.0%
Peter Frost	**310,000**	300,655	3.1%

The CEO's salary increase was set at this level due to the relatively low positioning of base salary and total remuneration against comparator companies, strong performance and growth of the Society.

Benefits and pension 2022

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 scheme, 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. 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.

Directors' Remuneration Report Continued

Variable pay 2022

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 is summarised below:

Performance measure	Performance target range	Performance result	Performance relative to target range
People and purpose led:			
Employee engagement[1]	73-77%	77%	On target
Savings premium	>0.4%	0.62%	Above target
Environmental, Social and Governance measures	Qualitative assessment	Qualitative assessment [2]	On target
Best at mortgages and savings			
Mortgage balance growth rate	1.5% - 2.5%	3.0%	Above target
Savings balance growth rate	1.5% - 2.5%	6.0%	Above target
Experience NPS - Average[3]	+72-76	+75	On target
Brilliant product manufacturer			
Technology project, initiative and key capability delivery[4]	Qualitative assessment	Qualitative assessment	On target
Financial plan execution			
Cost/income ratio	51%–53%	43%	Above target
Profit before tax (£m)	£247m–£277m	£371m	Above target
Mortgage balances in arrears (%)[5]	< 0.15%	0.10%	Above target
Individual objectives:			
3 Main Individual Objectives	Chair of Board/CEO assessment	Chair of Board/CEO assessment	

1. The 2022 engagement survey was provided by Great Place to Work (GPTW) and measures the Trust index. The GPTW employee engagement score reflects the assessment as a large sized company.
2. More detail can be found in the Sustainability Report within the Strategic Report section.
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 by the Board Change Forum.
5. Percentage of mortgage balances where arrears are more than 2.5% of the balance.

Despite the extremely challenging market conditions in 2022, the Society performed exceptionally well against its balanced scorecard targets. The Society outperformed against six of the ten performance targets which determine variable pay, performed in line with four measures and did not perform below target against any measures.

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 balanced scorecard ensures alignment between remuneration and the long term, sustainable goals of the Society. The individual goals are used to increase personal accountability for the delivery of key strategic targets and are 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

Ensure plan delivery across the strategic scorecard Drive strong and improving colleague engagement and increase inclusion Brilliant customer service remains a strategic differentiator	Led strong delivery across the full range of strategic measures, both financial and non-financial. Clear increase in engagement, with colleague feedback pointing to progress for inclusion. Net promoter score strong despite significant change in customer behaviour as a result of changing economic backdrop.	Above target performance

Lee Raybould individual goals

Realise the ambitions defined for the finance transformation programme With CCO, shape future participation strategy Progress the Society's data ambitions	Finance transformation programme is making strong progress and is on track for first phase of delivery in 2023. New strategic opportunities agreed with the Board to ensure that the business model remains resilient. Interim data strategy outlined and senior leadership in place to drive this.	Above target performance

Peter Frost individual goals

Deliver brilliant service through an integrated contact centre and branch approach Ensure CBS is a place to belong, for everyone With CFO, shape future participation strategy	Branch and savings contact centres integrated giving flexibility to meet customer demand. Strong net promoter score sustained and Customer Officer colleague engagement increased. Society-wide progress made in inclusion with more to do to achieve published diversity ambitions. Board agree proposals and next steps for participation strategy.	On target performance

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 18% of base salary from a potential maximum of 20%.
- An ExVPP award to executive directors ranging from 46.8% to 51.3% of base salary from a potential maximum of 60% and to executive managers ranging from 23.4% or 25.65% of base salary from a potential maximum of 30%. Awards made reflect whether performance was assessed as on target or above target.

For executive directors and executive managers, these awards will be deferred as described below.

The impact of deferral

Variable remuneration is subject to regulatory deferral arrangements as described below. 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.

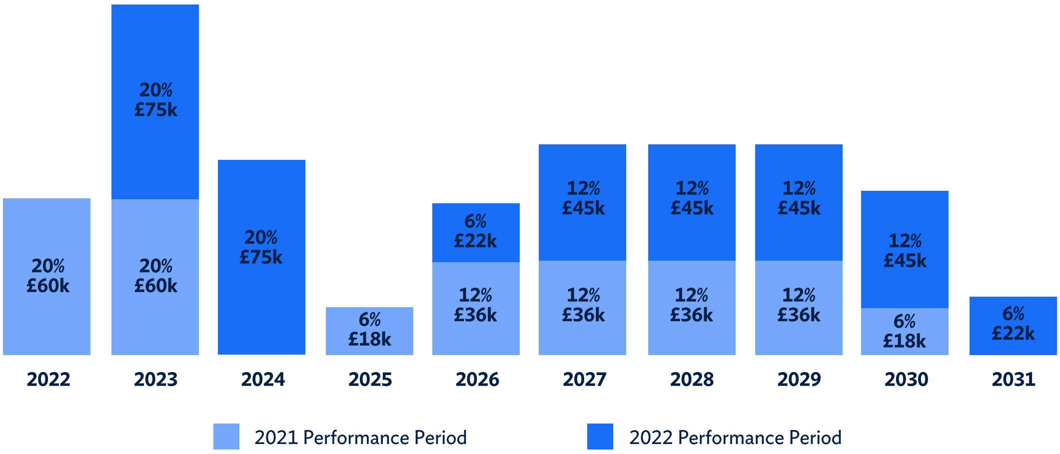
Impact of deferral in relation to the 2022 and 2021 performance periods

In 2022, all executive directors were above the regulatory deferral threshold and therefore their variable remuneration will be paid in instalments as set out below. The table shows the percentage (where applicable) of variable remuneration which will be paid in each year.

Variable pay received		**2022**	2023	2024	2025	2026	2027	2028	2029	2030	2031
2022 performance period	%	—	20	20	—	6	12	12	12	12	6
2021 performance period	%	20	20	—	6	12	12	12	12	6	—

Directors' Remuneration Report Continued

The impact of deferral is illustrated by reference to the CEO's variable pay in the diagram below.



Payments to former Directors

The Committee may determine that retirees or redundancies should be treated as good leavers and any in-flight 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 2022: £72,690 to M Parsons, former Chief Executive, £45,338 to M Faull, former Chief Financial Officer, and £24,786 to A 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 2023

Base salary 2023

Base salaries for executive directors will be reviewed in April 2023, in line with the approach outlined in the Remuneration Policy.

Benefits including pension 2023

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

Variable pay 2023

The 2022 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 2023 Directors' Remuneration Report.

Relative importance of spend on pay

The following table sets out the changes in profit after tax in 2022 and 2021, 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.

	2022 £m	2021 £m	Change %
Total assets	**58,867.1**	54,529.7	8.0
Employee remuneration costs	**155.6**	124.4	25.1
Profit after tax	**286.2**	190.8	50.0

The higher 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, infrastructure and resilience.

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:

	2022 %	2021 %	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %	2014 %	2013 %
Annual Success Share bonus as a percentage of maximum	**90**	75	40	50	55	60	70	60	60	70
LTIP as a percentage of maximum	**n/a**	n/a	n/a	n/a	n/a	63	63	—	100	100
ExVPP as a percentage of maximum	**85.5**	75	40	45	50	60	65	n/a	n/a	n/a

CEO pay ratio

The Companies (Miscellaneous Reporting) Regulations 2018 require 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 2022, 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	28,866	38,954	57,412
Salary	25,122	34,484	49,107

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 £
2022	Option A	32:1	25:1	16:1
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 remains stable over the last year with a slight increase due to the Society's exceptional scorecard and the Society believes it is consistent with the principles of its Remuneration Policy.

Directors’ Remuneration Report Continued

Details of the non-executive directors’ remuneration

Audited information	Note	Base fees 2022 £000	Committee Chair and other fees 2022 £000	Expense payments 2022 £000	Total fees and expense payments 2022 £000	Base fees 2021 £000	Committee Chair and other fees 2021 £000	Expense payments 2021 £000	Total fees and expense payments 2021 £000
Non-executive directors:									
David Thorburn	1	**129**	**—**	**5**	**134**	—	—	—	—
Gary Hoffman	2	**59**	**—**	**—**	**59**	181	—	—	181
Peter Ayliffe	3	**-**	**—**	**—**	**-**	16	2	—	18
Iraj Amiri	4	**54**	**15**	**4**	**73**	53	14	2	69
Catherine Doran	5	**54**	**—**	**2**	**56**	53	—	1	54
Jo Kenrick	6	**54**	**25**	**1**	**80**	53	22	1	76
Shamira Mohammed	7	**54**	**—**	**1**	**55**	53	—	1	54
Brendan O'Connor	8	**54**	**—**	**1**	**55**	50	—	1	51
Martin Stewart	9	**54**	**15**	**3**	**72**	53	14	1	68
Total		**512**	**55**	**17**	**584**	512	52	7	571

1. Chair of the Board from 28.04.22.
2. Chair of the Board to 28.04.22.
3. Non-executive director until 22.04.21.
4. Non-executive director from 28.06.18 and Chair of the Board Audit Committee from 18.09.18.
5. Non-executive director from 01.08.16.
6. Deputy Chair of the Board from 22.04.21, Senior Independent Director from 24.04.19 and Chair of the Remuneration Committee from 26.04.18.
7. Non-executive director from 01.05.19.
8. Non-executive director from 18.01.21.
9. Non-executive director from 01.09.18 and Chair of the Board Risk Committee from 25.09.18.

Fees for non-executive directors changed in April 2022 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	2022 £000	2021 £000
Chair of the Board	**192**	181
Base fee	**54**	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	**13**	12
Chair of the Board Audit Committee	**15**	14
Chair of the Board Risk Committee	**15**	14

1. If both the Deputy Chair and Senior Independent Director roles are held by the same person, the fees are combined at £13,000.

Expense and other payments

Non-executive directors are reimbursed reasonable travel and accommodation expenses in relation to attending meetings but do not participate in any Society pension, benefits or bonus arrangements.

Remuneration committee advisor

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 remuneration services provided by Deloitte are reviewed annually to ensure this continues to be the case. The Society also engages Deloitte to provide other assurance services, consultancy and specialist advice to other departments.

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 Annual General Meeting and, every three years, the Committee asks members for a non-binding vote on the Remuneration Policy.

Statement of member vote at Annual General Meeting

At the 2022 Annual General Meeting, an ordinary resolution (advisory vote) was proposed to members to approve the Annual Remuneration Report for the year ended 31 December 2021 for which the following votes were received:

	Number of votes	% votes cast
	Annual Remuneration Report	
Votes cast for	81,275	91.2
Votes cast against	7,804	8.8
Total votes cast	89,079	100.0
Votes withheld	2,051	

At the 2020 Annual General Meeting, an ordinary resolution (advisory vote) was proposed to members to approve the current Remuneration Policy for which the following votes were received:

	Number of votes	% votes cast
	Remuneration Policy	
Votes cast for	81,478	91.0
Votes cast against	8,042	9.0
Total votes cast	89,520	100.0
Votes withheld	2,018	

Directors' Report

The directors have pleasure in presenting their Annual Report & Accounts for 2022.

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 2022 was £371 million (2021: £233 million). The profit after tax transferred to the general reserve was £286 million (2021: £191 million).

Total Group reserves and equity at 31 December 2022 were £2,948 million (2021: £2,460 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 2022 was £3,005 million (2021: £2,517 million), including £15 million (2021: £15 million) of subordinated debt, £42 million (2021: £42 million) of subscribed capital and £415 million (2021: £415 million) of Perpetual Capital Securities.

The ratio of gross capital as a percentage of savings and borrowings at 31 December 2022 was 5.46% (2021: 4.87%) and the free capital ratio was 5.27% (2021: 4.65%).

The Annual Business Statement gives an explanation of these ratios.

Mortgage arrears

At 31 December 2022, there were 119 mortgage accounts more than 12 months in arrears (including those in possession) (2021: 139). The balance on these accounts totalled £17.7 million (2021: £20.0 million) and the value of these arrears was £1.6 million (2021: £1.4 million) or 0.003% (2021: 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.

Charitable and political donations

The Society made donations of £1.8 million (2021: £0.7 million) to charitable organisations during the year. This included an amount of £0.6 million (2021: £0.6 million) to The Royal British Legion's Poppy Appeal and £70,000 (2021: £70,000) to the Coventry Building Society Charitable Foundation.

No contributions were made for political purposes. However, employees are permitted time off to carry out civic duties and political activity, which can amount to an effective political donation. The Society supports a small number of employees in this way.

Employees are also supported in volunteering and fundraising in the local community. More information in relation to this is included in the Strategic Report.

Creditor payment policy

The Society's policy is to agree the terms of payment at the start of trading with suppliers and to pay in accordance with its contractual and other legal obligations. The Society's creditor days were 13 days as at 31 December 2022 (2021: 11 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 16 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 included 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's 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.

Board of directors

The names of the directors of the Society who served during the year and up to the date of signing the financial statements, are set out on pages 80 to 84. No director has any beneficial interest in equity shares, or debentures of, any connected undertaking of the Society as at 31 December 2022.

The Board has agreed that in accordance with the UK Corporate Governance Code, all the directors will stand for election or re-election on an annual basis.

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 138, 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 UK adopted International Accounting Standards 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 2022 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 Society 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. 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 in the Strategic Report.

Directors' Report Continued

The Group's forecasts and projections include the expected impact of these risks. 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 2027. 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. The directors also considered broader risks to the prospects of the Society, including the adequacy of risk management arrangements, the 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 2025. 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 macroeconomic environment, including the impact of inflationary pressures, 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 the first year of the stress and house price falls of 33% over a two year period.

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 also considered the 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 2025.

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 2023 Annual General Meeting.

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

David Thorburn

Chair of the Board
23 February 2023

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 2022 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 2022; the Group and Society income statements and statements of comprehensive income, the Group and Society statements of cash flows, and the Group and Society statements of changes in members' interests and equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

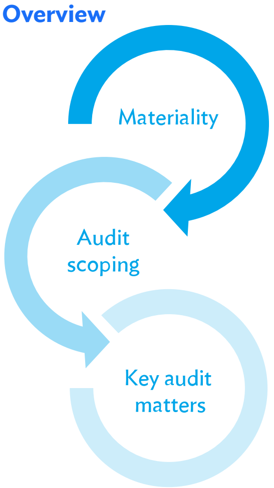
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2022 to 31 December 2022.

Our audit approach

Overview



- Overall Group materiality: £18.5 million (2021: £11.7 million), based on 5% of Profit/loss before tax from continuing operations.
- Overall Society materiality: £13.1 million (2021: £7.1 million), based on 5% of Profit/loss before tax from continuing operations

- 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 estimates in relation to applying expected credit loss provisioning on 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 (Group and Society).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined 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 and 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 Financial Conduct Authority and Prudential Regulation Authority;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in their significant accounting estimates; 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 appropriateness of estimates used in the accounting for the effective interest rate of loans and advances to customers, which was a key audit matter last year, is no longer included because of the directors changing their estimates of future customer repayment behaviour during 2021 which gave rise to a write off of the residual effective interest rate accounting adjustment in respect of reversionary interest during 2022. Furthermore, our key audit matter relating to assumptions used in the measurement of the defined benefit pension scheme surplus has been amended to remove reference to the valuation of complex scheme assets. This is because hard to value assets are a reduced proportion of the total scheme assets at the 2022 year end and so are proportionately a less significant part of our audit procedures. Otherwise, the key audit matters below are consistent with last year.

