COVENTRY Building Society

Pillar 3 Disclosures

For the quarter ended 30 September 2022

Contents

1. Introduction ... 3

2. Key metrics and overview of risk weighted exposure amounts ... 4

3. RWEA flow statements of credit risk exposures under the IRB approach ... 6

4. Quantitative information of liquidity coverage ratio ... 7

5. Attestation ... 8

6. Key elements of the Pillar 3 disclosures policy ... 8

Appendix 1. Glossary ... 9

1. Introduction

In this document Coventry Building Society ('the Society') has set out its Pillar 3 disclosures as at the quarter ending 30 September 2022 in accordance with the Disclosure Part of the Prudential Regulation Authority (PRA) Rulebook. This includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II.

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

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

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

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

2. Key metrics and overview of risk weighted exposure amounts

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

		30 September 2022 £m	30 June 2022 £m	31 March 2022 £m	31 December 2021 £m
	Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital[1]	1,980	2,002	1,879	1,924
2	Tier 1 capital	2,395	2,417	2,294	2,355
3	Total capital	2,395	2,417	2,294	2,361
	Risk-weighted exposure amounts				
4	Total risk-weighted exposure amount[2]	6,680	6,682	6,753	5,306
	Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	29.6%	30.0%	27.8%	36.3%
6	Tier 1 ratio (%)	35.9%	36.2%	34.0%	44.4%
7	Total capital ratio (%)	35.9%	36.2%	34.0%	44.5%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)				
UK 7a	Additional CET1 SREP requirements (%)	1.6%	1.6%	1.2%	1.5%
UK 7b	Additional AT1 SREP requirements (%)	0.5%	0.5%	0.4%	0.5%
UK 7c	Additional T2 SREP requirements (%)	0.7%	0.7%	0.5%	0.7%
UK 7d	Total SREP own funds requirements (%)	10.8%	10.8%	10.1%	10.7%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%
11	Combined buffer requirement (%)	2.5%	2.5%	2.5%	2.5%
UK 11a	Overall capital requirements (%)	13.3%	13.3%	12.6%	13.2%
12	CET1 available after meeting the total SREP own funds requirements (%)	18.8%	19.2%	17.7%	25.6%
	Leverage ratio				
13	Leverage ratio total exposure measure[3]	48,128	48,306	47,786	48,472
14	Leverage ratio	5.0%	5.0%	4.8%	4.8%
	Liquidity coverage ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	7,512	7,150	7,020	6,885
UK 16a	Cash outflows - Total weighted value	3,708	3,811	3,909	3,965
UK 16b	Cash inflows - Total weighted value	215	216	219	200
16	Total net cash outflows (adjusted value)	3,493	3,595	3,690	3,765
17	Liquidity coverage ratio (%)[4]	216.1%	200.2%	191.4%	182.6%

Table 1 Template UK KM1 – Key metrics template

[1] CET 1 as at 31 March, does not include unverified profits generated in the first quarter of 2022. CET 1 as at 30 September, does not include unverified profits generated in the third quarter of 2022. Profits are verified in June and December and therefore included.
[2] This amount includes the impacts of the Post Model Adjustments (PMAs) described in the Key metrics section.
[3] The Leverage ratio exposure measure does not include exposures to the Bank of England in line with the UK Leverage Regime. The 31 December 2021 comparatives are shown as if under the UK Leverage Regime.
[4] The liquidity coverage ratio is calculated as a 12 month average.

Note that the capital values presented here are on a transitional basis whereas the Society's Interim Financial Statements and the Financial Statements included in the Annual Report and Accounts are presented on an end-point basis (i.e. assuming all transitional arrangements have finished, including IFRS9 transitional relief).

The Society's capital position remains robust with a Common Equity Tier 1 (CET1) ratio of 29.6% (30 June 2022: 30.0%, 31 March 2022: 27.8% and 31 December 2021: 36.3%) compared to an overall capital requirement of 13.3% (30 June 2022: 13.3%, 31 March 2022: 12.6% and 31 December 2021: 13.2%).

The Society's available own funds have decreased slightly in quarter three. Profits for the quarter have not been included as they have not been verified by the Society's auditors. Available own funds increased as at 30 June 2022 following the verification of the profits generated in the first half of the year. This offsets the minor reductions during the first quarter, due to the end of transitional arrangements (subordinated debt and permanent interest bearing shares no longer being eligible capital instruments) and the impact of our updated expected credit losses (ECL) model.

The risk weighted exposure amount (September: £6,680m, June 2022: £6,682m, March 2022: £6,753m and December 2021: £5,306m) has been affected by two main factors in 2022. Firstly, following the change in industry wide regulation required from 1 January 2022, the Society applied a post model adjustment (£1,744m as at September 2022) that reflects an update in loss given default and the cyclicality of the probability of default model. This increased the risk weighted exposure amount.

Secondly during the year to 30 September 2022, increases in the UK House Prices Index (HPI) improved asset quality, reducing the average risk weight on the mortgage portfolio and therefore reducing the risk weighted exposure amount throughout the period.

