COVENTRY Building Society

All together, better

Annual Report & Accounts 2023

Annual Report & Accounts

We are a building society, owned by our members. We provide savings to individual savers and mortgages on homes to borrowers across the UK. We put our members first in everything we do, and we're as committed today to remaining a mutual organisation, as when we were founded in 1884.

Strategic Report

Our performance highlights	04
A statement from your Society's Chair	06
Your Chief Executive's review of the year	08
Our strategy	12
Our business model	14
Our stakeholders	15
Building a sustainable Society	17
Our external environment and top and emerging risks	21
Chief Financial Officer's review	24

Risk Management Report 30

Information about our capital, liquidity and funding position and how we manage key risks relating to our operations

Our approach to climate change 55

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

Governance 65

Our Board of directors and a review of our governance, including the Directors' Report and annual report on remuneration

Financial Statements 106

Our audited financial statements and related notes, including the Independent Auditors' Report

Other information

Annual Business Statement	172
Glossary	174

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 (www.fca.org.uk) and the Prudential Regulation Authority (firm reference number 150892). Principal Office: Coventry House, Harry Weston Road, Binley, Coventry CV3 2TQ.

Strategic Report

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

Our performance highlights	04
A statement from your Society's Chair	06
Your Chief Executive's review of the year	08
Our strategy	12
Our business model	14
Our stakeholders	15
Building a sustainable Society	17
Our external environment and top and emerging risks	21
Chief Financial Officer's review	24
Other information	29

Performance highlights

All together, better

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

Delivering value to members

12.5%
Savings balance growth
(2022: 6.0%)

£342m
Value returned to members[1]
(2022: £230m)

4.7%
Mortgage balance growth
(2022: 3.0%)

We helped
6,300
customers buy their first home
(2022: 5,400)

2023
Which?
Recommended Provider for Savings Accounts

2023
Fairer Finance Number 1 for Customer Experience - Mortgages

Our commitment to service

+76
Net Promoter Score[2]
(2022: +75)

105
Seconds average call waiting time[3]
(2022: 207 seconds)

2023
Fairer Finance Number 1 for Customer Experience - Savings

Engaging colleagues and supporting our communities

£3.1m
Total community investment[4]
(2022: £3.2m)

81%
Great Places to Work Trust Index® score[5]
(2022: 77%)

2023
Great Place to Work Best Workplaces in Financial Services & Insurance

Performance highlights continued

Sustainable financial performance

Capital ratios

29.1%
Common Equity Tier 1
(2022: 27.4%)

5.4%
UK leverage ratio
(2022: 5.2%)

Profitability

£474m
Profit before tax
(2022: £371m)

1.26%
Net interest margin
(2022: 1.16%)

Efficiency

39.4%
Cost to income ratio
(2022: 43.2%)

0.51%
Cost as a percentage of average assets
(2022: 0.52%)

Low risk

0.26%
of mortgages more than 3 months in arrears
(2022: 0.17%)

227%
Liquidity Coverage Ratio
(2022: 195%)

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.
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 2023 and 31 December 2023.
4. Total community investment made by the Society 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 our 2023 Annual Report and Accounts.

2024 will be the Society's 140th anniversary. Since it was launched by a small group of Coventry citizens in 1884, it has borne witness to many world changing events. Something I like to reflect on as we face today's challenges.

The Society has been successful over all these years because it prioritises the needs of members and works hard to safeguard their interests. In taking a long-term view, it has adapted its products and services to stay relevant to its current and future members.

In 2023, the Society maintained this record. A strong performance that rewarded members, an enhanced financial position that will support future growth, and real progress in our goal of becoming the 'digital first, human always' Society in the eyes of our members, colleagues and business stakeholders.

2023 was defined by the Bank of England's actions to bring down the UK's rate of inflation. The UK base rate rose to 5.25%, the highest in 15 years, and a rise of more than 5% in just two years, delivered through a remarkable 14 consecutive increases to base rate.

The implications of this quick and sustained increase in the price of borrowing have been clear in reducing consumer demand generally, but especially in the mortgage and buy to let markets.

Savers have, by and large, welcomed the changes to rates, despite the impact of inflation. However it has created some difficulties for them in keeping up as the market moved so quickly. This is in marked contrast to the previous fifteen years.

Greater focus has understandably been on the housing market as borrowers had to pay substantially more on reaching the end of low fixed rate mortgages. The impact on confidence, on transaction levels and on the type of borrowing being undertaken were all to be expected given the Bank of England's inflation objective, but have been challenging for homeowners, landlords and tenants, as well as lenders.

2023 was also notable for the failure of Credit Suisse and Silicon Valley Bank. The impact of these high profile failures underlines the importance of prudence, resilience and sustainability.

Supporting our members

Our priority has been to balance the contrasting impact of this extraordinary change in the interest rate environment on our savers and borrowers, while doing what we can to safeguard those borrowers most at risk. The Board has also been very aware of the need to maintain the Society's financial strength. All whilst investing in its technology foundations and future services, that will ensure we remain relevant and resilient in a fast-developing sector.

Steve Hughes, the Society's Chief Executive, will talk more in his review about the decisions we made to achieve this and deliver the value, service, and security that our members expect, as well as the performance highlights of the year.

We have a strong story to tell of above market growth, high levels of member satisfaction and colleague engagement, as well as significant investment and progress in our technology transformation and sustainability agenda. While delivering great member value, we have also enhanced profitability and capital in anticipation of greater economic headwinds and a reducing interest rate environment. We have tried hard to strike the right balance between all these different priorities.

This encouraging performance is built on the strength of a mutual business model which is particularly relevant in times of volatility and change as it enables us to keep our focus on the long-term interests of our customers and members.

It is something my fellow Board members and I, care about very much, particularly as we feel that the advantages of the mutual model are not well understood or appreciated outside of the sector. There is a clear line of sight between the needs and expectations of members, who own the Society, and our strategic ambitions and performance priorities. We believe this supports an approach which is sustainable in its broadest consideration, from the consistent value and service we provide to members, to the support and opportunities we offer colleagues, and the benefits we bring to suppliers and other stakeholders, including the wider communities we serve.

It is not a coincidence that we consistently achieve a high level of customer and member satisfaction and are independently recognised through many different awards

A statement from our Chair continued

for the service and products we offer. It is because we prioritise these matters. As an example, in 2023 we again offered savings rates well above the average in the market, delivering a higher member premium than in 2022. I mentioned earlier that the fast-moving market was proving challenging for some savers, and we made it a priority to inform members quickly of changes to our rates following each new Bank of England announcement. We offer savings products that support those who feel, quite rightly, that they shouldn't need to continually change provider to find a competitive rate, and products to help people save for their first home. We have striven to treat savers fairly and our savings balance growth is ahead of the market as a result.

In a tough year for borrowers, we also outperformed the mortgage market. Steve will talk more about our approach to the Mortgage Charter and the actions we take to support borrowers and brokers alike, but there is no doubt in my mind that the culture and values we offer as a mutual building society provided much-needed stability and reassurance to customers and helped underpin this growth.

In this context I should say that we're well on track to meet the Consumer Duty regulations. Although I believe we have always put our members first, we're not complacent about our ability to meet these requirements. We have appropriate Board oversight in place and have invested significant time and resources in making sure we meet any new obligations. Doing the right thing for customers and members is at the core of our strategy and purpose.

Further proof of this, is that the Society became the first building society, and one of a very few UK financial services organisations, to become a Certified B Corporation, or B Corp, this year. We see clear parallels in B Corp's objective to make business a force for good and our own purpose-led strategy and values. Certification is not the end-goal, of course, but a milestone in an organisation's development. The Board is committed to building on the foundations we've established so far.

More information on this is contained in our third annual Sustainability Report, which will shortly be published on our website. I recommend reading it as way of understanding the Society, our commitment to sustainable ways of working and the tangible difference we're making.

To do this, we must remain relevant and resilient for our current and future members. To this end, we continue to invest significantly in the technological transformation and digitisation of the Society, as well as bringing in new capabilities appropriate to our growth and scale.

Changes to the Board

Following the retirement of Catherine Doran and Peter Frost from the Board in April 2023, we welcomed Vanessa Murden, who joined us as a non-executive director during the year.

"The Society is focused on consistently meeting the needs of its customers and members."

We have also introduced the new Board Technology Oversight Committee, which is proving an excellent addition to our governance structure, ensuring we have the appropriate level of oversight of this key strategic area of investment. More information on this along with Board priorities and progress can be found in the governance section of this report. In 2023, we achieved a number of significant milestones in moving our systems towards cloud managed services, adding operational resilience and agility to our core services. We're on track with digitising more of our mortgage and savings processes and delivered a well-received mobile app for its final member test before launch. In addition to providing more resilient services, these represent greater convenience and ease of use for our members and business partners and are key to achieving our strategic goals as we grow. It is a multi-year journey, but we're making good progress towards delivering the 'digital first, human always' service that will enable us to operate at scale and still provide the service and warmth our members expect.

Board priorities for the year ahead

It would be wrong to complete this review without acknowledging our announcement at the end of the year regarding a potential acquisition of The Co-operative Bank. I cannot say much at this stage, but anything of this nature will only be pursued if it is in the best interests of our members.

In the coming year, we expect the Bank of England to maintain its focus on reducing inflation to its target range, a challenge that external shocks from the ongoing conflicts in Ukraine and the Middle East, and elections in both the US and UK, may make harder. The interest rate environment is likely to remain volatile and the housing market subdued. We will continue to prioritise our customers and members and they can be confident that we'll offer the same security and value that have been the hallmark of Coventry Building Society over the last 140 years.

In closing, I am pleased to say that the Society is in a good place – performing well, financially strong, and delivering on our ambitious and sustainable strategic plan. We are committed to the mutual building society model, with our members at the forefront of our decision-making.

David Thorburn

Chair of the Board
28 February 2024

Your Chief Executive's review of the year

The Society delivered a strong and balanced performance in 2023, outperforming both the savings and mortgage markets through a combination of outstanding service and highly competitive products that offered members great value and rewarded their loyalty.

We used the opportunities presented by a rising interest rate environment to return more value to members, as well as further improve our capital position and profitability. This ensures the Society's long-term resilience. And we maintained our support for borrowers and brokers at a time of increased volatility and uncertainty.

We continue to invest in the Society's technology and digital foundations, as well as the capability of our people, to stay relevant and resilient now and in the future. The outcome was a year of strong progress across all elements of our strategic plan and delivery on the things that matter most to members - value, service, security and strong social purpose.

2023 was dominated by the rising interest rate environment with the Bank of England increasing UK base rate from 3.50% at the start of the year to 5.25%. Whilst inflation dropped sharply towards the end of 2023, it remains above the Bank of England target and further inflationary pressure is possible amid ongoing conflicts in the Middle East and Ukraine.

The impact of high inflation and high interest rates on people's lives and the UK economy are clear to see. The cost of living challenge continues, and we see the day-to-day results of food and fuel poverty in the community programmes we support. We know the impact of significantly higher borrowing costs is making things harder for homeowners and tenants alike. Whilst unemployment rates are relatively stable, there is ongoing economic uncertainty and both consumer and business confidence were notably lower as the year closed. In this context, our mutual business model continues to be reassuringly resilient as we plan for all eventualities.

The impact on the housing market has been significant. Transaction levels have declined and house price inflation has stalled, with price reductions being recorded in many parts of the country. Borrowers coming to the end of low fixed rate mortgages are experiencing significantly higher monthly payments. The full implications of which remain uncertain with many more homeowners coming off such deals in 2024.

The rising interest rate environment has also presented challenges to lenders, as well as borrowers. Maintaining stable pricing and propositions has been incredibly difficult given the speed at which interest rates have risen and general levels of market volatility. However we have maintained our two day pledge to brokers in providing notice of product and pricing changes.

Higher interest rates have, of course, been helpful to savers in mitigating the impacts of high inflation, and it has been a noticeably more active market as consumers have taken action to maximise the returns available to them. In this context, we have worked hard to encourage financial awareness, whilst also providing the fair returns our members deserve. I believe this is a clear benefit of our mutual business model with its consistent focus on the needs and expectations of members. Added to this is our inherent security and resilience to external stresses which means we can take a long-term view despite the immediate challenges of a fast-changing environment. In this way, we have been able to return additional value to members and reward their loyalty, whilst continuing to grow, invest for the future and enhance our capital strength.

As I've said before, it is not for our members to make the connection between mutual ownership and long-term stability and security. Our responsibility to them is to deliver the great value, service and support that they and their families need, particularly during times when household incomes and spending are under great strain. This is how we judge our success.

Delivering value to members

Savers and borrowers have very different perspectives, particularly in a rising interest rate environment. Our responsibility is to balance their contrasting priorities and ensure we provide fair and competitive value to both over the long-term.

Chief Executive's review continued

We demonstrate our value to savers by consistently paying above the market average and in 2023 we maintained this record by paying an additional £342 million of interest than if we'd simply matched the average rates paid in the market. This was £112 million higher than in 2022 (£230 million)[1] and £141 million higher than in 2021 (£201 million). The increase clearly shows our commitment to savers in a rising interest rate environment, and I am proud that we increased the interest paid on every variable savings product every time the Bank of England increased base rate during the year.

I have mentioned loyalty several times. I think rewarding loyalty is really important, both in demonstrating the value and difference of a mutual organisation, but also encouraging savers who trust us to do the right thing. During the year, over 145,000 loyalty product accounts were opened with us, and we know that our members appreciate being recognised and rewarded for their continued support of the Society.

Our loyalty products were just one part of a savings portfolio that focuses on the needs of members. Our ISA range continues to be extremely competitive and increasingly important as more people become liable for tax on savings interest. We introduced a new children's saving proposition and launched our relationship with Salary Finance, who work with organisations to encourage saving through payroll. We want to encourage good savings habits and greater personal financial resilience across all ages by increasing understanding and making saving as easy as possible. We have also had great success in linking savings campaigns with our new charitable partnership with Centrepoint. An idea that gets to the heart of our purpose-led strategy.

Our strong savings franchise has been recognised independently too, including by consumer champion, Fairer Finance, who have awarded us a Gold Ribbon for savings every year since 2015. We also received awards from Savings Champion ('Best Building Society'), Moneynet, ('Best Building Society Savings Provider'), and The Times Money Mentor ('Best Savings Account') amongst others.

It's not surprising that our savings balances have grown considerably during the year, as we've attracted new members, and existing members have trusted us with more of their savings. Balances were up 12.5% or £5.3 billion (31 December 2022: £2.4 billion) with the overall savings held at the Society reaching £47.6 billion. It represents a significant outperformance of the savings market, which increased by 1.1%[2] during the year. An outperformance which has delivered value for members and contributed to our profitability in 2023.

A very successful year for savings has been matched by an equally strong mortgage performance. In a relatively flat market we grew mortgage balances by 4.7% or £2.3 billion, (31 December 2022: 3.0%, £1.4 billion). As with savings, this growth represents a significant outperformance of the overall market, which remained broadly flat[2] in 2023. In doing so, we increased our share of both owner-occupied and buy to let lending. Although the impact of new regulations has changed the buy to let market, it remains a priority for the Society, and we intend to protect and enhance our leading position. We also launched our Green Further Advance Product in support of our broader sustainability ambitions to help members improve the energy efficiency of their properties.

This strong lending performance was achieved in a year which has been tough for new and existing borrowers faced with significantly higher mortgage costs. In July, we signed up to the Government's Mortgage Charter initiative and fully supported the options to temporarily switch to interest-only arrangements or extend the mortgage term.

But in many ways the real difference is being made by our colleagues working tirelessly to support borrowers through their proactive and caring approach. They have established ways of identifying those borrowers most in need of support and call them even before payments are missed. We have strong ties with our free debt advice partners and provided support and training to our teams to help them identify financial vulnerability as early as possible. We also took practical steps like removing all arrears related fees. This proactive approach, and the quality of our underwriting capability, kept arrears levels low at 0.26%[3] (31 December 2022: 0.17%), well below the market average of 0.91%[3].

Our confidence in the support we provide means we have stayed open for business, benefitting borrowers, brokers and the industry as a whole. In 2023 we helped over 14,000 people buy a home. This includes more first time buyers than in 2022, something which reflects our commitment to helping people take that first step on the property ladder.

Delivering on our service promise

In last year's report I talked about the increased demand for our services, not just because of popular products, but because people wanted more help in making the right decisions as interest rates changed. This continued in 2023 with the level of customer contact nearly 40% higher than in 2022. However, as we invested significantly in recruiting and training more colleagues, as well as focusing on the way we do things, we have been able to provide the same brilliant service throughout the year. We have taken more than 200,000 additional calls and reduced our call waiting time in the process.

The outcome has been outstanding levels of customer satisfaction. In a year where members are contacting us more than ever, we have improved our Net Promoter[4] Score (NPS) from +75 to +76 for the Society as a whole.

The importance of delivering the right customer outcomes has come into greater focus with the introduction of the Consumer Duty regulations. I believe that although our purpose, culture and values give us a headstart in delivering our Consumer Duty responsibilities, we will continue to work hard to meet the expectations of our members.

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.
2. Source: Bank of England.
3. Percentage of mortgages with more than three months of arrears. Source: UK Finance.
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.

Chief Executive's review continued

+76 Net Promoter Score

Our measure of excellent service[1]
(2022: +75)

Investing in our future

We're aiming for a service that is 'digital first, human always'. Our investment in digitising savings and mortgage services is starting to bear fruit, with savers, borrowers and brokers increasingly enjoying the convenience of carrying out transactions at a time and place that works for them. When they need more help, they get a fantastic service from my colleagues working in the customer contact centres and branches. In a year in which we saw online services logins increase by 50% and live chat starting to make an impact, we also dealt with record numbers of calls and over 2.2 million branch transactions. It is a multi-channel approach which meets the expectations of members and supports the Society's strategic ambitions.

A key development for our savings members has been the launch of our mobile app which, at the end of December, was going through final tests with a pilot group of 1,000 members and colleagues. The feedback has been extremely positive, with savers enjoying the added convenience and ease of use of this new service and we've successfully opened it to all members in early 2024. The app will help us manage the Society's growth and scale, and is a very visible example of the technological transformation taking place as we complete the digital backbone that supports such services and applications.

The digitisation of our mortgage processes is also delivering real benefits to customers and brokers. In 2023, building on earlier implementations, we are now taking direct new business for the first time. We also made significant progress with our financial transformation programme, with a new general ledger finance system successfully in place, and are rolling out significant enhancements to the way we work through our Modern Workplace Programme.

The breadth and cadence of delivery is enhancing operational resilience, information security and data protection, as well as improving customer experience and business efficiency. Members and other stakeholders expect us to keep their data and funds safe and secure and we will continue to invest to do so.

The investment we're making is significant. In 2023 our capital and revenue investment expenditure totalled £92 million (31 December 2022: £94 million). Our cost to income ratio has improved to 39% as a result of our strong income performance, whilst our cost to mean asset ratio and total management expenses were 0.51% (31 December 2022: 0.52%) and £312 million (31 December 2022: £295 million) respectively.

Supporting our communities

A theme of this review has been the balanced nature of the Society's performance. Members expect great value and service, but they also expect us to make a positive contribution to the broader issues faced by society. We work hard to meet their expectations and I wanted to pull out a few highlights from 2023 here.

Being the first building society to gain B Corp certification is something the whole Society is proud of. It emphasises the central tenet of sustainability which is to benefit all stakeholders, not just the few. It covers our approach to savings and mortgages, how we support colleagues, suppliers, investors, and communities as well as manage our impact on the environment. We were delighted to be certified at our first attempt and I believe it will be the foundation of our progress for years to come.

We remain on track with the Climate Action Plan, as endorsed by members at the 2022 AGM. This year we've taken steps to reduce our carbon footprint through the use of solar panels and heat pumps at our head offices and expanding our support for electric vehicles. We continue to encourage and support members and colleagues through green lending products, access to energy-saving information and tools and a whole raft of initiatives from reducing power usage to tree planting.

The cost of living challenges and concerns about the cost of housing make our new partnership with Centrepoint even more relevant. Centrepoint has the ambitious aim to end youth homelessness, and we have committed to donating £1 million per year to this cause as well as raising awareness and supporting young people in building independent lives. In addition to the financial support, we are supporting the expansion of youth services in Coventry and Warwickshire, working in partnership with local councils and other charities. This theme extends into our other community priorities that are encouraging student aspiration and achievement, and reducing isolation amongst vulnerable sections of society. I'd like to thank my colleagues for their enthusiasm and support. They're doing more volunteering and fundraising than ever and we couldn't do it without them.

£3.1m

Total community investment[2]
(2022: £3.2m)

1. Net Promoter Score (NPS) is a measure of customer advocacy that ranges between -100 and +100, which represents how likely a customer is to recommend our products and services.
2. Total community investment made by the Society has been determined in line with the Business for Societal Impact (B4SI) framework.

Chief Executive's review continued

The Society's financial strength brings opportunities to do more to help and, as we did last year, we donated £1 million to provide emergency funding plus support for ongoing services in our local community. I am extremely proud that the Society is making such a tangible difference both locally and nationally.

Engaging colleagues

We now have over 3,000 colleagues at the Society – another tangible impact of our success as we grow and provide new and exciting career opportunities to more people.

Ensuring that we attract and retain great talent is key to achieving our strategic ambition, and key to this is putting in place the right environment for all colleagues to thrive. We invest in getting this right through a combination of support, challenge, development and reward.

The Great Place to Work survey offers a proxy for our performance across all these elements, and I was delighted that we again increased our Trust Index score which now stands at +81 (31 December 2022: +77). This puts us amongst the best in our 'super large company' category and shows a level of engagement that differentiates us. I firmly believe that it is key to the brilliant service and products we offer, the pace of change we are delivering and the great member satisfaction I talked about earlier.

One of the most important aspects of this is to create a diverse, inclusive and collaborative environment that attracts the brightest, most capable people who are representative of the communities we serve, something I feel is more relevant than ever.

In 2023, we were recognised as one of the best workplaces for women and have won awards for the wellbeing support we offer too. Our Executive team has a 50:50 male:female split, and we're only 1% off our 40% female target for all senior leader roles.

We have achieved an initial goal for 10% of senior leadership roles being undertaken by people from ethnic minority backgrounds and although we have more to do across all leadership roles, we are making progress. I am encouraged by the high levels of engagement of colleagues from ethnic minority backgrounds and their strong representation in our talent and development programmes.

One new initiative we launched this year was the Colleague Regular Saver. Recognising that financial resilience is a key contributor to personal wellbeing, each colleague who opened an account received £100 to encourage starting a new savings habit. It also gave them an invaluable opportunity to walk in the shoes of our members. This is something I am sure will lead to new ideas and even better ways of doing things. Nearly 2,000 eligible colleagues have taken up this opportunity, which is very much in keeping with our culture and values.

A strong and balanced performance

I used these words in my introduction to describe a performance which delivered great security, value and service to our members, but also an increased pace of change, brilliant colleague engagement and real progress on our sustainability agenda.

We also took decisions to ensure the Society's financial strength and stability, recognising the economic uncertainty through the year, and the likelihood of increased economic headwinds and a lower interest rate environment to come.

In 2023, our profit before tax of £474 million was higher than in 2022 (31 December 2022: £371 million.) This was supported by the increases in Bank of England Base Rate during the first part of the year, which benefitted margin and income, and strong levels of lending, notwithstanding the additional value paid to members.

As in 2022, we also took prudent decisions to protect current and future members by strengthening our capital position. Our leverage ratio increased to 5.4% (31 December 2022: 5.2%) and our Common Equity Tier ratio of 29.1% (31 December 2022: 27.4%) remains well above regulatory requirements. Our Liquidity Coverage Ratio was 227% (31 December 2022: 195%). The strength of our capital and liquidity position offers reassurance to members now, and in the future, as well as providing the foundations for future growth and investment.

£474m

Profit before tax

(2022: £371m)

Looking to the future with confidence

What will happen to the UK economy and housing market next year is difficult to forecast. Markets are predicting the Bank of England Base Rate will fall but not to the historic lows of the previous decade. It is anticipated the UK housing market will remain subdued, albeit with some recovery from the lows of 2023. It is clear profitability and earnings levels have peaked but we will continue to make balanced judgements on growth, capital and value to members.

As I have said, our mutual business model is robust and we will adapt to continue providing the security, value and service our members expect. We will also continue with our investment plans to remain relevant and resilient in the future. Our strong financial performance in 2023 and previous years, means we are well capitalised, and members and investors alike can be reassured by this.

David has mentioned our interest in acquiring The Co-operative Bank. There is little I can add to his brief comments, other than to say thorough and detailed due diligence is being undertaken and we will only pursue this if we believe it is in the best interest of current and future members.

It has been a strong year for the Society. I would like to thank my colleagues for their hard work and dedication, and our members for their loyalty and trust.

Stephen Hughes
Chief Executive
28 February 2024

Our strategy

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

We review our strategic priorities each year to ensure we continue to meet the expectations of our members and other stakeholders.

Our strategic compass provides the direction for the business we aspire to be in the longer-term.

Our Purpose

We exist to make people better off through life.

Our responsibility is to balance the needs of different stakeholder groups, empowering 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 Belief

Putting Members First

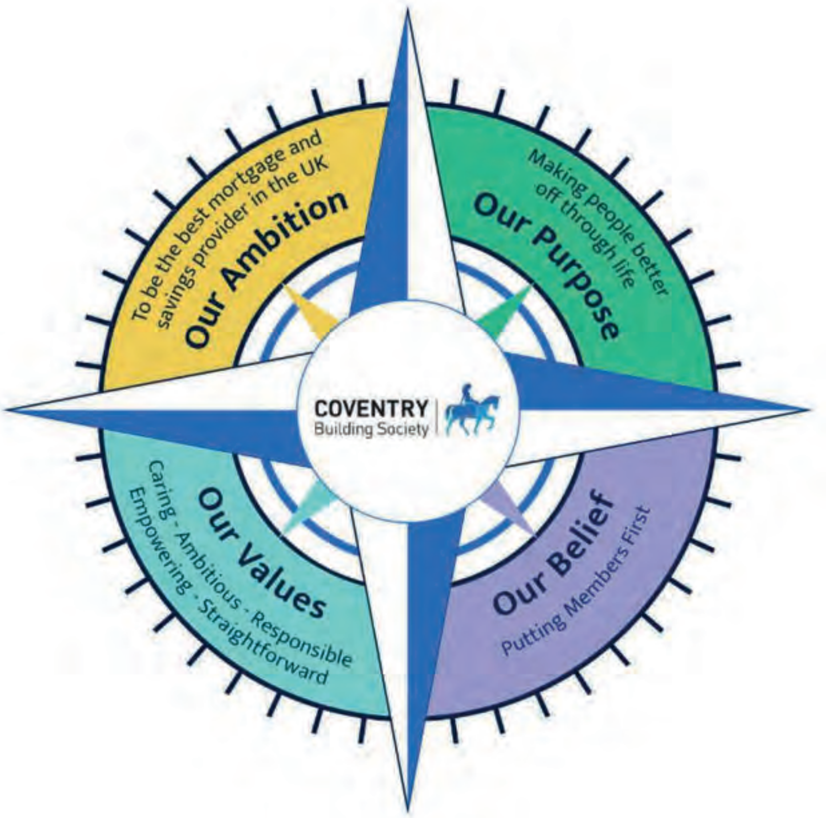
We believe in remaining an independent, customer-owned building society.

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

Our CARES Values

Our values are to be **Caring, Ambitious, Responsible, Empowering** and **Straightforward.**

These are reflected in our behaviours with each other, with members and customers, and with other stakeholders as a key driver of trust and to sustain a strong culture.