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

Key audit matter	How our audit addressed the key audit matter
The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society)	
The Group held £35.5 million of expected credit loss ('ECL') provisions against residential mortgages in accordance with IFRS 9 (2021: £18.9 million) against total loans and advances to customers of £48,049.8 million (2021: £46,639.5 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 is significant uncertainty in calculating expected credit losses due to the potential impacts on customer behaviour due to the rising inflationary and interest rate environment in the UK. In response to this uncertainty the Group introduced a new material post-model adjustment of £14.2 million to capture the risk of increased defaults due to pressures on customer affordability associated with a rising cost of living. This adjustment increases the default risk on those customers that require their fixed term mortgage to be refinanced in the next two years. We focussed our work on the areas of the methodology that we identified as most judgemental. These were: • The appropriateness of the assumptions used to identify customers for inclusion in the cost of living post model adjustment, and the derivation of increased probabilities of default for this cohort of loans. • 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; and • 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. The Group's disclosures are given in Note 14. Management's associated accounting policies are detailed in Note 1. Management's judgements in the application of accounting policy and critical estimates are disclosed in Note 2 and the considerations of the effect of the future economic environment are given in Note 14. The Audit Committees' consideration of the matter is set out in the Board Audit Committee Report.	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. 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 was considered. We found that the assumptions adopted and assigned weightings to the scenarios were reasonable. We considered the appropriateness of the post model adjustment for cost of living pressures by critically assessing the methodology, using modelling specialists, and testing critical data inputs used in the calculation to supporting evidence on a sample basis. We considered historical default behaviour and how this may change going forwards by examining the output of stresses performed by the Group's credit risk function. We challenged management on the complete capture of loans in the adjustment and the consistency of the adjustment with the disclosed stage allocation of the customer loans. Overall we found the adjustment made to be reasonable. We reviewed the ECL disclosures made by management to ensure compliance with accounting standards and agreed the disclosures to supporting evidence without material exceptions. From the evidence we obtained we found that the judgements and 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.

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 a 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. As a result of the rising interest rate environment in the UK, the size of hedge accounting adjustments on the year end balance sheet has grown substantially since the prior year end. At 31 December 2022 the fair value of all hedged items in designated hedging relationships was £1,142.8 million less than their carrying value (2021: £199.3 million less). Management of interest rate risk using derivatives in the year also gave rise to a £26.8 million gain (2021: £6.6 million charge) being recognised in the income statement. We focussed our work on the following types of micro hedges, which are subject to manual calculation which give rise to a heightened risk of material operational error: • Hedges of the Group's debt securities in issue which are designated as cash flow hedges of interest rate risk and foreign currency risk for non sterling denominated debt issuances. • Hedges of mortgage and savings pipeline interest rate risk which are designated as cash flow hedges against Deposits from Banks and Cash and balances with the Bank of England respectively. • Hedges of interest risk on fixed rate treasury and wholesale funding which are designated as fair value hedges. The Group's disclosures are given in Note 23. Management's associated accounting policies are detailed in Note 1. Management's significant assumptions and estimates are set out in Note 2. The Audit Committees' consideration of the matter is set out in the Board Audit Committee Report.	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 hedge effectiveness tests performed by management for each type of hedge relationship. We re-performed both a sample of prospective and retrospective effectiveness tests. 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 completeness and accuracy of the income statement ineffectiveness recorded by the Group during the year. 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.

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 Information technology ('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 volume of substantive 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 (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 a surplus of £3.3 million at 31 December 2022 (2021: £29.3 million) which is made up of assets carried at fair value of £160.7 million (2021: £264.4 million) and obligations of £157.4 million (2021: £235.1 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. During the current year the value of the scheme obligations has reduced substantially. This is largely due to increases in the discount rate used which has been updated to reflect increased corporate bond yields. The Group's disclosures are given in note 19. Management's associated accounting policies are disclosed in Note 1. The Audit Committees' consideration of the matter is set out in the Board Audit Committee Report.	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 2022 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. We considered the independence, objectivity and competence of the third party actuaries engaged by management to perform their valuation. Where valuation methodologies had changed during the year to reflect increased inflation experience, we challenged management on the reasonableness of the methodologies adopted. 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. We also read and assessed the disclosures made in the financial statements, including the disclosures of the actuarial assumptions used 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 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.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Group and Society's financial statements and support the disclosures made in relation to climate change in the Annual Report & Accounts.

In addition to enquiries with management, we also:

- Read the materials considered by the Group's Climate Risk Forum during the year to consider the impact on our audit risk assessment;
- Considered the exposure of the Group and Society's mortgage portfolio to physical and transition risks by examining the output of assessments performed by management during the year; and
- Considered the consistency of the disclosures in relation to climate change within the Annual Report & Accounts with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2022.

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	£18.5 million (2021: £11.7 million).	£13.1 million (2021: £7.1 million).
How we determined it	5% of Profit/loss before tax from continuing operations	5% of Profit/loss before tax from continuing operations
Rationale for benchmark applied	Profit before tax is one of the principal considerations when assessing the Group's and Society's performance and is a generally accepted auditing benchmark.	Profit before tax is one of the principal considerations when assessing the Group's and Society's performance and is a generally accepted auditing benchmark.

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 £6.2 million to £13.1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

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 £13.9 million for the Group financial statements and £9.8 million for the Society materiality.

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 £930,000 (Group audit) (2021: £580,000) and £650,000 (Society audit) (2021: £350,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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

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 the appropriateness of the disclosures made in the Annual Report and Accounts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and Society's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

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 2022 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.

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

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 accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group’s and Society’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Society or to cease operations, or have no realistic alternative but to do so.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors’ report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society’s members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 28 April 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 December 2019 to 31 December 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will 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 will be 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

23 February 2023

Income Statements

For the year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**1,421.1**	833.9	**1,249.6**	703.5
Interest payable and similar charges	4	**(763.8)**	(357.7)	**(750.8)**	(360.5)
Net interest income		**657.3**	476.2	**498.8**	343.0
Fees and commissions receivable	5	**7.2**	7.4	**4.7**	5.2
Fees and commissions payable	6	**(10.7)**	(10.3)	**(8.1)**	(7.4)
Other operating income	7	**1.9**	1.5	**1.9**	1.5
Net gains/(losses) from derivative financial instruments	8	**26.8**	(6.6)	**26.5**	(6.1)
Total income		**682.5**	468.2	**523.8**	336.2
Administrative expenses	9	**(266.1)**	(233.2)	**(219.3)**	(185.8)
Amortisation of intangible assets	17	**(11.8)**	(12.5)	**(11.8)**	(12.5)
Depreciation on property, plant and equipment	18	**(16.9)**	(17.8)	**(16.9)**	(17.8)
Impairment (charge)/ release on loans and advances to customers	14	**(16.6)**	28.7	**(13.6)**	21.3
Charitable donation to Poppy Appeal		**(0.6)**	(0.6)	**(0.6)**	(0.6)
Profit before tax		**370.5**	232.8	**261.6**	140.8
Taxation	15	**(84.3)**	(42.0)	**(62.3)**	(25.8)
Profit for the financial year		**286.2**	190.8	**199.3**	115.0

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 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit for the financial year		**286.2**	190.8	**199.3**	115.0
Other comprehensive income/(expense)					
Items that will not be transferred to the income statement:					
Remeasurement of defined benefit pension scheme	19	**(27.6)**	21.3	**(27.6)**	21.3
Taxation	15	**8.0**	(6.1)	**8.0**	(6.1)
Items that may be transferred to the income statement					
Fair value through other comprehensive income investments:					
Fair value movements taken to reserves		**(55.2)**	(15.5)	**(55.2)**	(15.5)
Amount transferred to the income statement		**55.4**	18.8	**55.4**	18.8
Taxation	15	**0.2**	(1.1)	**0.2**	(1.1)
Cash flow hedges:					
Fair value movements taken to reserves		**467.5**	(34.4)	**394.3**	64.8
Amount transferred to the income statement		**(121.9)**	135.6	**(29.7)**	10.0
Taxation	15	**(96.0)**	(27.4)	**(101.3)**	(20.1)
Other comprehensive income for the year, net of tax		**230.4**	91.2	**244.1**	72.1
Total comprehensive income for the year, net of tax		**516.6**	282.0	**443.4**	187.1

The notes on pages 142 to 192 form part of these accounts.

Balance Sheets

As at 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Assets					
Cash and balances with the Bank of England		**7,792.2**	6,650.2	**7,724.9**	6,514.2
Loans and advances to financial institutions		**622.8**	295.8	**622.8**	295.8
Debt securities	12	**1,594.8**	676.0	**1,520.8**	676.0
Loans and advances to customers	13	**48,014.3**	46,620.6	**29,634.9**	28,550.4
Hedge accounting adjustment		**(1,595.3)**	(295.4)	**(1,595.3)**	(295.4)
Derivative financial instruments	23	**2,278.1**	406.3	**2,254.7**	406.3
Investment in equity shares		**5.8**	4.9	**5.8**	4.9
Current tax assets	15	**20.8**	5.6	**20.4**	5.7
Investment in Group undertakings	16	**—**	—	**17,879.7**	17,552.7
Intangible assets	17	**43.3**	35.7	**43.3**	35.7
Property, plant and equipment	18	**63.2**	76.1	**63.2**	76.1
Prepayments and accrued income		**23.8**	24.6	**23.6**	24.4
Pension benefit surplus	19	**3.3**	29.3	**3.3**	29.3
Total assets		**58,867.1**	54,529.7	**58,202.1**	53,876.1
Liabilities					
Shares		**42,288.7**	39,890.2	**42,288.7**	39,890.2
Deposits from banks		**7,542.9**	6,040.2	**7,532.0**	6,040.2
Other deposits		**5.0**	5.0	**5.0**	5.0
Amounts owed to other customers		**416.1**	609.8	**530.1**	706.6
Debt securities in issue	22	**5,243.2**	5,252.3	**4,549.5**	4,418.6
Hedge accounting adjustment		**(452.5)**	(96.1)	**(452.5)**	(96.1)
Derivative financial instruments	23	**626.5**	219.8	**617.5**	163.5
Deferred tax liabilities	20	**111.7**	13.4	**113.2**	10.9
Accruals and deferred income		**49.9**	43.5	**45.1**	38.8
Other liabilities	29	**30.5**	34.7	**677.8**	817.7
Provisions for liabilities and charges	24	**0.4**	0.4	**0.4**	0.4
Subordinated liabilities	25	**15.4**	15.3	**15.4**	15.3
Subscribed capital	26	**41.6**	41.6	**41.6**	41.6
Total liabilities		**55,919.4**	52,070.1	**55,963.8**	52,052.7
Members' interests and equity					
General reserve		**2,250.7**	2,012.6	**1,534.3**	1,383.1
Other equity instruments	27	**415.0**	415.0	**415.0**	415.0
Fair value through other comprehensive income reserve		**4.9**	4.5	**4.9**	4.5
Cash flow hedge reserve		**277.1**	27.5	**284.1**	20.8
Total members' interests and equity		**2,947.7**	2,459.6	**2,238.3**	1,823.4
Total members' interests, liabilities and equity		**58,867.1**	54,529.7	**58,202.1**	53,876.1

The notes on pages 142 to 192 form part of these accounts.

Approved by the Board of directors on 23 February 2023 and signed on its behalf by

David Thorburn
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 2022

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 2022	**2,012.6**	**415.0**	**4.5**	**27.5**	**2,459.6**
Profit for the financial year	**286.2**	**—**	**—**	**—**	**286.2**
Net remeasurement of defined benefit pension scheme	**(19.6)**	**—**	**—**	**—**	**(19.6)**
Net movement in fair value through other comprehensive income reserve	**—**	**—**	**0.4**	**—**	**0.4**
Net movement in cash flow hedge reserve	**—**	**—**	**—**	**249.6**	**249.6**
Total comprehensive income	**266.6**	**—**	**0.4**	**249.6**	**516.6**
Distribution to Additional Tier 1 capital holders	**(28.5)**	**—**	**—**	**—**	**(28.5)**
As at 31 December 2022	**2,250.7**	**415.0**	**4.9**	**277.1**	**2,947.7**

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 pension scheme	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

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 2022	**1,383.1**	**415.0**	**4.5**	**20.8**	**1,823.4**
Profit for the financial year	**199.3**	**—**	**—**	**—**	**199.3**
Net remeasurement of defined benefit pension scheme	**(19.6)**	**—**	**—**	**—**	**(19.6)**
Net movement in fair value through other comprehensive income reserve	**—**	**—**	**0.4**	**—**	**0.4**
Net movement in cash flow hedge reserve	**—**	**—**	**—**	**263.3**	**263.3**
Total comprehensive income	**179.7**	**—**	**0.4**	**263.3**	**443.4**
Distribution to Additional Tier 1 capital holders	**(28.5)**	**—**	**—**	**—**	**(28.5)**
As at 31 December 2022	**1,534.3**	**415.0**	**4.9**	**284.1**	**2,238.3**

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 pension scheme	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

The notes on pages 142 to 192 form part of these accounts.