The Society's leverage ratio also remains strong at 5.0% (30 June 2022: 5.0%, 31 March 2022: 4.8% and 31 December 2021: 4.8%). The leverage ratio and corresponding leverage ratio total exposure measure excludes qualifying central bank claims in line with the UK leverage regime which became applicable from 1 January 2022. The 31 December 2021 comparatives have been calculated as if under the UK leverage regime.

The Society's liquidity position is also strong as at 30 September 2022 with a liquidity coverage ratio of 216.1% (30 June 2022: 200.2%, 31 March 2022: 191.4% and 31 December 2021: 182.6%). The average liquidity coverage ratio has increased predominantly due to an increase in cash held in the Bank of England reserve account.

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

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		30 September 2022	30 June 2022	30 September 2022
		£m	£m	£m
1	Credit risk (excluding CCR)	5,962	5,992	477
2	Of which the standardised approach	183	187	15
3	Of which the foundation IRB (FIRB) approach	79	78	6
5	Of which the advanced IRB (AIRB) approach[5]	5,700	5,727	456
6	Counterparty credit risk - CCR	77	52	6
7	Of which the standardised approach	19	8	1
UK 8a	Of which exposures to a CCP	2	1	0
UK 8b	Of which credit valuation adjustment – CVA	51	30	4
9	Of which other CCR	5	13	1
16	Securitisation exposures in the non-trading book (after the cap)	5	2	0
18	Of which SEC-ERBA (including IAA)	5	2	0
23	Operational risk	636	636	51
UK 23b	Of which standardised approach	636	636	51
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information) [6]	9	6	1
29	**Total**	**6,680**	**6,682**	**534**

Table 2 Template UK OV1 – Overview of risk weighted exposure amounts

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

The table below summarises the movements of RWEAs for credit risk exposures under the Internal Ratings Based (IRB) approach. Following guidance from the PRA this flow statement includes the post model adjustment applied to both our loss given default and probability of default models. The adjustment as at 30 June (£1,912m) has been added to the 'Risk weighted exposure amount as at the end of the previous reporting period' and the movement in the adjustment in the quarter has been included in 'Other (+/-)'.

		Risk weighted exposure amount
		£m
1	**Risk weighted exposure amount as at the end of the previous reporting period**	5,727
2	Asset size (+/-)	244
3	Asset quality (+/-)	(22)
8	Other (+/-)	(249)
9	**Risk weighted exposure amount as at the end of the reporting period**	5,700

Table 3 Template UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach

Increases in the UK House Prices Index (HPI) have had an impact on asset quality, resulting in a decrease in the RWEAs.

[5] See Table 3 Template UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach for further details. Note RWEAs as at June 2022 have been updated to include the PMA adjustment of £1,912m in line with PRA guidance.
[6] Row 24 is for information only and the value is excluded from the total in row 29.

4. Quantitative information of liquidity coverage ratio

The liquidity coverage ratio (LCR) is designed to ensure that institutions hold a sufficient reserve of high-quality liquid assets (HQLA) to allow them to survive a period of significant liquidity stress lasting 30 calendar days. The template below provides details of the calculation of Coventry Building Society's LCR.

		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYY)	Sep-22	Jun-22	Mar-22	Dec-21	Sep-22	Jun-22	Mar-22	Dec-21
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
		£m	£m	£m	£m	£m	£m	£m	£m
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					7,512	7,150	7,020	6,885
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which[7]:	40,354	40,005	39,746	39,377	2,415	2,482	2,487	2,445
3	*Stable deposits*	*18,581*	*18,319*	*17,783*	16,987	*929*	*916*	*889*	*849*
4	*Less stable deposits*	*11,814*	*12.378*	*12,532*	*12,399*	*1,486*	*1,566*	*1,598*	*1,595*
5	Unsecured wholesale funding	311	416	522	*610*	239	325	423	503
7	*Non-operational deposits (all counterparties)*	271	408	505	593	199	317	405	485
8	*Unsecured debt*	40	8	17	17	40	8	18	18
9	*Secured wholesale funding*					59	44	25	0
10	Additional requirements	296	266	261	270	296	266	261	270
11	*Outflows related to derivative exposures and other collateral requirements*	251	225	213	224	251	225	213	224
12	*Outflows related to loss of funding on debt products*	45	41	48	46	45	41	48	46
14	Other contractual funding obligations	30	29	50	46	8	8	29	28
15	Other contingent funding obligations	2,827	2,726	2,685	2,829	690	685	683	720
16	TOTAL CASH OUTFLOWS					3,708	3,811	3,909	3,965
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	39	12	6	0	0	0	0	0
18	Inflows from fully performing exposures	267	268	269	250	209	209	211	191
19	Other cash inflows	6.3	6.1	7.2	8.6	6.3	6.1	7.2	8.6
20	TOTAL CASH INFLOWS	312	286	283	259	215	216	219	200
UK-20c	*Inflows subject to 75% cap*	312	286	283	259	215	216	219	200
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					7,512	7,150	7,020	6,885
22	TOTAL NET CASH OUTFLOWS					3,493	3,595	3,690	3,765
23	LIQUIDITY COVERAGE RATIO					216.1%	200.2%	191.4%	182.6%

Table 4 Template UK LIQ1 - Quantitative information of liquidity coverage ratio

Note the UK LIQ2 disclosure template forms part of the UK Pillar 3 disclosure framework. In line with PS22/21 'Implementation of Basel Standards: Final rules', disclosures for the net stable funding ratio are not required until after 1 January 2023. Therefore, this template has not been presented.