Our strategy continued

Our strategic priorities support our focus and direction for the business with members, customers 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 are also supporting customers to reduce the carbon footprint of their homes through education and products. 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 better digital capabilities that offer an improved choice of product options, better servicing and better technology for our colleagues. • Backed up by friendly, caring and well-trained employees in our branches and UK contact centres offering 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 and data 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 supporting 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 efficiently as an enabler of growth, long-term value and service, continuing to invest to meet stakeholders' and regulatory expectations.

Our business model

As a building society, we are owned by our members. We have a simple focused business model that enables us to deliver our products, services and long-term performance.

Inputs	Outputs
Infrastructure Our critical technology systems were available 99% of the time during 2023. These systems supported the distribution of our products via our 64 branches, our telephone channels and digital self-service options. **Suppliers and intermediaries** We distribute over 90% of our mortgage products via mortgage brokers and intermediaries. Our business is supported by over 600 suppliers of which 90 provide critical services.	**Our simple business model** We receive interest and fee income from mortgage customers. We then pay interest to savings members and 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, and to invest in improved technology, products and services. Any remaining profit is retained as capital to fund future growth and provide financial resilience in the event of an economic downturn or other shock. We have a lower risk approach to lending than the average UK mortgage provider which also supports this financial resilience. This 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 nearly 140 years ago.
Financial We use the retained profits from 139 years of trading, plus other forms of financial capital and funding from outside investors, together with the savings of our members, to fund mortgage loans to customers. **Natural** We are investing and changing to eliminate fossil fuels from our operations and supply chain. We are committed to reducing the carbon footprint of both our own business activities and our financed emissions on the homes that we provide mortgages on.	**Our customers** We provide residential mortgages and 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. We provide 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. Our buy to let business diversifies our lending and helps create value for our wider membership, through better savings rates and services than we could otherwise provide.
Colleagues We depend on an engaged and diverse workforce of over 3,000 UK-based colleagues who deliver our services to 2 million customers across every region of the UK. We support flexible and hybrid working where possible, allowing our people to work from home and to balance their family and other responsibilities.	**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. 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. We choose not to provide investment advice, insurance products or to lend on anything except secured residential property. We serve our customers through our network of branches and agencies, online, via the telephone, through our intermediary partners and through savings platforms.

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, as a Society, 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 human service through whatever channel they use to interact with us. • 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 (and proportionate for local SME suppliers). • Decisions that are made in a consistent, ethical and fair way.
How do we engage with them?	• Our Member Panel, an online forum of 10,000 members. • Regular research with customers, prospects and intermediaries. • Complaints monitoring. • Online Video Member Talkback sessions for executives and Board members to meet and discuss specific topics with customers. • Our AGM 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, including the launch of our new intranet. • Through our recognised union, Unite.	• Regular governance meetings with key suppliers. Suppliers are provided with feedback on sourcing activities they are involved in, including debriefing unsuccessful suppliers. • Supplier relationship management processes. • Annual supplier surveys to gain an understanding of the views of our suppliers. • Supplier strategy events.
What's been important for them in 2023?	• 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. • Less paper and a mobile savings app.	• Our remuneration strategy and focus on financial wellbeing. • Supporting flexibility in ways of working. • Our response 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, ESG, reward, and the Society's people strategy. • The Board supported the launch of the Colleague Regular Saver to help build financial resilience and encourage colleagues to save.	• The Board approved the 2023 ESG Plan to align our procurement practices to the international standards for sustainable procurement. • In 2023, the Society was the first building society in the UK to be awarded the ISO 20400 sustainable procurement standard.

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. • Key points of contact established and maintained in each of the organisations we work with. • Established a long-term partnership with new charitable partner.	• 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 2023?	• The Society's roadmap to achieving Net Zero ambitions. • Product propositions aimed at helping members improve the energy efficiency 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. • Creating access to opportunities and raising aspirations.	• Our Climate Action Plan, outlining our progress towards improving our impact on the environment. • Detailing our approach to a Net Zero future.
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.	• £1 million support to local communities. • The Board considered our ongoing investment in the Society's community strategy. • Approved the partnership with a new corporate charity, Centrepoint, working together with partners to support campaigning to end youth homelessness by 2037.	• The Board considered the impact of climate change on both the Society, its customers and wider stakeholders and approved the multi-year Climate Action Plan published on our website. • The Board considered the results of the annual materiality assessment giving a greater understanding of the material issues to our stakeholders, helping to inform our sustainability agenda throughout 2023.

Building a sustainable Society

Our achievements in 2023

B Corp
first building society to be B Corp certified

Over
8,000
hours of colleague volunteering

ISO 20400
Sustainable Procurement certification achieved

Carbon neutral
since 2021 for our own operations

New charitable partnership with
Centrepoint
in place

ISO 14064-1
emission certification retained

81%
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 recognised:

Certified B Corp - A growing global community of businesses that demonstrate their commitment to people and the planet and which spans 89 countries and over 160 industries. Becoming B Corp certified is the beginning of a journey of continuous improvement and involves the organisation making a commitment to use their business as a force for good and to be the change they want to see in the world.

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:

Certified B Corporation | Sustainable Development Goals | UN environment programme finance initiative | Fair Tax | Best Workplaces in Financial Services & Insurance – Great Place To Work UK 2023

Building a sustainable Society continued

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.

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.

The Plan's objective of the Society being a 'people and purpose-led mutual' and being made a reality is achieved by the strategic goals as outlined on page 13:

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 is provided on our website at www.thecoventry.co.uk and in our annual Sustainability Report published.

Building a sustainable Society continued

Progress with our sustainability priority goal

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 2023, we delivered:

- 180 apprentices since 2021.
- 56% of senior managers recruited internally in 2023.
- Over 29,000 children and young people supported since 2021.

Sustainable Development Goal - Sustainable cities and communities

Why we 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 2023, we delivered:

- 3,586 people supported through Access to Housing.
- We supported 6,300 first time buyers and we are working on new build propositions to help them.

Sustainable Development Goal - Climate action

Why we 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

- Become carbon neutral for our own operations in 2021.
- Ambition to become net zero for our Scope 1, 2 and partial 3 emissions in 2030.
- Ambition to be entirely net zero by 2040.
- 50% reduction in paper by 2023, compared to 2017 levels.

In 2023, we delivered:

- Remained carbon neutral for Scope 1 and 2 emissions (since 2021).
- Reduced our Scope 1 and 2 emissions.
- 50% reduction in paper consumption since 2017.

Sustainable Development Goal - Decent work and economic growth

Why we 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

- 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 Society Supplier Code of Conduct by 2023.

In 2023, we delivered:

- 43% of roles filled by internal candidates.
- Sustainability features in supplier due diligence questionnaires and request for proposal documents.
- 39% of all senior manager and above roles held by women (2022: 38%).
- 14% of manager and above roles held by colleagues from ethnic minority groups (2022: 12%).
- 100% of our suppliers committed to the Society Supplier Code of Conduct.

Building a sustainable Society continued

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 2023 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. The Society's General Counsel chairs both the Diversity & Inclusion Council (made up of senior leaders from across the Society) and the Diversity & Inclusion Thinktank (made up of a cross-section of colleagues at all levels), which provide challenge, leadership and practical support to our approach and progress on the topic.

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 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 training and 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 trafficking 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 risks to the Society and our future performance, we consider the following key external environmental factors:

Economic environment

The UK economy remained subdued but avoided recession in 2023 as high inflation, triggered by global unrest and domestic political uncertainty, impacted economies around the world.

Inflation, including housing costs, peaked at 9.6% in October 2022 falling to 4.2% at the end of 2023 (2022: 9.2%), still significantly above the Bank of England's 2% target.

Central banks around the world responded to high inflation by continuing to increase interest rates in order to reduce demand from consumers and businesses. The Bank of England increased its own rate five times in 2023 to 5.25% (2022: 3.50%), the highest level since February 2008.

Higher interest rates have led to a slowdown in economic activity, higher unemployment and lower house prices and housing market activity. The level of job vacancies is falling and the unemployment rate increased in the last 12 months to 3.8%[1] (2022: 3.7%).

Housing and mortgage market activity slowed, with house prices falling[2] by 1.8% in 2023 (2022: growth of 2.8%). The number of housing market transactions also fell to 0.8 million (2022: 1.0 million). The combined effects of rising unemployment and higher interest rates led to an 0.21% increase in arrears from historically low levels in 2022.

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 increased across the first half of 2023 but with a contraction of new business rates in the last quarter. The level of deposits in retail savings and current accounts remained high at £1.8 trillion (2022: £1.7 trillion), an increase of £347 billion compared with pre-pandemic levels. The weighted average market savings[3] rate increased from 0.63% to 2.43%, while household savings balances in the UK grew by 1.1% (2022: 4.1%).

Mortgage market

Borrowers in the UK mortgage market experienced rising interest rates throughout 2023. This is likely to lead to significant increases in monthly payments for those remortgaging in 2024, and is likely to reduce the amount borrowers are able and prepared to borrow. This is contributing to a fall in the level of mortgage market activity and growth. Overall, the mortgage market remained broadly flat[4] in 2023 (2022: 4.1% growth).

Rental market

The buy to let market (properties that are privately rented and owned with an outstanding mortgage), remained broadly flat in 2023. However the sector experienced a significant reduction in new lending during this period due to rising interest rates, lower house prices and increased costs impacting on landlord returns. Changes to interest tax relief are seeing an increasing number of landlords transferring properties to limited companies.

The UK rental market continues to be tumultuous as tenants find themselves navigating surging rent prices and fierce competition for available properties. That said, the rental growth seen over the last three years, stimulated by the re-opening of the economy post pandemic, strong labour market and higher mortgage rates has begun to plateau in the second half of 2023. Demand is expected to moderate in the near-term in the face of worsening affordability and as supply of rental homes improves slightly.

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 Society has implemented the FCA's Consumer Duty principles for 'on sale' products and will be fully compliant for 'off sale' products by July 2024.

Prudential regulators continue to focus on the need for financial resilience beyond a firm's standard operational activities, for example capital resilience through changing MREL[5] regulation, Basel 3.1 capital floors.

Technology

Technology continues 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 branches. Data needs to be kept secure and free from cyber attack. Online mortgage switching platforms are emerging alongside digital solutions for both savers, investors and borrowers.

Climate change

As evidence of increased climate change builds, consumers and regulators remain attentive to environmental issues. Knowledge of this topic continues to evolve and grow. Regulatory disclosures 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.
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 the 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 pages 31 and 32 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
Economic and geopolitical uncertainty	
Global conflicts and high demand following the pandemic has increased inflation and interest rates. The Bank of England Base Rate rose from 0.25% at the beginning of January 2022 to 5.25% at December 2023. This has increased the rates borrowers will pay on their mortgages and impacts affordability and ability to repay their mortgages. The UK must hold a general election before the end of January 2025 and many other democracies are holding national elections in 2024.	The Society performs regular stress testing considering the impact of different economic scenarios and confirms that we expect to withstand severe but plausible 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 proactively contacting customers who may be most impacted by higher mortgage rates. In addition, the Society is holding credit loss provisions to protect against the risks which have yet to emerge in modelled data.
Housing, mortgage and funding market environment	
A continued 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 higher cost of living and ending of the Term Funding Schemes and quantitative easing measures could lead to higher funding costs. Disruption to funding markets could impact the Society's ability to raise wholesale funding, including that necessary to meet its MREL requirements.	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. In more extreme scenarios, the Society can moderate its rate of growth to reduce its funding and capital requirements.
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. The Society improved its digital channels during 2023 and continues to prioritise this in 2024.
Technology and innovation	
There is a risk that the level of investment in technology and innovation does not keep pace with core market competitors, reducing the Society's relative attractiveness to customers, or that the change delivery itself could impact service levels, growth or other performance measures.	The Society's adoption and embedding of a scaled agile change model together with ongoing investment continues to improve the resilience, flexibility and efficiency of delivering technology and other change. Strong financial performance continues to enable accelerated investment in cloud strategy and digital platform investment.

Top and emerging risks continued

Risk	Mitigation
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 and governs a range of operational risk types in accordance with risk appetite. The Society has operational resilience capabilities in place (spanning crisis management, business continuity, technology, data, people, supply chain and property), which aim to ensure the Society's key services are resilient to disruptions and stress. 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 introduction of Consumer Duty and implementation of Basel 3.1 are two examples of the increase in regulatory expectations that the Society is responding to.	The Society conducts horizon scanning and engages with trade bodies and its regulators to ensure the impact of regulation on its business model is managed closely. The Society continues to undertake work to enhance its preparedness for future regulatory expectations and is in regular dialogue with both the PRA and the FCA on current and future matters impacting the organisation.
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 Sustainability Report and the Climate section of the Annual Report & Accounts.

Chief Financial Officer's review

Our financial performance has been very strong, which enabled the Society to deliver more value to members than ever before and further improves our financial strength.

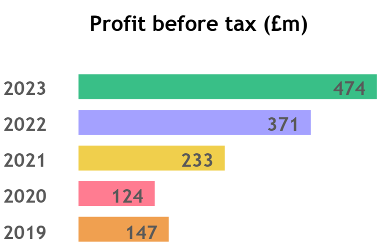
2023 has seen very high inflation and continued increases in the Bank of England Base Rate. The rise of inflation in the first half of the year and the fall in the second half has caused significant market volatility not helped by the ongoing geopolitical unrest.

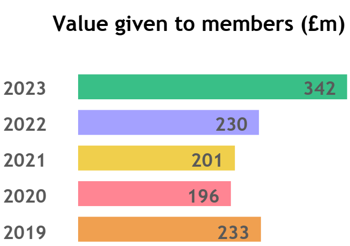
Against this challenging macroeconomic backdrop, we are proud to have delivered a very strong set of financial results for our members. This has been underpinned by our belief in delivering value to members and outstanding levels of service, whilst continuing to maintain a resilient balance sheet.

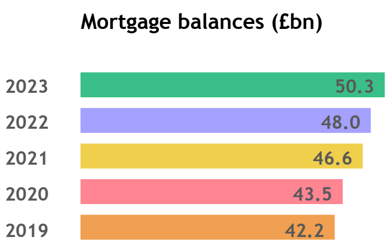
Financial Highlights

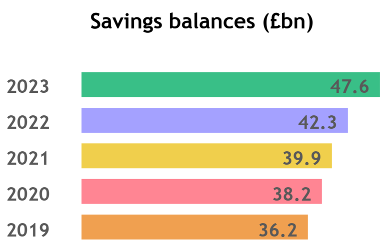
- Our profit before tax increased to £474 million (2022: £371 million), an increase of 28% from the prior year and a 16% increase in income, supported by the rising base rate.
- Our highest ever distribution in value given to members of £342 million (2022: £230 million)[1], with 12.5% growth in savings balances demonstrating the competitiveness of our savings rates and our approach to rewarding loyalty.
- Our mortgage balances grew by 4.7% in a flat market and passed £50 billion. This has been underpinned by the great products and service for our mortgage customers and brokers in a challenging market, which included maintaining our two day broker pledge.
- The Society has continued to invest significant time and money on improving and modernising services with £92 million spent on our strategic investment programme, ensuring we stay relevant and resilient.
- The uncertain economic outlook and the challenges that brings is a reminder of the importance of maintaining financial strength and in this context, I'm pleased to report a further improvement in the leverage ratio to 5.4% (2022: 5.2%).

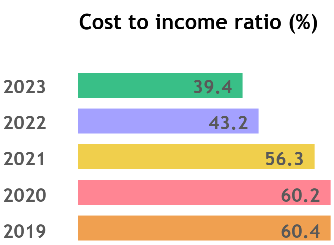
Lee Raybould
Chief Financial Officer
28 February 2024

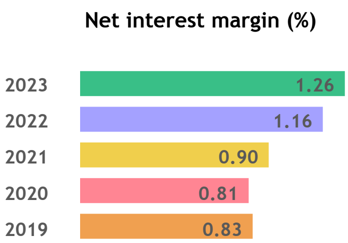


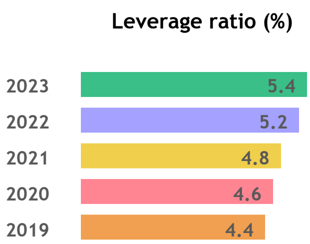


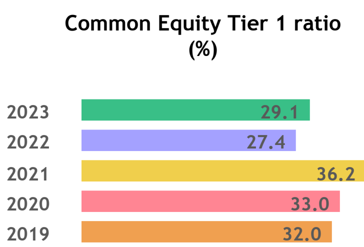












1. Value given to members is based on the Society's average month end savings rate compared to the CACI Ltd's Current Account and Savings Database rest of market average rate for savings accounts, excluding current accounts and offset savings, for the 12 months of the year.

Chief Financial Officer's review continued

Income Statement

Overview

In 2023, the Society delivered a very strong financial performance during what has been a challenging year with further increases in Bank of England Base Rate and significant market volatility. The following factors impacted the 2023 financial results:

- Net interest income increased by £110 million, driven by the rising base rate environment with mortgage interest receivable rising more quickly than interest payable on retail deposits in the first half of the year. With the base rate stabilising in the second half of 2023, we have seen a reduction in net interest income predominately due to competitive pressure in the mortgage market and the impact on mortgage and fixed rate saving repricing.
- Gains on derivatives and hedge accounting of £30 million (2022: £27 million gain) due to market volatility and changes to customer behaviour.
- Management expenses have increased by £17 million, driven in the main by inflation across all our activities, increased service and strategic investment and IT run costs.
- We have further increased our provisions for future expected credit losses (ECLs) in light of the continued uncertainty surrounding the economic outlook and the evolving cost of living crisis. As a result, £7 million of ECL provisions were charged in 2023, in addition to the £17 million charge in 2022.

Taking account of these factors, profit before tax for the year increased to £474 million (2022: £371 million).

	2023 £m	2022 £m
Interest receivable	2,992.5	1,421.1
Interest payable	(2,225.3)	(763.8)
Net interest income	767.2	657.3
Other income & charges	(5.2)	(1.6)
Gain on derivatives and hedge accounting	30.3	26.8
Total income	792.3	682.5
Management expenses	(311.9)	(294.8)
Impairment charge	(6.9)	(16.6)
Charitable donation to Poppy Appeal	–	(0.6)
Profit before tax	473.5	370.5
Tax	(122.4)	(84.3)
Profit after tax	351.1	286.2

Net interest income

Net interest income increased to £767 million (2022: £657 million).

The Bank of England Base Rate increased five times during the year, increasing from 3.50% at 31 December 2022 to 5.25% at 31 December 2023.

Interest receivable on mortgages and related hedging programmes increased by £1,167 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.

We also benefitted from an additional £405 million of interest receivable as a result of increased liquidity balances within a higher interest rate environment.

Interest payable on retail savings increased by £1,177 million following the five base rate increases during 2023 and the full year impact of the base rate increases in 2022. For each base rate change during 2023, we have passed through on average 65% to our savings members. Throughout 2023, the Society continued to pay above average savings rates, returning £342 million (2022: £230 million) in member value compared to market average rates[1], whilst continuing to invest in the Society and maintain its long-term resilience. This represents 0.81% above the market average rate.

In addition, we paid an incremental £285 million of interest on our wholesale funding.

Net interest margin

At 1.26%, our net interest margin increased from the 1.16% reported in 2022, as a result of the movements in net interest income outlined above relative to our average total assets. The net interest margin peaked at the end of the first half of 2023, off the back of 14 consecutive increases in the base rate before reducing in the second half of the year as the base rate stabilised and assets and liabilities repriced.

	2023 £m	2022 £m
Net interest income	767	657
Average total assets	60,665	56,698
	%	%
Net interest margin	1.26	1.16

Derivatives and hedge accounting

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

The Society applies hedge accounting where possible and its approach continued to be effective throughout the period. The gain for the year of £30 million (2022: £27 million gain) predominantly reflects two factors.

Firstly, we have updated our assumptions on mortgage prepayments to reflect customer behaviour more accurately. This has had the effect of crystallising fair value gains on mortgage interest rate swaps and resulted in a gain of £81 million.

Secondly, with such a significant increase in interest rates, we have seen members choosing to pay penalty interest to exit their fixed rate ISA products early. This has been offset by a loss of £63 million due to the impact of this customer behaviour on our derivatives portfolio.

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.

Chief Financial Officer's review continued

The residual net gain represents hedge ineffectiveness and fair value movements on derivatives where hedge accounting was not obtained.

Management expenses

Overall management expenses increased by £17 million. The increase in costs was driven by salary and cost inflation, investment in service capability, a further increase of £3 million in spending related to the Society's strategic investment programme, and the impact of higher variable pay in recognition of the strong performance against our targets.

IT costs have increased by £9 million as a result of increased licensing costs, as we continue to invest in business growth, resilience and inflationary pressures. This has been offset by a reduction in depreciation. We also maintained our contribution to community and charitable activities.

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 income ratio improved to 39.4%[1] (2022: 43.2%), predominately due to our strong income performance.

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 despite the persistent level of inflation, increases in mortgage payments and decline in House Price Index (HPI) during the year.

The Society has updated its economic scenarios to account for the continued expected uncertainty in the economic outlook, including the latest expectations for inflation, the slightly more favourable house price index (HPI) forecast, and in turn, the impact on expected credit losses (ECLs).

That said, with the full impact of the higher interest payments not yet seen, due to the volume of five year mortgages yet to mature, we have continued to refine our cost of living post model adjustment (PMA) to reflect the potential risk associated from the continuing increase in the cost of living and higher mortgage payments for our borrowers.

Consistent with previous years, we have taken a deliberately cautious approach to estimating ECLs, given the structural challenges facing our members as outlined above. This has resulted in an increase to our provision for ECLs, and a charge of £7 million (2022: charge of £17 million) being recognised.

At the year end, total provisions were £43 million (2022: £36 million), of which £24 million (2022: £19 million) related to PMAs.

£18 million (2022: £16 million) of ECL provision relates to the core modelled losses, including the impact of alternative economic scenarios. The alternative scenarios reflect a range of possible outcomes as the economy continues to see further periods of uncertainty related to cost of living affordability pressures and house price movement.

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 (£18 million).
- 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 or cladding remediation within the portfolio.

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 2023, stage 2 accounts increased to 14.5% (2022: 9.3%) principally due to the cautious cost of living PMA recognition criteria. 98% of these stage 2 accounts remain up to date with their mortgage payments. 85.0% of the book remains in stage 1 (2022: 90.3%).

As a result of these changes, the ECL provision now equates to 0.08% of the overall mortgage book (2022: 0.07%).

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

Taxation

In 2023, the corporation tax charge was £122 million (2022: £84 million), reflecting an effective tax rate of 25.9% (2022: 22.8%). During the year, the standard rate of UK corporation tax has increased from 19% to 25%, with the incremental charge in the effective tax rate mainly related to the banking surcharge. Further information is included in note 15 to the accounts.

1. Administrative expenses, depreciation and amortisation/Total income.

Chief Financial Officer's review continued

Balance Sheet

Overview

Our core trading performance for both mortgage and savings was strong in the year. We took the conscious decision to grow savings balances at more than twice the rate of mortgages which has both supported earnings in the year and also helped to pre-fund Term Funding Schemes (TFSME) repayments in the period ahead. The strong earnings in the year have further increased general reserves and capital, improving the financial resilience of the Society.

A summarised Balance Sheet is set out below:

	2023 £m	2022 £m
Assets		
Loans and advances to customers	**50,276.1**	48,014.3
Liquidity	**10,924.3**	10,009.8
Other	**1,262.3**	843.0
Total assets	**62,462.7**	58,867.1
Liabilities		
Retail funding	**47,582.3**	42,288.7
Wholesale funding	**10,845.5**	13,207.2
Subordinated liabilities and subscribed capital	**57.0**	57.0
Other	**738.3**	366.5
Total liabilities	**59,223.1**	55,919.4
Equity		
General reserve	**2,573.2**	2,250.7
Other equity instruments	**415.0**	415.0
Other	**251.4**	282.0
Total equity	**3,239.6**	2,947.7
Total liabilities and equity	**62,462.7**	58,867.1

Loans and advances to customers

Our lending strategy remains primarily focused on high quality, low loan to value (LTV) mortgages within the prime residential market. These loans are mainly distributed through third-party intermediaries, giving the Society a regionally diverse mortgage portfolio in a cost-effective way.

The Society manages its growth according to the economic conditions, market pricing and funding conditions. In 2023, we advanced £7.9 billion of mortgages (2022: £8.7 billion) and mortgage balances grew by £2.3 billion (2022: £1.4 billion). The year on year growth in mortgages of 4.7% compares with a broadly flat UK mortgage market and our market share remained at 3%[1] (2022: 3%).

This growth was complemented by lower levels of redemptions following the Bank of England Base Rate rises in the first half of the year.

New lending on owner-occupier homes accounted for 81% of total new lending in 2023 (2022: 67%) at an average LTV of 67.0% (2022: 65.3%). The Society continues to support first time buyers and increased the number of loans advanced in 2023 to 6,300 (2022: 5,400).

Total mortgage assets at 31 December 2023 stood at £50.3 billion (2022: £48.0 billion) which comprised £30.9 billion of owner-occupier loans (2022: £28.5 billion) and £19.4 billion buy to let loans (2022: £19.5 billion). The balance weighted indexed LTV of the mortgage book at 31 December 2023 increased slightly to 53.8%[2] (2022: 51.0%) when compared to prior year as a result of reductions in house prices.

Possessions and forbearance remained low, with 25 cases in possession at the year end (2022: 27) and forbearance levels having increased by 5% year on year in value terms and 2% in number of cases. With the impact of the cost of living pressures expected to evolve further in 2024, the Society continues to focus on supporting its members and has been cautious in estimating expected credit losses. At 31 December 2023, only 0.26% of mortgages were more than three months in arrears, which remains a very low number both historically and when compared with the latest available industry average of 0.91%[3]. Whilst this represents an increase in the year (31 December 2022: 0.17%), the low actual number of cases more than three months in arrears of 929 (31 December 2022: 564) demonstrates the resilience of the portfolio despite challenging economic conditions. The vast majority of these accounts have an LTV below 75%. The buy to let book saw a proportionately larger increase in arrears but from a very low base.

Liquidity

Liquid assets increased to £10.9 billion (2022: £10.0 billion) as we maintained a prudent liquidity buffer, demonstrated by our Liquidity Coverage Ratio (LCR) remaining strong at 227% (2022: 195%), 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 94% of the portfolio rated Aaa-Aa3 (2022: 93%). 96% of liquid assets are held in UK sovereign or UK financial institutions (2022: 98%).

Included in liquid assets are £1.6 billion of assets held at fair value through other comprehensive income (FVOCI). As at 31 December 2023, the balance on the FVOCI reserve was a £1 million gain, net of tax (2022: £5 million gain, net of tax).

Retail funding

Retail savings increased in the year by £5.3 billion to £47.6 billion (2022: £42.3 billion), representing growth of 12.5%, compared with market growth of 1.1%. The Society's overall savings market share is 2.7%[1] (2022: 2.4%).

The Society continued to support the cash ISA market, with our market share of 6.5%[1] broadly unchanged from prior year (2022: 6.7%). Our increase in overall savings market share reflects the strength of our proposition and our desire to increase the value we distribute to members whilst de-risking our future funding plan.

Our mortgage book continues to be predominantly funded by retail savings, with 95% of mortgage loans funded in this way (2022: 88%).

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

Chief Financial Officer's review continued

Wholesale funding

We use wholesale funding to diversify our sources of funding, enabling growth and lowering risk, which then benefits both mortgage and savings members through better rates.

Wholesale funding reduced by £2.4 billion in the year to £10.8 billion (2022: £13.2 billion) driven by our strong savings performance, which supported the repayment of £1.8 billion of TFSME.

Wholesale issuances during the year, comprised of a £500 million covered bond in March 2023 and a total of £750 million residential mortgage backed securities (RMBS) issued in January and November 2023. There was £3.45 billion of central bank Term Funding (TFSME) outstanding as at 31 December 2023 (2022: £5.25 billion).