Statements of Cash Flows

For the year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cash flows from operating activities:					
Profit before tax		**370.5**	232.8	**261.6**	140.8
Adjustments for:					
Expected credit loss provisions and other provisions	14,24	**16.6**	(28.7)	**13.6**	(21.3)
Depreciation and amortisation		**28.7**	30.3	**28.7**	30.3
Interest on subordinated liabilities and subscribed capital		**6.0**	6.5	**6.0**	6.5
Changes to fair value adjustment of hedged risk		**(120.6)**	50.7	**(30.9)**	(79.9)
Other non-cash movements		**243.6**	(101.9)	**238.3**	(499.8)
Non-cash items included in profit before tax		**174.3**	(43.1)	**255.7**	(564.2)
Loans and advances to credit institutions		**(332.8)**	260.8	**(331.2)**	323.0
Loans and advances to customers		**(1,413.6)**	(2,633.6)	**(1,098.1)**	(1,615.0)
Prepayments, accrued income and other assets		**0.9**	(5.2)	**0.9**	(5.2)
Changes in operating assets		**(1,745.5)**	(2,378.0)	**(1,428.4)**	(1,297.2)
Shares		**2,304.2**	1,761.9	**2,304.2**	1,761.9
Deposits and other borrowings		**1,266.7**	904.1	**1,273.1**	987.7
Debt securities in issue		**(2.8)**	—	**(2.5)**	—
Accruals and deferred income and other liabilities		**3.6**	4.9	**3.5**	(12.3)
Changes in operating liabilities		**3,571.7**	2,670.9	**3,578.3**	2,737.3
Interest paid on subordinated liabilities and subscribed capital		**(5.9)**	(6.5)	**(5.9)**	(6.5)
Interest paid on lease liabilities		**(0.4)**	(0.5)	**(0.4)**	(0.5)
Taxation		**(89.0)**	(67.9)	**(67.8)**	(19.0)
Net cash flows from operating activities		**2,275.7**	407.7	**2,593.1**	990.7
Cash flows from investing activities					
Purchase of investment securities		**(1,727.0)**	(167.5)	**(1,526.1)**	(167.5)
Sale and maturity of investment securities and equities		**753.0**	470.0	**626.0**	470.0
Proceeds from sale of properties		**1.7**	1.9	**1.7**	1.9
Purchase of mortgage assets (net of fees)		**—**	(476.9)	**—**	—
Purchase of property, plant and equipment and intangible assets		**(26.7)**	(37.2)	**(26.7)**	(37.2)
Net cash flows from investing activities		**(999.0)**	(209.7)	**(925.1)**	267.2
Cash flows from financing activities					
Loans to connected undertakings		**—**	—	**(462.7)**	(959.7)
Distributions paid to Additional Tier 1 capital holders		**(28.5)**	(28.5)	**(28.5)**	(28.5)
Repurchase and repayment of debt securities in issue		**(540.0)**	(545.6)	**(400.0)**	(423.9)
Issue of debt securities		**434.3**	1,278.7	**434.4**	1,278.7
Principal elements of lease payments		**(4.7)**	(4.9)	**(4.7)**	(4.9)
Repurchase of subordinated liabilities and subscribed capital		**—**	(10.3)	**—**	(10.3)
Net cash flows from financing activities		**(138.9)**	689.4	**(461.5)**	(148.6)
Net increase in cash		**1,137.8**	887.4	**1,206.5**	1,109.3
Cash and cash equivalents at start of year		**6,485.4**	5,598.0	**6,349.4**	5,240.1
Cash and cash equivalents at end of year		**7,623.2**	6,485.4	**7,555.9**	6,349.4
Cash and cash equivalents:					
Cash and balances with central banks[1]		**7,623.2**	6,485.4	**7,555.9**	6,349.4

1. This excludes the mandatory reserve with the Bank of England of £169.0 million (2021: £164.8 million).

The notes on pages 142 to 192 form part of these accounts

Financial Statements

Notes to the accounts

1. Accounting policies

Basis of preparation

These accounts have been prepared in accordance with 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

There are no amendments to standards effective from 1 January 2022 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 2023; 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.

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.

Notes to the accounts Continued

1. Accounting policies continued

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.

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 £178.3 million (2021: £187.6 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% (2021: 39%). 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.

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 reporting 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.

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 to the financial statements.

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 the cost of living affordability stress and all accounts identified as having such a stress are moved to stage 2. In the prior year, accounts subject to a Covid-19 payment holiday were moved to stage 2 where a Covid-19 payment holiday was extended beyond three months, or where a mortgage payment holiday of any length had been taken and there were other indicators of distress such as a deterioration in internal credit risk grades or worsening bureau data.

Other criteria include 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%.

In order to respond to the risk of inflation, the Group has applied uplifted PDs to those customers identified as having experienced a deterioration in credit quality, as determined by a range of measures, including credit bureau data on scores and indebtedness, since December 2021, to calculate a cost of living post model adjustment. The level of uplifted PD applied varies depending on whether the customer has a fixed term end date in the next two years or not. Customers with a LTV below 60% are excluded from the cohort as the risk of loss is deemed low, and therefore not suffered a significant increase in credit risk. All customers identified within the cost of living PMA are moved to stage 2.

Notes to the accounts Continued

1. Accounting policies continued

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 six month cure period is applied to accounts which have shown increased risk indicators as a result of the cost of living affordability assessment. 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 the 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 14.

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.

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 cost of living PMA, where there is no historical data regarding such an affordability cost stress. As a 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 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 cost of living PMA recognised.

The application of PMAs is considered by the Society's ECL Management Committee. PMAs are reviewed and assessed for reasonableness considering the future expectation of performance in the 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.

Further information on PMA in place at the year end can be found in note 14.

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.

Notes to the accounts Continued

1. Accounting policies continued

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. 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

Employee benefits

Pensions

The Group operates both a defined benefit and defined contribution pension 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 pension scheme 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 re-translated at the rate prevailing at the Balance Sheet date. Foreign exchange gains and losses resulting from re-translation and settlement are recognised on a net basis in the Income Statement within Interest payable and similar charges.

Notes to the accounts Continued

1. Accounting policies continued

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

In the process of applying accounting policies, the Group makes various judgements, estimates and assumptions 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	14
Expected credit loss provision on loans and advances to customers – forward-looking information incorporated in the ECL models	14
Valuation of the defined benefit pension scheme liabilities	19

3. Interest receivable and similar income

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
On financial assets measured at amortised cost:				
On loans and advances to customers	**1,032.3**	946.2	**570.7**	521.8
Connected undertakings	**—**	—	**292.3**	293.8
Interest on other liquid assets[1]	**114.8**	6.9	**113.6**	6.9
Interest and other income on debt securities	**0.1**	0.1	**0.1**	0.1
Interest and other income on debt securities measured at FVOCI	**16.3**	5.3	**15.3**	5.6
Net income/ (expense) on financial instruments in a qualifying hedge relationship	**257.6**	(124.6)	**257.6**	(124.7)
Total interest receivable and similar income calculated using the EIR method	**1,421.1**	833.9	**1,249.6**	703.5

1. Interest on other liquid assets at Group and Society includes £106.4 million (2021: £6.7 million) in respect of interest on reserve balances with the Bank of England.

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. This determines the period over which customers pay the Standard Variable Rate (SVR) of interest. Any variation in the expected life of a loan will change the carrying value in the Balance Sheet and the timing of the recognition of interest income.

Following a change in estimated future cash flows in the prior year, mortgages are now expected to fully redeem in line with the end of fixed product terms. As such, a significant estimate is now being made that no recognition of SVR interest income is required on mortgages still within a fixed term. Due to this, a charge of £17.3 million (2021: £69.0 million) has been recognised in the Income Statement in the year to write down the asset to £nil at 31 December 2022 (2021: £17.3 million).

Fees on mortgages are recognised over the fixed product term but as they have an immaterial impact on the financial statements, the treatment of fees under EIR is not deemed to be a significant estimate.

4. Interest payable and similar charges

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Bank and customer				
Subordinated liabilities	**1.1**	1.6	**1.1**	1.6
Other[1]	**111.2**	9.6	**114.0**	9.6
Debt securities in issue	**86.7**	67.4	**73.8**	63.5
Other borrowed funds				
On shares held by individuals	**461.9**	302.3	**461.9**	302.3
On subscribed capital	**4.9**	4.9	**4.9**	4.9
On loans from connected undertakings	**—**	—	**16.3**	19.4
Net expense/(income) from hedging instruments	**98.1**	(28.5)	**78.9**	(41.3)
Foreign currency gains	**(0.5)**	(0.1)	**(0.5)**	—
Other interest payable	**0.4**	0.5	**0.4**	0.5
Total	**763.8**	357.7	**750.8**	360.5

1. Other Bank and customer interest payable at Group and Society includes £77.0 million (2021: £5.5 million) relating to interest on balances drawn under the Term Funding Scheme, £19.2 million (2021: £nil) of interest on collateral in respect of swap agreements, and £9.8 million (2021: £3.5 million) interest on balances relating to sale and repurchase agreements.

5. Fees and commissions receivable

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Mortgage related administration fees	**6.7**	5.8	**4.2**	3.6
General insurance commissions	**0.5**	0.6	**0.5**	0.6
Other fees and commissions	**—**	1.0	**—**	1.0
Total	**7.2**	7.4	**4.7**	5.2

Notes to the accounts Continued

6. Fees and commissions payable

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Banking fees	**2.6**	2.4	**2.6**	2.4
Mortgage related fees	**5.2**	5.1	**2.6**	2.2
Other fees and commissions	**2.9**	2.8	**2.9**	2.8
Total	**10.7**	10.3	**8.1**	7.4

7. Other operating income

Operating income of £1.9 million (2021: £1.5 million) includes £1.4 million (2021: £1.5 million) relating to profit on sale of property fixed assets and £0.5 million (2021: £nil) 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 2022 relate to Visa Inc.

8. Net gains/(losses) from derivative financial instruments

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Derivatives designated as fair value hedges				
Gains on derivatives designated as fair value hedges	**973.7**	501.5	**973.7**	501.5
Movement in fair value of hedged items attributable to hedged risk	**(999.0)**	(497.9)	**(999.0)**	(497.9)
Ineffectiveness on fair value hedges	**(25.3)**	3.6	**(25.3)**	3.6
Derivatives designated as cash flow hedges[1]				
Foreign exchange	**0.3**	(0.1)	**—**	—
Foreign exchange and interest rate	**—**	(0.4)	**—**	—
Interest rate	**30.0**	(9.7)	**30.0**	(9.7)
Ineffectiveness on cash flow hedges	**30.3**	(10.2)	**30.0**	(9.7)
Gains on other derivatives	**21.8**	—	**21.8**	—
Total	**26.8**	(6.6)	**26.5**	(6.1)

1. Represents ineffectiveness on cash flow hedge relationships which will mature over a period of six years (2021: seven).

Further information on the Society's risk management strategy and how it hedges interest and foreign exchange risk is included in note 23.

Gains and losses on other derivatives where hedge accounting relief has not been obtained are £21.8 million over the year (2021: £nil).

The gains and losses represents both the impact of early termination of derivative instruments and timing differences, which are expected to reverse over the remaining life of the derivatives, although further volatility may also be experienced.

Foreign exchange losses of £89.3 million (2021: £96.1 million gain) have been recognised in the Income Statement relating to the principal amount of financial instruments held at amortised cost. This is offset by foreign exchange gains of £92.1 million (2021: £96.0 million loss) on derivative financial instruments held at fair value.

9. Administrative expenses

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Employee costs				
Wages and salaries	**132.9**	104.2	**132.9**	104.2
Social security costs	**13.1**	11.4	**13.1**	11.4
Pension costs				
Defined benefit pension scheme (note 19)	**(1.3)**	1.9	**(1.3)**	1.9
Defined contribution pension scheme	**10.9**	6.9	**10.9**	6.9
	155.6	124.4	**155.6**	124.4
Other expenses				
Project costs	**18.3**	37.8	**18.3**	37.8
Information systems	**28.9**	23.1	**28.9**	23.1
Training, recruitment and other employee costs	**15.7**	7.3	**15.7**	7.3
Premises and facilities	**10.7**	9.6	**10.7**	9.6
Legal, professional and consultancy	**7.2**	6.2	**7.0**	6.0
Marketing and communications	**6.7**	4.6	**6.7**	4.6
Loss on disposal of property, plant and equipment and intangibles	**6.4**	4.2	**6.4**	4.2
Other operating expenses	**16.6**	16.0	**15.9**	15.4
Intercompany management charge	**—**	—	**(45.9)**	(46.6)
Total	**266.1**	233.2	**219.3**	185.8

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 external auditors, PricewaterhouseCoopers LLP, (excluding VAT), is set out below:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Audit of the Group and Society annual accounts	**0.8**	0.8	**0.8**	0.8
Audit of Group subsidiaries	**0.2**	0.1	**—**	—
Audit related assurance services	**0.1**	0.1	**0.1**	0.1
Other non-audit services	**0.2**	0.1	**0.2**	0.1
Total	**1.3**	1.1	**1.1**	1.0

10. Employee numbers

Group and Society	2022 Full time	2022 Part time	2022 Total	2021 Full time	2021 Part time	2021 Total
The average number of persons employed during the year (including executive directors) was:						
Head office and administrative centres	**1,814**	**435**	**2,249**	1,788	429	2,217
Branches	**287**	**288**	**575**	295	307	602
Total	**2,101**	**723**	**2,824**	2,083	736	2,819

The average number of employees on a full time equivalent basis was 2,552 (2021: 2,498) and all of these are employed within the United Kingdom.

Financial Statements

Notes to the accounts Continued

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 2022			
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	7,792.2	—	—	7,792.2
Loans and advances to financial institutions	622.8	—	—	622.8
Debt securities	6.2	1,588.6	—	1,594.8
Loans and advances to customers	48,014.3	—	—	48,014.3
Hedge accounting adjustment	(1,595.3)	—	—	(1,595.3)
Derivative financial instruments	—	—	2,278.1	2,278.1
Investment in equity shares	—	—	5.8	5.8
Total financial assets	54,840.2	1,588.6	2,283.9	58,712.7
Other non-financial assets	154.4	—	—	154.4
Total assets	54,994.6	1,588.6	2,283.9	58,867.1
Financial liabilities				
Shares	42,288.7	—	—	42,288.7
Deposits from banks	7,542.9	—	—	7,542.9
Other deposits	5.0	—	—	5.0
Amounts owed to other customers	416.1	—	—	416.1
Debt securities in issue	5,243.2	—	—	5,243.2
Hedge accounting adjustment	(452.5)	—	—	(452.5)
Derivative financial instruments	—	—	626.5	626.5
Subordinated liabilities	15.4	—	—	15.4
Subscribed capital	41.6	—	—	41.6
Total financial liabilities	55,100.4	—	626.5	55,726.9
Other non-financial liabilities	192.5	—	—	192.5
Total liabilities	55,292.9	—	626.5	55,919.4

Group	31 December 2021 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

12. Debt securities

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Fair value through other comprehensive income:				
UK Government investment securities	**1,020.1**	363.3	**946.1**	363.3
Other listed transferable debt securities	**568.5**	306.2	**568.5**	306.2
Amortised cost				
Other listed transferable debt securities	**6.2**	6.5	**6.2**	6.5
Total	**1,594.8**	676.0	**1,520.8**	676.0
Movements during the year are analysed below:				
At 1 January	**676.0**	995.1	**676.0**	995.1
Additions	**1,726.9**	167.5	**1,526.0**	167.5
Maturities and disposals	**(752.9)**	(470.0)	**(626.0)**	(470.0)
Changes in fair value	**(55.2)**	(16.6)	**(55.2)**	(16.6)
At 31 December	**1,594.8**	676.0	**1,520.8**	676.0

A maturity analysis of the Group debt securities is included in the Liquidity and Funding section of the Risk Management Report.

At the 31 December 2022, £93.8 million of debt securities had been sold under sale and repurchase agreements (2021: £nil).

13. Loans and advances to customers

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Residential mortgages: owner-occupier		**28,529.3**	27,362.5	**28,150.1**	26,941.1
Residential mortgages: buy to let		**19,496.2**	19,237.7	**1,467.6**	1,567.2
Legacy lending[1]		**13.2**	15.8	**8.0**	9.8
Total Gross loans and advances to customers (contractual amounts)		**48,038.7**	46,616.0	**29,625.7**	28,518.1
Impairment	14	**(35.5)**	(18.9)	**(20.0)**	(6.4)
Total Net loans and advances to customers (contractual amounts)		**48,003.2**	46,597.1	**29,605.7**	28,511.7
EIR, fair value and other adjustments		**11.1**	23.5	**29.2**	38.7
Total		**48,014.3**	46,620.6	**29,634.9**	28,550.4

1. Legacy lending represents residual small portfolios of unsecured personal loans and commercial mortgages. The credit risk for these is immaterial and therefore not considered further in this report.