[7] Deposits exempt from the calculation of the liquidity coverage ratio do not appear in the 'of which' rows but do appear in the total value of 'Retail deposits and deposits from small business customers'.

5. Attestation

The Chief Finance Officer (CFO) attests that the Society has made the disclosures required under Part 8 of the UK CRR in accordance with the Pillar 3 Disclosures Policy and internal processes, systems and controls.

6. Key elements of the Pillar 3 disclosures policy

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

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

Appendix 1. Glossary

Abbreviation	Full Name	Description
AIRB	Advanced Internal Ratings Based	An approach to determining the capital requirement for a given exposure that allows institutions that have received supervisory approval to rely on their own internal estimates of risk components.
CCF	Credit Conversion Factor	The Credit Conversion Factor converts an off-balance sheet exposure to its credit exposure equivalent.
CCP	Central Counterparty Clearing House	Institutions that take on counterparty credit risk between parties to a transaction and provide clearing and settlement services for trades in foreign exchange, securities, options, and derivative contracts.
CCR	Counterparty Credit Risk	The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
CET1	Common Equity Tier 1	Common Equity Tier 1 capital (CET1) is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
CRM	Credit Risk Mitigation	Credit risk mitigation is the attempt by lenders, through the application of various safeguards or processes, to minimize the risk of losing all of their original investment due to borrowers defaulting on their interest and principal payments.
CRR	Capital Requirements Regulation	The Capital Requirements Regulations 2013 (Statutory Instrument 2013/3115).
CVA	Credit Valuation Adjustment	Credit Valuation Adjustment reflects the adjustment of default risk-free prices of derivatives and securities financing transactions (SFTs) due to a potential default of the counterparty.
ERBA	External Ratings Based Approach	An approach to calculate capital requirements for securitisation exposures that are externally rated or for which an inferred rating is available.
EVE	Economic Value of Equity	The economic value of equity is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. Unlike earnings at risk and value at risk (VAR), an institution uses the economic value of equity to manage its assets and liabilities. It is a long-term economic measure used to assess the degree of interest rate risk exposure—as opposed to net-interest income (NII), which reflects short-term interest rate risk.
FIRB	Foundation Internal Ratings Based	An approach to determining the capital requirement for a given exposure that allows institutions that have received supervisory approval to rely on their own internal estimates of risk of default of the obligor, but estimates of additional risk factors are derived through the application of standardised supervisory rules.
IAA	Internal Assessment Approach	An approach to calculate capital requirements for securitisation exposures in which an institution may use its internal assessments of the credit quality of its securitisation exposures.
NII	Net Interest Income	Net interest income is a financial performance measure that reflects the difference between the income from an institution’s interest-bearing assets and the expenses associated with paying on its interest-bearing liabilities. It reflects short-term interest rate risk.
PMA	Post Model Adjustment	Adjustments applied when the Society considers that a modelled output is not sufficiently accurate or complete due to there being potential for additional risks that have not been identified or that cannot be adequately modelled.
QCCP	Qualifying Central Counterparty	A qualifying central counterparty (QCCP) is an entity that is licensed to operate as a CCP and is permitted by the regulator to operate as

		such with respect to the products offered.
RWEA	Risk Weighted Exposure Amount	The amount of the exposure value multiplied by the risk weight associated with the exposure.
SA-CCR	Standardised Approach to Counterparty Credit Risk	The Standardised Approach for Counterparty Credit Risk is a method applied to over-the-counter (OTC) derivatives, exchange-traded derivatives and long settlement transactions to calculate their capital requirement.
SFT	Securities financing transaction	Securities financing transactions allow institutions to use assets, such as the shares or bonds they own, to secure funding for their activities.
SRT	Significant risk transfer	Term that indicates securitisation has been used as an effective credit risk transfer tool.
STS	Simple, transparent and standardised	Securitisations can be designated as simple, transparent and standardised (STS) where they meet certain criteria.
TCR	Total Capital Requirement	The amount and quality of capital a firm must maintain to comply with the Capital Requirements Regulation (575/2013) (CRR) (Pillar 1) and the Pillar 2A capital requirement.

Coventry Building Society. Principal Office: Coventry House, Harry Weston Road, Binley, Coventry, West Midlands CV3 2TQ.

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