Equity

The Society's equity is predominantly made up of 139 years of retained profits in the general reserve and Additional Tier 1 (AT 1) capital. The Society made post-tax profits of £351 million in the year and total equity increased by £0.3 billion to £3.2 billion, inclusive of a £29 million distribution to AT 1 capital holders and a £27 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 £4 million at the end of 2023 (2022: £3 million). These assets and liabilities are impacted by market movements. The movements in the year were driven by the updated valuation of the pension scheme assets along with changes in the UK corporate bond market and latest triennial valuation assumptions impacting the scheme liabilities position. 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 position as at 31 December 2023 is summarised below. During the year, the capital resources increased to £2,891 million, primarily through the increase in Common Equity Tier 1 (CET 1) driven by profit after tax of £351 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 5.4% (2022: 5.2%) driven by the increase in capital resources in the year. The Society expects leverage will be its binding constraint in the future once we pass £50 billion in retail deposits.

The increase in risk weighted assets (RWAs) in 2023 was driven in the main by an update to the IRB modelling approach and the mortgage book growth seen in the year. This has been offset by strong profitability contributing to increased capital resources. The Society's CET 1 and Total Capital ratios consequently improved to 29.1% (2022: 27.4%) and 34.0% (2022: 32.7%) respectively.

The Society continues to work towards meeting regulatory changes for IRB models that are impacting firms across the industry. Updated models have been submitted to the PRA for approval in the first half of 2023 and we are awaiting feedback.

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.

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 21.7%.

The Society's Total Capital Requirement (TCR) at December 2023 was £905 million, equating to 10.7% of RWAs (2022: £846 million; 10.7%). We exceed this requirement using CET 1 capital alone.

	End-point 31 Dec 2023 £m	End-point 31 Dec 2022 £m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	**2,475.5**	2,169.0
Total Tier 1 capital	**2,890.5**	2,584.0
Total capital	**2,890.5**	2,584.0
Risk weighted assets	**8,499.1**	7,911.7
Capital and leverage ratios:	**%**	%
Common Equity Tier 1 (CET 1) ratio	**29.1**	27.4
Leverage ratio including central bank reserves and full AT 1 capital amount	**4.6**	4.5
UK leverage ratio[1]	**5.4**	5.2

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.

Other information

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 and its calculation is set out within the Glossary on page 174.

Non-financial information

The Society has voluntarily applied the requirements of Sections 414CA and 414CB of the Companies Act 2006 relating to the disclosure of non-financial and sustainability (environmental, social and governance) information. The information is integrated across the Annual Report & Accounts and therefore we have used cross-referencing to avoid duplication.

Reporting requirement	Page
Business model	14
Top & emerging risks	22
Key risk management	31
Key performance indicators	4, 98
Colleagues	15
Human rights	20
Anti-bribery and corruption	20
Communities	16
Environmental matters[1]	19
Climate-related financial disclosures	55

1. Our full Environmental Policy is published on our website at www.thecoventry.co.uk.

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

Stephen Hughes
Chief Executive
28 February 2024

Risk Management Report

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

Introduction	31
Risk committee structure	34
Risk categories	
Credit risk	35
Market risk	41
Liquidity and funding risk	42
Conduct risk	48
Operational risk	48
Model risk	49
Strategic risk	50
Capital	51

Risk Management Report

Introduction

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

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

Principal risks

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

Principal risks are those risks that the Society believes could significantly affect the achievement of the Society's purpose. The principal risks were reviewed during the year and two categories of technology risk and data risk were elevated to recognise the prominence they already had at the Society. 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 pages 22 and 23.

Risk categories	Mitigation
Credit risk The risk of loss to the Society from retail borrowers or wholesale counterparties failing to meet their contractual payments in full and/or on time. Credit risk is supported by the following sub-categories: Retail credit risk and Treasury credit risk.	**Retail credit risk:** 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:** 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 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 behaviour and decision making at all levels, causes foreseeable harm and prevents the delivery of good customer outcomes, or fails to meet the standards articulated in the Society's purpose and belief in Putting Members First.	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. The Board plays an active role in oversight of these strategies and the delivery by the Society of good customer outcomes.
Operational risk The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The operational risk category excludes technology and data risks.	We actively identify, assess and manage operational risks across a number of categories to which the Society is exposed, consistent with Basel risk classifications, industry best practice and the Society's business model. We aim to continuously enhance our operational risk management framework to enable the Society to effectively manage its operational risk, thereby limiting incidents and associated losses to within appetite.
Technology risk The risk of loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data.	We continue to make significant investment in upgrading our IT estate and enhancing digital capabilities, IT operations and security defences. The Society monitors and assesses its protection from the increasing threat of cyber crime, implementing incremental improvements, thereby continually strengthening risk management capabilities. A new Board Technology Oversight Committee is in place.

Risk Management Report continued

Principal risks continued

Risk categories	Mitigation
Data risk The risk of the Society failing to effectively govern, manage and protect its data or evolve its data capabilities to align with customer needs and expectations or meet regulatory and legal compliance.	We are providing greater focus to data risk in light of increasing consumption and to support digitisation. Data risk capabilities are being enhanced and an Executive level committee has been established to provide governance and oversight.
Model risk 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.	We have implemented robust model risk management policies, comprising the Board policy on model risk and Model Risk Framework. These cover key governance requirements and processes applicable to critical models.
Strategic risk The risk that the business model fails as a result of not responding to changes to macroeconomic, geopolitical, regulatory (including climate change) or other factors (including changing customer behaviour and expectations in an increasingly digital world), or from making poor strategic choices.	We have a simple business model and a clear understanding of the risks and opportunities in the markets in which we operate. We have a robust strategic planning process which includes capital and liquidity stress testing and sensitivity analysis. We monitor changes in strategic planning assumptions and the market outlook to identify emerging risks which could threaten the business model over the medium- to long-term.

Controlling and managing risk

The Society operates a simple business model. It manages risk through the ERMF, which sets out the Board's approach to managing and overseeing risk by defining risk strategy; risk appetite; governance and control; and risk management in light of the Society's strategy. The ERMF is approved annually by the Board to ensure it operates effectively. The Society will continue to enhance the ERMF as required to ensure it identifies and manages risk within its low risk appetite.

Three lines of defence

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

First line of defence

The business

- Identifies, manages and mitigates the Society's risks.
- Is responsible for compliance with relevant regulation and legislation.
- 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, develops and ensures adherence to the Enterprise Risk Management Framework.
- Designs 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.
- Responsible for providing assurance that risk management processes are functioning as designed and that strong evidence regarding compliance with relevant regulation and legislation exists.

Risk Management Report continued

Risk management

The Society's risk management objectives are to:

- Identify risks to the strategic plan and to the Society's objectives.
- Assess risk exposures by impact and likelihood.
- Respond to risks by evaluating them against the Society's risk appetite, formulating associated management responses and monitoring progress against agreed management action plans.

Risks are identified, assessed, managed, monitored, escalated and reported in accordance with the requirements of the ERMF. Management information captures risk metric information against risk indicators, triggers and limits as appropriate. Where a trigger or limit is breached, an escalation process exists to ensure it is escalated, reported and managed effectively, through the appropriate channels.

Risk strategy

The Board sets the Society's risk strategy and risk management approach. The strategy includes establishing a robust risk culture, setting the Board's risk appetite and ensuring that the 'three lines of defence' model operates effectively.

Risk culture

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

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

- Tone from the top;
- Accountability;
- Effective communication and challenge; and
- Incentives.

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.

Risk committee structure

Board

Principal committees

Board Risk Committee (BRC)

To provide oversight in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite and tolerance and the effectiveness of the Society's framework for managing risk.

Board Audit Committee (BAC)

To oversee the effectiveness of the system of internal control and the effectiveness of the Internal Audit function and external auditors.

Chief Executive

Executive Risk Committee (ERC)

To oversee and monitor risk, and ensure that risk is being identified and managed efficiently across the Society in line with the Enterprise Risk Management Framework.

Management committees

Retail Credit Committee (RCRC)

To monitor management of retail credit risk and performance of mortgage book to ensure compliance with risk limits.

Conduct Risk & Compliance Committee (CRCC)

To oversee and manage delivery of good customer outcomes consistent with conduct risk appetite statement.

Asset & Liability Committee (ALCO)

To oversee balance sheet risks faced by the Society and market tisk, treasury credit risk and liquidity and funding risk.

Model Risk Committee (MRC)

To oversee management of model risks and exposure to risk remains within risk appetite statement.

Operational Risk Committee (ORC)

To oversee management of operational risks faced by the Society and the resolution of any risks that crystallise into risk events.

Technology Risk Committee (TRC)

To oversee management of technology risks faced and resolution of any risks that crystallise into risk events.

Data Risk Committee (DRC)

To oversee the management of data risks faced and resolution of any risks that crystallise into risk events.

Climate Risk Forum (CRF)

To oversee management of financial risks arising from climate change and demonstrate an understanding of the distinctive elements of these risks and a sufficiently long-term view.

Risk Categories

Credit risk

Credit risk is the risk of loss to the Society resulting from retail borrowers or wholesale counterparties failing to make their contractual payments in full and/or on time. Credit risk arises from the retail mortgage book and treasury assets held and therefore is supported by the following sub-categories:

- Retail credit risk; and
- Treasury credit risk.

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 £64.6 billion in 2023 (2022: £62.6 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 2023 £m	Off-balance sheet exposures[1] 2023 £m	Maximum credit risk exposure 2023 £m	On-balance sheet carrying value 2022 £m	Off-balance sheet exposures[1] 2022 £m	Maximum credit risk exposure 2022 £m
Cash and balances with the Bank of England	8,572.2	–	8,572.2	7,792.2	–	7,792.2
Loans and advances to credit institutions	787.9	–	787.9	622.8	–	622.8
Debt securities	1,564.2	–	1,564.2	1,594.8	–	1,594.8
Loans and advances to customers	50,276.1	1,909.2	52,185.3	48,014.3	2,316.0	50,330.3
Derivative financial instruments	1,513.5	–	1,513.5	2,278.1	–	2,278.1
Total	62,713.9	1,909.2	64,623.1	60,302.2	2,316.0	62,618.2

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

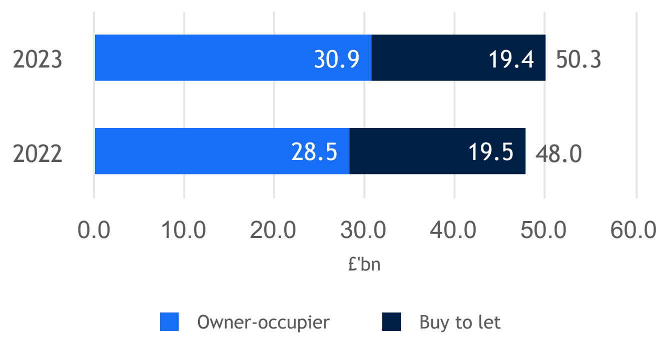
Retail credit risk

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 negligible 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 5.4% of the owner-occupier portfolio at 31 December 2023 (2022: 5.3%) with an average loan to value of 35.1% (2022: 32.4%).

Loans and advances to customers (Audited)



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

Risk Categories continued

Geographical concentration

The mortgage portfolio continues to be 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)	2023 %	2022 %
London	**26.9**	27.3
South East England	**18.5**	18.5
Central England	**14.2**	14.2
Northern England	**13.6**	13.4
East of England	**12.0**	11.8
South West England	**8.7**	8.8
Scotland	**3.5**	3.4
Wales and Northern Ireland	**2.6**	2.6
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 4.5 times income is closely monitored and by value 3.1% (2022: 4.9%) of advances were made at or above this level in 2023. The Society reduces maximum income multiples permitted if the loan term extends significantly into retirement to ensure it remains affordable, and constantly monitors how much lending it is doing at higher income multiples.

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 218.8% (2022: 203.4%), significantly above its minimum lending criteria. The Society also lends to portfolio landlords within the buy to let segment and takes a prudent approach to assessing portfolio LTV and income coverage ratios. There are also limits on the number of properties in the portfolio both in total and those which the Society will lend on. Each loan in a portfolio is assessed on a standalone basis and no allowance is made in the affordability assessment for other income of the borrower.

The LTV distribution of the mortgage book as at 31 December 2023 has remained broadly stable with 2022, 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 51.0% to 53.8% 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)	2023 %	2022 %
Indexed loan to value:		
< 50%	**52.8**	57.2
50% to 65%	**26.5**	26.8
65% to 75%	**11.7**	10.0
75% to 85%	**5.9**	4.0
85% to 95%	**2.7**	1.7
>95%	**0.4**	0.3
Total	**100.0**	100.0
Average indexed loan to value of stock (simple average)	**46.2**	44.0
Average indexed loan to value of stock (balance weighted)	**53.8**	51.0

The average indexed LTV of loan stock in London has increased to 52.6% (2022: 50.5%) as a result of movements in house prices during the year. The rest of the portfolio has seen indexed LTV increase marginally to 54.3% (2022: 51.1%).

The average LTV of gross new lending in 2023 is shown below, which has marginally decreased during the year.

Gross lending by balance - new lending profile (Audited)	2023 %	2022 %
Owner-occupier purchase	**44.9**	36.9
Owner-occupier remortgages	**34.3**	28.3
Owner-occupier further advances	**1.7**	2.3
Buy to let purchase	**4.3**	8.1
Buy to let remortgages	**14.4**	23.4
Buy to let further advance	**0.4**	1.0
Total	**100.0**	100.0
Average loan to value (simple average)	**59.9**	61.0
Average loan to value (balance weighted)	**64.9**	64.4

Retail credit risk management - mortgages

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

The Board sets prudent credit risk limits within the context of the Society's overall risk appetite and these are reflected in the Society's lending policy and credit controls. The limits are also tested in a severe but plausible stress scenario to ensure the Society is not exposed to risk outside of its appetite if such a scenario unfolds, and lending is tracked against these limits.

All mortgage applications are assessed against the Society's lending policy criteria to ensure consistent

Risk Categories continued

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 2023.

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

The Society's approach to payment difficulties

Cost of living challenges

The Society continues to support customers and closely monitor the impacts of the affordability pressures that both the cost of living inflationary challenges and a higher interest rate environment have given rise to over the last two years. 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. 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, as detailed below, is available related to the circumstances of the borrower. The Society also supports the Mortgage Charter, an initiative established in the year to provide short-term assistance to borrowers experiencing cost of living challenges.

Arrears performance

During 2023, the Society's longer-term arrears position has worsened, with £126.7 million (2022: £70.4 million) of accounts being greater than three months in arrears. The overall credit quality of the book however does remain high and arrears levels compare favourably to the UK Finance average. The vast majority of these accounts have an LTV below 75%. As at 31 December 2023, the Society had 25 properties in possession (2022: 27).

	2023		2022	
(Audited)	Gross balance £m	Arrears balance £m	Gross balance £m	Arrears balance £m
Greater than three months	**122.0**	**5.9**	66.3	3.1
Greater than six months	**62.2**	**4.2**	32.0	2.3
Greater than one year	**19.7**	**2.2**	13.6	1.4
In possession	**4.7**	**0.3**	4.1	0.2

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

	2023		2022	
(Audited - Society only)	Society %	UK Finance[1] %	Society %	UK Finance[1] %
Greater than three months	**0.26**	**0.91**	0.17	0.71
Greater than six months	**0.14**	**0.56**	0.08	0.45
Greater than one year	**0.04**	**0.26**	0.03	0.25
In possession	**0.01**	**0.03**	0.01	0.02

1. UK Finance data as at 31 December 2023 (31 December 2022).

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 on the following page 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.

As outlined in the table below, the overall number of loans in forbearance has increased marginally compared to 2022, but still stands at 0.2% of the total mortgage portfolio (2022: 0.2%). The average LTV (balance weighted) of accounts in forbearance as at 31 December 2023 remains low at 50.1% (2022: 47.2%) 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 below 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 2023.

Risk Categories continued

(Unaudited)	2023 No. of accounts	2023 Carrying value £m	2022 No. of accounts	2022 Carrying value £m
Forbearance: Accounts past due				
Concessions	**198**	**31.3**	144	19.9
Payment holidays	**65**	**8.7**	48	6.0
Product transfers	**2**	**0.2**	2	0.2
Temporary transfer to interest only	**12**	**2.0**	15	4.1
Term extensions	**–**	**–**	–	–
Forbearance Indicators: Accounts past due				
Concessions	**146**	**19.5**	158	19.5
Payment holidays	**212**	**26.3**	199	22.0
Product transfers	**1**	**–**	1	0.3
Temporary transfer to interest only	**30**	**4.9**	87	16.5
Term extensions	**2**	**0.2**	3	0.5
Total Forbearance	**668**	**93.1**	657	89.0
Of which Stage 2	**202**	**24.6**	211	26.1
Of which Stage 3	**307**	**47.9**	242	35.8
ECL on forborne accounts		**0.8**		0.6

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

Whilst economic headwinds persist, macroeconomic conditions have improved slightly given the relatively lower inflation and interest rates, and even though the labour market has remained resilient, the outlook for economic growth is somewhat muted. Customers are still being impacted by the cost of living challenges and higher interest rate levels and therefore the Society remains alert to these factors and will continue to manage policy in accordance with any emerging risks.

As at 31 December 2023, we have observed a modest increase in arrears levels albeit from a historical low point, and benchmarking data illustrates the high quality of the portfolio, but we 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 2024 and increased affordability pressures on borrowers.

Risk Categories continued

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 risk 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:

2023 (Audited)	Exposure value by Moody's rating Aaa-Aa3 £m	A1-A3 £m	Baa1-Baa3 £m	Unrated £m	Total £m
Central banks and sovereigns	9,270.4	–	–	–	9,270.4
Multilateral development banks (supranational bonds)	109.7	–	–	–	109.7
Financial institutions	690.5	240.5	–	458.8	1,389.8
Mortgage backed securities	154.4	–	–	–	154.4
Total	**10,225.0**	**240.5**	**–**	**458.8**	**10,924.3**

2022 (Audited)	Exposure value by Moody's rating Aaa-Aa3 £m	A1-A3 £m	Baa1-Baa3 £m	Unrated £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

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

	Treasury assets					Of which, debt securities		
2023 (Audited)	Sovereign £m	Supranationals £m	Financial institutions £m	Mortgage backed securities £m	Total liquid assets £m	Book value £m	Market value movement £m	Fair value £m
United Kingdom	9,270.4	–	984.1	154.4	10,408.9	1,496.6	(42.0)	1,454.6
Supranationals	–	109.7[1]	–	–	109.7	110.9	(1.3)	109.6
France	–	–	404.7[2]	–	404.7	–	–	–
Spain	–	–	1.0	–	1.0	–	–	–
Total	**9,270.4**	**109.7**	**1,389.8**	**154.4**	**10,924.3**	**1,607.5**	**(43.3)**	**1,564.2**

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.

Risk Categories continued

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	–	–	–
Spain	–	–	–	–	–	–	–	–
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) 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 collateralise the 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 £10.3 million derivative net credit exposure (2022: £0.6 million), of which £10.0 million is with A1 rated institutions (2022: £0.6 million), and £0.3 million relates to Aa3 rated institutions (2022: £nil).

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 2023. Due to the underlying quality of the assets, they have remained resilient to market volatility and the cost of living pressures.

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 2023 and is immaterial to the financial statements.

As at 31 December 2023, no treasury assets were past due (2022: none).

Treasury credit risk outlook

There remains uncertainty in the economic outlook moving into 2024. 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 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, i.e. an earning measure, over multiple timeframes, is monitored.

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 2023. 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.

Shock applied (Unaudited)	2023 £m	2022 £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)	**(2.4)**	(14.8)
-100 basis points shift (EV 100)	**2.5**	15.6
+200 basis points shift (EV 200)	**30.8**	14.9
-200 basis points shift (EV 200)	**(34.5)**	(17.1)
Impact on net interest income for the year from a parallel change in yield curve:		
+100 basis points shift	**6.8**	10.1
-100 basis points shift	**(10.5)**	(11.0)

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.

Risk Categories continued

Basis risk

The Society is exposed to the risk that interest rates change and floating rate liabilities re-price by different amounts than to 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).

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

Interest rate market volatility continued to be highly elevated in 2023 as markets tried to assess the Bank of England's reaction to the surge in inflation and any potential for expectations to become embedded, principally in core services inflation and average earnings. As it turned out, headline inflation had peaked in October 2022 and the latter half of 2023 saw disinflationary trends emerging that have in turn seen markets become more confident to price central bank pivots away from restrictive monetary policy. The UK's inflation picture however, has ended 2023 at the highest level of any G7 country, which leaves the timing of any rate cuts less certain and later than other jurisdictions. Although significant uncertainty remains, with the improvement in the inflation picture the outlook for growth as seen in forward-looking Purchasing Manager Indices (PMIs) now looks less negative and any recession in 2024 is expected to be shallow.

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

Liquidity and funding risk

Liquidity risk is the risk that the Society has insufficient funds to meet its obligations as they fall due. Funding risk reflects an 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. Funds are acquired directly through the Society's operating channels and through a number of partnerships, with new channels and partnerships 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. This scheme closed to new drawings in 2021, and during 2023, £1.8 billion of the balance was repaid.

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

Risk Categories continued

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 also considered its funding requirements in resolution including identifying its liquidity needs and available resources.

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 2023.

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 2023, the Society's LCR was 227% (2022: 195%), significantly above the regulatory minimum.

The 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.

As at 31 December 2023, 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 increased compared to the prior year following the Society repaying some of its TFSME funding.

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.

Risk Categories continued

Wholesale funding

During 2023, the Society issued two Residential Mortgage Backed Securities transactions (with total bonds issued of £0.75 billion), £0.5 billion in covered bonds, and £0.4 billion in medium term notes, as well as completing the private placement of £145 million of medium-term notes.

Overall, the wholesale funding at 31 December 2023 has decreased by £2.4 billion as a result of repayment of TFSME during the year, lower deposit from banks balances, offset by higher RMBS backed debt securities in issue.

(Audited)	Notes to the accounts	2023 £m	2023 %	2022 £m	2022 %
Deposits from banks, including repo agreements	21	**1,735.0**	**16.0**	2,255.5	17.1
Amounts drawn under the Term Funding Scheme	21	**3,495.7**	**32.2**	5,287.4	40.0
Other deposits and amounts owed to other customers		**237.3**	**2.2**	421.1	3.2
Debt securities in issue					
Medium term notes	22	**1,145.0**	**10.6**	1,451.9	11.0
Covered bonds	22	**2,954.3**	**27.2**	3,099.6	23.5
Residential Mortgage Backed Securities	22	**1,278.2**	**11.8**	691.7	5.2
Total		**10,845.5**	**100.0**	13,207.2	100.0

Wholesale funding outstanding at 31 December 2023 remained primarily denominated in sterling as shown below:

(Audited)	GBP £m	EUR £m	Total £m
Deposits from banks, including repo agreements	**1,735.0**	**–**	**1,735.0**
Amounts drawn under the Term Funding Scheme	**3,495.7**	**–**	**3,495.7**
Other deposits and amounts owed to other customers	**237.3**	**–**	**237.3**
Debt securities in issue			
Medium term notes	**1,145.0**	**–**	**1,145.0**
Covered bonds	**1,005.5**	**1,948.8**	**2,954.3**
Residential Mortgage Backed Securities	**1,278.2**	**–**	**1,278.2**
Total as at 31 December 2023	**8,896.7**	**1,948.8**	**10,845.5**
Total as at 31 December 2022	**11,200.8**	**2,006.4**	**13,207.2**

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 period, reflecting primarily the maturity due on TFSME funding.

(Audited)	2023 £m	2023 %	2022 £m	2022 %
Less than one year	**2,652.4**	**24.5**	4,140.5	31.3
One to two years	**4,086.5**	**37.7**	2,741.8	20.8
Two to five years	**3,715.1**	**34.2**	5,412.8	41.0
More than five years	**391.5**	**3.6**	912.1	6.9
Total	**10,845.5**	**100.0**	13,207.2	100.0

Risk Categories continued

Contractual maturity profile of financial assets and liabilities

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

At 31 December 2023 (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]	8,572.2	–	–	–	–	8,572.2
Loans and advances to credit institutions	474.5	313.4	–	–	–	787.9
Debt securities	–	224.2	402.4	738.7	198.9	1,564.2
Loans and advances to customers	53.8	893.4	2,561.3	12,456.9	34,310.7	50,276.1
Hedge accounting adjustment	(0.7)	(1.0)	(51.6)	(381.4)	1.6	(433.1)
Derivative financial instruments	6.1	7.2	199.4	1,207.0	93.8	1,513.5
Investment in equity shares	–	–	–	–	6.8	6.8
Total financial assets	9,105.9	1,437.2	3,111.5	14,021.2	34,611.8	62,287.6
Liabilities						
Shares	23,717.0	1,549.9	13,319.2	8,627.5	368.7	47,582.3
Sale and repurchase agreements[2]	–	557.5	–	250.1	–	807.6
Amounts drawn under TFSME[2]	–	45.7	500.0	2,950.0	–	3,495.7
Deposits from banks - other	925.6	1.8	–	–	–	927.4
Other deposits	–	–	–	–	–	–
Amounts owed to other customers	–	187.3	41.7	8.3	–	237.3
Secured debt securities in issue - RMBS and covered bonds	–	443.8	0.6	3,788.1	–	4,232.5
Senior unsecured debt funding	–	1.0	6.7	748.4	388.9	1,145.0
Hedge accounting adjustment	–	–	(40.9)	(1.3)	(25.9)	(68.1)
Derivative financial instruments	0.2	–	140.5	319.0	134.5	594.2
Subordinated liabilities	–	0.4	–	15.0	–	15.4
Subscribed capital	–	1.6	–	–	40.0	41.6
Total financial liabilities	24,642.8	2,789.0	13,967.8	16,705.1	906.2	59,010.9
Net liquidity gap (contractual)	(15,536.9)	(1,351.8)	(10,856.3)	(2,683.9)	33,705.6	3,276.7

1. Includes £182.1 million mandatory reserve with the Bank of England.
2. Included in Deposits from banks on the Balance Sheet.

Risk Categories continued

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 TFS[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.

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 2023 (Audited)	Up to 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Liabilities					
Shares	**25,276.1**	**13,400.5**	**8,655.1**	**368.8**	**47,700.5**
Deposits, amounts owed to other customers and debt securities in issue	**1,501.7**	**1,899.2**	**6,751.3**	**460.1**	**10,612.3**
Other liabilities and adjustments	**11.9**	**348.2**	**452.9**	**24.4**	**837.4**
Subordinated liabilities	**0.6**	**0.6**	**18.3**	**–**	**19.5**
Subscribed capital[1]	**2.4**	**2.5**	**19.4**	**40.0**	**64.3**
Total liabilities	**26,792.7**	**15,651.0**	**15,897.0**	**893.3**	**59,234.0**
Undrawn loan facilities	**20.2**				**20.2**

1. The 2022 subscribed capital balance included £415m of Perpetual Capital Securities, these have been excluded in 2023.

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

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 2023 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	–	261.5	8,310.7	–	8,572.2
Loans and advances to credit institutions	787.9	–	–	–	787.9
Debt securities	724.3	–	839.9	–	1,564.2
Loans and advances to customers	15,133.5	–	4,727.9	30,414.7	50,276.1
Hedge accounting adjustments	–	–	–	(433.1)	(433.1)
Derivative financial instruments	–	–	–	1,513.5	1,513.5
Other assets	–	–	–	181.9	181.9
Total as at 31 December 2023	16,645.7	261.5	13,878.5	31,677.0	62,462.7
Total as at 31 December 2022	17,207.3	231.1	12,746.5	28,682.2	58,867.1

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 £18.1 billion at 31 December 2023 (2022: £17.4 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 of 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	June 2023
Fitch	A-	F1	Stable	November 2023

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 £3.45 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 debt.