Maturity analysis

The remaining contractual maturity of loans and advances to customers at the Balance Sheet date is as follows:

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Repayable in less than one year		**3,394.3**	3,342.6	**1,925.5**	1,903.2
Repayable in more than one year		**44,655.5**	43,296.9	**27,729.4**	26,653.6
		48,049.8	46,639.5	**29,654.9**	28,556.8
Impairment provision	14	**(35.5)**	(18.9)	**(20.0)**	(6.4)
Total		**48,014.3**	46,620.6	**29,634.9**	28,550.4

Actual redemption levels experienced by the Group or Society may differ from the contractual analysis.

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:

2022 Group	Mortgages pledged £m	Notes in issue[1] Held by third parties £m	Held by the Group pledged £m	Held by the Group unpledged £m	Total £m
Loans and advances to customers					
Covered bond programme – Coventry Building Society Covered Bonds LLP	**6,613.5**	**3,107.1**	**1,350.0**	**—**	**4,457.1**
Covered bond programme – Coventry Godiva Covered Bonds LLP	**5,401.1**	**—**	**4,000.0**	**—**	**4,000.0**
Securitisation programme – Economic Master Issuer plc	**2,065.9**	**693.2**	**367.0**	**870.0**	**1,930.2**
Whole mortgage loan pools[2]	**6,208.0**	**—**	**2,847.4**	**3,360.5**	**6,207.9**
Total	**20,288.5**	**3,800.3**	**8,564.4**	**4,230.5**	**16,595.2**

2021 Group	Mortgages pledged £m	Notes in issue[1] Held by third parties £m	Held by the Group pledged £m	Held by the Group unpledged £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

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 (2022: £870.3 million, 2021: £793.5 million). All of these notes are held by the Group unpledged.
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 TFSME, subject to a 'haircut' as defined by the Bank of England. The amounts under notes in issue are the outstanding balances of mortgages.

Mortgages pledged are not derecognised from the Group or Society Balance Sheets as the Group has retained substantially all the risks and rewards of ownership. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes in issue and held by third parties are included within debt securities in issue (note 22).

Notes in issue, held by the Group and pledged, 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 unpledged, 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.

Notes to the accounts Continued

13. Loans and advances to customers continued

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 2022 or 2021. 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 2022, the Society had £2,450 million (2021: £3,350 million) and €2,250 million (2021: €1,750 million) of covered bonds in issue, of which £1,350 million (2021: £2,250 million) were retained by the Group.

During the period, the Society voluntarily repurchased £86.9 million (2021: £87.1 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 2022, the Society had £4.0 billion (2021: £2.0 billion) of covered bonds in issue of which all were retained by the Group.

During the period, the Society voluntarily repurchased £40.7 million (2021: £18.2 million) of mortgages from Godiva LLP to maintain the quality of the pool and minimise the overcollateralisation requirement.

Securitisation

During the period, the Society operated one securitisation vehicle 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, the Originator. The loans are retained on the Originator's Balance Sheet as it retains 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. Mercia No.1 plc (Mercia) and Offa No.1 plc (Offa) are securitisation vehicles which were operated by the Society until all notes were redeemed in June 2021; both Mercia and Offa are in the process of liquidation and are in the control of liquidators.

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 2022, a total of £367.0 million (2021: £367.0 million) of notes were retained by the Group and £693.2 million (2021: £833.0 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.

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 2022 £m	**Fair value liabilities 2022 £m**	**Fair value net position 2022 £m**	Fair value assets pledged 2021 £m	Fair value liabilities 2021 £m	Fair value net position 2021 £m
Securitisation programme – Economic Master Issuer plc	**1,803.6**	**688.7**	**1,114.9**	2,110.3	834.7	1,275.6

14. 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, this includes loans and advances to customers and mortgage pipeline commitments. Expected credit loss provisions have been deducted from the appropriate asset values on the balance sheet.

Further information on the credit quality of these loans is included in the Risk Management Report.

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Income Statement				
Charge/(release) for the year	**16.9**	(28.4)	**13.8**	(21.1)
Recoveries of amounts previously written off	**(0.3)**	(0.3)	**(0.2)**	(0.2)
Total charge/(release) to the Income Statement	**16.6**	(28.7)	**13.6**	(21.3)

The table below shows gross loans and advances to customers, ECL provision and resulting coverage ratio split by IFRS 9 stage at 31 December 2022 and at 31 December 2021 for both the Group and Society. For loans in stages 2 and 3, further analysis of accounts which are past due and not past due is also shown.

Group	**Stage 1 'Performing'**	**Stage 2 'Deteriorating'**		**Stage 3 'Default'**		
As at 31 December 2022	**£m**	**Not past due £m**	**Past due £m**	**Not past due £m**	**Past due £m**	**Total £m**
Gross balances						
Residential mortgages: owner-occupier	**25,591.5**	**2,731.7**	**65.1**	**58.2**	**82.8**	**28,529.3**
Residential mortgages: buy to let	**17,768.4**	**1,623.3**	**44.0**	**25.5**	**35.0**	**19,496.2**
Legacy lending[1]	**10.4**	**2.1**	**0.2**	**0.4**	**0.1**	**13.2**
Total	**43,370.3**	**4,357.1**	**109.3**	**84.1**	**117.9**	**48,038.7**
ECL						
Residential mortgages: owner-occupier	**3.7**	**17.1**	**0.3**	**2.5**	**1.0**	**24.6**
Residential mortgages: buy to let	**1.2**	**5.6**	**0.1**	**1.9**	**1.3**	**10.1**
Legacy lending[1]	**0.1**	**0.4**	**—**	**0.2**	**0.1**	**0.8**
Total	**5.0**	**23.1**	**0.4**	**4.6**	**2.4**	**35.5**
ECL coverage as a % of total balance						
Residential mortgages: owner-occupier	**0.01%**	**0.63%**	**0.46%**	**4.30%**	**1.21%**	**0.08%**
Residential mortgages: buy to let	**0.01%**	**0.34%**	**0.23%**	**7.45%**	**3.71%**	**0.05%**
Legacy lending[1]	**0.96%**	**19.05%**	**—**	**50.00%**	**100.00%**	**6.06%**
Total coverage	**0.01%**	**0.53%**	**0.37%**	**5.47%**	**2.04%**	**0.07%**

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.6 million has been included in residential mortgages.

Notes to the accounts Continued

14. Impairment on loans and advances to customers continued

Society As at 31 December 2022	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Past due £m	Stage 3 'Default' Not past due £m	Past due £m	Total £m
Gross balances						
Residential mortgages: owner-occupier	25,313.6	2,671.5	58.4	38.4	68.2	28,150.1
Residential mortgages: buy to let	1,358.0	95.9	5.0	3.9	4.8	1,467.6
Legacy lending[1]	6.7	1.0	0.1	0.1	0.1	8.0
Total	26,678.3	2,768.4	63.5	42.4	73.1	29,625.7
ECL						
Residential mortgages: owner-occupier	3.5	12.7	0.2	1.7	0.7	18.8
Residential mortgages: buy to let	0.1	0.4	—	0.2	0.2	0.9
Legacy lending[1]	0.1	0.2	—	—	—	0.3
Total	3.7	13.3	0.2	1.9	0.9	20.0
ECL coverage as a % of total balance						
Residential mortgages: owner-occupier	0.01%	0.48%	0.34%	4.43%	1.03%	0.07%
Residential mortgages: buy to let	0.01%	0.42%	—	5.13%	4.17%	0.06%
Legacy lending[1]	1.49%	20.00%	—	—	—	3.75%
Total coverage	0.01%	0.48%	0.31%	4.48%	1.23%	0.07%

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.5 million has been included in residential mortgages.

Group As at 31 December 2021	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Past due £m	Stage 3 'Default' Not past due £m	Past due £m	Total £m
Gross balances						
Residential mortgages: owner-occupier	25,137.0	2,040.5	54.8	57.4	72.8	27,362.5
Residential mortgages: buy to let	18,051.9	1,090.5	37.1	21.6	36.6	19,237.7
Legacy lending[1]	11.9	3.1	0.2	0.5	0.1	15.8
Total	43,200.8	3,134.1	92.1	79.5	109.5	46,616.0
ECL						
Residential mortgages: owner-occupier	1.2	5.1	—	2.2	0.7	9.2
Residential mortgages: buy to let	2.3	3.1	0.1	1.7	1.3	8.5
Legacy lending[1]	0.2	0.6	0.1	0.2	0.1	1.2
Total	3.7	8.8	0.2	4.1	2.1	18.9
ECL coverage as a % of total balance						
Residential mortgages: owner-occupier	—	0.25%	—	3.83%	0.96%	0.03%
Residential mortgages: buy to let	0.01%	0.28%	0.27%	7.87%	3.55%	0.04%
Legacy lending[1]	0.84%	19.35%	50.00%	40.00%	100.00%	6.96%
Total coverage	0.01%	0.28%	0.22%	5.16%	1.92%	0.04%

1. Relates to legacy books with no new originations since 2010.

Society

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						
Residential mortgages: owner-occupier	24,849.3	1,948.0	49.6	39.1	55.1	26,941.1
Residential mortgages: buy to let	1,437.9	113.9	3.9	6.2	5.3	1,567.2
Legacy lending[1]	7.8	1.6	0.1	0.1	0.2	9.8
Total	26,295.0	2,063.5	53.6	45.4	60.6	28,518.1
ECL						
Residential mortgages: owner-occupier	1.2	1.4	—	1.7	0.4	4.7
Residential mortgages: buy to let	0.1	0.4	—	0.3	0.2	1.0
Legacy lending[1]	0.1	0.4	—	0.1	0.1	0.7
Total	1.4	2.2	—	2.1	0.7	6.4
ECL coverage as a % of total balance						
Residential mortgages: owner-occupier	—	0.07%	—	4.35%	0.73%	0.02%
Residential mortgages: buy to let	0.01%	0.35%	—	4.84%	3.77%	0.06%
Legacy lending[1]	1.28%	25.00%	—	100.00%	50.00%	7.14%
Total coverage	0.01%	0.11%	—	4.63%	1.16%	0.02%

1. Relates to legacy books with no new originations since 2010.

At 31 December 2022, 90.3% of the Society's loans and advances to customers were within the stage 1 'performing' category (2021: 92.7%). This proportion fell during 2022 as a result of the worsening macroeconomic environment and additional risk arising from the cost of living crisis.

At the reporting date, 9.3% of loans are in stage 2 and 0.4% in stage 3 (2021: 6.9% in stage 2 and 0.4% in stage 3). Cure periods are applied to accounts in stages 2 and 3 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 a period of sustained performance before a loan is reassessed. As a result, loans can be recorded in stage 2 or stage 3 despite otherwise performing at the reporting date.

Stage 2 balances were £4,466.4 million (2021: £3,226.2 million) and of these £109.3 million or 2.4% (2021: £92.1 million, 2.9%) are in arrears by 30 days or more. At 31 December 2022, 68.1% or £3,041.1 million of the loans in stage 2 are present as a result of the SICR criteria established to reflect the cost of living affordability risk arising in the year and are the driver of the increased level of loans in stage 2. All of these accounts were paid up to date as at 31 December 2022 and remain in stage 2 as a result of indicators of increased risk.

Of the £202.0 million (2021: £189.0 million) of loans which are classified as stage 3 at the reporting date, 58.4% or £117.9 million were greater than three months in arrears (2021: 57.9%, £109.5 million), and 41.6% (£84.1 million) were paid up to date (2021: 42.1%, £79.5 million). This position deteriorated marginally in the year as a result of the moratorium on repossessions. Whilst the moratorium ceased in the prior year, it led to delays in loans which have defaulted not moving through to possession. At 31 December 2022, the number of properties which were in possession remained low; a total of £4.1 million of stage 3 loans were in possession (2021: £4.2 million), representing 27 individual properties (2021: 27 properties).

Notes to the accounts Continued

14. Impairment on loans and advances to customers continued

ECL coverage ratios

This coverage ratio (ECL provision / gross loans and advances to customers) is 7 basis points (2021: 4 basis points).

		31 Dec 2022	31 Dec 2021
Total ECL provision	£m	**35.5**	18.9
Total gross loans and advances to customers before ECL and EIR	£m	**48,038.7**	46,616.0
ECL coverage ratio	%	**0.07**	0.04

The increase in ECL in the period resulted in the coverage rising to 50.7 times (2021: 18.9 times) the gross impairment losses before recoveries in the last 12 months as shown below.

		Year ended 31 Dec 2022	Year ended 31 Dec 2021
Impairment losses before recoveries	£m	**0.7**	1.0
Total ECL provision	£m	**35.5**	18.9
ECL coverage	Years	**50.7**	18.9

Significant accounting estimates – application of post model adjustments

The table below presents the judgemental adjustments that have been recognised within the ECL provision outside of core modelled ECLs.

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
ECL before judgemental adjustments	**16.1**	9.6	**6.5**	2.7
Judgemental adjustments				
Impact of cost of living risk	**14.2**	—	**10.6**	—
Impact of Covid-19 risk	**—**	2.1	**—**	0.9
Impact of cladding risk	**2.5**	3.7	**1.8**	1.2
Other judgemental adjustments	**2.7**	3.5	**1.1**	1.6
	19.4	9.3	**13.5**	3.7
Total reported ECL	**35.5**	18.9	**20.0**	6.4

The £19.4 million (2021: £9.3 million) ECL provision recognised relating to post model adjustments (PMAs) 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 2022 is set out below.

Cost of living post model adjustment

The Group recognised a provision of £14.2 million during the year (2021: £nil) to reflect the elevated affordability pressures and payment shock risk arising as a result of the ongoing cost of living crisis. This was recognised as a PMA as the models do not satisfactorily capture all of the risks from the elevated inflationary environment.

The PMA attributes default probabilities to a cohort of customers identified as having experienced deterioration in credit quality since December 2021. The level of increased default risk applied varies depending on whether the customer has a fixed rate mortgage term end date in the next two years or not, with a higher default probability being assigned to those customer accounts who have an upcoming refinancing. Customers with a LTV below 60% are excluded from the cohort as the risk of loss on these accounts is deemed low. In applying these criteria, this captures 6.4% of total loans and advances to customers. Had the 60% LTV floor been excluded, the PMA would have increased by £2.3 million. If an increased level of default risk had not been applied to those customers with a fixed term refinancing due in the next two years, the PMA would be £7.0 million lower.

Covid-19 post model adjustment

During the year, the PMA in relation to the Covid-19 pandemic was released in full (2021: £2.1 million). The need for a PMA that reflects the affordability stress that arose due to the Covid-19 situation, that is one of loss or insufficiency of income due to pandemic restrictions and impact on businesses, is no longer present.

Cladding and other fire safety risk post model adjustment

The Group continues to recognise a provision for potential credit losses of £2.5 million (2021: £3.7 million) 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. The provision reduced in the year as updated property assessments have been received and applied to the calculation.

Other post model adjustments

At 31 December 2022, the Society held other PMAs in aggregate totalling £2.7 million (2021: £3.5 million).

This includes additional adjustments for negative equity accounts which are identified through using automated valuation models (AVM) and fraud. These additional PMAs have been included in ECLs on a consistent basis with the prior year.

A reconciliation of movements in gross exposures and ECL provision split by IFRS 9 stage from 1 January 2022 to 31 December 2022 is set out below for the Group and Society.

	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 2022	**43,200.8**	**3.7**	**3,226.2**	**9.0**	**189.0**	**6.2**	**46,616.0**	**18.9**
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	**(3,803.4)**	**(0.4)**	**3,803.4**	**2.0**	**—**	**—**	**—**	**1.6**
Transfers from Stage 1 to Stage 3	**(38.7)**	**—**	**—**	**—**	**38.7**	**0.7**	**—**	**0.7**
Transfers from Stage 2 to Stage 3	**—**	**—**	**(76.1)**	**(0.5)**	**76.1**	**0.5**	**—**	**—**
Transfers from Stage 3 to Stage 2	**—**	**—**	**28.3**	**0.2**	**(28.3)**	**(0.2)**	**—**	**—**
Transfers from Stage 3 to Stage 1	**12.3**	**—**	**—**	**—**	**(12.3)**	**(0.1)**	**—**	**(0.1)**
Transfers from Stage 2 to Stage 1	**1,993.9**	**0.1**	**(1,993.9)**	**(0.5)**	**—**	**—**	**—**	**(0.4)**
Net movement arising from transfer of stages	**(1,835.9)**	**(0.3)**	**1,761.7**	**1.2**	**74.2**	**0.9**	**—**	**1.8**
New loans originated[1]	**8,877.5**	**3.4**	**21.1**	**—**	**0.1**	**—**	**8,898.7**	**3.4**
Remeasurement of ECL due to changes in risk parameters	**—**	**1.5**	**—**	**1.2**	**—**	**1.4**	**—**	**4.1**
Increase/(decrease) in post model adjustments	**—**	**(1.6)**	**—**	**12.5**	**—**	**(0.8)**	**—**	**10.1**
Loans derecognised in the period	**(4,986.0)**	**(1.7)**	**(420.2)**	**(0.4)**	**(50.9)**	**(0.4)**	**(5,457.1)**	**(2.5)**
Other items impacting Income Statement reversal	**—**	**—**	**—**	**—**	**—**	**(0.1)**	**—**	**(0.1)**
Net write offs directly to Income Statement		**—**	**—**	**—**	**—**	**(0.2)**	**—**	**(0.2)**
Income Statement charge for the period		**1.3**		**14.5**		**0.8**		**16.6**
Repayment and charges	**(1,886.1)**	**—**	**(122.4)**	**—**	**(9.7)**	**—**	**(2,018.2)**	**—**
Net write offs and other ECL movements	**—**	**—**	**—**	**—**	**(0.7)**	**—**	**(0.7)**	**—**
At 31 December 2022	**43,370.3**	**5.0**	**4,466.4**	**23.5**	**202.0**	**7.0**	**48,038.7**	**35.5**

1. New mortgages originated in stages 2 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

14. 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 2022	26,295.0	1.4	2,117.1	2.2	106.0	2.8	28,518.1	6.4
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(2,437.8)	(0.2)	2,437.8	1.3	—	—	—	1.1
Transfers from Stage 1 to Stage 3	(17.7)	—	—	—	17.7	0.3	—	0.3
Transfers from Stage 2 to Stage 3	—	—	(45.8)	(0.3)	45.8	0.3	—	—
Transfers from Stage 3 to Stage 2	—	—	16.0	0.1	(16.0)	(0.1)	—	—
Transfers from Stage 3 to Stage 1	7.5	—	—	—	(7.5)	—	—	—
Transfers from Stage 2 to Stage 1	1,339.7	0.1	(1,339.7)	(0.2)	—	—	—	(0.1)
Net movement arising from transfer of stages	(1,108.3)	(0.1)	1,068.3	0.9	40.0	0.5	—	1.3
New loans originated[1]	6,131.5	2.8	16.3	—	0.1	—	6,147.9	2.8
Remeasurement of ECL due to changes in risk parameters	—	1.5	—	0.2	—	0.4	—	2.1
Increase/(decrease) in post model adjustments	—	(0.5)	—	10.3	—	(0.5)	—	9.3
Loans derecognised in the period	(3,015.2)	(1.4)	(261.3)	(0.1)	(23.0)	(0.1)	(3,299.5)	(1.6)
Other items impacting Income Statement reversal	—	—	—	—	—	(0.1)	—	(0.1)
Net write offs directly to Income Statement	—	—	—	—	—	(0.2)	—	(0.2)
Income Statement charge for the period		2.3		11.3		—		13.6
Repayment and charges	(1,624.7)	—	(108.5)	—	(7.3)	—	(1,740.5)	—
Net write offs and other ECL movements	—	—	—	—	(0.3)	—	(0.3)	—
At 31 December 2022	26,678.3	3.7	2,831.9	13.5	115.5	2.8	29,625.7	20.0

1. New mortgages originated in stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2021 to 31 December 2021 is set out in the following table for the Group and Society.

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 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.

Financial Statements

Notes to the accounts Continued

14. 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 charge 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.

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 2022, 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 (2021: 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 ten 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 ten 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, 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

During the period, the weightings for each scenario were reviewed and updated from those applied at 2021 year end, most notably a lower weighting assigned to the upside scenario reflecting the reduced likelihood of economic recovery and a higher weighting assigned to the downside scenario as expectations of a recessionary and higher base rate environment have become more likely.

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. Broadening inflationary pressure in services and tight labour markets are requiring central banks to maintain pressure on interest rates. This is expected to negatively impact growth in 2023, with recession risk particularly high, bringing about an increase in unemployment and reduces house prices further, as affordability constraints bite.	55%
Downside	
A deteriorating cost of living crisis driven by higher and prolonged inflation. Central banks need to increase interest rates further than currently expected, this slows the economy and significantly increases the level of unemployment and reduces house prices. The stubborn level of inflation isn't expected to return to the Bank of England's 2% target within the first five years.	25%
Severe downside	
Based on the Internal Capital Adequacy Assessment Process (ICAAP) Annual Cyclical Scenario (ACS). This scenario embodies a significant rise in inflation across advanced economies accompanied by a sharp tightening in global financial conditions, as ongoing energy supply issues combine with cost shocks in other markets. This tightening is more severe than the Global Financial Crisis and the base rate in the UK rises rapidly against a peak inflation of 17%, causing GDP to shrink. As unemployment rises considerably, house prices fall by 31% at the lowest point, before a moderate recovery begins.	10%
Upside	
Inflation dissipates more rapidly than currently expected, constraining central bank intervention and enabling a soft landing. Unemployment continues to be low and stable, and house prices continue to grow at a moderate rate.	10%

Notes to the accounts Continued

14. Impairment on loans and advances to customers continued

Macroeconomic assumptions

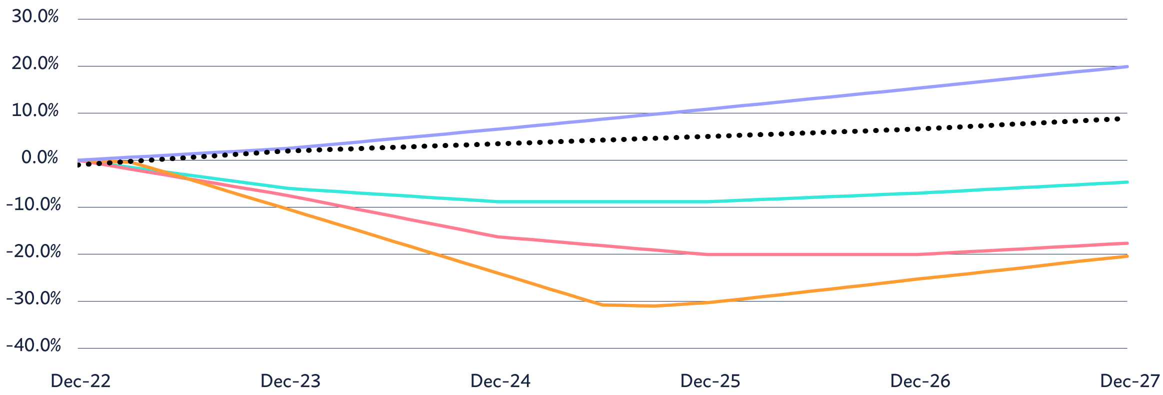
The Society's ECL calculation incorporates four key economic assumptions: unemployment rate, house price index (HPI), GDP and the Bank of England Base Rate. While all feed into the economic forecasts and impact the final ECL provision, the models are particularly sensitive to changes in the following assumptions in each scenario:

- Unemployment rate, given its impact on borrowers' ability to meet their loan repayments.
- HPI, given the significant impact it has on mortgage collateral valuations.

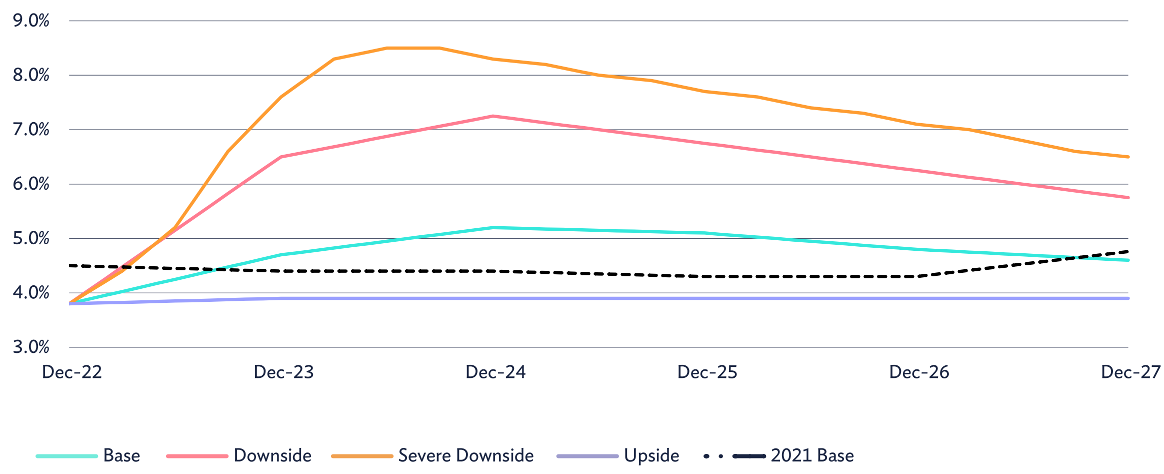
In the current year, inflation impacts are now reflected within all four scenarios as the effect has become embedded within economic forecasts.

The following graphs and table show these two key economic assumptions used in the scenarios over a five year forecast period:

House Price Index (%)



Unemployment rate (%)



		31 December 2022			31 December 2021		
		Weighting	Unemployment %	HPI %	Weighting	Unemployment %	HPI %
Base	2023	55%	4.7	(6.0)	55%	4.5	(1.0)
	2024		5.2	(3.0)		4.4	3.0
Downside	2023	25%	6.5	(7.5)	20%	8.0	(10.0)
	2024		7.3	(9.5)		7.5	(5.0)
Severe Downside	2023	10%	7.6	(10.4)	10%	11.9	(25.9)
	2024		8.3	(15.2)		10.0	(1.3)
Upside	2023	10%	3.9	2.5	15%	4.3	2.5
	2024		3.9	4.0		4.0	4.0

Key economic assumptions as at 31 December 2022

While the Society's ECL calculation is particularly sensitive to unemployment and HPI movements, GDP and the Bank of England Base 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		2023 %	2024 %	2025 %	2026 %	2027 %	Peak to trough %	Range %	Average to 31 Dec 2027 %[1]
Base 55%	Unemployment	4.7	5.2	5.1	4.8	4.6	1.3	3.9 - 5.2	4.8
	HPI	(6.0)	(3.0)	0.0	2.0	2.5	8.3	(8.8) - (0.5)	(1.0)
	GDP	(0.7)	1.0	1.5	1.5	1.7	5.8	(0.7) - 5.0	1.0
	Base rate	4.00	4.00	3.50	3.50	3.50	0.50	3.50 - 4.00	3.7
Downside 25%	Unemployment	6.5	7.3	6.8	6.3	5.8	3.2	4.0 - 7.3	6.3
	HPI	(7.5)	(9.5)	(4.5)	0.0	3.0	19.4	(20.1) - (0.6)	(3.8)
	GDP	(2.5)	0.0	1.3	1.3	1.4	4.0	(2.5) - 1.5	0.3
	Base rate	5.00	5.00	4.50	4.25	4.00	1.50	3.50 - 5.00	4.40
Severe downside 10%	Unemployment	7.6	8.3	7.7	7.1	6.5	4.5	4.0 - 8.5	7.2
	HPI	(10.4)	(15.2)	(8.3)	7.2	6.6	30.9	(31.0) - 0.1	(4.5)
	GDP	(5.0)	1.2	1.2	1.2	1.2	4.9	(5.0) - (0.1)	(0.1)
	Base rate	6.00	5.75	5.00	4.25	3.25	2.75	3.25 - 6.00	4.90
Upside 10%	Unemployment	3.9	3.9	3.9	3.9	3.9	0.1	3.81 - 3.9	3.9
	HPI	2.5	4.0	4.0	4.0	4.0	19.7	0.2 - 19.9	3.7
	GDP	4.0	3.0	2.8	3.2	3.2	16.9	0.3 - 17.3	3.2
	Base rate	3.50	3.50	3.00	3.00	3.00	0.50	3.50 - 3.50	3.20

1. HPI change and GDP change average to 31 December 2027 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 the unemployment rate 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 £8.1 million, or 22.8% (2021: £4.6 million, 24.3%) compared with the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £26.0 million or 73.2% (2021: £29.4 million 155.6%).