Risk Categories continued

Conduct risk

Conduct risk is the risk that the Society's behaviour and decision making, at all levels, causes foreseeable harm and prevents the delivery of good customer outcomes, or fails to meet the standards articulated in the Society's purpose and belief in 'Putting Members First'.

Conduct risk profile

The Society's purpose is to exist to make people better off through life to create a wider society that is fair, confident and resilient. 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.

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 2023, 87%[1] of complaints referred to the Financial Ombudsman Service were decided in the Society's favour (2022: 97%) compared with an industry average of 63%[2] (2022: 63%).

Management of conduct risk

The Society manages conduct risk through its Conduct Risk Framework, which is designed to protect our customers by identifying, assessing and managing risks that could cause them harm (financial or non-financial) during their relationship with the Society.

In relation to Consumer Duty, the Society successfully implemented the new rules for new and open products and services in July 2023 and is on track to complete the review of closed products and services.

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.

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. 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. Second line oversight is undertaken by the Conduct Risk Oversight & Compliance function, reporting into the Chief Risk Officer. The Board plays an active role in oversight of these strategies and the delivery by the Society of good customer outcomes.

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, supported by a Vulnerability Working Group that regularly assesses the needs of vulnerable customers. 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.

Complaints and redress

We are pleased to report a reduction on complaint levels in 2023 compared to the previous year. The Society continues to keep positively encouraging members to identify poor outcomes or service, that do not meet their expectations and seeks to resolve complaints as soon as possible.

Key related improvements in 2023 include digital annual investor statements, improvement to customer identification through the telephone channel, and an internal complaints referral line to provide customer-facing colleagues with immediate access to expert complaint handlers.

Conduct risk outlook

Management of conduct risk at the Society will continue to seek alignment with the FCA's plans for 2024, which aim to ensure 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.

Key internal future developments evolve around the continued work on the implementation of Consumer Duty and the continued focus on supporting borrowers in financial difficulty, including supporting the Mortgage Charter to provide short-term assistance to borrowers experiencing cost of living challenges.

Operational risk

(including technology and data risk)

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

Our 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 categories, consistent with the Basel risk classifications, industry best practice and the Society's business model. The most significant operational risk categories for the Society relate to technology (including information security), data statutory, regulatory and internal financial reporting and financial crime.

1. Source: Financial Ombudsman - complaints upheld in the Society's favour for the six months to 30 June 2023.
2. Source: Financial Ombudsman - complaints upheld in the banking and credit sector for the six months to 30 June 2023.

Risk Categories continued

The Operational, Technology and Data Risk Committees provide 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 is a top priority and the Society complied with the PRA and FCA 12-month regulatory requirements of defining important business services, setting impact tolerances, mapping operational assets to services and testing resilience capabilities. 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.

Technology

The Society aims to maintain the stability, security and resilience of its technology estate, and in doing so, avoid member disruption and reputational impacts arising from cyber attacks and IT outages.

During 2023, the Society invested significantly in upgrading its IT estate and enhancing its digital capabilities, IT operations and security defences and will continue to do so in 2024.

Statutory, regulatory and internal financial reporting

The Society has established a multi-year finance transformation programme to modernise, optimise and transform the finance operating model. A new general ledger went operational in 2023 and a new regulatory reporting solution is due for implementation in 2024.

Data

The increased digitisation has led to the need to give greater focus to data risks resulting in data being classified as a principal risk for the Society in 2023. A data risk transformation programme has been established to increase capabilities across both technology and our people. The newly formed executive level Data Risk Committee will oversee the maturing of our data capabilities.

Financial crime

The Society and its members are exposed to an ever present and evolving threat of criminal activity. Increasing attention has been given to keeping our members safe from criminal activity through increasing technological protection and raising member awareness of threats they might face.

Summary of risk incidents

Operational, strategic, model and conduct risk incidents are reported in the Society's risk management system.

In 2023, the total cost of risk incidents was £1.5 million (2022: £0.9 million), as set out below.

	% of total volume		% of total losses	
Operational risk by Basel category[1] (Unaudited)	**2023**	2022	**2023**	2022
Execution, delivery and process management	**23**	25	**45**	71
External fraud	**74**	65	**53**	28
Damage to Physical Assets	**3**	–	**2**	–
Clients, products and business practices[2]	**–**	10	**–**	1
Total	**100**	100	**100**	100
Value of losses (£m)			**1.5**	0.9

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

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 relation to its credit risk, financial and product models. Models are utilised in a range of contexts, including credit decisioning, calculation of regulatory capital requirements for credit risk, and the application of accounting standards such as IFRS 9.

The relative simplicity of the Society's business model reduces the extent of the Society's exposure to model risk, however the Society still considers it important that robust model risk management practices are applied.

Management of model risk

The Society has a Board approved policy on model risk which defines the standards to be applied to mitigate model risk. This policy is supported by the Model Risk Framework (MRF), approved by the Board Risk Committee. 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, oversees the management of model risk, and is responsible for ensuring the Society's exposure to model risk remains within the appetite prescribed by the Board. MRC is supported by two technical sub-committees, the Retail Credit Models Committee and the Financial Models Committee.

The MRF prescribes requirements that must be met in order for the most important models to be used within the Society. These requirements are tailored to the

Risk Categories continued

potential impact of each model on the Society, with more extensive requirements for the most critical models.

Model risk management controls include:

- The requirement for all critical models to be approved for use by MRC.
- Independent model validation, with increased validation activity carried out for higher criticality models.
- Model risk standards in relation to model development, testing, validation, monitoring, documentation, and use.
- Governance around model assumptions, overlays, compliance, and data.
- Model overview statements which identify conditions when the models may fail.

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

Model risk outlook

In May 2023, the PRA published the supervisory statement SS1/23 'Model risk management principles for banks'. Coming into effect in May 2024, it sets out the PRA's expectations in relation to banks and building societies' model risk management practices. Whilst many of the expectations broadly align to the Society's current practices, work is being undertaken to enhance the Society's model risk management practices to improve alignment with the supervisory statement.

During the year, the Society submitted updated IRB models to the PRA for approval and is currently awaiting feedback. The models calculate regulatory capital requirements for credit risk. In the interim, adjustments are being made to existing model outputs such that they reflect the outputs of the updated models.

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 economic, political, industry, consumer, regulation or other external factors.
- Erosion of the Society's financial sustainability, including a decline in volumes or income 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.

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, including climate 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. To effectively manage more extreme events, the Society also maintains a Recovery Plan in line with regulatory guidance.

Strategic risk outlook

The strategic risk outlook is closely aligned to the top and emerging risks outlined on page 22. During 2023, we saw elevated political and economic uncertainty, high inflation, an increase in the Bank of England Base Rate and a modest increase in unemployment. As well as the annual strategic planning process, regular forecasts and sensitivity analysis are produced to ensure we respond to external developments and changing assumptions.

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 Energy Performance Certificate (EPC) requirements for landlords for example. Further detail relating to 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 conditions, fails to meet prudential regulations and expectations, or is unable to recapitalise in the event of resolution. 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 key risks to which it is exposed and the capital required to mitigate such risks. As part of the ICAAP, the Society assesses its capital adequacy over the planning horizon under base case strategic plan assumptions, as well as severe but plausible stresses using scenarios provided either by the regulator or developed internally.

Stress testing is conducted to ensure the Society maintains sufficient capital to withstand a severe but plausible stress, and to identify mitigating management actions which can be taken.

Reverse stress testing is also conducted to identify extreme events that have the capacity to ‘break’ the Society. This process helps identify risks and control mechanisms which might otherwise be missed.

Capital adequacy

Risk weighted capital requirements

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. The Society's combined Pillar 1 and Pillar 2 requirement is represented by its Total Capital Requirement (TCR), which is set by the PRA. The TCR was updated in 2022 and equates to 10.7% of risk weighted assets (RWAs), or £905 million based on year end RWAs (2022: 10.7% of RWAs or £846 million). The Society comfortably meets this requirement out of its CET 1 capital resources.

CRD V also requires lenders to hold supplementary capital buffers, to be met from CET 1 capital. As at 31 December 2023,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 2%.

In addition, a PRA buffer may be applied depending on the outcome of the severe but plausible stress tests.

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 2023 (2022: 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).

The Society also forecasts the impacts of the proposed standardised risk weighted floors that are part of the Basel 3.1 reform package.

Leverage ratio

The leverage ratio measures Tier 1 capital against total exposures, including off-balance sheet items. It is a non risk-based measure designed to act as a backstop to the risk based capital ratios and therefore does not reflect features of the Society's low risk mortgage lending such as the low loan to value nature of the portfolio.

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 at all times by all firms, including those below the thresholds outlined above. This requirement, calculated on the basis that the exposure measure excludes any central bank exposure with a maturity less than three months and that no more than 25% is met by high quality AT 1 capital.

There are two additional buffers, to be met from CET 1 capital: 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.

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

Capital continued

The CCLB is currently 0.7%. 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.

Minimum Requirement for own funds and Eligible Liabilities (MREL)

A Minimum Requirement for own funds and Eligible Liabilities (MREL) has 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 meets an MREL requirement of twice the binding capital requirement (i.e. two times Pillar 1 plus Pillar 2a), which currently equates to 21.3% of RWAs. The Society is further required to meet capital buffers from CET 1, generating a total loss-absorbing requirement of 25.8%.

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 consolidated 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.

Further information on capital management is included in the Society's 2023 Pillar 3 Disclosures at www.thecoventry.co.uk.

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 2023 excluding transitional provisions. Further information on CRD V disclosures on a transitional basis is included in the Society's 2023 Pillar 3 Disclosures at www.thecoventry.co.uk.

At 31 December 2023, and throughout the year, the Society complied in full with the capital requirements that were in force. The CET 1 ratio increased to 29.1% (2022: 27.4%) and the Total capital ratio to 34.0% (2022: 32.7%). Total risk weighted assets increased by 7.4%, most of which is related to mortgages on the IRB approach. The Society is currently awaiting regulatory approval of the revised IRB models which it has developed and submitted to meet regulatory changes that were brought in at the beginning of 2022. 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 36% increase over the IRB RWAs calculated using current models. With regard to the RWAs calculated using current models, the impact of 4.7% growth in the mortgage book is combined with the effects of less favourable credit conditions and the increase in LTV discussed in the credit risk section.

The Individual consolidated CET 1 ratio on an end-point basis at 31 December 2023 was 0.2% (2022: 0.3%) 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 2023 £m	End-point 31 Dec 2022 £m
Common Equity Tier 1 (CET 1) (audited)		
General reserve	2,573.2	2,250.7
Fair value through other comprehensive income reserve	1.3	4.9
Cash flow hedge reserve	250.1	277.1
Common Equity Tier 1 prior to regulatory adjustments (audited)	2,824.6	2,532.7
Common Equity Tier 1 regulatory adjustments		
Prudent additional valuation adjustment[1]	(1.7)	(1.6)
Intangible assets[2]	(45.0)	(39.7)
Cash flow hedge reserve[2]	(250.1)	(277.1)
Pension fund surplus adjustment[2]	(2.6)	(2.4)
Excess of expected loss over impairment[3]	(39.4)	(32.5)
Foreseeable distributions[4]	(10.3)	(10.4)
Common Equity Tier 1 capital (audited)	2,475.5	2,169.0
Additional Tier 1 (AT 1) capital		
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)	2,890.5	2,584.0
Total Tier 2 capital	–	–
Total capital (audited)	2,890.5	2,584.0
Risk weighted assets (unaudited)		
IRB approach		
Credit risk - retail exposures	7,208.3	6,780.3
Standardised approach		
Credit risk - retail exposures	90.7	96.6
Credit risk - liquidity book	143.5	100.3
Credit risk - other	80.5	119.7
Credit valuation adjustment risk	30.5	47.8
Operational risk	945.6	767.0
Total risk weighted assets (unaudited)	8,499.1	7,911.7
Common Equity Tier 1 ratio (unaudited)	29.1%	27.4%

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 5.4%, 4.6% when including central bank reserves and full AT 1 capital amount (2022: 5.2% and 4.5% 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.

Capital continued

Leverage ratio analysis (Unaudited) continued

Leverage ratio	End-point 31 Dec 2023 £m	End-point 31 Dec 2022 £m
Total Tier 1 capital	2,890.5	2,584.0
Adjustment for AT 1 restriction	–	(11.4)
Total Tier 1 capital - used in UK calculation	2,890.5	2,572.6
Leverage ratio exposures		
Total Balance Sheet assets	62,462.7	58,867.1
Mortgage pipeline[1]	377.8	458.6
Other committed facilities (undrawn lending)[1]	10.1	11.5
Repurchase agreements[2]	796.1	29.9
Netted derivative adjustments[3]	(1,331.8)	(2,104.5)
Other adjustments[4]	(98.1)	(80.7)
Total leverage ratio exposures	62,216.8	57,181.9
Adjustment to exclude central bank reserves	(8,306.7)	(7,513.1)
Total leverage ratio exposure - used in UK calculation	53,910.1	49,668.8
Leverage ratio including central bank reserves and full AT 1 capital amount	4.6%	4.5%
UK leverage ratio	5.4%	5.2%

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 2023 Pillar 3 Disclosures at www.thecoventry.co.uk.

Capital outlook

In 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. Part of this has since passed into regulation through PS17/23, with the remaining and more substantive sections due to be finalised in the first half of 2024. 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 July 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.

Introduction	56
Our Climate Strategy	58
Our Climate Governance	60
Our Climate Risk Management	61
Metrics and Targets	63

Climate Strategy and TCFD

Introduction

This section sets out our understanding of the impact of climate change on the Society and our members. It covers the activity we completed during 2023 and have planned for 2024 and beyond to achieve our climate change targets. It also captures how we are progressing our understanding of climate change and the impact it will have on our members and the Society in the future.

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-related risks and opportunities on their businesses. The information disclosed within this report is structured to demonstrate our understanding of the risks and opportunities associated with climate change, in a way that is transparent and in accordance with the TCFD, and also outlines how we have incorporated the requirements of the Prudential Regulation Authority's (PRA's) Supervisory Statement, 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, where our understanding continues to evolve. Further information is detailed within our Climate Action Plan and the Society's Sustainability Report, which is available at www.thecoventry.co.uk.

Strategy

This section outlines the Society's strategy and how we are 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 Risk Management Framework (ERMF) 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.

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's definitions for emissions and climate risks are below and reflect industry standards:

Emissions	
Scope 1	Direct greenhouse gas (GHG) emissions that occur from our own operations (e.g. our company vehicles, gas usage and fugitive emissions).
Scope 2	Indirect GHG emissions associated with the purchase of our electricity.
Scope 3	The result of activities from assets not owned or controlled by the Society, but that the Society indirectly impacts in its value chain. Include all sources not within an organisation's Scope 1 and 2 boundary and can be separated into the following two categories:
- Scope 3 upstream	Business travel by means not owned or controlled by the Society, waste disposal, employee commuting, and purchased goods and services.
- Scope 3 downstream	The emissions from the properties financed through the Society's operations – i.e. our mortgage customers.
Risk Type	
Physical	The risks arising from the direct physical impacts of climate change. These risks arise from several factors and relate to specific weather events (such as heatwaves, floods, and storms) and longer-term shifts in the climate (such as in precipitation, extreme weather variability, sea level rise and rising mean temperatures).
Transition	The risks arising from the process of adjustments as we transition to a low 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 Strategy and TCFD continued

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

	Achievements	Future activity
Strategy	• 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. • Continued to offer our green mortgage product to eligible members. • Delivered Sustainability Reports in accordance with GRI standards. • Developed our plan to transition to Net Zero, to support the delivery of our Climate Action Plan. • Obtained the ISO 20400 for Sustainable Procurement, and the Sustainable Procurement Kitemark from the Chartered Institute of Procurement & Supply.	• Continue to deliver against our Climate Action Plan and Net Zero Transition Plan • Develop further our green product propositions. • Engage with our members to support a green transition once we have greater clarity around government support and regulation.
Governance	• Became the first UK building society to become a Certified B Corp, demonstrating the high standards we have achieved in our ESG approach. • Embedded climate governance through the Board committee structures. • Designated Senior Management Function (SMF) with accountability for the financial risks arising from climate change. • A Non-Executive Director who is dedicated to championing ESG at the Board. • Continued oversight of external developments and trends across ESG.	• Ensure our Board and senior management continue to receive climate risk training and education. • Continue to evolve climate governance and drive positive outcomes.
Risk Management	• Embedded climate risk within our Enterprise Risk Management Framework. • Reviewed and renewed our data with respect to physical and transition risks to continue to grow our understanding of our potential exposure to climate risks. • Incorporated climate risk modelling and analysis within our ICAAP process.	• Continue to review lending policy to ensure it remains robust to potential climate risks. • Develop our data capabilities to embed physical and transitional risk considerations in our modelling and decision making. • Enhance our scenario analysis capability. • Continue to evolve our risk appetite for physical and transition risks.
Metrics and targets	• Delivered our short-term target; we are carbon neutral for our own operations. • Published calculations for all of the Society's emissions (Scope 1, 2 and 3) since 2022. • Establish the Society's Net Zero Transition Plan, which outlines our approach of how we intend to decarbonise.	• Continuing to publish calculations for all of the Society's emissions (Scopes 1, 2 and 3). • We are on track to set a science-based climate target in 2024. • Continue to evolve and make progress against our Net Zero Transition Plan, monitoring internal and external scenarios to drive the required action. • Further define metrics and targets to capture physical and transition risks.

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 2023, the Society continued to take action to positively contribute to addressing this generational challenge as well as effectively managing the risks to our business.

We continued to update our Net Zero Transition Plan, setting and agreeing our plans to achieving our climate-related targets and ambition over the short-, medium- and long-term. We are carbon neutral for our own operations, and have been since 2021. Our Net Zero Transition Plan captures further actions to help deliver our ambition to be fully Net Zero by 2040. Further information on the Society's emissions can be found in the metrics and targets section on page 63.

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. We recognise that we won't be able to achieve the reduction in emissions to deliver our 2040 Net Zero ambition without broader policy changes, significant cross-industry collaborative effort, and further government support focused on UK housing. We are working with several organisations such as the Green Finance Institute, E3G, and UK Finance, supporting cross-industry green homes action groups to drive sustainable and responsible solutions. We also work and partner with several specialist organisations to increase our expertise and member propositions around the areas where we can make the greatest impact in reducing our carbon footprint. This is a challenging objective, but one we think is important to aim for, as supporting our members is our purpose. Therefore we will continue to contribute to discussions during 2024 and beyond.

We also continued to enhance our understanding of climate risk exposures, which included obtaining quarterly updates on the physical and transition risks to our mortgage book. We have sought to understand the risks of climate change by performing scenario analysis. Further detail on this can be found in the Climate Risk Management section on page 61.

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 below.

Looking ahead to 2024, we will continue to make progress across the opportunities highlighted. We will continue to engage with our members in helping them to understand potential energy efficiency improvements that could be made to their homes, and to ensure that we have the right products available to support those who choose to retrofit their homes.

As well as the opportunities presented by climate change, there are also risks to our business. As a cross-cutting risk, the impacts of climate change have been considered against the Society's principal risk categories, which are outlined in the Enterprise Risk Management Framework (ERMF).

The Society annually reviews its risk categorisation. These risk categories were identified and are maintained through consideration of both external guidance and internal assessments including: the Basel 3 risk classifications; and the areas, scale, and nature of inherent risks that the Society is exposed to.

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

TCFD areas of opportunity	Climate opportunities	Description
Products and Services	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.
Resilience	Educating and communicating with our members	Supporting our membership with the transition to Net Zero and leveraging partnerships and our B Corp network to attract more ESG conscious customers and funding.
Markets	Access to green funding	By supporting a fair transition to Net Zero, the Society can utilise opportunities to obtain green retail or wholesale funding.

Our Climate Strategy continued

Risk category		Risk description
Retail Credit Risk	Transitional	• Impacts on valuations of properties due to potential future governmental requirements for minimum efficiency standards (EPC). Metrics linked to this risk can be found under the heading 'Transition Risk' of the risk management climate section. • 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	• Houses are damaged or become uninhabitable 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 because 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. • New area for potential mortgage fraud through transitional climate processes e.g. energy ratings for properties.
	Physical	• Adverse impact on business continuity because of damages to Society's premises and infrastructure, or failure of suppliers to provide critical services as a result of physical risks. • Risk to employee health and safety in extreme weather events.
Conduct Risk	Transitional	• Borrowers in lower EPC rated properties are subject to increasing energy bills and unable to afford retrofit costs, possibly resulting in 'mortgage prisoners' as lenders judge they do not meet affordability requirements. • Inadequate or misleading information about climate risks may lead to reputational damage and erode customer trust.
Market & Treasury Credit Risk	Physical & Transitional	• 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 its assets and liabilities. • Investor sentiment and preferences, as they increasingly consider ESG factors when making decisions. • ESG rating downgrades, and credit ratings downgrades because of climate risk, could impact the value of securities held and who we can operate with.
Liquidity & Funding Risk	Physical & Transitional	• 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. • Deterioration in book quality and mix if we are selected against by more climate conscious customers.
Capital risk	Physical & Transitional	• Assets depreciate due to physical or transitional impacts of climate change, especially in regions prone to extreme weather events. • Imposed regulatory capital allocation could lead to opportunity cost, as the capital may be utilised in other areas.
Technology & Data Risk	Physical & Transitional	• Climate events causing physical disruption to data infrastructure or the supply chain, leading to data loss, system downtime, or delays in processing. • Data governance frameworks and quality of data is reliable for models.

Climate Governance

Board oversight of climate risks and opportunities

Committee	Board Risk Committee	Board Audit Committee	Remuneration Committee	Nominations & Governance Committee
Responsibilities for climate change	Reviews and oversees the activities undertaken by the Society to respond to the financial risks arising from climate change. Receives annual updates on the management of financial risks arising from climate change.	Oversees external disclosures relating to the Society's management of the financial risks arising from climate change.	Oversees the application of climate and other ESG targets to remuneration.	Ensures that arrangements are in place to manage climate risks and opportunities at Board level.

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 its role, 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 above. Details of how the Society approaches risk management more generally can be found on page 30.

The Board fulfils its responsibilities by receiving regular updates and quarterly reviews of a standardised ESG management information pack on climate-related issues.

In 2023, the Board's involvement in the Society's strategy process included assessing climate change risks and opportunities and endorsing actions to address challenges. Additionally, the Board approved the annual budget, endorsing allocated amounts specifically designated for addressing climate change risks.

The Board receives support from a nominated Non-Executive Director, Shamira Mohammed, who serves as the ESG champion. In addition to participating in formal Board meetings addressing climate topics, her role extends to regular engagement with the Executive team and colleagues involved in this area, as well as the review of climate-related management information.

Management oversight of climate-related issues

The Chief Executive holds the ultimate responsibility for executive oversight of climate-related matters, with day-to-day responsibilities delegated to the Chief Risk Officer (CRO).

The responsibility for managing financial risks related to climate change is designated to the Society's Chief Risk Officer, under the Senior Management Function (SMF). This role includes ensuring that climate-related financial risks are appropriately integrated into the risk management frameworks, allowing the Society to identify, measure, monitor, and report its exposure to these risks.

Monthly Executive Committee meetings address climate-related matters, with material outputs reviewed by the Board. Climate topics are integral to strategic discussions within the Executive team, analysing opportunities for green lending and energy efficiency improvements.

In 2023, the Executive team extensively reviewed proposals on GHG emissions, climate performance, decarbonisation plans, and the Climate Action Plan, submitting the latter to the Board for approval.

The ESG Steering Group, chaired by the Chief People Officer, reviews and endorses materials to be considered by the Executive, playing a key role in setting and overseeing environmental targets. The group also endorses and oversees the annual ESG plan, guiding sustainability actions, including those related to climate matters.

The Executive Risk Committee (ERC), chaired by the CRO, oversees climate risk management, receiving monthly updates on risk appetite measures and relevant regulatory developments. The Climate Risk Forum (CRF), reporting to ERC, covers regulatory compliance, stress testing, risk management, and data capabilities related to climate change.

Other risk governance forums, including Retail Credit Risk Committee and Assets and Liabilities Committee, also receive periodic updates on climate risk related matters.

How ESG-related performance goals are linked to remuneration are outlined within the Directors' Remuneration Report on page 98.

Training

We continue to engage with colleagues across the Society on further embedding awareness of the climate agenda. 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 2024, we will continue to enhance learning opportunities across the organisation.

The Board receive an update on sustainability twice a year, which includes a review of external trends and developments across ESG and sustainability.

Climate 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 has continued to engage with third parties to enhance data capabilities, which has included quarterly assessments of the physical and transitional risks of climate change. The outputs of these assessments have been reviewed by the Society's Climate Risk Forum, with summaries provided to the ERC and BRC.

Risk categorisation and risk appetite

The Society has a risk appetite statement for climate risk, which is reflective of climate risk being a cross-cutting risk type with potential impacts across 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 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 2023, 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 has 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 62. However, we recognise that climate risk and scenario analysis continues to evolve, and we will enhance our analysis and understanding of the risks in 2024 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. The Society used RCP 8.5 for its physical risk analysis, which is the highest baseline scenario, and 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.

Climate Risk Management continued

Transition risk

Owner-occupier mortgages

Current EPC data	As at 31 December 2023			As at 31 December 2022		
	Number	Exposure £m	% of book[2]	Number	Exposure £m	% of book[2]
A	**357**	**81.8**	**0.3**	270	62.3	0.2
B	**11,886**	**2,420.8**	**7.8**	9,808	1,911.2	6.7
C	**35,149**	**6,305.4**	**20.4**	30,110	5,192.9	18.2
D	**62,389**	**11,197.8**	**36.2**	56,622	9,777.7	34.3
E	**24,032**	**4,548.5**	**14.7**	22,549	4,159.9	14.6
F	**5,370**	**1,057.1**	**3.4**	5,146	1,007.7	3.5
G	**1,143**	**212.3**	**0.7**	1,084	197.7	0.7
No EPC[1]	**42,186**	**5,121.9**	**16.5**	50,428	6,219.9	21.8

Buy to let mortgages

Current EPC data	As at 31 December 2023			As at 31 December 2022		
	Number	Exposure £m	% of book[2]	Number	Exposure £m	% of book[2]
A	**62**	**12.4**	**0.1**	50	10.2	0.1
B	**6,173**	**1,046.3**	**5.4**	5,916	999.4	5.1
C	**39,760**	**5,860.1**	**30.3**	35,492	5,205.8	26.7
D	**53,326**	**8,025.8**	**41.4**	50,994	7,679.7	39.4
E	**15,743**	**2,300.2**	**11.9**	15,864	2,341.6	12.0
F	**914**	**128.7**	**0.7**	1,053	150.3	0.8
G	**248**	**30.6**	**0.2**	283	37.2	0.2
No EPC[1]	**13,182**	**1,947.0**	**10.0**	19,987	3,072.0	15.8

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 exposure value

In 2023, 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 tables above demonstrate that the EPC profile of the Society's mortgage portfolio remains broadly consistent year on year, with slight improvements to the exposures in both mortgage types to properties rated B and C, and with a slight increase to properties rated D, with a corresponding reduction in properties with no EPC data.

The Society holds an EPC against 86% of portfolio stock, with the remainder having a modelled EPC recorded against it. On a portfolio level, the Society is focused on improving 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 the 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.

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 continued to enhance its understanding of how climate change will impact its business model and the steps required to take advantage of the opportunities and mitigate against the risks, but acknowledge further work is necessary.

The Society continued to work with an external partner in 2023, 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 is supported by third party experts, who have 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.