	31 December 2022		31 December 2021	
Scenario	IFRS 9 provision £m	(Decrease)/ increase %	IFRS 9 provision £m	(Decrease)/ increase %
IFRS 9 weighted average	35.5	—	18.9	—
Base scenario	27.4	(22.8)	14.3	(24.3)
Downside scenario	43.6	22.8	27.5	45.5
Severe downside scenario	61.5	73.2	48.3	155.6
Upside scenario	13.3	(62.5)	12.2	(35.4)

Notes to the accounts Continued

14. Impairment on loans and advances to customers continued

31 December 2022	Scenarios				
	Weighted	Base	Downside	Severe Downside	Upside
Stage 1 Gross balances (£m)	**43,370.3**	**43,756.6**	**43,316.5**	**43,240.4**	**45,151.8**
Stage 1 ECL (£m)	**5.0**	**3.3**	**5.7**	**10.7**	**1.3**
Stage 1 ECL coverage (%)	**0.01%**	**0.01%**	**0.01%**	**0.02%**	**—%**
Stage 2 Gross balances (£m)	**4,466.4**	**4,080.1**	**4,520.2**	**4,596.3**	**2,684.9**
Stage 2 ECL (£m)	**23.5**	**17.5**	**30.3**	**42.0**	**6.5**
Stage 2 ECL coverage (%)	**0.53%**	**0.43%**	**0.67%**	**0.91%**	**0.24%**
Stage 3 Gross balances (£m)	**202.0**	**202.0**	**202.0**	**202.0**	**202.0**
Stage 3 ECL (£m)	**7.0**	**6.6**	**7.6**	**8.8**	**5.5**
Stage 3 ECL coverage (%)	**3.47%**	**3.27%**	**3.76%**	**4.36%**	**2.72%**
Total Gross balances (£m)	**48,038.7**	**48,038.7**	**48,038.7**	**48,038.7**	**48,038.7**
Total ECL (£m)	**35.5**	**27.4**	**43.6**	**61.5**	**13.3**
Total ECL coverage (%)	**0.07%**	**0.06%**	**0.09%**	**0.13%**	**0.03%**

31 December 2021	Scenarios				
	Weighted	Base	Downside	Severe Downside	Upside
Stage 1 Gross balances (£m)	43,200.8	43,249.0	43,129.9	43,103.2	43,227.6
Stage 1 ECL (£m)	3.7	1.6	5.7	19.5	1.0
Stage 1 ECL coverage (%)	0.01%	—	0.01%	0.05%	—
Stage 2 Gross balances (£m)	3,226.2	3,178.0	3,297.1	3,323.8	3,199.4
Stage 2 ECL (£m)	9.0	6.8	14.7	21.7	5.6
Stage 2 ECL coverage (%)	0.28%	0.21%	0.45%	0.65%	0.18%
Stage 3 Gross balances (£m)	189.0	189.0	189.0	189.0	189.0
Stage 3 ECL (£m)	6.2	5.9	7.1	7.1	5.6
Stage 3 ECL coverage (%)	3.28%	3.12%	3.76%	3.76%	2.96%
Total Gross balances (£m)	46,616.0	46,616.0	46,616.0	46,616.0	46,616.0
Total ECL (£m)	18.9	14.3	27.5	48.3	12.2
Total ECL coverage (%)	0.04%	0.03%	0.06%	0.10%	0.03%

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, but 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%.

Sensitivity assessment

As at 31 December 2022, a decrease to the annual HPI assumption by 10% combined with an increase in the unemployment rate assumption of 10% throughout the forecast period would have the impact of increasing the core modelled ECL provision by £24.9 million to £60.4 million.

Other credit risk information

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)	2022 Stage 2 balance £m	2022 Provision lifetime ECL £m	2022 Total £m	2021 Stage 2 balance £m	2021 Provision lifetime ECL £m	2021 Total £m
Quantitative criteria	**505.7**	**(1.8)**	**503.9**	484.0	(1.0)	483.0
Backstop criteria (arrears of one monthly payment)	**167.6**	**(0.2)**	**167.4**	145.5	(0.1)	145.4
Forbearance applied	**15.5**	**—**	**15.5**	59.5	(0.1)	59.4
Other qualitative criteria	**3,777.6**	**(21.5)**	**3,756.1**	2,537.2	(7.8)	2,529.4
Total	**4,466.4**	**(23.5)**	**4,442.9**	3,226.2	(9.0)	3,217.2

As at 31 December 2022, 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 cost of living affordability risk totalling £3,041 million (2021: Covid 19 pandemic risk, £1,885 million). Other balances relate to accounts which have missed direct debit payments or county court judgements. See note 1 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 reduced slightly during 2022, with 91% of the mortgage book having an LTV of 75% or lower (2021: 93%). The increase in the higher LTV bandings was driven by increased lending in this area in the year, including first time buyers. However, the overall average LTV (balance weighted) of the book increased marginally from 50.9% to 51.0% during the year. This is shown by IFRS 9 stage below:

As at 31 December 2022 Indexed loan to value (Audited)	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
<50%	**21,086.7**	**639.6**	**108.4**	**(1.7)**	**21,833.0**
50% to 65%	**13,991.3**	**1,607.8**	**63.3**	**(7.9)**	**15,654.5**
65% to 75%	**4,873.0**	**1,513.6**	**21.4**	**(9.7)**	**6,398.3**
75% to 85%	**2,198.7**	**573.6**	**4.7**	**(8.3)**	**2,768.7**
85% to 90%	**603.2**	**117.3**	**1.0**	**(2.7)**	**718.8**
90% to 95%	**468.1**	**12.0**	**0.8**	**(1.0)**	**479.9**
95% to 100%	**137.8**	**0.8**	**—**	**(0.2)**	**138.4**
> 100%	**1.1**	**0.4**	**2.1**	**(1.2)**	**2.4**
Unsecured loans	**10.4**	**1.3**	**0.3**	**(0.6)**	**11.4**
Mortgage pipeline	**—**	**—**	**—**	**(0.6)**	**(0.6)**
Other[1]	**—**	**—**	**—**	**(1.6)**	**(1.6)**
Total	**43,370.3**	**4,466.4**	**202.0**	**(35.5)**	**48,003.2**

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 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.

Notes to the accounts Continued

14. Impairment on loans and advances to customers continued

The credit quality of the mortgage book remains high, and performance continues to be strong.

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 the IRB approach. Further information on SICR criteria and the differences between the IFRS 9 ECL calculation and regulatory expected losses can be found in 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. Impairments reflected in all PD bands in the year have increased, whilst any post model adjustments (PMAs) applied as a result of the Covid-19 pandemic have now been removed, further adjustments have been made to represent the affordability stress which is brought by the cost of living crisis. More information on PMAs is outlined on pages 162 to 163.

As at 31 December 2022 Risk grades (Audited)	Average lifetime Probability of default (%)	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
Performing						
A-C	**0.23%**	**38,840.2**	**2,467.2**	**—**	**(10.6)**	**41,296.8**
D-F	**2.28%**	**4,316.2**	**1,620.8**	**—**	**(9.7)**	**5,927.3**
G-J	**21.90%**	**46.6**	**343.9**	**—**	**(2.0)**	**388.5**
Non-performing						
K	**43.72%**	**—**	**16.8**	**—**	**(0.2)**	**16.6**
Default and possession	**100.00%**	**—**	**—**	**197.5**	**(5.3)**	**192.2**
Other[1]	**Not applicable**	**167.3**	**17.7**	**4.5**	**(7.1)**	**182.4**
Mortgage pipeline	**Not applicable**	**—**	**—**	**—**	**(0.6)**	**(0.6)**
Total		**43,370.3**	**4,466.4**	**202.0**	**(35.5)**	**48,003.2**

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 31 December 2021 Risk grades (Audited)	Average lifetime 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.

15. Taxation

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Current tax				
UK corporation tax	**71.4**	45.9	**50.8**	28.5
UK corporation tax – adjustment in respect of prior years	**2.7**	(2.4)	**2.5**	(2.2)
Total current tax	**74.1**	43.5	**53.3**	26.3
Deferred tax				
Current year	**9.3**	(3.0)	**8.1**	(2.0)
Adjustment in respect of prior years	**0.9**	1.5	**0.9**	1.5
Total deferred tax	**10.2**	(1.5)	**9.0**	(0.5)
Total	**84.3**	42.0	**62.3**	25.8

A reconciliation between the actual tax expense and tax that would be due if the UK standard corporation tax rate of 19.0% (2021: 19.0%) was applied to the profit before tax without adjustment is as follows:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit before tax	**370.5**	232.8	**261.6**	140.8
Expected tax at UK standard rate of corporation tax of 19.0% (2021: 19.0%)	**70.4**	44.2	**49.7**	26.8
Recurring items				
Surcharge on banking profits[1]	**13.5**	7.0	**13.5**	7.0
Tax credit on Additional Tier 1 capital distribution[2]	**(5.4)**	(5.4)	**(5.4)**	(5.4)
Expenses not deductible for tax purposes[3]	**(7.1)**	0.1	**(7.0)**	0.1
Non-recurring items				
Adjustments in respect of prior years (current tax)[4]	**2.7**	(2.4)	**2.5**	(2.2)
Other (current tax)	**—**	—	**—**	—
Total current tax	**74.1**	43.5	**53.3**	26.3
Movements in deferred taxes	**9.5**	(3.3)	**8.3**	(2.4)
Adjustments in respect of prior years (deferred tax)[4]	**0.9**	1.5	**0.9**	1.5
Deferred tax arising from rate change	**(0.2)**	0.3	**(0.2)**	0.4
Total	**84.3**	42.0	**62.3**	25.8

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 3. 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 the prior year's Balance Sheet and the final tax charge calculated upon completion of the prior year's corporation tax return.

The effective tax rate for the year is 22.8% (2021: 18.0%) for the Group and 23.8% (2021: 18.3%) for the Society. The effective tax rates for 2022 are above the UK standard corporation tax rate due to the £13.5 million (2021: £7.0 million) surcharge on banking profits, offset by the £5.4 million (2021: £5.4 million) tax credit in relation to distributions to holders of the Group's AT 1 instrument and higher timing differences on treatment of cash flow hedge movements, which are not deductible for tax purposes.

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 liabilities at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences.

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). This was substantively enacted on 2 February 2022 and 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%. The deferred tax liabilities at 31 December 2022 have been calculated on these rates, reflecting the expected timing of reversal of the related timing differences (31 December 2021: 8%).

The Society publishes its tax strategy on the website at www.thecoventry.co.uk.

Notes to the accounts Continued

15. Taxation continued

Tax on items reported through the Statements of Comprehensive Income is as follows:

Statements of Comprehensive Income	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Tax (credit)/ charge on remeasurement of defined benefit pension scheme	**(7.5)**	5.7	**(7.5)**	5.7
Tax charge on fair value through other comprehensive income movements	**—**	0.9	**—**	0.9
Tax charge on cash flow hedges	**93.2**	27.3	**98.4**	20.2
Effect of change in corporation tax rate	**2.1**	0.7	**2.2**	0.5
Total	**87.8**	34.6	**93.1**	27.3

16. Investment in Group undertakings

Society	Shares £m	Loans £m	Total £m
At 1 January 2022	**8.0**	**17,544.7**	**17,552.7**
Additions	**—**	**327.0**	**327.0**
At 31 December 2022	**8.0**	**17,871.7**	**17,879.7**

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

The nature and risks associated with the Society's investments in these entities (including obligations of financial support) are disclosed in note 13.

Consolidated entities	Registered office
Godiva Mortgages Limited	Coventry House, Harry Weston Road, Binley, Coventry CV3 2TQ
ITL Mortgages Limited	Coventry House, Harry Weston Road, Binley, Coventry, CV3 2TQ
Coventry Building Society Covered Bonds LLP	Oak Tree Court, Harry Weston Road, Binley, Coventry CV3 2UN
Coventry Godiva Covered Bonds LLP	Oakfield House, Harry Weston Road, Coventry CV3 2TQ
Economic Master Issuer plc	10th Floor 5 Churchill Place, London E14 5HU

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 2022 £m	Internally developed 2022 £m	Total 2022 £m	Externally acquired 2021 £m	Internally developed 2021 £m	Total 2021 £m
Cost						
At 1 January	**14.6**	**90.2**	**104.8**	15.4	80.1	95.5
Additions	**0.2**	**19.8**	**20.0**	0.8	13.9	14.7
Retirements	**(12.3)**	**(39.4)**	**(51.7)**	(1.6)	(3.8)	(5.4)
At 31 December	**2.5**	**70.6**	**73.1**	14.6	90.2	104.8
Amortisation						
At 1 January	**11.7**	**57.4**	**69.1**	11.8	49.8	61.6
Charge for the year	**1.1**	**10.7**	**11.8**	1.5	11.0	12.5
Retirements	**(12.3)**	**(38.8)**	**(51.1)**	(1.6)	(3.4)	(5.0)
At 31 December	**0.5**	**29.3**	**29.8**	11.7	57.4	69.1
Net book value at 31 December	**2.0**	**41.3**	**43.3**	2.9	32.8	35.7

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 2022 include £0.9 million and £6.6 million respectively (2021: externally acquired £0.9 million, internally developed £6.1 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 2022	**20.9**	**84.2**	**33.4**	**138.5**
Additions	**—**	**6.7**	**2.3**	**9.0**
Disposals	**(2.6)**	**(31.0)**	**(7.8)**	**(41.4)**
At 31 December 2022	**18.3**	**59.9**	**27.9**	**106.1**
Depreciation				
At 1 January 2022	**5.4**	**43.1**	**13.9**	**62.4**
Charge for the year	**0.8**	**10.9**	**5.2**	**16.9**
Depreciation on disposals	**(2.1)**	**(28.0)**	**(6.3)**	**(36.4)**
At 31 December 2022	**4.1**	**26.0**	**12.8**	**42.9**
Net book value at 31 December 2022	**14.2**	**33.9**	**15.1**	**63.2**

Right-of-use assets additions includes new leases entered into during the year and additions related to lease modifications following changes in lease agreements during the period. These changes 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:	2022 Total £m	2021 Total £m
Property	**11.9**	14.8
Enhanced data infrastructure	**2.5**	3.0
Cars and leased equipment	**0.7**	1.7
Total	**15.1**	19.5

Notes to the accounts Continued

18. Property, plant and equipment continued

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 net book value of land and buildings owned by the Society, and occupied by the Group for its own activities is shown below. This therefore excludes any right-of-use assets.

Group and Society	**2022 £m**	2021 £m
At 31 December	**14.2**	15.5

19. Pension scheme

The Society operates both a funded defined benefit and a defined contribution pension scheme.

Defined benefit obligations

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 remains ongoing at the year end and the latest valuation will be updated as part of the next triennial update due to be completed later in 2023.

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 2022 (2021: £nil). There have been no further deficit contributions in 2022 (2021: £nil) and none are planned ahead of the next actuarial valuation. The Society continues to meet the Scheme's expenses through contributions, including levies to the Pension Protection Fund.

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.

Overall, the surplus has fallen from £29.3 million at 31 December 2021 to £3.3 million at 31 December 2022. Interest rates have risen during the year, which has impacted the discount rate used to calculate the liability position, alongside rises in implied inflation rate assumptions and asset valuation movements.

The Fund assets include investments in Liability Driven Investment (LDI funds). Each fund holds a portfolio of assets which are sensitive to changes in interest rates and/ or inflation expectations. The particular funds chosen are selected so that, when combined, the value of the Fund's assets are expected to move proportionately to that of the liabilities for a given change in interest rates and/or inflation expectations. 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 and 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 also limit the exposure to each counterparty to 30% of each LDI fund's overall exposure.