Metrics and Targets

The Society's metrics are driven by our climate change targets within our Climate Action Plan. We are carbon neutral for our own business operations and have been since 2021 (Scope 1 and Scope 2 emissions). 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.

In 2023, we are pleased to confirm that we have achieved reductions in our Scope 1 and Scope 2 emissions against the prior year and a continued reducing trend since 2020. This has been achieved through targeted initiatives and improvements in line with our Net Zero Transition Plan. We have continued to measure all greenhouse gas emissions for Scopes 1, 2 & 3.

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: installing solar panels and air source heat pumps, adopting measures like switching to LED lighting, 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. We are on track for removing our gas consumption completely by electrifying our heating demand and transitioning our business fleet to be fully electric vehicles by 2030, therefore significantly reducing our Scope 1 emissions. We will continue our procurement of renewable electricity via solar and wind and investing in improving our energy efficiency, therefore reducing our Scope 2 emissions. To ensure successful implementation, as well as for monitoring purposes, we have been externally certified for the accuracy of our energy and emissions reporting (ISO 14064-1) since 2020.

Scope 1 and 2 emissions data

Energy consumption		2023	2022
Scope 1: Combustion of fuel and operation of facilities	Natural gas (kWh)	2,314,556	3,307,633
	Direct transport (kWh)	361,194	359,876
	White diesel (kWh)	6,012	12,410
	Refrigerants (kg)	9	15
	Total Scope 1 energy (kWh) excl refrigerants	2,681,762	3,679,919
Scope 2: Electricity purchased	Total electricity (kWh)	4,877,523	6,449,733
Scope 3: Indirect transport	Indirect transport (incl only employee owned vehicles (kWh)	562,593	246,337
Total Scope 1, 2 and 3 energy consumption (kWh) excl refrigerants		8,121,878	10,375,989

Emissions assessment		2023	2022
Scope 1: Combustion of fuel and operation of facilities	Natural gas (tCO2e)	427	604
	Direct transport (tCO2e)	88	89
	White diesel (tCO2e)	2	3
	Refrigerants (tCO2e)	17	31
	Total Scope 1 energy (tCO_2e)	534	727
Scope 2: Electricity purchased, heat and steam generated	Location based (LB) (tCO2e)	1,010	1,247
	Total Scope 1 and 2 energy (tCO_2e)	1,544	1,974
Scope 3: Indirect emissions	Indirect emissions excluding mortgage (tCO2e)	25,181	19,823
	Mortgages (tCO2e)	683,256	670,000
Total Scope 1, 2 (LB) and 3 (indirect) emissions (tCO_2e)		709,981	691,797

Intensity metric assessment		2023	2022
Intensity ratio (total gross Scope 1 and 2)	tCO_2e/ net interest income £m	2.00	3.00
Intensity ratio (total gross Scope 1, 2 and partial 3)	tCO_2e/ net interest income £m	2.31	3.29

The above tables reflect estimates for the final two months of both 2022 and 2023, calculated in line with industry best practice. We have also included estimates for the emissions from our mortgage portfolio, which has increased slightly in 2023, due to the higher mortgage portfolio balance. Further detail on our consumption and emissions data is available within our Sustainability Report.

Notes on the above table emissions data:
- No mandatory emissions have been excluded from this report.
- Emissions factors applied: Defra 2023.
- 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 September 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.

Metrics and Targets continued

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 financed emissions. The Scope 3 emissions have been weighted by the LTV of the mortgages on the Society's portfolio, 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, 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 3.15 (2022: 3.47), which improved due to the increase in available EPC data. Across the Society's mortgage portfolio, 81% (2022: 77%) of the properties had an EPC rating at the time of the calculation (30 September) across the Society's residential owner-occupier and buy to let mortgaged properties, with other mortgages estimated using postcode averages.

The Society considers that 3.15 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 2023	30 September 2022
Total properties	308,039	303,695
Absolute finance emissions (FE) ($MTCO_2e$)[1]	0.68	0.67
Average FE per property (tCO_2e)	2.24	2.22
FE intensity ($KGCO_2e/m_2$)[2]	44.4	44.8
% EPC match	81%	77%
PCAF data score	3.15	3.47

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

Our overall Scope 3 emissions have remained broadly stable, even with business growth and the increased number of homes on our mortgage book. We have seen an increase in business travel and employee commuting, as we establish new ways of working are settling down post the pandemic. Further initiatives will be put in place to continue to help our employees reduce this impact where we can. There was also an increase for Category 1: purchased goods and services within Scope 3, due to a methodology change and increase with the DEFRA carbon conversion factors in 2023.

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 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 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, considering the carbon intensive production of new homes versus retrofitting current ones.

Looking ahead to 2024, 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 2024, 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.

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	66
Directors' Report on Corporate Governance	70
Nominations & Governance Committee Report	82
Board Risk Committee Report	84
Board Audit Committee Report	86
Directors' Remuneration Report	91
Directors' Report	103

Board of Directors

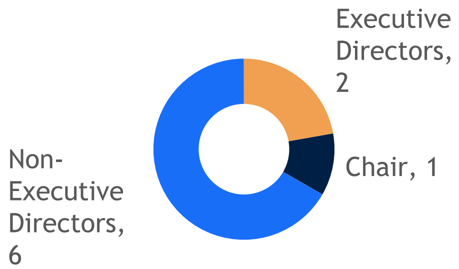
This section provides information about your Board of Directors as at 31 December 2023.

Changes to the Board

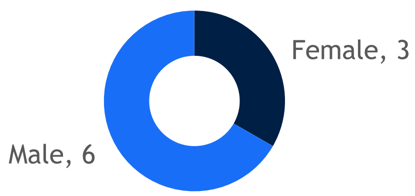
During the year, Peter Frost and Catherine Doran retired from the Board on 27 April 2023 and Vanessa Murden joined the Board on 30 January 2023. Vanessa took the decision to resign from the Board from 23 February 2024 to return to a full time executive role in the financial services sector. There have been no other changes to the Board post 31 December 2023 and as at the date of signing the Annual Report & Accounts.

Board composition

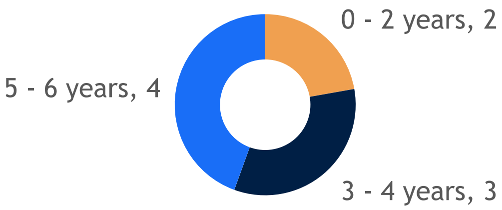
Executive and Non-Executive Director split



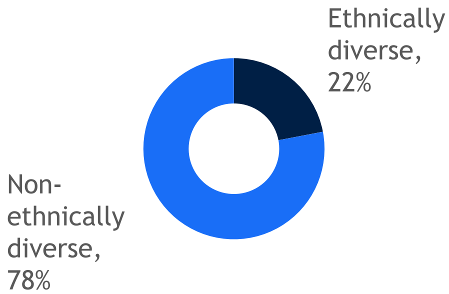
Gender split



Tenure of Board members



Ethnic diversity



The Board's calendar and commitments

The Board and its Committees have a regular cycle of meetings and will hold additional ad hoc meetings as required. The table below outlines the schedule for 2023.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	Re	NDR									
	Re	N&G				T					
	A	A	A		T	Re		T		T	Re
Re	A	A	R		N&G	A		N&G		Re	N&G
R	A	R	B		R	A		R	A	R	A
B	B	B	B		B	B		B	B	B	B

A	Audit	B	Board	N&G	Nominations & Governance
NDR	Non-Executive Directors' Remuneration	R	Risk	Re	Remuneration
T	Technology Oversight				

Board of Directors continued

David Thorburn

Chair of the Board

Appointed
April 2022

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

Experience
David has over 40 years' experience in the banking industry, including four years as Chief Executive of Clydesdale and Yorkshire Banks. Prior to joining the Society, David held a number of Board positions including Non-Executive Director at Barclays Bank UK plc where he chaired the Board Risk Committee and External Member of the Bank of England's Prudential Regulation Committee. David was also former Board member of the British Bankers' Association, former Chair of the Confederation of British Industry in Scotland and President of the Chartered Institute of Bankers in Scotland. David's previous roles also include Independent Non-Executive for the EY Global Network, member of its Global Governance Council and former Chair of Ernst & Young LLP Audit Board.

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

Stephen 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. Steve also held the role of Non-Executive Director on the main board of UK Finance and Chair of the audit and risk committee of UK Finance.

External appointments
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. Member of the Board Risk Committee and Board Technology Oversight Committee.

Experience
Iraj held the role of Senior Partner with Deloitte for over 20 years, leading its national internal audit group and serving clients in the financial, retail and public sectors. He spent 10 years as Global Head of Internal Audit for Schroders plc, carrying out numerous reviews of major financial institutions including banks, building societies and insurance companies. Iraj is a Fellow of the Institute of Chartered Accountants in England and Wales and former 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. Iraj was also 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 Chair of the Audit and Risk Committee at Eurocell plc.

Board of Directors continued

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
Jo is an experienced Non-Executive Director who has worked across multiple sectors in her executive and non-executive careers. Her early career included roles at Mars confectionery, Pepsi, and Asda, followed by executive roles at Camelot Group plc, B&Q plc and Homebase Limited. She was also CEO of Start, a Prince of Wales charitable initiative. Jo has held previous non-executive roles at Principality Building Society and Safestore Self Storage Ltd and was the former Chair of PayM and of the Current Account Switch Service for Pay.UK.

External appointments
Non-Executive Director, Chair of the Remuneration Committee and Senior Independent Director at Dŵr Cymru Welsh Water. Non-Executive Director and Chair of Remuneration Committee at Sirius Real Estate. Non-Executive Director and Consumer Duty Champion at Vitality Health.

Shamira Mohammed

Independent Non-Executive Director

Appointed
May 2019

Committee membership
Member of the Board Audit Committee and Remuneration 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.

Vanessa Murden

Independent Non-Executive Director

Appointed
January 2023 (until 23 February 2024)

Committee membership
Chair of the Board Technology Oversight Committee and member of the Board Risk Committee.

Experience
Previously Group Chief Operating Officer at M&G plc, Managing Director of Customer Services and Retail, Chief Operating Officer for Lloyds Banking Group as well as international roles with American Express and Travelex. Served on the Homes England Board, chairing its Nomination & Remuneration Committee and Change Committee as well as sitting on its Audit and Risk committees. Vanessa has maintained ongoing relationships with regulators in previous roles, including the Financial Ombudsman Service, the Financial Conduct Authority, the Prudential Regulation Authority and UK Finance as well as setting up a new ombudsman service for SME commercial customers across the UK banking industry and liaising with international regulators.

External appointments
None.

Board of Directors continued

Brendan O’Connor

Independent Non-Executive Director

Appointed
January 2021

Committee membership
Member of the Remuneration Committee, Board Risk Committee and Board Technology Oversight Committee.

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

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

Lee Raybould

Chief Financial Officer and Executive Director

Appointed
April 2021

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

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

External appointments
None.

Martin Stewart

Independent Non-Executive Director

Appointed
September 2018

Committee membership
Chair of the Board Risk Committee. Member of the Board Audit Committee, Nominations & Governance Committee and Board Technology Oversight 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), Advisor to the Board 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 2023.

As Chair of Coventry Building Society, I am acutely aware of the importance of good governance in being accountable to members of the Society. This report, together with the reports from the Board Committees, show how we met this commitment in 2023.

The Board is committed to maintaining the highest standards in the way that the Society is governed and managed and is guided by the principles of the UK Corporate Governance Code (the Code) in line with guidance from the Building Societies Association to ensure alignment with good practice and our mutual status.

Below are some of the Board's key governance activities during the year.

External events

2023 proved to be another challenging year, dominated by a rising interest rate environment and inflationary pressures as well as the ongoing challenges created by the rising cost of living. As a Board we have maintained oversight of and supported management in addressing these external challenges and their impact on our members and wider stakeholders. In such circumstances, it is even more important that the Board 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 and helps to ensure that members, colleagues and other stakeholders remain at the forefront of our decision making.

Strategic priorities

The strategic priorities for the year have focused on delivering the best mortgages and savings service and products for our members, continuing to improve our technology capabilities as part of our digital transformation and ensuring that our impact on people and society are carefully considered. As part of these priorities, the Board Technology Oversight Committee was formally established in 2023, holding its first full meeting in June. Their work will support delivery in this critical area of resilience and capability for the benefit of all members.

Board changes

After six years of service as a Non-Executive Director, Catherine Doran, retired from the Board at the Society's 2023 AGM. She was joined by Peter Frost, Chief Customer Officer, who also retired at the 2023 AGM following ten years as a Board Director. We would like to thank Catherine and Peter for their outstanding contribution to the Society's success and wish them both well for the future.

Vanessa Murden joined the Board in January 2023 and took up the role of Chair of the Board Technology Oversight Committee. In February 2024, Vanessa took the decision to step down from her role on the Board to return to a full time executive role in the financial services sector.

AGM

Our belief of Putting Members First is deeply embedded in the organisation and as a Board we recognise the importance of prioritising our members in our decision making process. Good engagement with our members is vital to understanding their needs and I was delighted to be able to spend time with so many of our members at the 'meet and greet' session ahead of the 2023 AGM. We remain committed to enhancing our engagement with members and were thrilled to see that our hybrid AGM facilities allowed so many of you to join our AGM online in 2023. This was a record breaking year for attendance and we look forward to more members attending the 2024 AGM.

Sustainability

The Board is responsible for overseeing the delivery of the Society's sustainability strategy and it is a key theme of Board and Committee discussions.

This year we became the first ever UK building society to become a Certified B Corporation. The B Corp movement has become the global standard for sustainable business operations and we see clear parallels in its objective to make business a force for good, and our purpose-led strategy and values.

Consumer Duty

The Board has continued its focus on the newly established Consumer Duty regulatory requirements, which came into force in July 2023. Extensive work has been carried out to ensure that the Society meets these new regulatory expectations and continues to deliver to the highest standard for our members. The Board and its committees continue to monitor and review the implementation and effectiveness of our work in this area and ensure that Consumer Duty is a golden thread throughout all of our activities and that we meet both regulatory and member expectations.

Looking forward

Looking forward to 2024, the Board's primary objectives will continue to 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. The Board plays a key role in overseeing and monitoring the development of a healthy culture at the Society and this will remain a key focus in 2024. We will also be considering the requirements of the Financial Reporting Council's new Corporate Governance Code (issued January 2024) ensuring that those areas relating to the Society are addressed and also consider any other best practice identified to ensure we continue to uphold the highest standards of corporate governance.

David Thorburn

Chair of the Board
28 February 2024

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, Shamira Mohammed, Vanessa Murden, Brendan O'Connor, Stephen Hughes, Lee Raybould

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
Shamira Mohammed
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:
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
Vanessa Murden
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

Board Technology Oversight Committee

Purpose: Provides oversight and advice to the Board on matters relating to the Society's technology strategy, technology investment, strategic architectural direction, cyber security and strategy on data transformation. This includes oversight of the delivery and performance in respect of each of these matters. The Committee also monitors and evaluates existing and future trends in technology that may affect the Society's strategic plans, including monitoring of overall industry trends.

Chair:
Vanessa Murden

Members:
Iraj Amiri
Brendan O'Connor
Martin Stewart

Directors' Report on Corporate Governance continued

In addition to the principal Board Committees outlined, 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 2023 financial year. The Society met the requirements of the Code throughout 2023 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 2023.

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 2024. 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 71 of this report and a more detailed account of activities undertaken by the Board Committees can be found in their respective reports from page 82 onwards. Each of the Board Audit, Board Risk, Board Technology Oversight, 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 responsibilities

- Monitor the impact of the Society's operations on society and the environment
- Challenge and approve the Society's long-term strategy
- Monitor and review the Society's performance
- Set the right culture and values for the Society
- Determine and review the Society's risk appetite and the major risks faced by the Society
- Act in the best interest of the Society's stakeholders
- Assess the adequacy of capital and liquidity

Directors' Report on Corporate Governance continued

Board activities in 2023

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 Chief Executive 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 74.

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

Activities in 2023

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.

January

Approved the appointment of Vanessa Murden as a Non-Executive Director, with specialist skills in technology, digital and transformation.

Reviewed the results of the Society's annual employee opinion survey.

Reviewed the results of the Board and Board Committee's annual effectiveness assessments.

February

Approved the Society's Annual Report & Accounts.

March

Reviewed the Society's annual Sustainability Report and approved its publication.

April

Reported to the membership on the activity of the Society at the Annual General Meeting.

June

Reviewed engagement activity between the Board and Board Committee and Society colleagues.

First Board strategy day held with reflections on performance and future ambitions considered.

July

Consumer Duty requirements came into force and the Board were assured of compliance and plans for future work.

Interim financial results reviewed and approved.

September

Received an update on external developments in ESG and reviewed the Society's progress against its sustainability strategy.

Received an annual update on the activities of its Charitable Foundation.

Participated in Fire Drill recovery exercise.

October

Second Board strategy day held focusing on formation of the strategic roadmap. Considered key areas of focus for the forthcoming plan period and future strategic ambitions.

November

Approved the Society's Strategic Plan and Financial Plan.

Reviewed the annual whistleblowing report delivered by the Society's Whistleblowing Champion.

December

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.

Directors' Report on Corporate Governance continued

Operation of the Board

In 2023, 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 73) 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 2023 Annual General Meeting to deal with the matter of electing the Chair, Deputy Chair and Chairs of the Board Committees. Another meeting was held in December, where the Board reviewed the annual Periodic Summary Meeting letter issued by the PRA setting out a summary of the PRA's view on the most material risks facing the Society.

In addition to the scheduled Board meetings, the Board also held two off-site strategy days in June and 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. 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 2023

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	Board	Board Risk Committee	Board Audit Committee	Nominations & Governance Committee	Remuneration Committee	Non-Executive Directors' Remuneration Committee	Board Technology Oversight Committee[1]
David Thorburn[2]	11/11			4/4	6/6	1/1	
Jo Kenrick[3]	11/11		9/9	4/4	6/6		
Vanessa Murden[4]	10/10	5/5					4/4
Iraj Amiri[5]	10/11	6/6	9/9				4/4
Martin Stewart[6]	11/11	6/6	9/9	4/4			4/4
Shamira Mohammed	11/11		9/9		3/3		
Brendan O'Connor	11/11	6/6			6/6		4/4
Stephen Hughes[7]	11/11					1/1	
Lee Raybould	11/11					1/1	
Catherine Doran[8]	4/4	3/3		1/1	3/3		
Peter Frost[9]	3/4						

1. Committee in place from June 2023.
2. Chair of the Board, Chair of the Nominations & Governance Committee and member of the Remuneration Committee.
3. Chair of the Remuneration Committee.
4. Served on the Board from 30 January 2023
5. Chair of the Board Audit Committee.
6. Chair of the Board Risk Committee.
7. Chief Executive and Chair of the Non-Executive Directors' Remuneration Committee.
8. Served on the Board until 27 April 2023.
9. Served on the Board until 27 April 2023.

Division of responsibilities

The Board is comprised of the Chair, six non-executive directors and two 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.

During 2023, Peter Frost took the decision to retire from the Board and his role as Chief Customer Officer. The Chief Executive took this opportunity to review the division of his executive responsibilities. As a result, these responsibilities were assumed by the Chief Commercial Officer, Director of Corporate Services and Director of Customer Services within the Executive team.

Directors' Report on Corporate Governance continued

Division of responsibilities continued

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

Role	Responsibilities
Chair David Thorburn	• 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 a programme of work for the Board, ensuring they are appropriately focused on strategy, performance, culture and risk management matters. • Empower Board members to challenge issues openly, and encourage and manage vigorous debate in order to reach effective decisions. • 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, including leading on policies for Board member training and development. • 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. • Facilitating the Chief Executive's relationship with the Board and providing support to the Chief Executive.
Deputy Chair and Senior Independent Director Jo Kenrick	• Deputise for the Chair where necessary. • 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, including addressing any issues they feel have not been dealt with adequately. • Lead an annual process to review the Chair's performance and 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 Iraj Amiri Shamira Mohammed Vanessa Murden Brendan O'Connor Martin Stewart	• 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. • Scrutinise the performance of management in meeting agreed goals and objectives, and monitor ongoing performance against such goals. • Satisfy themselves that the integrity of financial information, financial controls and systems of risk management are robust and defensible. • Complement the skills and experience of the executive directors, in particular by providing to the Board a range of knowledge, experience and insight.

Directors' Report on Corporate Governance continued

Division of responsibilities continued

Role	Responsibilities
Chief Executive (CEO) Stephen 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. • Monitor 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.

Independence

In January 2023, 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 2023 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.
	Board Technology Oversight Committee Chair:
	Approximately 10 days per year in addition to the time spent on normal non-executive director responsibilities.

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.

Directors' Report on Corporate Governance continued

Training and development continued

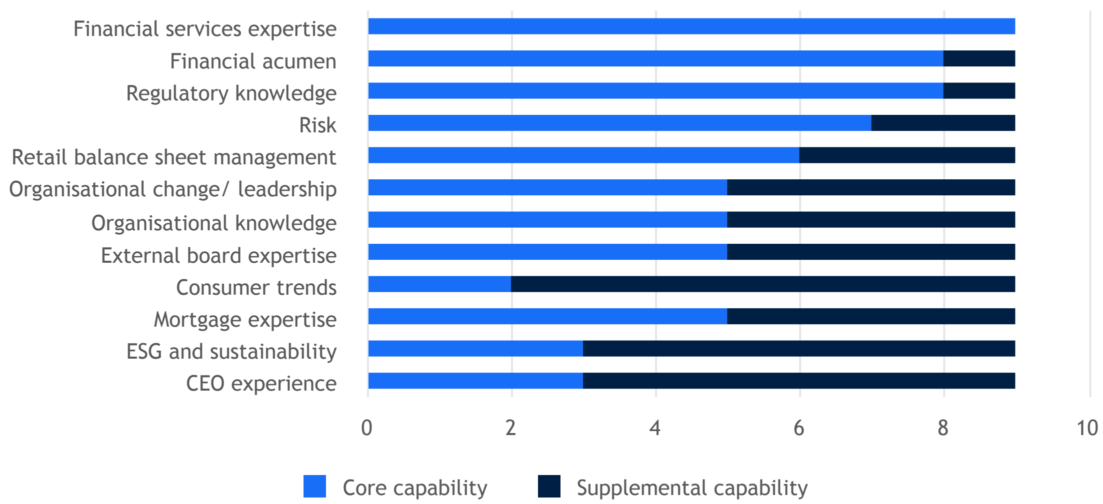
Following appointment, all directors continue their professional development and maintain their knowledge of the Society's operations through branch and department visits, and formal training overseen by the Nominations & Governance Committee in line with the Board Training Policy. During 2023, Board members received training on the requirements and responsibilities of the new Consumer Duty and balance sheet hedging. 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.

In 2023, 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. A summary of the assessment and key skills and capabilities of the Board are set out below:-



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 page 82 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.

Directors' Report on Corporate Governance continued

Composition, succession and evaluation continued

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 2023 was reviewed as part of the routine appraisal process undertaken by the Chair in respect of the non-executive directors and Chief Executive, the Deputy Chair in respect of the Chair of the Board and Chief Executive in respect of all 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 67. 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 pages 75 and 76. Details of those seeking election and re-election at the Society's 2024 Annual General Meeting can also be found in the Notice of the 2024 Annual General Meeting.

The Society’s Rules require that the Board comprises between six and 12 directors. There are currently nine directors: the Chair of the Board, six independent non-executive directors (including the Senior Independent Director) and two 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 2023 were as follows:

Name	Role	Change
Vanessa Murden	Non-Executive Director	Appointed January 2023
Catherine Doran	Non-Executive Director	Retired April 2023
Peter Frost	Chief Customer Officer & Executive Director	Retired April 2023

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 table below sets out the internal process undertaken by the Board and its Committees in 2023 to assess their effectiveness.

In 2023 the Board and Board committee evaluation was conducted internally. The format of the review was approved by the Nominations & Governance Committee, on behalf of the Board.

Board and committee members together with members of the Society’s Leadership team who are regular attendees at Board and Board committee meetings were invited to respond to a questionnaire to assess the effectiveness of the Board and the respective committees during the course of the year.

A report of the findings and feedback from the effectiveness review was considered by each committee.

The Board reviewed the effectiveness reports from each committee and considered the results of its own effectiveness assessment.

Directors' Report on Corporate Governance continued

2023 Board Evaluation Outcome

A report of the findings and feedback from the review of the Board was presented and discussed at the Board meeting in January 2024. The review concluded that the Board had operated effectively in discharging its responsibilities in 2023 with a number of positive feedback points provided including the quality of chairing, the strong link between purpose, culture and strategy, a strong focus on governance and capability and the quality of strategy sessions. Potential areas for focus for 2024 included overseeing progress of the Society's diversity and inclusion (D&I) agenda, enhancing engagement between the Board and Society stakeholders and continued focus on effective succession planning and skills requirements on the Board. The findings of the Board committees' effectiveness reviews was also discussed at the Board and each relevant committee meeting and it was concluded that the Board committees operated effectively in discharging their duties in 2023.

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 receives 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.

Iraj Amiri has continued in his role as a permanent member of the D&I Thinktank, our colleague D&I forum, to help shape what we do on the topic at the Society. His role is key in ensuring there is ongoing Board support for the forum.

During the year, our Board members also took part in a number of reciprocal mentoring activities with colleagues. An event called ‘Spotlight on Shamira’ was held, in which Shamira Mohammed shared her career story with colleagues, in a discussion facilitated by a participant of our Ethnicity Career Development Programme. 35 colleagues attended, with all enjoying the event. Colleagues expressed an interest in running similar sessions in the future. Four colleagues from ethnic minority backgrounds participated in reciprocal mentoring with some of the Non-Executive Directors. The experience was well received and positive all round, with plans in place to run another programme in 2024.

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.

One of the key ways our Board members engage with members is through our Annual General Meeting. This year over 1,500 members attended and heard from our Board about their work and the achievements of the Society during the last 12 months. Members also had the opportunity to ask the Board questions about the things that matter the most to them. These questions covered a broad range of topics, including the services and rates we deliver, the resilience of the Society in turbulent economic times, our branches and technological plans. The number of attendees and the depth of questions demonstrated how engaged our membership are and the importance the Board places on listening to them.

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 2023, the Board continued its 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 support the Committees on various projects. This has proven valuable for both colleagues and Board members. Employee engagement activities will continue in 2024 to ensure that the Board has direct mechanisms for engaging throughout the year to understand what employees really value.

Directors' Report on Corporate Governance continued

The Board and stakeholders continued

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 updates 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 2023 strategy process also included engagement with My Society which gave the Board a perspective from colleagues as it formulated and agreed the 2023 Strategic Plan. The views of colleagues also helped to inform the Society's ESG Strategy and Climate Action Plan, which the Board approved in March 2023. On pages 15 and 16 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 voluntarily apply its requirements where appropriate.

Whistleblowing

The Society has in place arrangements to ensure that those who work for us speak up about concerns so that colleagues can raise concerns in confidence and anonymously if they prefer, 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, demonstrating the Society's commitment to upholding the Whistleblowing standards at the highest level. 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 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.

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 2023.

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 67 to 69. 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 74 along with the attendance record of Committee members. In addition to the members, regular attendees of the Committee include: the Chief Executive, Chief People Officer, General Counsel and the 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. During 2023, the Committee has continued to monitor developments.

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.

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	2022
Jo Kenrick	2018
Martin Stewart	2020

Diversity

Diversity and inclusion are intrinsic to the Society's values and purpose. A key strategic priority for the Society is to create an inspiring place to work which better reflects the diversity of its city and communities. The Society's approach to gender and diversity will continue to be a key factor in achieving this. As 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 of the Board and Executive team and their direct reports. Clear succession planning is in place and takes account of the current and future diversity of senior leaders within the Society. This planning also looks closely at the external market opportunities to support achievement of our diversity and inclusion aspirations.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 38% to 39% 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.

Nominations & Governance Committee report continued

Effectiveness

The Committee is responsible for overseeing the effectiveness assessment of the Board. In 2023, the Committee oversaw the approach for the 2023 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 and committee composition and succession planning, dynamics and operations, strategic oversight and risk management.

Overall the findings of the 2023 Board effectiveness assessment concluded that the Board had operated effectively in discharging its responsibilities in 2023. More information on the Board and Committee evaluation process can be found on page 78 of this report. Any recommendations arising will be overseen by the Committee throughout 2024.

The Committee also considered the results of its own effectiveness assessment in December 2023 and determined that a report could be made to the Board that it operated effectively in discharging its responsibilities during 2023.

Establishing a new Board Committee

One of the most significant areas of work for the Committee during the reporting period has been the establishment of the Board Technology Oversight Committee (BTOC), following approval from the Board that this was a necessary development in the governance of the Society. An independent review, commissioned by the Board in 2021, recommended that digital transformation should be a key area of focus for the Board. In 2022 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 and change transformation experience. As such, the Committee oversaw and recommended to the Board the appointment of a new non-executive director and to chair BTOC. This supported the Society's strategy and transformational change agenda. The other members of the BTOC are:

- Martin Stewart (Non-Executive Director)
- Iraj Amiri (Non-Executive Director)
- Brendan O'Connor (Non-Executive Director)

The Board approved the BTOC terms of reference, formalising governance, with the first meeting held in June 2023. The role of the BTOC is to provide oversight and advice to the Board on matters relating to the Society's technology strategy, technology investment, strategic architectural direction, cyber security and strategy on data transformation. This includes oversight of the delivery and performance. During the first seven months in operation, the BTOC has:

- Overseen the Society's technology strategy prior to making formal recommendations on this to the Board.
- Reviewed progress against the various transformation workstreams being undertaken by the Society.
- Reviewed the Society's cyber security and data transformation strategies.

During 2024, the BTOC will deliver its first full year of activity as an established Board Committee, enabling an in depth account of its achievements to be set out the 2024 Annual Report & Accounts.

Other key activities in 2023

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.
- Oversaw the application of the Fit and Proper Policy and other Senior Manager Regime related policies to ensure compliance with this area of regulation.
- Reviewed arrangements for the Society's Annual General Meeting of members.

Annual election/re-election

The Board 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 2023 Annual General Meeting, all of the directors voluntarily submitted themselves for re-election, with the exception of Catherine Doran and Peter Frost, who retired from the Board following the 2023 AGM. Following review by the Committee in 2023, all of the directors will voluntarily submit themselves for re-election at the 2024 AGM, with the exception of Vanessa Murden who stepped down from the Board on 23 February 2024.

David Thorburn

Chair of the Nominations & Governance Committee
28 February 2024

Board Risk Committee Report

Dear Member

I am pleased to present the Board Risk Committee (the Committee) report for the year ended 31 December 2023.

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. Further enhancements to the EMRF are also being made to ensure it remains in line with industry best practice. The Committee has continued to provide challenge and influence regarding the Society's strategic goals and initiatives, and to ensure good 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. A newly introduced Risk Appetite Framework, aiming to further enhance the embedding of risk appetite at the Society, has been reviewed and was supported.

During 2023, 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 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, ongoing and 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 2023, the Committee reviewed the risk appetite statements and policies for all principal risk categories. Both data risk and technology risk were introduced as principal risk categories to recognise the prominence they already had at the Society.

During the 2024 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 current and new regulatory expectations (including Consumer Duty), supervising progress of the risk transformation programme (enhancing risk capabilities) and monitoring the financial and operational resilience of the Society.

Martin Stewart

Chair of the Board Risk Committee
28 February 2024

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 2023, 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 members of the Committee at 31 December are:

Membership	Member since
Martin Stewart	2018
Iraj Amiri	2018
Vanessa Murden[1]	2023
Brendan O'Connor	2021

1. Member since January 2023.

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 2023, among other things, the Committee:

- Reviewed the strategic and emerging risks relating to the Society's 2024-2028 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 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 technology and data 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.
- 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 Chief Risk Officer (CRO) and the CRO's direct reports to provide an opportunity for discussion about risk matters without management presence.

Please refer to the Risk Management Report for the principal risks facing the Society, and the Strategic Report for 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 operating effectively in discharging its responsibilities during 2023.

Looking forward

During 2024, the Committee will continue to provide oversight of risk management across the Society, including the risk transformation programme, the risks emerging from a volatile macroeconomic environment and the cost of living challenges. In addition, ensuring good outcomes for our members and the focus on climate change risk will continue to be important priorities for the year ahead.

Board Audit Committee Report

Dear Member

As Chair of the Board Audit Committee (the Committee), I am pleased to present our report for 2023, 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 busy 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 matters related to 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
28 February 2024

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 2023 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 2023. All Committee meetings are routinely attended by the Chief Executive, Chief Financial Officer, Chief Risk Officer, General Counsel, Chief Internal Auditor and the external auditor. Other senior managers are invited to attend meetings as required.

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

The effectiveness of the Committee

The Committee carried out a review of its effectiveness during 2023, 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 2023 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 2023

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 2023 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 2023 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 continuing impact of inflation, rapidly rising interest rates and resulting affordability pressures on borrowers. The Committee's role is to make sure that appropriate judgements are applied. The ECL provision has increased to £42.5 million (2022: £35.5 million) including post model adjustments of £24.4 million (2022: £19.4 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 economic challenges and worsening house price assumptions.

The financial statements disclosures were reviewed to ensure that sufficient information on the judgements 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 made.

Board Audit Committee Report continued

Revenue recognition and EIR methodology

The Society recognises income on its mortgage loans using the Effective Interest Rate (EIR) method. This applies a rate of return that reflects a constant income yield over the expected life of the mortgage loan based on expectations of future loan redemption and interest rates. The EIR calculation is most sensitive to assumptions on loan redemption and the difference between fixed rates and Standard Variable Rates in the future.

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. 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 derivatives which are accounted for at fair value. 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. During the year, the Committee also considered a change in approach to the prepayment rate used to determine mortgage customer behaviour in the hedge accounting process. The Committee is satisfied that the amounts recognised in the financial statements are appropriately stated.

Defined benefit pension scheme position

The Committee also considered the calculation of the Society's defined benefit pension surplus including the valuation of the Scheme's assets and the assumptions which are used to calculate the Scheme's liabilities. The surplus increased to £3.7 million (2022: £3.3 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 Board 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.

Disclosure preparation

The Committee was briefed on the Annual Report & Accounts disclosure preparation process and control environment supporting the activity, concluding that it remained robust.

New disclosures and requirements

Regular updates and training on financial reporting developments and disclosures were provided to the Committee during the year. This included the proposed changes to the Corporate Governance Code.

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 2023, 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 management of cost of living, interest rate rise and inflation impacts on the Society and its member servicing. 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

Board Audit Committee Report continued

information security management and data governance and management.

The Committee received regular reports during 2023 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.thecoventry.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 continuing work to digitise the mortgage and savings channels. Change assurance work also included the continued assessment of the finance transformation programme, which commenced during 2021, with 2023 assurance work focused on the implementation of the new General Ledger system in the year, progression of work to establish a new regulatory reporting system and the introduction of more modern practices across Finance function operations.

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, Internal Audit supported the Committee by ensuring that there was appropriate consistency and rigour in the process of preparing and reporting of climate and other sustainability-related disclosures as well as well as completing an independent review of the Annual Report & Accounts disclosure preparation assessment.

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 (revised for a third time in January 2021) 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 approved the selection of an external qualified reviewer in December 2023, with a schedule established for the Committee to receive the results of this next external review in July 2024.

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 2023 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.

Board Audit Committee Report continued

The Committee concluded that the external audit process was effective in March 2023, 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 2024, at the conclusion of the year end reporting process, with any areas for improvement shared with the lead audit partner for consideration.

Rotation of engagement leader

In light of the current external audit engagement leader reaching their five year tenure on completion of the 2023 reporting, during the year, the Committee discussed the proposed rotation and experience of the new engagement leader for the 2024 reporting period onwards.

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 2023, 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 details how the Society's Remuneration Policy has been applied during the year.

Externally, rising inflation through the earlier part of the year continued to impact UK households and our colleagues, with rapid falls in the latter months of 2023 coming as a welcome relief. UK wage growth at just over 7% is reflective of the actions that we, along with other businesses, have taken to recognise the very real cost of living pressures being faced by individuals and families. Whilst UK employment levels continue to be largely unaffected by the economic challenges, we have had another successful year attracting and retaining talented people to work at the Society. We welcomed over 500 new colleagues in 2023, investing in maintaining excellent customer service, the safety and stability of our systems and in developing new propositions.

The external landscape for pay and benefits continues to change rapidly, with the removal of regulatory restrictions between fixed and variable pay, often referred to as the 'bonus cap', being particularly noteworthy. The Committee has spent time considering changes in the market and benchmarking our offering for executives and colleagues. As the Society's variable remuneration arrangements have remained largely unchanged for more than five years, the Committee has asked that a review of these arrangements be undertaken during 2024.

You will have read in the Chief Executive's review, within the Strategic Report section, about the strong and balanced business performance in 2023. The Society has outperformed in six of the nine measures in the balanced scorecard, which is used to underpin both the all-colleague 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 2023 performance reflects the strength of our proposition to borrowers and savers and the service that underpins this. We continue to report growth in lending and exceptional service to mortgage brokers and customers. Our saving rates are above the market average and we have once again seen excellent take-up of our loyalty savings products.

A number of members have been involved in testing our first ever app. Feedback has been overwhelmingly positive, which has been fantastic, and you've also helped us to shape some important changes before a full launch in early 2024. Alongside development of the app, we've continued to invest in ensuring that the Society remains strong and relevant. You can read more about the progress we've made, be that completing our three year technology programme for mortgages or the successful implementation of a new finance system in the Strategic Report section. It is the Society's strong and balanced performance that enables these important investments for members and the Remuneration Committee tracks progress against these key deliverables through the balanced scorecard.

The Committee takes action to reflect the views of stakeholders in our decision making. 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 and you returned a 92.3% vote in support of the policy at the 2023 AGM. These voting arrangements are advisory and the directors' remuneration is not conditional upon them, however, the Committee intends to take account of your feedback in its decision making. I also sit on our colleague forum 'My Society'. Understanding the views of colleagues is an extremely useful input to the Committee's decision making.

Given the Society's scale, we are now deemed to be a "Tier 1" organisation for remuneration matters by our regulators - the PRA and FCA. Tier 1 firms attract the highest level of regulatory supervision and this means greater engagement with our regulators and increased reporting obligations to them. The Committee has ensured a thorough understanding of Tier 1 requirements and I'm pleased to confirm that we are fully compliant.

The Committee will continue to pay close attention to changes in the wider market, whilst making decisions which are aligned with and support our members' interests.

Jo Kenrick

Chair of the Remuneration Committee
28 February 2024

Directors' Remuneration Report continued

The Remuneration Committee

Committee membership and attendees

The Committee consists exclusively of independent non-executive directors and the Chair of the Board.

The members of the Committee are:

Current membership	Member since
Jo Kenrick[1]	2017
David Thorburn	2022
Catherine Doran (until 27.04.23)	2016
Shamira Mohammed	2023
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).

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. 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 2023

During 2023, the Committee:

- Considered the outturn of the 2022 balanced scorecard to determine the 2022 Success Share scheme payment and the 2022 Executive Variable Pay Plan (ExVPP) payment.
- Approved the performance measures for the 2023 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 2023:

- 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 and ethnicity pay ratios and CEO pay ratio and, in response, committed to future diversity and inclusion actions.
- Considered amendments to the default funds under the Society's Group Personal Pension Plan.
- Approved remuneration packages for new 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 colleague 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 2023 Annual General Meeting) is determined by the Remuneration Committee and confirms the principles that underpin its approach to remuneration. The full policy can be found at www.coventrybuildingsociety.co.uk and applies to all employees.

The Remuneration Policy is designed to reward all employees for their skills, knowledge, responsibilities and performance. When making any decisions about pay and benefits the Society must strike a balance between the needs of employees, the needs of members to ensure cost efficiency and the requirements of its regulators. The Society's ultimate objective is to offer a remuneration package (pay, benefits and non-financial rewards) that is competitive when compared with similar financial services organisations and that is also fair and appropriate for the size and type of organisation we are. The principles of the Remuneration Policy apply to all employees, including executives, across the whole Society. All fixed and variable remuneration (with the exception of benefits in kind such as cars, where applicable) are paid through the payroll.

In determining the remuneration approach, the Society works with its colleague forum, My Society, and the trade union, UNITE, to ensure that colleagues 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:

Base salary	
Purpose and link to strategy	Salaries of executive directors are set with reference to market rates of pay to enable the Society to recruit, retain and motivate high calibre leaders.
Operation	Executive director salaries are normally reviewed annually, with any increases usually taking effect from 1 April, taking into account a number of factors, including but not limited to: • The scope and size of role. • The skills, experience and responsibility of the role holder. • The position of the role holder's salary against wider market rates of pay and their individual performance. • Equal pay principles, the Society's financial performance and the economic environment. • Increases awarded to the Society's employees. Where an executive director is to be promoted or where their role is to be expanded, the Society will review the salary and decide whether an adjustment is appropriate.
Risk mitigation	Executive director salaries are benchmarked against comparable financial services organisations to ensure they are not excessive. No executive director is involved in setting their own remuneration or exercising discretion over judgements that could influence their own remuneration.
Maximum potential	Any increases will generally be 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.
Performance metrics	Individual performance is considered when setting salaries.
Consistency with other employees	The Society uses the same approach when setting salaries for all its employees and executive directors.

Directors' Remuneration Report continued

The main elements of executive remuneration continued

Benefits (excluding pension)	
Purpose and link to strategy	The Society provides a competitive benefits package to all its employees to support their physical, mental and financial wellbeing.
Operation	Each executive director receives benefits that are in line with the external market. These may include a company car or cash alternative, private medical insurance, health screening, permanent health insurance and life insurance.
Risk mitigation	Not applicable.
Maximum potential	Not applicable.
Performance metrics	Not applicable.
Consistency with other employees	All employees receive permanent health insurance and life insurance, and many also receive private medical insurance. Executive directors do not receive any benefits that are unavailable to other senior managers within the Society.

Pension	
Purpose and link to strategy	The Society provides post-retirement financial security for all its employees at a cost that is sustainable for the Society over the long term and in line with market practice.
Operation	Executive directors are eligible to participate in the defined contribution pension plan. If their contributions exceed the annual or lifetime allowance, they may be permitted to take a cash alternative in place of contributions.
Risk mitigation	No executive director is involved in exercising discretion over judgements that could influence their level of pension contribution.
Maximum potential	Executive directors receive a pension contribution or cash alternative. This is 10% of base salary in line with the maximum potential for all employees (or 15% for members of the now closed defined benefit pension scheme).
Performance metrics	Not applicable.
Consistency with other employees	All employees are eligible to join the Society's defined contribution pension scheme, receiving contributions of up to 10% (or 15% for members of the now closed defined benefit pension scheme).

Annual Success Share bonus	
Purpose and link to strategy	Success Share is a key part of the Society's remuneration package. It is a discretionary variable pay scheme that enables all eligible employees to share in the Society's success in delivering against its strategy. It helps the Society to be competitive in attracting and retaining high calibre employees, and ensures their alignment with strategic priorities.
Operation	The Scheme applies to all eligible employees (including executive directors) with the same Society performance measures used to assess payments for everyone. The Scheme is reviewed each year to ensure that it is aligned to the Society's business plans and any changes in regulation.
Risk mitigation	The Society does not incentivise any employees based on individual or team sales targets. The Committee has absolute discretion to reduce any variable pay award if it decides that acceptable standards or performance levels have not been met. The Committee can also adjust, withhold or recover any vested awards using 'malus' and 'clawback' arrangements for executive directors and executive managers.
Maximum potential	The maximum award for all employees (including executive directors) is 20% of base salary for exceptional performance and 10% of base salary for on target performance.
Performance metrics	The Society measures annual performance against a number of stretching financial and non-financial targets detailed in the balanced scorecard, which is aligned to its strategic priorities (see below).
Consistency with other employees	All employees of the Society are in scope for the Success Share scheme.

Directors' Remuneration Report continued

The main elements of executive remuneration continued

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 AT 1) 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 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.

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 during a performance period.

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.

Malus and clawback

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

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

Directors' Remuneration Report continued

Other considerations when setting executive director remuneration

When approving executive director pay, the Committee will take decisions aligned to the Society's Remuneration Policy and will consider 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:

2023 performance scenarios	As a percentage of base salary		
	Success Share %	ExVPP %	Total variable pay %
Minimum	0	0	0
On target	10	30	40
Maximum	20	60	80

Service contracts

Executive directors' terms and conditions of employment are detailed in their individual service contracts, which are available at the Principal Office. All of the Society's executive directors must voluntarily stand for re-election by its members each year. An executive director's contract can be terminated by the director or 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
Chief Executive - Stephen Hughes	20.04.2020
Chief Customer Officer - Peter Frost[1]	01.11.2012
Chief Financial Officer - Lee Raybould	06.04.2021

1. Until 27 April 2023

Details of the Non-Executive Directors' Remuneration (NEDR) Committee

The members of the NEDR Committee are:

Current membership	Member since
Stephen Hughes[1]	2020
Lee Raybould	2021
David Thorburn	2022

1. Chair of the Committee.

The NEDR Committee is responsible for reviewing and recommending the remuneration of the non-executive directors, other than for the Chair of the Board, for the Board's approval and they met once during the year.

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.

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.

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 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:

Non-executive directors fees	
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.

This concludes the Remuneration Policy section of the Committee's annual report, the following pages outline how the current Policy was implemented in the annual Remuneration Report.

Directors' Remuneration Report continued

Annual Remuneration Report

This report sets out remuneration awarded to executive and non-executive directors for 2023. All remuneration decisions are taken in accordance with the Remuneration Policy approved by an advisory vote at the Annual General Meeting in 2023.

The total pay package that was earned by each executive director for 2023 and 2022 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
2023								
Stephen Hughes	**572**	**10**	**57**	**639**	**109**	**338**	**447**	**1,086**
Lee Raybould	**424**	**11**	**42**	**477**	**81**	**245**	**326**	**803**
Peter Frost[3]	**103**	**8**	**16**	**127**	**20**	**51**	**71**	**198**
Total	**1,099**	**29**	**115**	**1,243**	**210**	**634**	**844**	**2,087**

	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								
Stephen 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

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 Peter Frost is up to the date he stepped down from the Board on 27 April 2023.

Further information on individual remuneration elements: executive directors

Base salary 2023

The annual review of salaries in April 2023 saw a pool of 8.0% of basic salaries which was focused on 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 2023 £	Effective 1 April 2022 £	% increase
Stephen Hughes	583,200	540,000	8.0%
Lee Raybould	430,000	405,500	6.0%

The CEO's salary increase was set at a level due to the relatively low positioning of base salary and total remuneration against comparator companies, strong performance and growth of the Society. This approach was consistent with that taken for other employees.

Benefits and pension 2023

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.

Variable pay 2023

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:

Directors' Remuneration Report continued

Annual Remuneration Report continued

Variable pay 2023 continued

Balanced Scorecard - 2023 Plan	Performance target range	Performance result	Performance relative to target range
People and societal impact			
Employee Engagement[1]	76% - 80% Trust (Recognised)	81% Trust (Recognised)	Exceeded Target
Environmental, Social and Governance measures	Qualitative and quantitative assessment[2]		Assessment against these outcome measures rated overall as Achieved Target
Best at mortgages and savings			
Mortgage balance growth	Par share (3% / £1.6bn) +/- 0.25%	4.7% / £2.3bn	Exceeded Target
Net Promoter Score[3]	+72 - +76	+76	Achieved Target
Savings Rate Premium	0.56% - 0.60%	>0.70%	Exceeded Target
Key capability delivery			
Programme initiatives and key capability delivery[4]	Qualitative and quantitative assessment		Assessment against these outcome measures rated overall as Exceeded Target
Comply with updated Consumer Duty requirements			
Financial plan delivery			
Cost / Income ratio	46% - 40%	39%	Exceeded Target
Profit before tax £m	£350m - £400m	£474m	Exceeded Target
% Mortgage balances >2.5% in arrears[5]	0.20% - 0.15%	0.17%	Achieved Target
Individual objectives:			
3 Main Individual Objectives		Chair of Board/Chief Executive assessment	

1. The 2023 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 section within the Strategic Report.
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. Programme initiatives and key capability delivery are assessed against delivery and financial measures by the Board Technology Oversight Committee.
5. Percentage of mortgage balances where arrears are more than 2.5% of the balance.

Despite the challenging market conditions in 2023, the Society delivered a strong and balanced performance. The Society exceeded against six of the nine performance targets which determine variable pay, achieved in line with three 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 scorecard, 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.

Directors' Remuneration Report continued

Annual Remuneration Report continued

Variable pay 2023 continued

Stephen Hughes individual goals

Delivery against short and long term strategic goals for mortgages, savings and costs.	Led strong delivery across the full range of strategic measures, both financial and non-financial. Significant delivery of transformation, with roadmaps developed to shape future ambitions for members. Colleague engagement increased, progress made against all diversity and inclusion (D&I) ambitions and clear investment in capability build.	Exceeded target performance
Drive transformation agenda; delivery in year as well as shaping future ambitions.		
Focus on people and culture; measured through colleague engagement, achieving diversity ambitions and the development of key future capabilities.		

Lee Raybould individual goals

Delivery of Finance transformation programme.	Very successful, on time implementation of new general ledger in 2023 and continued progress in the automation of regulatory reporting. Data strategy approved and internal capability enhanced, with good delivery across a number of programmes. Increases in engagement and in ethnic and gender diversity.	Exceeded target performance
Realise the ambitions laid out in the data strategy.		
Sustain colleague engagement through transformation and support achievement of the Society's D&I ambitions.		

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 19% of base salary from a potential maximum of 20%.
- An ExVPP award to executive directors of between 57% and 58% of base salary from a potential maximum of 60% and to executive managers ranging from 24.5% to 28.5% of base salary from a potential maximum of 30%. Awards made reflect whether performance was assessed as on target or exceeded 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 2023 and 2022 performance periods

In 2023, 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.

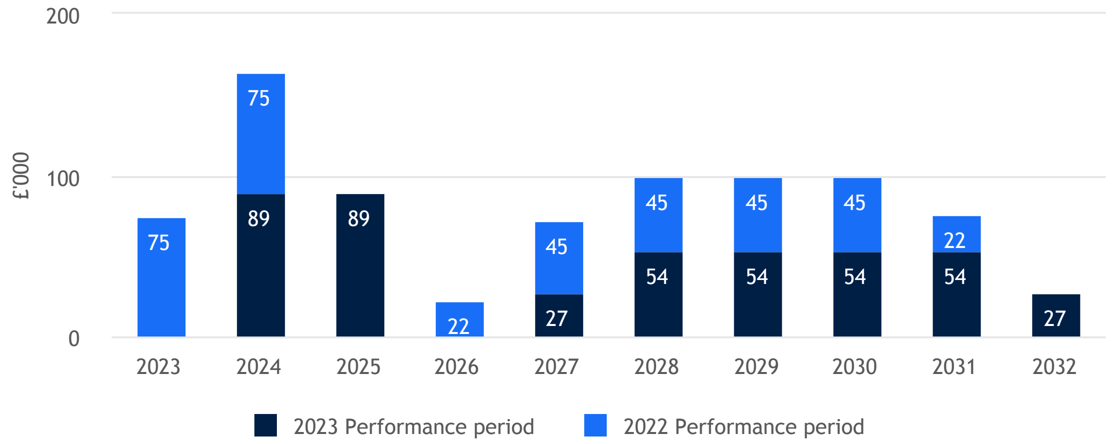
Variable pay received	2023 performance period	2022 performance period
2023	–	20 %
2024	20%	20 %
2025	20%	–
2026	–	6 %
2027	6%	12 %
2028	12%	12 %
2029	12%	12 %
2030	12%	12 %
2031	12%	6 %
2032	6%	–

Directors' Remuneration Report continued

Annual Remuneration Report continued

The impact of deferral continued

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



Payments for loss of office

Peter Frost retired from his position as Chief Customer Officer on 31 October 2023. In line with his contractual arrangements, he did not receive any compensation for loss of office. From 27 April 2023, he stepped down from the Board and was on garden leave until his retirement. During that period, he received monthly payments comprising his salary, car cash allowance, cash in lieu of pension and holiday pay which totalled £215,000. He was also eligible to receive pro rated variable pay awards for Success Share and ExVPP awards in respect of 2023 totalling £91,000.

As a retiree, the Committee determined that Peter should be treated as a good leaver and any in-flight deferred variable pay will be released at the normal time in line with the Remuneration Policy and other recent executive director leavers.

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 2023: £96,000 to M Parsons, former Chief Executive, £41,000 to M Faull, former Chief Financial Officer, and £17,000 to A Deeks, former Product, Marketing & Strategy Director. There are no further payments due to A Deeks. All of these payments were subject to performance and risk review by the Remuneration Committee in line with the Remuneration Policy.

Remuneration elements in 2024

Base salary 2024

Base salaries for executive directors will be reviewed in April 2024, in line with the approach outlined in the Remuneration Policy.

Benefits including pension 2024

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

Variable pay 2024

The 2024 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 2024 Directors' Remuneration Report.

Relative importance of spend on pay

The following table sets out the changes in profit after tax in 2023 and 2022, 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.

	2023 £m	2022 £m	Change %
Total assets	**62,462.7**	58,867.1	6.1
Total employee remuneration costs paid	**157.0**	137.5	14.2
Profit after tax	**351.1**	286.2	22.7

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.

Directors' Remuneration Report continued

Annual Remuneration Report continued

Change in remuneration of Chief Executive

The historical levels of the Chief Executive's variable pay awards as a percentage of the maximum payable are shown below:

	2023 %	2022 %	2021 %	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %	2014 %
Annual Success Share bonus as a percentage of maximum	**95**	90	75	40	50	55	60	70	60	60
LTIP as a percentage of maximum	**n/a**	n/a	n/a	n/a	n/a	n/a	63	63	–	100
ExVPP as a percentage of maximum	**96.5**	85.5	75	40	45	50	60	65	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 2023, 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	31,240	41,788	62,254
Salary	25,200	32,820	45,296

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 £
2023	Option A	35:1	26:1	17:1
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

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 2023 £000	Committee Chair and other fees 2023 £000	Expense payments 2023 £000	Total fees and expense payments 2023 £000	Base fees 2022 £000	Committee Chair and other fees 2022 £000	Expense payments 2022 £000	Total fees and expense payments 2022 £000
Non-executive directors:									
David Thorburn	1	**199**	**–**	**3**	**202**	129	–	5	134
Gary Hoffman	2	**–**	**–**	**–**	**–**	59	–	–	59
Iraj Amiri	3	**55**	**16**	**2**	**73**	54	15	4	73
Catherine Doran	4	**18**	**–**	**1**	**19**	54	–	2	56
Jo Kenrick	5	**55**	**27**	**1**	**83**	54	25	1	80
Shamira Mohammed	6	**55**	**–**	**1**	**56**	54	–	1	55
Vanessa Murden	7	**51**	**12**	**–**	**63**	–	–	–	–
Brendan O'Connor	8	**55**	**–**	**2**	**57**	54	–	1	55
Martin Stewart	9	**55**	**16**	**3**	**74**	54	15	3	72
Total		**543**	**71**	**13**	**627**	512	55	17	584

1. Chair of the Board from 28.04.22.
2. Chair of the Board to 28.04.22
3. Non-executive director from 28.06.18 and Chair of the Board Audit Committee from 18.09.18.
4. Non-executive director from 01.08.16 until 27.04.23.
5. 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.
6. Non-executive director from 01.05.19.
7. Non-executive director from 30.01.23. Chair of the Board Technology Oversight Committee from 30.01.23
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 2023 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	2023 £000	2022 £000
Chair of the Board	**202**	192
Base fee	**56**	54
Deputy Chair of the Board[1]	**8**	7
Senior Independent Director[1]	**8**	7
Chair of the Remuneration Committee	**14**	13
Chair of the Board Audit Committee	**16**	15
Chair of the Board Risk Committee	**16**	15
Chair of the Board Technology Oversight Committee	**14**	-

1. If both the Deputy Chair and Senior Independent Director roles are held by the same person, the fees are combined at £13,700.