The latest 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 2022 by a qualified actuary, independent of the Scheme's 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 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	2022 £m	2021 £m
Present value of funded obligation	**(157.4)**	(235.1)
Fair value of plan assets	**160.7**	264.4
Funded status/pension benefit surplus	**3.3**	29.3

Group and Society	2022 £m	2021 £m
Present value of obligation		
As at 1 January	**(235.1)**	(250.2)
Past service cost	**1.0**	—
Loss on settlements	**(0.2)**	—
Interest expense	**(4.2)**	(5.6)
Benefit payments from plan assets	**7.3**	5.9
Settlement payments from plan assets	**2.0**	—
Remeasurements:		
Effects of changes in demographic assumptions	**(1.7)**	(2.2)
Effects of changes in financial assumptions	**99.3**	5.0
Effects of experience adjustments	**(25.8)**	12.0
As at 31 December	**(157.4)**	(235.1)
Fair value of plan assets		
As at 1 January	**264.4**	259.9
Interest income	**4.7**	3.7
Employer contributions	**0.2**	0.2
Benefit payments from plan assets	**(7.3)**	(5.9)
Settlement payments from plan assets	**(1.9)**	—
Return on assets	**(99.4)**	6.5
As at 31 December	**160.7**	264.4
Pension benefit surplus	**3.3**	29.3
The movement in the Pension Benefit Surplus is analysed below:		
Pension benefit surplus as at 1 January	**29.3**	9.7
Amount recognised in the income statement	**1.3**	(1.9)
Employer contributions	**0.2**	0.2
Remeasurement (loss)/ gain	**(27.5)**	21.3
Pension benefit surplus as at 31 December	**3.3**	29.3

Notes to the accounts Continued

19. Pension scheme continued

Group and Society	2022 £m	2021 £m
Amount recognised in Other comprehensive income:		
Return on plan assets	**(99.4)**	6.5
Effect of changes in demographic assumptions	**(1.7)**	(2.2)
Effect of changes in financial assumptions	**99.3**	5.0
Effect of experience adjustments	**(25.8)**	12.0
Remeasurement (loss)/ gain of pension benefit surplus	**(27.5)**	21.3
Amount recognised in the Income Statement:		
Past service cost	**1.0**	—
Loss on settlements	**(0.2)**	—
Interest expense on defined benefit obligation	**(4.2)**	(5.6)
Interest income on plan assets	**4.7**	3.7
Net interest income/(expense)	**1.3**	(1.9)

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:

Group and Society	2022 £m	2021 £m
Quoted		
Corporate bonds and liability matching	**75.0**	153.3
Diversified growth funds	**1.1**	9.8
Direct lending	**7.1**	9.5
Equities	**—**	1.1
Cash	**2.1**	6.8
Unquoted		
Corporate bonds and liability matching	**42.6**	49.3
Property	**32.8**	34.6
Total	**160.7**	264.4

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligation at	2022 %	2021 %
Discount rate	**5.00**	1.80
Rate of pensionable salary increase	**—**	—
Rates of inflation (Retail Prices Index)	**3.15**	3.25
Rates of inflation (Consumer Prices Index)	**2.46**	2.53

Weighted average assumptions used to determine net pension cost for the year ended	2022 %	2021 %
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

Throughout 2022,short-term inflation has been much higher than the long term inflation assumption allowed for in the calculation of scheme obligations. As such an increase to scheme obligations of £15.7m has arisen during the year to allow for known inflation up to the balance sheet date.

Weighted average life expectancy for mortality tables used to determine benefit obligation at	2022 Male	2022 Female	2021 Male	2021 Female
Member age 60 (current life expectancy)	**26.7**	**29.3**	26.5	28.4
Member age 45 (life expectancy at age 60)	**27.8**	**30.4**	27.3	29.3

The assumptions on mortality are 101% of the actuarial table known as the S3PxA table with CMI 2021 projections with a 1.00% p.a. long-term improvement rate (2021: 101% S3PMA /S3PFA with CMI 2020 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	**1.00%**	**(12.0)**	**(18.9)**	**14.9**	**23.5**
Rates of inflation (Retail Prices Index and Consumer Prices Index)	**0.25%**	**1.8**	**2.9**	**(1.9)**	**(3.0)**
Life expectancy	**1 year**	**2.4**	**3.7**	**(2.5)**	**(4.0)**

The average duration of the defined benefit obligation at the period ended 31 December 2022 is 14 years (2021: 22 years). The average duration has reduced in the year due to the increase in discount rate applied in 2022 reflecting changes to corporate bond interest rates.

20. Deferred tax

Deferred tax assets and liabilities are attributable to the following items:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Deferred tax liabilities/ (assets)				
Cash flow hedges	**106.4**	10.2	**109.2**	7.7
Other derivatives	**5.8**	(5.5)	**4.6**	(5.5)
Defined benefit pension scheme surplus	**0.8**	9.6	**0.8**	9.6
Transfer of engagements – fair value adjustments	**0.1**	0.1	**—**	0.1
Investment in equity shares	**0.4**	0.7	**0.4**	0.7
Fair value through other comprehensive income	**1.8**	2.0	**1.8**	2.0
Excess of capital allowances over depreciation	**(6.3)**	(4.6)	**(6.3)**	(4.6)
Provisions	**(0.7)**	(0.6)	**(0.7)**	(0.6)
IFRS 16 transitional adjustments	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Pension fund special contribution	**—**	(0.3)	**—**	(0.3)
Research and development intangible assets	**3.5**	2.0	**3.5**	2.0
Total	**111.7**	13.4	**113.2**	10.9

Deferred tax liabilities have been offset against deferred tax assets in the balance sheet as it is deemed there is a legal right of offset.

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 2022 reflect tax rates enacted or substantively enacted at the balance sheet date. The main rate of corporation tax of 25% was substantively enacted by the Finance Bill 2021 on 24 February 2022.

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 (2021: £5,250.0 million) drawn down against the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME).

Deposits from banks also includes £251.8 million (2021: £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 13) at 31 December 2022.

Notes to the accounts Continued

22. Debt securities in issue

The change in debt securities issued by the Group is as follows:

2022 Group	Opening £m	Cash flows £m	Non-cash flows Foreign exchange movements £m	Non-cash flows Change in accrued interest £m	Non-cash flows Amortisation £m	Closing £m
Medium term notes	**1,856.5**	**(400.0)**	**—**	**(6.2)**	**1.6**	**1,451.9**
Covered bonds	**2,565.0**	**434.6**	**89.3**	**8.6**	**2.1**	**3,099.6**
Residential Mortgage Backed Securities	**830.8**	**(140.2)**	**—**	**0.3**	**0.8**	**691.7**
Total	**5,252.3**	**(105.6)**	**89.3**	**2.7**	**4.5**	**5,243.2**

2021 Group	Opening £m	Cash flows £m	Non-cash flows Foreign exchange movements £m	Non-cash flows Change in accrued interest £m	Non-cash flows 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

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 £2.0 million (2021: £2.8 million) associated to the set up of structured entities and subsequent issuances.

In September 2022, the Society issued €500.0 million of external covered bonds secured by Coventry Building Society Covered Bonds LLP.

Coventry Godiva Covered Bonds LLP issued £2.0 billion internal covered bonds in the year, which are retained by the Group.

The Society's change in liabilities from financing activities is the same as the Group's, other than they exclude Residential Mortgage Backed Securities (issued by Economic Master Issuer plc, a consolidated structured entity).

Debt securities in issue are repayable in the ordinary course of business as follows:

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
Accrued interest	**17.8**	15.0	**17.5**	15.0
Other debt securities				
In not more than one year	**1,659.5**	399.8	**1,449.6**	399.8
In more than one year	**3,565.9**	4,837.5	**3,082.4**	4,003.8
Total	**5,243.2**	5,252.3	**4,549.5**	4,418.6

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 the 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.

	2022			2021		
Group	**Notional amount £m**	**Fair value assets £m**	**Fair value liabilities £m**	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:						
Interest rate risk	**48,205.1**	**2,166.1**	**579.5**	44,656.3	374.0	153.5
Derivatives designated as cash flow hedges:						
Interest rate risk	**7,129.3**	**81.5**	**31.7**	3,125.4	22.9	1.0
Foreign exchange risk[1]	**1,952.1**	**23.4**	**9.0**	1,518.0	—	56.3
Foreign exchange and interest rate risk[1]	**—**	**—**	**—**	—	—	—
Other derivatives:						
Interest rate risk	**549.0**	**7.1**	**6.3**	2,495.0	9.4	9.0
Total derivatives	**57,835.5**	**2,278.1**	**626.5**	51,794.7	406.3	219.8

1. Cash flows are expected to occur over a six year period (2021: seven).

	2022			2021		
Society	**Notional amount £m**	**Fair value assets £m**	**Fair value liabilities £m**	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:						
Interest rate risk	**48,205.1**	**2,166.1**	**579.5**	44,656.3	374.0	153.5
Derivatives designated as cash flow hedges:						
Interest rate risk	**7,129.3**	**81.5**	**31.7**	3,125.4	22.9	1.0
Foreign exchange risk	**—**	**—**	**—**	—	—	—
Foreign exchange and interest rate risk	**—**	**—**	**—**	—	—	—
Other derivatives						
Interest rate basis swaps	**549.0**	**7.1**	**6.3**	2,495.0	9.4	9.0
Total derivatives	**55,883.4**	**2,254.7**	**617.5**	50,276.7	406.3	163.5

Financial Statements

Notes to the accounts Continued

23. Derivative financial instruments continued

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 2022. Derivative contractual maturities are included in the Risk Management Report.

The following table contains details of fair value hedged exposures at 31 December 2022:

	Maturity				
2022 Group	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	**1,198.6**	**1,547.8**	**18,129.0**	**31,354.4**	**3,853.7**
Average fixed interest rate	**1.0%**	**0.4%**	**1.7%**	**1.6%**	**3.0%**
Foreign exchange risk:					
Contract/ notional amount	**—**	**—**	**—**	**1,306.7**	**645.4**
Average fixed interest rate	**—**	**—**	**—**	**2.6%**	**1.0%**
Average £/€ exchange rate	**—**	**—**	**—**	**0.9**	**0.9**

	Maturity				
2022 Society	Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/ notional amount	**1,198.6**	**1,547.8**	**18,129.0**	**31,354.4**	**3,853.7**
Average fixed interest rate	**1.0%**	**0.4%**	**1.7%**	**1.6%**	**3.0%**
Foreign exchange risk:					
Contract/ notional amount	**—**	**—**	**—**	**—**	**—**
Average fixed interest rate	**—**	**—**	**—**	**—**	**—**
Average £/€ exchange rate	**—**	**—**	**—**	**—**	**—**

	Maturity				
2021 Group	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	—	—	—	0.87	0.86

	Maturity				
2021 Society	Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
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	—	—	—	—	—

Hedged items

The following table contains details of fair value hedged exposures at 31 December 2022:

2022 Group and Society	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges:				
Interest rate[1,2]	**41,740.2**	**(18,940.5)**	**(1,647.8)**	**452.5**

2021 Group and Society	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges:				
Interest rate[1,2]	39,901.4	(16,657.0)	(290.1)	96.1

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 following tables provide additional information on cash flow hedges for 2022:

2022 Group	Changes in Fair Value			Amounts reclassified from reserves to Income Statement		
	Hedging derivative £m	Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Hedged cash flows will no longer occur £m	Hedged item for affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	**73.5**	**73.2**	**73.2**	**—**	**92.1**	**0.3**
Foreign exchange and interest rate	**—**	**—**	**—**	**—**	**—**	**—**
Interest rate	**424.3**	**394.3**	**394.3**	**29.7**	**—**	**30.0**

1. Ineffectiveness is shown in note 8 Net gains from derivatives and hedge accounting.

2021 Group	Changes in Fair Value			Amounts reclassified from reserves to Income Statement		
	Hedging derivative £m	Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Hedged cash flows will no longer occur £m	Hedged item 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.

As at 31 December 2022, balances remaining in the cash flow hedge reserve, gross of tax, are £38.1 million credit for continuing hedges and £345.1 million credit for discontinued hedges (2021: 52.4 million credit, £5.7 million credit respectively).

Notes to the accounts Continued

23. Derivative financial instruments continued

2022 Society	Changes in Fair Value: Hedging derivative £m	Changes in Fair Value: Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement: Hedged cash flows will no longer occur £m	Amounts reclassified from reserves to Income Statement: Hedged item 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	**424.3**	**394.3**	**394.3**	**29.7**	**—**	**30.0**

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

2021 Society	Changes in Fair Value: Hedging derivative £m	Changes in Fair Value: Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement: Hedged cash flows will no longer occur £m	Amounts reclassified from reserves to Income Statement: Hedged item 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.

24. Provisions for liabilities and charges

During the normal course of business, the Group receives complaints from customers in relation to past sales and ongoing administration. The Group is also subject to enquiries from and discussions with its regulators, including the Financial Ombudsman Service (FOS), on a range of matters.

As at 31 December 2022, £0.4 million (2021: £0.4 million) is recognised as a provision in respect of such redress matters.

The Group continues to monitor ongoing legal cases and makes assessment on potential exposure based on available information and expected outcomes. 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. Therefore there are no matters which require disclosure as a contingent liability at the balance sheet date.

25. Subordinated liabilities

Group and Society	2022 £m	2021 £m
Subordinated liabilities owed to note holders are as follows:		
Fixed rate subordinated notes 2032 – 7.54%	**15.4**	15.3
Total	**15.4**	15.3

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.

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	2022 £m	2021 £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 which 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 Perpetual Capital Securities (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 2022, coupon payments of £28.5 million (2021: £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 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Undrawn mortgage loan facilities	**23.1**	26.2	**23.1**	26.2

In addition, the Group has also committed to advance £2,292.9 million (2021: £2,079.6 million) in respect of loans and advances to customers for mortgages which have been approved but not completed.

29. Other liabilities and capital commitments

Capital commitments

Group and Society	2022 £m	2021 £m
Capital expenditure contracted but not provided for in the accounts	**0.8**	2.9

Other liabilities

Items presented on the Balance Sheet within other liabilities as shown below:

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Other taxation and social security	**5.9**	7.4	**5.9**	7.4
Lease liabilities	**19.5**	22.6	**19.5**	22.6
Other creditors	**5.1**	4.7	**5.1**	4.7
Amounts due to connected undertakings	**—**	—	**647.3**	783.0
Total	**30.5**	34.7	**677.8**	817.7

Amounts due to connected undertakings reflects the deemed loan to Economic Master Issuer plc on consolidation.

Notes to the accounts Continued

29. Other liabilities and capital commitments continued

Lease liabilities

The table below shows the maturity profile of the gross contractual cash flows, including interest charge, of the lease liabilities held at 31 December 2022. This analysis differs from the lease liabilities balance, above which represents the discounted future cash flows of the operations.

Group and Society	2022 £m	2021 £m
Amounts falling due:		
Less than three months	**1.3**	1.3
Greater than three months and less than one year	**3.8**	3.9
Between one and five years	**12.0**	14.5
After five years	**3.3**	4.1
Total	**20.4**	23.8

The Society has elected to adopt the exemption for short-term leases or leases of low value, and these leases are recognised in the Income Statement as an expense. In 2022 the total expense for these items was £nil (2021: £0.1 million).

Variable lease payments are not included as lease liabilities and are expensed as incurred, and they amount to £0.4 million for the year (2021: £0.4 million).

The Society sublets three (2021: 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 £18,379.4 million (2021: £18,068.6 million) of loans and advances to customers with a fair value of £14,560.3 million (2021: £17,895.9 million) and £10.7 million (2021: £nil) of deposits from banks with a fair value of £10.7 million (2021: £nil) which are held in subsidiaries of the Society. The Society includes within Loans and advances to financial institutions a balance of £nil (2021: £nil) held in collateral accounts relating to swap agreements held in securitisation programmes which are eliminated at Group level. At the year end, the Society held a deposit within Amounts owed to other customers of £114.0 million (2021: £96.8 million) which was a cash deposit from subsidiaries eliminated at Group level.