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 2023 Annual General Meeting, ordinary resolutions (advisory votes) were proposed to members to approve the Annual Remuneration Report and Remuneration Policy for the year ended 31 December 2022 for which the following votes were received:

	Number of votes	% votes cast
	Annual Remuneration Report	
Votes cast for	75,141	92.7
Votes cast against	5,949	7.3
Total votes cast	81,090	100.0
	Remuneration Policy	
Votes cast for	74,672	92.3
Votes cast against	6,207	7.7
Total votes cast	80,879	100.0

Directors' Report

The directors have pleasure in presenting their Annual Report & Accounts for 2023.

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 2023 was £474 million (2022: £371 million). The profit after tax transferred to the general reserve was £351 million (2022: £286 million).

Total Group reserves and equity at 31 December 2023 were £3,240 million (2022: £2,948 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 2023 was £3,297 million (2022: £3,005 million), including £15 million (2022: £15 million) of subordinated debt, £42 million (2022: £42 million) of subscribed capital and £415 million (2022: £415 million) of Perpetual Capital Securities.

The ratio of gross capital as a percentage of savings and borrowings at 31 December 2023 was 5.65% (2022: 5.46%) and the free capital ratio was 5.48% (2022: 5.27%).

The Annual Business Statement gives an explanation of these ratios.

Mortgage arrears

At 31 December 2023, there were 164 mortgage accounts more than 12 months in arrears (including those in possession) (2022: 119). The balance on these accounts totalled £24.4 million (2022: £17.7 million) and the value of these arrears was £2.5 million (2022: £1.6 million) or 0.005% (2022: 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 £2.4 million (2022: £1.8 million) to charitable organisations during the year.

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 2023 (2022: 13 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 67 to 69. No director has any beneficial interest in equity shares, or debentures of, any connected undertaking of the Society as at 31 December 2023.

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' Report continued

Directors' responsibilities in respect of the preparation of the Annual Report & Accounts

The following statement, which should be read in conjunction with the Statement of the auditors' responsibilities on page 114, 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 2023 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.

Directors' Report continued

Going concern

In preparing the financial statements, the directors are required to satisfy themselves that it is appropriate to adopt the going concern basis of accounting in accordance with guidance from the Financial Reporting Council and IAS 1 Presentation of Financial Statements.

The Society's business activities, together with the factors likely to affect its future development, performance, position, liquidity and capital structure, are set out in the Strategic Report. 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.

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 2028. 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 2026. 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 8.5% during the first year of the stress and house price falls of 31% over the first half of the stress 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 2026.

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 2024 Annual General Meeting.

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

David Thorburn

Chair of the Board
28 February 2024

Financial Statements

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

Independent Auditors' Report	107
Accounts	116
Notes to the accounts	120

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 2023 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 2023; 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, comprising material accounting policy information and other explanatory information.

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

Basis for opinions

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

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard applicable to listed 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 2023 to 31 December 2023.

Our audit approach

Overview

Materiality	• Overall Group materiality: £23.8 million (2022: £18.5 million), based on 5% of Profit before tax from continuing operations. • Overall Society materiality: £20 million (2022: £13.1 million), based on 5% of Profit before tax from continuing operations. • Performance materiality: £17.8 million (2022: £14.0 million) (Group) and £15.0 million (2022: £9.8 million) (Society).
Scoping	• 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.
Key audit matters	• The application of key judgements and estimates in relation to applying expected credit loss provisioning on loans and advances to customers (Group & Society); • The application of hedge accounting in accordance with accounting standards (Group & Society); and • The appropriateness of assumptions used to measure the defined benefit pension obligations (Group & Society).

Independent auditors' report to the members of Coventry Building Society continued

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group 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 privileged access to Information technology ('IT') systems, which was a key audit matter last year, is no longer included because of migration to a new general ledger application which has reduced the risk of error arising in day-to-day operational processing. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report to the members of Coventry Building Society continued

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers (Group and Society)</td></tr>
<tr><td>
The Group held £42.5 million of expected credit loss (‘ECL’) provisions against residential mortgages in accordance with IFRS 9 (2022: £35.5 million) against total loans and advances to customers of £50,318.6 million (2022: £48,049.8 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 inflationary and high interest rate environment in the UK.
In response to this uncertainty the Group holds a post-model adjustment of £18.4 million (2022: £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.
</td><td>
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 the cost of living post model adjustment to be reasonable.
</td></tr>
</table>

Independent auditors' report to the members of Coventry Building Society continued

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">The application of hedge accounting in accordance with accounting standards (Group and Society)</td></tr>
<tr><td>
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.
At 31 December 2023 the fair value of all hedged items in designated hedging relationships was £365.0 million less than their carrying value (2022: £1,142.8 million less). Management of interest rate risk and cross currency risk using derivatives in the year also gave rise to a £30.3 million gain (2022: £26.8 million gain) being recognised in the income statement.
During 2023, the Group has made a number of material revisions to their mortgage and savings prepayment/ withdrawal rate modelling. We focused our work on these and 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.
</td><td>
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 challenged management on the differences between actual and expected customer behaviour used in hedging models and whether this was appropriately being captured in income statement ineffectiveness.
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.
</td></tr>
</table>

Independent auditors' report to the members of Coventry Building Society continued

Key audit matter	How our audit addressed the key audit matter
The appropriateness of assumptions used 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 £3.7 million at 31 December 2023 (2022: £3.3 million) which is made up of assets carried at fair value of £153.2 million (2022: £160.7 million) and obligations of £149.5 million (2022: £157.4 million). The present value of the scheme obligation is materially sensitive to a number of actuarial assumptions including the discount rate, inflation and mortality rates. Changes in these assumptions can have significant impacts on the valuation. Management performs a review of the valuation methodology and assumptions each year using their third party actuaries. The assumptions are updated to reflect changing market practice and management's future outlook. The 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 2023 for schemes of a similar duration and to management's estimates derived by their experts. We confirmed our understanding of the Group's third-party actuary's methodology used in determining the valuation of the defined benefit pension obligation. We tested samples of census data of scheme membership data back to source documents and found the data used to be appropriate. We considered the independence, objectivity and competence of the third-party actuaries engaged by management to perform their valuation. We have engaged our actuarial experts to evaluate the judgements and estimates made by management in determining the key financial and mortality assumptions used in calculating the defined benefit obligation. We reviewed the Group's third party actuarial report and obtained an understanding of how key assumptions are set and the methodologies adopted in calculating the defined benefit obligation. We assessed the reasonableness of the assumptions and methodologies adopted using our knowledge of current market practice, our own developed benchmarks and external market data. Based on the evidence we obtained, we found the assumptions 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.

Independent auditors' report to the members of Coventry Building Society continued

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 2023.

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	£23.8 million (2022: £18.5 million).	£20.0 million (2022: £13.1 million).
How we determined it	5% of Profit 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.	

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 £5.2 million to £20.0 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 £17.8 million for the Group financial statements and £15.0 million for the Society financial statements.

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 £1,200,000 (Group audit) (2022: £930,000) and £1,000,000 (Society audit) (2022: £650,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify critical factors that could impact the going concern basis of preparation, including the current and forecast financial performance, regulatory metrics and the sector in which the Group operates. As part of our risk assessment, we reviewed and considered the Group's strategic plan, ICAAP and ILAAP, regulatory correspondence and management reports provided to key governance forums;
- Evaluation of the reasonableness of the Group's strategic and operating plan, including testing key assumptions and performance of sensitivity analysis using our understanding of the Group and its financial and operating performance obtained during the course of our audit. We also considered management's ability to accurately forecast financial performance by comparing past business plans to actual results; and
- Testing the appropriateness of the disclosures made in the Annual Report and Accounts.

Independent auditors' report to the members of Coventry Building Society continued

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

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

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

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. 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.

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 2023 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;

Independent auditors' report to the members of Coventry Building Society continued

- 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 and Society was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Society and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Society's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Society's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of Directors' Responsibilities in respect of the preparation of the Annual Report & Accounts, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Independent auditors' report to the members of Coventry Building Society continued

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 27 April 2023 to audit the financial statements for the year ended 31 December 2023 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 31 December 2019 to 31 December 2023.

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
28 February 2024

Income Statements

For the year ended 31 December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**2,992.5**	1,421.1	**2,860.8**	1,249.6
Interest payable and similar charges	4	**(2,225.3)**	(763.8)	**(2,228.4)**	(750.8)
Net interest income		**767.2**	657.3	**632.4**	498.8
Fees and commissions receivable	5	**3.8**	7.2	**2.6**	4.7
Fees and commissions payable	6	**(11.1)**	(10.7)	**(9.5)**	(8.1)
Other operating income	7	**2.1**	1.9	**2.1**	1.9
Net gains from derivative financial instruments	8	**30.3**	26.8	**30.7**	26.5
Total income		**792.3**	682.5	**658.3**	523.8
Administrative expenses	9	**(285.8)**	(266.1)	**(230.7)**	(219.3)
Amortisation of intangible assets	17	**(12.9)**	(11.8)	**(12.9)**	(11.8)
Depreciation on property, plant and equipment	18	**(13.2)**	(16.9)	**(13.2)**	(16.9)
Impairment charge on loans and advances to customers	14	**(6.9)**	(16.6)	**(1.8)**	(13.6)
Charitable donation to Poppy Appeal		**–**	(0.6)	**–**	(0.6)
Profit before tax		**473.5**	370.5	**399.7**	261.6
Taxation	15	**(122.4)**	(84.3)	**(103.8)**	(62.3)
Profit for the financial year		**351.1**	286.2	**295.9**	199.3

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 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit for the financial year		**351.1**	286.2	**295.9**	199.3
Other comprehensive income/(expense)					
Items that will not be transferred to the income statement:					
Remeasurement of defined benefit pension plan	19	**–**	(27.6)	**–**	(27.6)
Taxation	15	**(0.1)**	8.0	**(0.1)**	8.0
Items that may be transferred to the income statement					
Fair value through other comprehensive income investments:					
Fair value movements taken to reserves		**15.2**	(55.2)	**15.2**	(55.2)
Amount transferred to the income statement		**(20.2)**	55.4	**(20.2)**	55.4
Taxation	15	**1.4**	0.2	**1.4**	0.2
Cash flow hedges:					
Fair value movements taken to reserves		**18.8**	467.5	**50.5**	394.3
Amount transferred to the income statement		**(54.6)**	(121.9)	**(100.2)**	(29.7)
Taxation	15	**8.8**	(96.0)	**12.7**	(101.3)
Other comprehensive (expense)/ income for the year, net of tax		**(30.7)**	230.4	**(40.7)**	244.1
Total comprehensive income for the year, net of tax		**320.4**	516.6	**255.2**	443.4

The notes on pages 120 to 170 form part of these accounts.

Balance Sheets

As at 31 December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Assets					
Cash and balances with the Bank of England		**8,572.2**	7,792.2	**8,486.7**	7,724.9
Loans and advances to financial institutions		**787.9**	622.8	**787.9**	622.8
Debt securities	12	**1,564.2**	1,594.8	**1,515.3**	1,520.8
Loans and advances to customers	13	**50,276.1**	48,014.3	**32,002.6**	29,634.9
Hedge accounting adjustment		**(433.1)**	(1,595.3)	**(433.1)**	(1,595.3)
Derivative financial instruments	23	**1,513.5**	2,278.1	**1,508.2**	2,254.7
Investment in equity shares		**6.8**	5.8	**6.8**	5.8
Current tax assets		**41.3**	20.8	**42.2**	20.4
Investment in Group undertakings	16	**–**	–	**17,675.7**	17,879.7
Intangible assets	17	**49.6**	43.3	**49.6**	43.3
Property, plant and equipment	18	**51.0**	63.2	**51.0**	63.2
Prepayments and accrued income		**29.5**	23.8	**29.3**	23.6
Pension benefit surplus	19	**3.7**	3.3	**3.7**	3.3
Total assets		**62,462.7**	58,867.1	**61,725.9**	58,202.1
Liabilities					
Shares		**47,582.3**	42,288.7	**47,582.3**	42,288.7
Deposits from banks		**5,230.7**	7,542.9	**5,230.7**	7,532.0
Other deposits		**–**	5.0	**–**	5.0
Amounts owed to other customers		**237.3**	416.1	**351.6**	530.1
Debt securities in issue	22	**5,377.5**	5,243.2	**4,096.4**	4,549.5
Hedge accounting adjustment		**(68.1)**	(452.5)	**(68.1)**	(452.5)
Derivative financial instruments	23	**594.2**	626.5	**574.5**	617.5
Deferred tax liabilities	20	**133.1**	111.7	**130.7**	113.2
Accruals and deferred income		**49.5**	49.9	**45.4**	45.1
Other liabilities	29	**29.2**	30.5	**1,260.0**	677.8
Provisions for liabilities and charges	24	**0.4**	0.4	**0.4**	0.4
Subordinated liabilities	25	**15.4**	15.4	**15.4**	15.4
Subscribed capital	26	**41.6**	41.6	**41.6**	41.6
Total liabilities		**59,223.1**	55,919.4	**59,260.9**	55,963.8
Members' interests and equity					
General reserve		**2,573.2**	2,250.7	**1,801.6**	1,534.3
Other equity instruments	27	**415.0**	415.0	**415.0**	415.0
Fair value through other comprehensive income reserve		**1.3**	4.9	**1.3**	4.9
Cash flow hedge reserve		**250.1**	277.1	**247.1**	284.1
Total members' interests and equity		**3,239.6**	2,947.7	**2,465.0**	2,238.3
Total members' interests, liabilities and equity		**62,462.7**	58,867.1	**61,725.9**	58,202.1

The notes on pages 120 to 170 form part of these accounts.

Approved by the Board of directors on 28 February 2024 and signed on its behalf by

David Thorburn
Chair of the Board

Stephen Hughes
Chief Executive

Lee Raybould
Chief Financial Officer

Statements of Changes in Members' Interest and Equity

For the year ended 31 December 2023

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 2023	**2,250.7**	**415.0**	**4.9**	**277.1**	**2,947.7**
Profit for the financial year	**351.1**	**–**	**–**	**–**	**351.1**
Net remeasurement of defined benefit plan	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Net movement in fair value through other comprehensive income reserve	**–**	**–**	**(3.6)**	**–**	**(3.6)**
Net movement in cash flow hedge reserve	**–**	**–**	**–**	**(27.0)**	**(27.0)**
Total comprehensive income/ (expense)	**351.0**	**–**	**(3.6)**	**(27.0)**	**320.4**
Distribution to Additional Tier 1 capital holders	**(28.5)**	**–**	**–**	**–**	**(28.5)**
As at 31 December 2023	**2,573.2**	**415.0**	**1.3**	**250.1**	**3,239.6**

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 plan	(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

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 2023	**1,534.3**	**415.0**	**4.9**	**284.1**	**2,238.3**
Profit for the financial year	**295.9**	**–**	**–**	**–**	**295.9**
Net remeasurement of defined benefit plan	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Net movement in fair value through other comprehensive income reserve	**–**	**–**	**(3.6)**	**–**	**(3.6)**
Net movement in cash flow hedge reserve	**–**	**–**	**–**	**(37.0)**	**(37.0)**
Total comprehensive income/ (expense)	**295.8**	**–**	**(3.6)**	**(37.0)**	**255.2**
Distribution to Additional Tier 1 capital holders	**(28.5)**	**–**	**–**	**–**	**(28.5)**
As at 31 December 2023	**1,801.6**	**415.0**	**1.3**	**247.1**	**2,465.0**

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 plan	(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

The notes on pages 120 to 170 form part of these accounts.

Statements of Cash Flows

For the year ended 31 December 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash flows from operating activities:					
Profit before tax		**473.5**	370.5	**399.7**	261.6
Adjustments for:					
Expected credit loss provisions and other provisions	14,24	**6.9**	16.6	**1.8**	13.6
Depreciation and amortisation		**26.1**	28.7	**26.1**	28.7
Interest on subordinated liabilities and subscribed capital		**6.0**	6.0	**6.0**	6.0
Changes to fair value adjustment of hedged risk		**(101.6)**	(120.6)	**(144.1)**	(30.9)
Other non-cash movements		**304.8**	243.6	**304.8**	238.3
Non-cash items included in profit before tax		**242.2**	174.3	**194.6**	255.7
Loans and advances to credit institutions		**(179.3)**	(332.8)	**(179.3)**	(331.2)
Loans and advances to customers		**(2,268.8)**	(1,413.6)	**(2,369.8)**	(1,098.1)
Prepayments, accrued income and other assets		**(5.7)**	0.9	**(5.7)**	0.9
Changes in operating assets		**(2,453.8)**	(1,745.5)	**(2,554.8)**	(1,428.4)
Shares		**4,960.7**	2,304.2	**4,960.7**	2,304.2
Deposits and other borrowings		**(2,507.2)**	1,266.7	**(2,496.2)**	1,273.1
Debt securities in issue		**–**	(2.8)	**–**	(2.5)
Accruals and deferred income and other liabilities		**2.6**	3.6	**3.1**	3.5
Changes in operating liabilities		**2,456.1**	3,571.7	**2,467.6**	3,578.3
Interest paid on subordinated liabilities and subscribed capital		**(6.0)**	(5.9)	**(6.0)**	(5.9)
Interest paid on lease liabilities		**(0.3)**	(0.4)	**(0.3)**	(0.4)
Taxation		**(111.3)**	(89.0)	**(94.0)**	(67.8)
Net cash flows from operating activities		**600.4**	2,275.7	**406.8**	2,593.1
Cash flows from investing activities					
Purchase of investment securities		**(1,980.9)**	(1,727.0)	**(1,851.8)**	(1,526.1)
Sale and maturity of investment securities and equities		**2,026.9**	753.0	**1,872.6**	626.0
Proceeds from sale of properties		**2.6**	1.7	**2.6**	1.7
Purchase of property, plant and equipment and intangible assets		**(22.8)**	(26.7)	**(22.8)**	(26.7)
Net cash flows from investing activities		**25.8**	(999.0)	**0.6**	(925.1)
Cash flows from financing activities					
Loans to connected undertakings		**–**	–	**787.7**	(462.7)
Distributions paid to Additional Tier 1 capital holders		**(28.5)**	(28.5)	**(28.5)**	(28.5)
Repurchase and repayment of debt securities		**(1,713.1)**	(540.0)	**(1,450.0)**	(400.0)
Issue of debt securities		**1,887.0**	434.3	**1,036.8**	434.4
Principal elements of lease payments		**(4.7)**	(4.7)	**(4.7)**	(4.7)
Net cash flows from financing activities		**140.7**	(138.9)	**341.3**	(461.5)
Net increase in cash		**766.9**	1,137.8	**748.7**	1,206.5
Cash and cash equivalents at start of year		**7,623.2**	6,485.4	**7,555.9**	6,349.4
Cash and cash equivalents at end of year		**8,390.1**	7,623.2	**8,304.6**	7,555.9
Cash and cash equivalents:					
Cash and balances with central banks[1]		**8,390.1**	7,623.2	**8,304.6**	7,555.9

1. This excludes the mandatory reserve with the Bank of England of £182.1 million (2022: £169.0 million).

The notes on pages 120 to 170 form part of these accounts

Notes to the accounts

1. Accounting policies

Basis of preparation

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

The accounts comprise the standalone financial statements of the Society and the consolidated financial statements of the Group. They have been prepared on a historical cost basis, as modified by the revaluation of financial instruments which are measured at fair value. As stated in the Directors' Report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

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

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

Basis of consolidation

The assets, liabilities and results of the Society and its consolidated subsidiaries and structured entities are included in the financial statements of the Group.

The Group consolidates an entity from the date on which it: (a) has power over the entity; (b) is exposed to, or has the right to, variable returns from its involvement with the entity; and (c) has the ability to affect those returns through the exercise of its powers. Upon consolidation, intra-group transactions, balances and unrealised gains and losses are eliminated.

The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes in one or more of these three elements. The Group deconsolidates entities from the date that control ceases.

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control.

Structured entities are consolidated when the substance of the relationship indicates control. In making this judgement, the Group considers factors such as the purpose and design of the entity, size and exposure to variability of returns and the nature of the relationship, including power over the structured entity.

The Society's investment in shares in its subsidiaries is recognised on the Balance Sheet at cost less any provision for impairment.

Changes in accounting standards

The amendments to IAS 12 Income taxes, for deferred tax related to assets and liabilities arising from a single transaction is applicable to the Society with effect from 1 January 2023, however has no impact on the Group's financial statements.

There are no other amendments to standards effective from 1 January 2023 that apply to or have a material impact on the Group.

Derecognition of financial assets and liabilities

The Group derecognises financial assets where the right to receive cash flows has expired, or where the assets are transferred with substantially all the risks and rewards of ownership. Where the transfer does not result in the transfer of cash flows, but the Group assumes an obligation to pay the cash flows to the transferee, the financial assets are also derecognised.

The Group derecognises financial liabilities when the obligation is discharged, cancelled or has expired.

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

Notes to the accounts continued

1. Accounting policies continued

Securitisation and covered bond transactions

The Group has securitised certain mortgage loans by transferring the loans to structured entities controlled by the Group. These securitisations enable the issuance of debt to investors, who take security in the underlying assets as collateral.

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

Transfers of mortgage loans to the structured entities are not treated as sales and the loans are not derecognised but remain on the transferor's own Balance Sheet as it retains substantially all the risks and rewards of the mortgage loans. In the accounts of the transferor, the proceeds received from the transfer of mortgage loans to structured entities are accounted for as a deemed loan from the structured entity and are disclosed within Other liabilities on the Balance Sheet.

For covered bonds, the Society itself and not the structured entity issues the covered bonds and then lends the proceeds to the structured entity on back to back terms. The structured entity then uses these proceeds as consideration for the loans transferred from the Society. In the accounts of the Society, neither the loan to the structured entity nor the consideration for the transfer of mortgage loans is recognised separately as an additional asset and liability.

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

Investments in such self-issued debt and the equivalent deemed loan, together with the related income, expenditure and cash flows, are not recognised in the Society's financial statements.

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

Sale and repurchase agreements (repos)

Securities sold subject to a commitment to repurchase them are retained on the Balance Sheet when substantially all the risks and rewards of ownership remain within the Group. The counterparty liability is included separately on the Balance Sheet, as appropriate. The difference between the sale and repurchase price is accrued over the life of the agreements using the Effective Interest Rate (EIR) method.

Interest receivable and interest payable

For instruments measured at amortised cost, the EIR method is used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. Interest income on fair value through other comprehensive income (FVOCI) debt is also included on an EIR basis.

In calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instrument. For assets which are in default and assessed as stage 3 under IFRS 9, interest is calculated by applying the EIR to the expected recoverable amount. The EIR calculation includes all fees received and paid and costs borne and all other premiums above or below market rates.

Fees and commissions

Fees and commissions receivable and payable that are not spread across expected asset lives under the EIR method are taken to income on an accruals basis as the related obligations are satisfied.

Leases

The majority of the Group’s leases relate to property including branches, head office buildings and data centres. The Group also has other leases which relate to cars and office equipment.

Where the Group enters into a lease or contract that 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.

Notes to the accounts continued

1. Accounting policies continued

Leases continued

The right-of-use asset is measured at cost including the lease liability, any initial direct costs and committed restoration costs.

The right-of-use asset is depreciated over the shorter of its useful life or the lease term on a straight line basis through the Income Statement, and the interest charge on the lease liability is recognised within Interest payable. In the Cash Flow Statement, the interest paid on lease liabilities is included in Interest paid on lease liabilities, and the principal element of the lease payments is included in Principal elements of lease payments.

Expenses relating to leases which are for less than 12 months, of low value or relate to intangibles such as software are recognised in the Income Statement as charged.

On an ongoing basis the Group reviews the right-of-use asset and lease liability for any modifications that would require remeasurement and makes an assessment for impairment as required.

Taxation including deferred tax

Corporation tax on the profits for the year comprises current and deferred taxation.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets and liabilities are measured on a non-discounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled. Deferred tax assets and liabilities are offset when there is both a legally enforceable right and an intention to settle on a net basis.

Corporation tax is charged or credited directly to the Statement of Comprehensive Income if it relates to items that are credited or charged to the Statement of Comprehensive Income. Otherwise corporation tax is recognised in the Income Statement.

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.

Notes to the accounts continued

1. Accounting policies continued

Financial assets continued

Significant accounting judgements - classification and measurement of equity release loans

The Group has a £167.8 million (2022: £178.3 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 42% (2022: 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 that 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. The criterion related to the cost of living stress currently form the majority of stage 2 accounts.

Notes to the accounts continued

1. Accounting policies continued

Loans and advances to customers continued

Qualitative criteria continued

Other criteria, outside of the cost of living stress, include county court judgements, bankruptcy, temporary transfer to interest only or poor external credit bureau data that 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 affordability from inflation and higher interest rates, 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, in the last 12 months, 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 by December 2025 or not, with a higher default probability being assigned to those customers who have an upcoming refinancing and who we observe will face into a significant increase in interest rates compared to when they took their current fixed rate. Customers with a LTV below 60% are excluded from the cohort as the risk of loss is deemed low, given the equity protection afforded by the low LTV. All customers meeting the criteria and within the associated cost of living PMA are moved to stage 2.

Backstop criteria

In addition, a loan is considered to have experienced a significant increase in credit risk if it is more than one month past due. 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 and the account is in arrears.
- 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.
- Temporary transfer to interest plus arrears.
- 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).

Notes to the accounts continued

1. Accounting policies continued

Loans and advances to customers continued

Inputs, assumptions and estimation techniques

The measurement of expected credit loss reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money.
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses (ECLs), being forward-looking, are discounted back to the reporting date and are calculated by multiplying the probability of default (PD), exposure at default (EAD) and loss given default (LGD) where:

- The PD represents the likelihood of a borrower defaulting over either the next 12 months or over the remaining lifetime of the mortgage (being the contractual lifetime).
- EAD is the amount the Society expects to be owed at the time of default. The Society does not have any significant revolving commitments where guaranteed further amounts can be drawn down by the borrower.
- LGD represents the Society’s expectation of the extent of loss on a default and takes account of available collateral, likely sales cost and potential discount needed to secure a sale.

The Society's 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. 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, model monitoring 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.

Notes to the accounts continued

1. Accounting policies continued

Loans and advances to customers continued

Significant accounting assumptions and estimates – post model adjustments (continued)

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.

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.

Notes to the accounts continued

1. Accounting policies continued

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.

Notes to the accounts continued

1. Accounting policies continued

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.

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.

Notes to the accounts continued

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 that 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, 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	
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

In the prior year, effective interest rate (EIR) on Loans and Advances to customers - revenue recognition was also included as a significant accounting estimate. Following a change in estimated future cash flows in prior years, and resulting write down of EIR SVR related assets, mortgages are expected to fully redeem in line with the end of the fixed product term. This is therefore no longer classed as a significant accounting estimate.