Group	2022 Carrying amount £m	2022 Fair value Total £m	2021 Carrying amount £m	2021 Fair value Total £m
Financial assets				
Loans and advances to credit institutions	**622.8**	**622.8**	295.8	295.7
Loans and advances to customers	**48,014.3**	**41,547.0**	46,620.6	46,285.0
Debt securities	**6.2**	**5.5**	6.6	6.2
Financial liabilities				
Shares	**42,288.7**	**38,371.1**	39,890.2	39,890.3
Deposits from banks	**7,542.9**	**7,542.8**	6,040.2	6,040.6
Other deposits	**5.0**	**5.0**	5.0	5.0
Amounts owed to other customers	**416.1**	**415.9**	609.8	607.8
Debt securities in issue	**5,243.2**	**4,935.8**	5,252.3	5,273.1
Subordinated liabilities	**15.4**	**17.5**	15.3	20.9
Subscribed capital	**41.6**	**62.5**	41.6	85.2

Loans and advances to credit institutions

The fair value of loans and advances to credit institutions over the longer term is estimated by discounting expected cash flows at a market discount rate. Amounts maturing in the short term are valued at carrying amount.

Loans and advances to customers

The fair value of loans and advances to customers is assessed as the value of the expected future cash flows, projected using contractual interest payments and repayments and the expected prepayment behaviour of borrowers.

Conservative assumptions are applied regarding expected levels of customer prepayments and the risk of defaults.

The estimated future cash flows are discounted at current market rates for the loan types and adjusted where necessary to reflect any observable market conditions.

Debt securities

Debt securities for which no market price or executable bid is available at the year end date are valued by one of two methods. Where there are recent market prices or executable bids for the security, these are used as the basis for establishing a year end valuation. Otherwise, a security is valued based on its relative value to comparable bonds.

Shares

The fair value of shares available on demand approximates to the carrying value. The fair value of fixed term or restricted access deposits is determined from the estimated projected cash flows discounted at the current market rates for those types of deposit.

Deposits from banks, other deposits and amounts owed to other customers

The fair value of deposits taken from wholesale counterparties over the longer term is estimated by discounting expected cash flows at a market discount rate. Amounts maturing in the short term are valued at carrying amount.

Debt securities in issue, subordinated liabilities and subscribed capital

The estimated fair value of longer-dated liabilities is calculated based on quoted market prices where available or using similar issues as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote.

For those liabilities where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the remaining term to maturity.

Notes to the accounts Continued

30. Financial instruments - fair value of financial assets and liabilities continued

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 £8.9 million (2021: £56.2 million), which are held in subsidiaries of the Society, and Level 2 cross currency assets of £23.4 million (2021: £nil).

2022 Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments:				
Interest rate swaps	—	2,254.7	—	2,254.7
Cross currency swaps	—	23.4	—	23.4
Total	—	2,278.1	—	2,278.1
Debt securities:				
UK Government investment securities	1,020.1	—	—	1,020.1
Other listed transferable debt securities	481.8	86.7	—	568.5
Total	1,501.9	86.7	—	1,588.6
Investment in equity shares:				
Investment in equity shares	0.7	—	5.1	5.8
Total	0.7	—	5.1	5.8
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	—	616.3	1.3	617.6
Cross currency swaps	—	8.9	—	8.9
Total	—	625.2	1.3	626.5

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

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.

Level 3: Derivatives

The item included within Level 3 is a balance tracking swap, which remained in place during the year. It is 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. The changes in the projection of interest and prepayment rates of the underlying mortgage portfolio affect both the unbounded swap and hedged item so that the net Income Statement and Balance Sheet impact would be minimal.

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 2022 £m**	**Derivative financial instruments 2022 £m**	Investment in equity shares 2021 £m	Derivative financial instruments 2021 £m
As at 1 January	**4.3**	**(6.6)**	4.3	(70.5)
Gains/(losses) recognised in the Income Statement				
Interest payable and similar expense	**—**	**(0.6)**	—	(2.5)
Net unrealised gains	**0.8**	**5.2**	—	63.2
Settlements	**—**	**0.7**	—	3.2
As at 31 December	**5.1**	**(1.3)**	4.3	(6.6)

No sensitivities have been performed with regards the level 3 instruments as the balances are immaterial to the financial statements.

Transfers between fair value levels

Transfers between fair value levels occur when either it becomes possible to value a financial instrument using a method that is higher up the valuation hierarchy or it is no longer possible to value it using the current method and it must instead be valued using a method lower down the hierarchy. Transfers are considered to have occurred at the end of the reporting period for the purposes of this disclosure.

31. Offsetting financial assets and liabilities

The Group and Society do not have any financial assets or financial liabilities that are offset with the net amount presented in the Balance Sheets. IAS 32 Financial Instruments: Presentation states that there should be both an enforceable right to set-off and the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously to apply this treatment, and neither of these conditions is met.

The Group has entered into master netting arrangements such as International Swaps and Derivatives Association (ISDA) master agreements for its derivatives, other than derivatives held by Coventry Building Society Covered Bonds LLP.

Credit Support Annexes (CSAs) are executed in conjunction with these ISDA master agreements, which typically provide for the exchange of collateral to mitigate net mark-to-market credit exposure.

The Group has also entered into Global Master Repurchase Agreements, including margin collateralisation arrangements, whereby outstanding transactions with the same counterparty can be settled net following a default or other predetermined event.

Coventry Building Society Covered Bonds LLP does not enter into a master netting agreement due to the structure of the covered bond programme. However, it has entered into a separate ISDA agreement in respect of each of the derivatives it has transacted with external counterparties. Each agreement includes a CSA which provides for full collateralisation of the swap exposure, with exposure thresholds in place for a single agreement before collateral is exchanged. The £13.1 million net derivative credit exposure in the table below relates to A1 rated institutions (2021: £0.1 million).

Notes to the accounts Continued

31. Offsetting financial assets and liabilities continued

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 (2021: £nil) or reverse sale and repurchase agreements (2021: £nil) during the year with £93.6 million being held on the Balance Sheet as at the end of the period.

2022 Group	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	**2,278.1**	**(616.2)**	**(1,648.8)**	**13.1**
Total financial assets	**2,278.1**	**(616.2)**	**(1,648.8)**	**13.1**
Financial liabilities				
Derivative financial instruments	**626.5**	**(616.2)**	**(0.6)**	**9.7**
Total financial liabilities	**626.5**	**(616.2)**	**(0.6)**	**9.7**

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

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.

2022 Society	Gross amounts[1] £m	Master netting arrangements £m	Financial collateral[2] £m	Net amount £m
Financial assets				
Derivative financial instruments	**2,254.7**	**(616.2)**	**(1,638.1)**	**0.4**
Total financial assets	**2,254.7**	**(616.2)**	**(1,638.1)**	**0.4**
Financial liabilities				
Derivative financial instruments	**617.5**	**(616.2)**	**(0.6)**	**0.7**
Total financial liabilities	**617.5**	**(616.2)**	**(0.6)**	**0.7**

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

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 2022, 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.

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	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Loans payable to the Society				
Loans outstanding as at 1 January	**17,544.7**	16,207.0	**0.5**	—
Loans issued during the year	**327.0**	1,337.7	**—**	0.5
Repayments during the year[1]	**—**	—	**(0.1)**	—
Loans outstanding as at 31 December	**17,871.7**	17,544.7	**0.4**	0.5
Loans and deposits payable by the Society				
Deposits outstanding at 1 January	**783.0**	405.0	**0.7**	1.7
Deposits received during the year[2]	**—**	378.0	**1.0**	0.5
Repayments during the year[1]	**(135.7)**	—	**(0.6)**	(1.5)
Deposits outstanding at 31 December	**647.3**	783.0	**1.1**	0.7
Net interest income				
Interest receivable	**292.3**	293.8	**—**	—
Interest payable	**(16.3)**	(19.4)	**—**	—
Total	**276.0**	274.4	**—**	—
Other income and expenses				
Fees and expenses paid to the Society	**45.9**	46.6	**—**	—

1. Includes loans and deposits for key management on retirement from the Society.
2. Includes loans and deposits received from connected undertakings in respect of securitisation transactions during the year (Group undertakings) and existing deposits for key management on appointment (key management).

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.

Notes to the accounts Continued

33. Related party transactions continued

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 2022.

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.

34. Cash flows from financing activities

For the purposes of the Statements of Cash Flows, debt securities in issue, subordinated liabilities and subscribed capital are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities.

	Group 2022 £m	Group 2021 £m	**Society 2022 £m**	Society 2021 £m
At 1 January	**5,309.2**	4,684.4	**4,475.5**	4,112.2
Cash flows:				
Net proceeds form issue of debt securities	**434.3**	1,272.4	**434.4**	889.1
Repayment of debt securities in issue	**(540.0)**	(545.6)	**(400.0)**	(423.9)
Repurchase of subordinated liabilities	**—**	(10.3)	**—**	(10.3)
Non-cash flows:				
Amortisation of premium/ discount on issue	**4.7**	4.8	**4.9**	4.7
Accrued interest movements	**2.7**	(0.4)	**2.4**	(0.2)
Foreign exchange movements	**89.3**	(96.1)	**89.3**	(96.1)
At 31 December	**5,300.2**	5,309.2	**4,606.5**	4,475.5

Annual Business Statement

For the year ended 31 December 2022

1. Statutory percentages

	2022 %	2021 %	Statutory limits %
Lending limit	**1.6**	0.5	25.0
Funding limit	**23.4**	22.8	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 2022.

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 2022.

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

	2022 %	2021 %
As a percentage of shares and borrowings:		
Gross capital	**5.46**	4.87
Free capital	**5.27**	4.65
Liquid assets	**18.2**	14.7
As a percentage of mean total assets:		
Profit for the financial year	**0.50**	0.36
Management expenses	**0.52**	0.50
Net profit as a percentage of total Balance Sheet	**0.49**	0.35

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: Coventry House, Harry Weston Road, Binley, Coventry CV3 2TQ.

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)	Non-Executive Director	Development Bank of Wales plc AON UK Limited	28.06.2018
Catherine Doran, BA (11.09.1956)	Non-Executive 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
David Thorburn, LLB, MCIBS (09.01.1958)	Non-Executive Director	EY UK LLP Chartered Bank Institute 2025 Foundation Foundation for Governance Research and Education	28.04.2022
Stephen Hughes, CIMA (05.05.1972)	Building Society Chief Executive	Godiva Mortgages Limited ITL Mortgages Limited BSA Council The Money and Pension Service The Pennies Foundation UK Finance Limited	20.04.2020
Joanne Kenrick, LLB (21.09.1966)	Non-Executive Director	Dwr Cymru Cyfyngedig Glas Cymru Holdings Cyfyngedig Global Charities Global Charities (Trading) Limited Pay UK – Mobile Payments Service Company Ltd Rhapsody Court Freehold Limited Sirius Real Estate Ltd	06.11.2017
Shamira Mohammed, ACA (17.11.1968)	Non-Executive Director	Pezula Limited	01.05.2019
Brendan O'Connor, MBA (21.06.1965)	Non-Executive Director	Ford Credit Europe Bank plc	18.01.2021
Lee Raybould, FCCA (05.03.1973)	Building Society Chief Financial Officer	Godiva Mortgages Limited ITL Mortgages Limited Arkose Funding Limited	06.04.2021
Martin Stewart, MEng (08.09.1966)	Non-Executive Director	Clayton Stewart Properties Limited Clayton Stewart Limited OakNorth Bank plc Northern Bank Limited	01.09.2018

Documents may be served on the above named directors at: Coventry Building Society, c/o PwC LLP, One Chamberlain Square, Birmingham, B3 3AX.

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 3.1	The name given by the PRA 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) and operational risk. The PRA's proposals for the implementation of Basel 3.1 are contained in CP16/22 "implementation of the Basel 3.1 standards" and are applicable from January 2025, 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.
Buy to let mortgage	A mortgage secured on a residential property that is rented out to tenants.
Capital Conservation Buffer (CCoB)	A CRD V 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 V (CRD V)	CRD V is the European Union legislation (part regulation and part directive) which came into force to implement Basel III, revising the capital requirements framework and introducing liquidity requirements, which regulators use when supervising firms.
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).
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 who make energy efficiency improvements on their homes.
Collateral	Security pledged by the borrower to the lender in case of default.

Glossary Continued

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 V 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 are 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 assets/(liabilities)	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 scheme resulting from past employee service.
Defined benefit plan/ 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 scheme	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 V) 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.
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 scheme 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.

Glossary Continued

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 (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF) and nitrogen trifluoride (NF_3)
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, which 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.
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
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.
ISO 14064-1 certification	an international standard that quantifies the reporting of greenhouse gas (GHG) emissions and the verification.
Leverage ratio	A calculation as part of CRD V which measures the relationship between eligible Tier 1 capital and exposures to on and off-balance sheet items. UK institutions are subject to the PRA's interpretation of the leverage ration - see 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 the principal risk of the Society.
Liquidity Coverage Ratio (LCR)	A measure which is part of CRD V 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.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Net interest margin	Net interest income as a percentage of average total assets.
Net Promoter Score (NPS)	A measure of customer advocacy that ranges between -100 and +100 and represents how likely a customer is to recommend a brand, product or service to a friend or colleague. Net Promoter®, Net Promoter Score® and NPS® are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc. and Fred Reichheld.
Net Stable Funding Ratio (NSFR)	A ratio which assesses the amount of stable funding in place as a proportion of the on and off-balance sheet funding requirements of an institution. The requirement is still to be formally implemented.
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.

Glossary Continued

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.
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 (PMA)	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.
Representative Concentration Pathway (RCP)	a method for capturing assumptions about climate change and global mean temperature increases over the 21st century. Each pathway results in a different range of global mean temperature, which helps the Society to understand how its assets will perform under a range of scenarios.
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 gas (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 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 & 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 under IFRS 9 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 under IFRS 9. 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 are considered credit impaired under IFRS 9. Lifetime ECL is also recognised as an impairment provision. Interest revenue is the EIR on the net carrying amount.
Standardised approach	The basic method used to calculate capital requirements for credit and operational risk. In this approach, the risk weighting used in the capital calculation is determined by specified percentages.
Strategic investment	A significant one-off programme instigated from strategic intent rather than business as usual or regulatory change activity.
Strategic risk	Strategic risk is the risk that changes to business model or macroeconomic, geopolitical, regulatory or other factors may lead to the business model, strategy or Strategic Plan becoming inappropriate. This includes the risk of an overly ambitious Strategic Plan as well as unforeseen market, consumer, competitor or regulatory changes.
Stress testing	Testing undertaken to provide an understanding of the Society's resilience to internal and external shocks.
Structured entity	An entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.
Subordinated liabilities	A form of Tier 2 capital that is unsecured. Subordinated notes rank equally with each other and behind all other creditors of the Society and the claims of Shareholding Members (other than holders of Permanent Interest Bearing Shares and Perpetual Capital Securities) as to principal and interest.
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.

Glossary Continued

Surcharge	A tax surcharge on the profits of banking companies which is recognised in the tax charge line of the income statement.
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 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 to support the supply of credit during periods of heightened risk aversion and economic downturns. The Scheme closed to new drawings in 2021.
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, issued by the Financial Reporting Council, 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 it is concluded that there is no reasonable expectation of recovery.