3. Interest receivable and similar income

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
On financial assets measured at amortised cost:				
On loans and advances to customers	**1,446.8**	1,032.3	**853.8**	570.7
Connected undertakings	**–**	–	**470.5**	292.3
Interest on other liquid assets[1]	**449.9**	114.8	**443.8**	113.6
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	**85.7**	16.3	**82.6**	15.3
Net income on financial instruments in a qualifying hedge relationship	**1,010.0**	257.6	**1,010.0**	257.6
Total interest receivable and similar income calculated using the EIR method	**2,992.5**	1,421.1	**2,860.8**	1,249.6

1. Interest on other liquid assets at Group and Society includes £425.4 million (2022: £106.4 million) in respect of interest on reserve balances with the Bank of England.

Notes to the accounts continued

4. Interest payable and similar charges

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Bank and customer				
Subordinated liabilities	**1.1**	1.1	**1.1**	1.1
Other[1]	**317.5**	111.2	**325.7**	114.0
Debt securities in issue	**164.9**	86.7	**116.7**	73.8
Other borrowed funds				
On shares held by individuals	**1,369.8**	461.9	**1,369.7**	461.9
On subscribed capital	**4.9**	4.9	**4.9**	4.9
On loans from connected undertakings	**–**	–	**67.9**	16.3
Net expense from hedging instruments	**366.3**	98.1	**341.8**	78.9
Foreign currency losses/(gains)	**0.5**	(0.5)	**0.3**	(0.5)
Other interest payable	**0.3**	0.4	**0.3**	0.4
Total	**2,225.3**	763.8	**2,228.4**	750.8

1. Other Bank and customer interest payable at Group and Society includes £200.0 million (2022: £77.0 million) relating to interest on balances drawn under the Term Funding Scheme, £74.7 million (2022: £19.2 million) of interest on collateral in respect of swap agreements, and £29.9 million (2022: £9.8 million) interest on balances relating to sale and repurchase agreements.

5. Fees and commissions receivable

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Mortgage related administration fees	**3.4**	6.7	**2.2**	4.2
General insurance commissions	**0.4**	0.5	**0.4**	0.5
Total	**3.8**	7.2	**2.6**	4.7

6. Fees and commissions payable

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Banking fees	**2.1**	2.6	**2.1**	2.6
Mortgage related fees	**4.7**	5.2	**3.3**	2.6
Other fees and commissions	**4.3**	2.9	**4.1**	2.9
Total	**11.1**	10.7	**9.5**	8.1

7. Other operating income

Operating income of £2.1 million (2022: £1.9 million) includes £0.4 million (2022: £1.4 million) relating to profit on sale of property, plant and equipment and £1.4 million (2022: £0.5 million) relating to gains on the Society's investments in equity shares, which are measured at fair value through profit and loss. The Society's investments in equity shares as at 31 December 2023 relate to Visa Inc.

Notes to the accounts continued

8. Net gains from derivative financial instruments

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Derivatives designated as fair value hedges				
(Losses)/gains on derivatives designated as fair value hedges	**(862.9)**	973.7	**(862.9)**	973.7
Movement in fair value of hedged items attributable to hedged risk	**798.2**	(999.0)	**798.2**	(999.0)
Ineffectiveness on fair value hedges	**(64.7)**	(25.3)	**(64.7)**	(25.3)
Derivatives designated as cash flow hedges[1]				
Foreign exchange	**(0.4)**	0.3	**–**	–
Interest rate	**101.1**	30.0	**101.1**	30.0
Ineffectiveness on cash flow hedges	**100.7**	30.3	**101.1**	30.0
(Losses)/gains on other derivatives	**(5.7)**	21.8	**(5.7)**	21.8
Total	**30.3**	26.8	**30.7**	26.5

1. Represents ineffectiveness on cash flow hedge relationships which will mature over a period of five years (2022: six).

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

Losses on other derivatives where hedge accounting relief has not been obtained are £5.7 million over the year (2022: £21.8 million gain).

The gains and losses recognised represent 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.

During the year, the Society updated its assumptions for its mortgage prepayments to reflect more recent behaviour. This has resulted in crystallising fair value movements on mortgage related interest rate derivatives with a gain of £81.3 million recognised.

In addition, as a consequence of the rise in interest rates in the year, the Society has continued to see members choosing to pay penalty interest to exit their fixed rate ISA products early. The impact of this customer behaviour and our subsequent withdrawal assumption change has resulted in a loss of £63.3 million in our derivative instrument portfolio, included within the movement in fair value of hedged instruments in the disclosure table above.

Foreign exchange gains of £45.5 million (2022: £89.3 million loss) have been recognised in the Income Statement relating to the principal amount of financial instruments held at amortised cost. This is offset by foreign exchange losses of £45.6 million (2022: £92.1 million gain) on derivative financial instruments held at fair value.

Notes to the accounts continued

9. Administrative expenses

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Employee costs				
Wages and salaries	**131.9**	115.7	**131.9**	115.7
Social security costs	**14.4**	13.2	**14.4**	13.2
Pension costs				
Defined benefit pension scheme (note 19)	**(0.2)**	(1.3)	**(0.2)**	(1.3)
Defined contribution pension scheme	**8.3**	7.4	**8.3**	7.4
	154.4	135.0	**154.4**	135.0
Other expenses				
Information systems	**38.0**	28.9	**38.0**	28.9
Training, recruitment and other employee costs	**20.4**	17.7	**20.4**	17.7
Premises and facilities	**10.0**	10.7	**10.0**	10.7
Legal, professional and consultancy	**6.6**	7.2	**6.3**	7.0
Marketing and communications	**6.7**	6.7	**6.7**	6.7
Loss on disposal of property, plant and equipment and intangibles	**–**	6.4	**–**	6.4
Other operating expenses (including project costs)	**49.7**	53.5	**49.1**	52.8
Intercompany management charge	**–**	–	**(54.2)**	(45.9)
Total	**285.8**	266.1	**230.7**	219.3

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.

There has been a reclassification between employee costs and project costs, within other operating expenses, of £20.6 million in the prior year following a change of general ledger system during 2023.

The remuneration of the external auditors, PricewaterhouseCoopers LLP, (excluding VAT), is set out below:

Group and Society	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Audit of the Group and Society annual accounts	**1.0**	0.8	**1.0**	0.8
Audit of Group subsidiaries	**0.2**	0.2	**–**	–
Audit related assurance services	**–**	0.1	**–**	0.1
Other non-audit services	**0.2**	0.2	**0.2**	0.2
Total	**1.4**	1.3	**1.2**	1.1

10. Employee numbers

Group and Society	2023 Full time	2023 Part time	2023 Total	2022 Full time	2022 Part time	2022 Total
The average number of persons employed during the year (including executive directors) was:						
Head office and administrative centres	**1,963**	**456**	**2,419**	1,814	435	2,249
Branches	**311**	**259**	**570**	287	288	575
Total	**2,274**	**715**	**2,989**	2,101	723	2,824

The average number of employees on a full time equivalent basis was 2,723 (2022: 2,552) and all of these are employed within the United Kingdom.

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.

2023 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	8,572.2	–	–	8,572.2
Loans and advances to financial institutions	787.9	–	–	787.9
Debt securities	–	1,564.2	–	1,564.2
Loans and advances to customers	50,276.1	–	–	50,276.1
Hedge accounting adjustment	(433.1)	–	–	(433.1)
Derivative financial instruments	–	–	1,513.5	1,513.5
Investment in equity shares	–	–	6.8	6.8
Total financial assets	59,203.1	1,564.2	1,520.3	62,287.6
Other non-financial assets	175.1	–	–	175.1
Total assets	59,378.2	1,564.2	1,520.3	62,462.7
Financial liabilities				
Shares	47,582.3	–	–	47,582.3
Deposits from banks	5,230.7	–	–	5,230.7
Other deposits	–	–	–	–
Amounts owed to other customers	237.3	–	–	237.3
Debt securities in issue	5,377.5	–	–	5,377.5
Hedge accounting adjustment	(68.1)	–	–	(68.1)
Derivative financial instruments	–	–	594.2	594.2
Subordinated liabilities	15.4	–	–	15.4
Subscribed capital	41.6	–	–	41.6
Total financial liabilities	58,416.7	–	594.2	59,010.9
Other non-financial liabilities	212.2	–	–	212.2
Total liabilities	58,628.9	–	594.2	59,223.1

Notes to the accounts continued

11. Classification and measurement of financial instruments continued

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

12. Debt securities

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Fair value through other comprehensive income:				
UK Government investment securities	**782.7**	1,020.1	**733.8**	946.1
Other listed transferable debt securities	**781.5**	568.5	**781.5**	568.5
Amortised cost				
Other listed transferable debt securities	**–**	6.2	**–**	6.2
Total	**1,564.2**	1,594.8	**1,515.3**	1,520.8
Movements during the year are analysed below:				
At 1 January	**1,594.8**	676.0	**1,520.8**	676.0
Additions	**1,947.1**	1,726.9	**1,821.1**	1,526.0
Maturities and disposals	**(1,993.1)**	(752.9)	**(1,842.0)**	(626.0)
Changes in fair value	**15.4**	(55.2)	**15.4**	(55.2)
At 31 December	**1,564.2**	1,594.8	**1,515.3**	1,520.8

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 2023, £313.3 million debt securities had been sold under sale and repurchase agreements (2022: £93.8 million).

Notes to the accounts continued

13. Loans and advances to customers

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Residential mortgages: owner-occupier		**30,944.5**	28,529.3	**30,604.8**	28,150.1
Residential mortgages: buy to let		**19,351.0**	19,496.2	**1,388.0**	1,467.6
Legacy lending[1]		**11.7**	13.2	**7.0**	8.0
Total Gross loans and advances to customers (contractual amounts)		**50,307.2**	48,038.7	**31,999.8**	29,625.7
Impairment	14	**(42.5)**	(35.5)	**(21.9)**	(20.0)
Total Net loans and advances to customers (contractual amounts)		**50,264.7**	48,003.2	**31,977.9**	29,605.7
EIR, fair value and other adjustments		**11.4**	11.1	**24.7**	29.2
Total		**50,276.1**	48,014.3	**32,002.6**	29,634.9

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Repayable in less than one year		**3,511.5**	3,394.3	**2,006.0**	1,925.5
Repayable in more than one year		**46,807.1**	44,655.5	**30,018.5**	27,729.4
		50,318.6	48,049.8	**32,024.5**	29,654.9
Impairment provision	14	**(42.5)**	(35.5)	**(21.9)**	(20.0)
Total		**50,276.1**	48,014.3	**32,002.6**	29,634.9

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:

		Notes in issue[1]			
2023 Group	Mortgages pledged £m	Held by third parties £m	Held by the Group pledged £m	Held by the Group unpledged £m	Total Notes in Issue £m
Loans and advances to customers					
Covered bond programme – Coventry Building Society Covered Bonds LLP	**7,178.5**	**2,960.3**	**1,350.0**	**–**	**4,310.3**
Covered bond programme – Coventry Godiva Covered Bonds LLP	**5,421.3**	**–**	**4,000.0**	**–**	**4,000.0**
Securitisation programme – Economic Master Issuer plc	**2,081.9**	**1,179.9**	**267.0**	**327.2**	**1,774.1**
Whole mortgage loan pools[2]	**5,288.2**	**–**	**503.5**	**4,784.7**	**5,288.2**
Total	**19,969.9**	**4,140.2**	**6,120.5**	**5,111.9**	**15,372.6**

		Notes in issue[1]			
2022 Group	Mortgages pledged £m	Held by third parties £m	Held by the Group pledged £m	Held by the Group unpledged £m	Total Notes in Issue £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

1. Notes in issue exclude Class Z securitisation notes (2023: £241.6 million, 2022: £179.6 million), which represent either the first loss tranche in the structure or a required liquidity reserve, and the Economic Master Issuer plc Sellers Notes (2023: £327.2 million, 2022: £870.3 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.

Notes to the accounts continued

13. Loans and advances to customers continued

Pledged assets – loans and advances to customers continued

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.

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 2023 or 2022. 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 2008 and provides security for issued notes secured against certain loans of Coventry Building Society. As at 31 December 2023, the Society had £2,350 million (2022: £2,450 million) and €2,250 million (2022: €2,250 million) of covered bonds in issue, of which £1,350 million (2022: £1,350 million) were retained by the Group.

During the period, the Society voluntarily repurchased £112.6 million (2022: £86.9 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 established in 2020 and provides security for issued notes secured against certain mortgage loans of Godiva Mortgages Limited. As at 31 December 2023, the Society had £4.0 billion (2022: £4.0 billion) of covered bonds in issue of which all were retained by the Group.

During the period, the Society voluntarily repurchased £55.7 million (2022: £40.7 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.

Economic Master Issuer PLC

Economic Master Issuer plc (EMI) was established in 2019 and has subsequently issued £2.0 billion of listed debt securities secured against certain mortgage loans of Coventry Building Society. At 31 December 2023, a total of £267.0 million (2022: £367.0 million) of notes were retained by the Group and £1,279.8 million (2022: £693.2 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.

Notes to the accounts continued

13. Loans and advances to customers continued

Pledged assets – loans and advances to customers continued

Economic Master Issuer PLC continued

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 2023 £m	Fair value liabilities 2023 £m	Fair value net position 2023 £m	Fair value assets pledged 2022 £m	Fair value liabilities 2022 £m	Fair value net position 2022 £m
Securitisation programme – Economic Master Issuer plc	2,001.2	1,281.8	719.4	1,803.6	688.7	1,114.9

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Income Statement				
Charge for the year	7.0	16.9	1.9	13.8
Recoveries of amounts previously written off	(0.1)	(0.3)	(0.1)	(0.2)
Total charge to the Income Statement	6.9	16.6	1.8	13.6

The table below shows gross loans and advances to customers, ECL provision and resulting coverage ratio split by IFRS 9 stage at 31 December 2023 and at 31 December 2022 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 presented.

Group	Stage 1 'Performing'	Stage 2 'Deteriorating'		Stage 3 'Default'		
As at 31 December 2023	£m	Not past due £m	Past due £m	Not past due £m	Past due £m	Total £m
Gross balances						
Residential mortgages: owner-occupier	26,387.7	4,271.1	107.6	52.5	125.6	30,944.5
Residential mortgages: buy to let	16,324.0	2,866.8	71.2	25.5	63.5	19,351.0
Legacy lending[1]	8.9	1.8	0.4	0.4	0.2	11.7
Total	42,720.6	7,139.7	179.2	78.4	189.3	50,307.2
ECL						
Residential mortgages: owner-occupier	1.5	19.8	0.4	4.1	1.9	27.7
Residential mortgages: buy to let	0.8	8.2	0.2	2.5	2.3	14.0
Legacy lending[1]	0.1	0.4	–	0.2	0.1	0.8
Total	2.4	28.4	0.6	6.8	4.3	42.5
ECL coverage as a % of total balance						
Residential mortgages: owner-occupier	0.01%	0.46%	0.37%	7.81%	1.51%	0.09%
Residential mortgages: buy to let	–	0.29%	0.28%	9.80%	3.62%	0.07%
Legacy lending[1]	1.12%	22.22%	–	50.00%	50.00%	6.84%
Total coverage	0.01%	0.40%	0.33%	8.67%	2.27%	0.08%

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.2 million has been included in residential mortgages.

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Society	Stage 1 'Performing'	Stage 2 'Deteriorating'		Stage 3 'Default'		
As at 31 December 2023	£m	Not past due £m	Past due £m	Not past due £m	Past due £m	Total £m
Gross balances						
Residential mortgages: owner-occupier	26,152.2	4,203.8	102.7	39.9	106.2	30,604.8
Residential mortgages: buy to Let	1,224.9	142.4	6.4	5.7	8.6	1,388.0
Legacy lending[1]	5.7	1.0	0.1	0.1	0.1	7.0
Total	27,382.8	4,347.2	109.2	45.7	114.9	31,999.8
ECL						
Residential mortgages: owner-occupier	1.2	13.7	0.4	3.4	1.5	20.2
Residential mortgages: buy to Let	0.1	0.4	–	0.3	0.5	1.3
Legacy lending[1]	0.1	0.2	–	–	0.1	0.4
Total	1.4	14.3	0.4	3.7	2.1	21.9
ECL coverage as a % of total balance						
Residential mortgages: owner-occupier	–	0.33%	0.39%	8.52%	1.41%	0.07%
Residential mortgages: buy to Let	0.01%	0.28%	–	5.26%	5.81%	0.09%
Legacy lending[1]	1.75%	20.00%	–	–	100.00%	5.71%
Total coverage	0.01%	0.33%	0.37%	8.10%	1.83%	0.07%

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.2 million has been included in residential mortgages.

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

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Society	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	25,313.6	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. Relates to legacy books with no new originations since 2010.

At 31 December 2023, 85.0% of the Society's loans and advances to customers were within the stage 1 'performing' category (2022: 90.3%). This proportion fell during 2023 as a result of the continuing elevated risk arising from the affordability pressures driven by the cost of living challenges and a higher interest rate environment moving accounts into stage 2 as part of the post model adjustment criteria.

At the reporting date, 14.5% of loans are in stage 2 and 0.5% in stage 3 (2022: 9.3% 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 £7,318.9 million (2022: £4,466.4 million) and of these £179.2 million or 2.4% (2022: £109.3 million, 2.4%) are in arrears by 30 days or more. At 31 December 2023, 81% or £5,894.2 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 and are the driver of the higher level of loans in stage 2. All of these accounts were paid up to date as at 31 December 2023 and remain in stage 2 as a result of indicators of increased risk.

Of the £267.7 million (2022: £202.0 million) of loans which are classified as stage 3 at the reporting date, 51.9% or £139.0 million were three months or more in arrears (2022: 58.4%, £117.9 million), and 29.3% (£78.4 million) were paid up to date (2022: 41.6%, £84.1 million). At 31 December 2023, the number of properties which were in possession remained low; a total of £4.7 million of stage 3 loans were in possession (2022: £4.1 million), representing 25 individual properties (2022: 27 properties).

ECL coverage ratios

This coverage ratio (ECL provision / gross loans and advances to customers) is 8 basis points (2022: 7 basis points).

		31 Dec 2023	31 Dec 2022
Total ECL provision	£m	**42.5**	35.5
Total gross loans and advances to customers before ECL and EIR	£m	**50,307.2**	48,038.7
ECL coverage ratio	%	**0.08**	0.07

The increase in ECL in the period resulted in the coverage rising to 70.8 times (2022: 50.7 times) the gross impairment losses before recoveries in the last 12 months as shown below.

		Year ended 31 Dec 2023	Year ended 31 Dec 2022
Impairment losses before recoveries	£m	**0.6**	0.7
Total ECL provision	£m	**42.5**	35.5
ECL coverage	Years	**70.8**	50.7

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
ECL before judgemental adjustments	**18.1**	16.1	**7.0**	6.5
Judgemental adjustments				
Impact of cost of living risk	**18.4**	14.2	**11.8**	10.6
Impact of cladding risk	**1.6**	2.5	**0.7**	1.8
Other judgemental adjustments	**4.4**	2.7	**2.4**	1.1
	24.4	19.4	**14.9**	13.5
Total reported ECL	**42.5**	35.5	**21.9**	20.0

The £24.4 million (2022: £19.4 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 2023 is set out below.

Cost of living post model adjustment

The Group has recognised a provision of £18.4 million at 31 December 2023 (2022: £14.2 million) to reflect the elevated affordability pressures and payment shock risk arising as a result of the ongoing cost of living challenges and higher interest rate environment. This is recognised as a PMA as the models do not satisfactorily capture all of the risks from these challenges facing borrowers.

The PMA attributes default probabilities to a cohort of customers identified as having experienced deterioration in credit quality in the last 12 months. The level of increased default risk applied varies depending on whether the customer has a fixed rate mortgage term end date by December 2025 or not, with a higher default probability being assigned to those customer accounts who have an upcoming refinancing and who we observe will face into a significant increase in interest rates compared to when they took their current fixed rate. 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 12.3% (2022: 6.4%) of total loans and advances to customers. Had the 60% LTV floor been excluded, the PMA would have increased by £1.0 million (2022: £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 £2.2 million (2022: £7.0 million) lower.

Cladding and other fire safety risk post model adjustment

The Group continues to recognise a provision for potential credit losses of £1.6 million (2022: £2.5 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 2023, the Society held other PMAs in aggregate totalling £4.4 million (2022: £2.7 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. The provision related to negative equity accounts has increased in the year due to worsening house price assumptions with the economic forecasts.

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Movements in gross exposure and ECL provision

A reconciliation of movements in gross exposures and ECL provision split by IFRS 9 stage from 1 January 2023 to 31 December 2023 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 2023	43,370.3	5.0	4,466.4	23.5	202.0	7.0	48,038.7	35.5
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(5,309.0)	(1.6)	5,309.0	4.1	–	–	–	2.5
Transfers from Stage 1 to Stage 3	(73.2)	–	–	–	73.2	1.4	–	1.4
Transfers from Stage 2 to Stage 3	–	–	(101.5)	(0.5)	101.5	0.5	–	–
Transfers from Stage 3 to Stage 2	–	–	29.9	0.3	(29.9)	(0.3)	–	–
Transfers from Stage 3 to Stage 1	11.4	–	–	–	(11.4)	–	–	–
Transfers from Stage 2 to Stage 1	1,634.6	0.1	(1,634.6)	(0.6)	–	–	–	(0.5)
Net movement arising from transfer of stages	(3,736.2)	(1.5)	3,602.8	3.3	133.4	1.6	–	3.4
New loans originated[1]	8,235.8	4.0	11.2	–	0.1	–	8,247.1	4.0
Remeasurement of ECL due to changes in risk parameters	–	(2.3)	–	0.1	–	1.9	–	(0.3)
Increase/(decrease) in post model adjustments	–	(0.6)	–	3.3	–	2.2	–	4.9
Loans derecognised in the period	(3,252.8)	(2.3)	(599.1)	(1.1)	(59.1)	(0.9)	(3,911.0)	(4.3)
Other items impacting Income Statement reversal	–	0.1	–	(0.1)	–	(0.4)	–	(0.4)
Net write offs directly to Income Statement		–	–	–	–	(0.3)	–	(0.3)
Income Statement charge for the period		(2.6)		5.5		4.1		7.0
Repayment and charges	(1,896.5)	–	(162.4)	–	(7.9)	–	(2,066.8)	–
Net write offs and other ECL movements	–	–	–	–	(0.8)	–	(0.8)	
At 31 December 2023	42,720.6	2.4	7,318.9	29.0	267.7	11.1	50,307.2	42.5

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

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Movements in gross exposure and ECL provision 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 2023	26,678.3	3.7	2,831.9	13.5	115.5	2.8	29,625.7	20.0
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(3,310.3)	(1.3)	3,310.3	1.5	–	–	–	0.2
Transfers from Stage 1 to Stage 3	(42.0)	–	–	–	42.0	0.8	–	0.8
Transfers from Stage 2 to Stage 3	–	–	(58.8)	(0.2)	58.8	0.2	–	–
Transfers from Stage 3 to Stage 2	–	–	16.4	0.1	(16.4)	(0.1)	–	–
Transfers from Stage 3 to Stage 1	4.2	–	–	–	(4.2)	–	–	–
Transfers from Stage 2 to Stage 1	1,063.0	0.1	(1,063.0)	(0.3)	–	(0.1)	–	(0.3)
Net movement arising from transfer of stages	(2,285.1)	(1.2)	2,204.9	1.1	80.2	0.8	–	0.7
New loans originated[1]	6,745.8	3.8	9.3	–	0.1	–	6,755.2	3.8
Remeasurement of ECL due to changes in risk parameters	–	(2.3)	–	(0.4)	–	0.9	–	(1.8)
Increase/(decrease) in post model adjustments	–	(0.5)	–	0.7	–	1.7	–	1.9
Loans derecognised in the period	(2,168.1)	(2.1)	(441.9)	(0.2)	(28.0)	(0.3)	(2,638.0)	(2.6)
Other items impacting Income Statement reversal	–	–	–	–	–		–	
Net write offs directly to Income Statement	–	–	–	–	–	(0.1)	–	(0.1)
Income Statement charge for the period		(2.3)		1.2		3.0		1.9
Repayment and charges	(1,588.1)	–	(147.8)	–	(7.1)	–	(1,743.0)	–
Net write offs and other ECL movements	–	–	–	–	(0.1)	–	(0.1)	–
At 31 December 2023	27,382.8	1.4	4,456.4	14.7	160.6	5.8	31,999.8	21.9

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

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Movements in gross exposure and ECL provision continued

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2022 to 31 December 2022 is set out in the following table 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 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Movements in gross exposure and ECL provision 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.

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 2023, 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 (2022: 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, scientific developments and results. By their nature, a significant degree of estimation is involved in determining the scenario weightings.

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Significant accounting assumptions and estimates - forward-looking information incorporated in the ECL models continued

Formulation of economic scenarios and governance continued

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 year, the weightings for each scenario were reviewed and remain consistent with the weightings applied at the prior reporting date. 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. Disinflationary trends continue, leading to central banks pivoting to lower interest rates. Unemployment remains low, allowing house prices to remain more resilient.	55%
Downside A deteriorating cost of living crisis driven by a reversal of inflationary pressures. Central banks resume interest rate hikes, slowing the economy, which increases the level of unemployment and causes house prices to fall. The elevated 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 energy supply issues recommence and 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 Supply-side inflation declines as geopolitical tensions subside, restoring a more orderly level of target inflation and allowing the Bank to reduce interest rates as conditions ease. Unemployment continues to be low and stable, and house prices continue to grow at a moderate rate.	10%

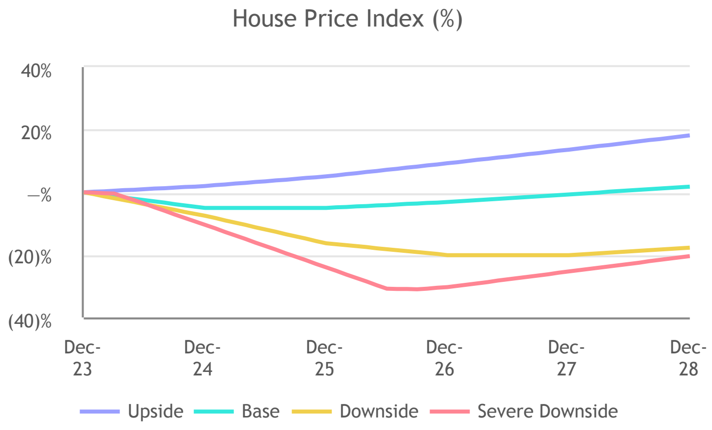
Macroeconomic assumptions

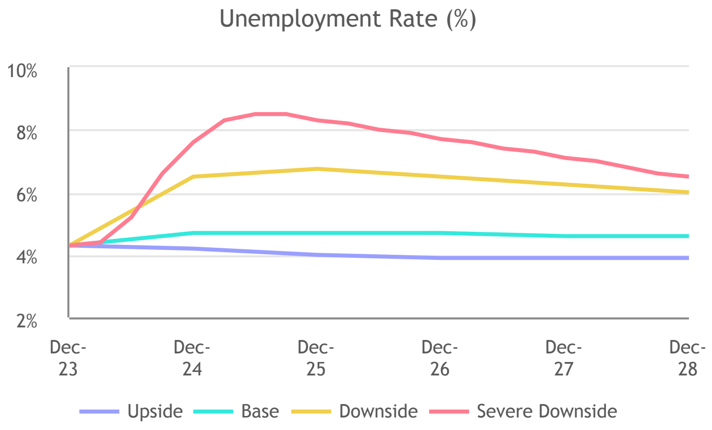
The Society's ECL calculation incorporates four key economic assumptions: unemployment rate, house price index (HPI), GDP and the Bank of England Base Rate. While all feed into the economic forecasts and impact the final ECL provision, the models are particularly sensitive to changes in the following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

Inflation impacts are also 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:





Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Significant accounting assumptions and estimates - forward-looking information incorporated in the ECL models continued

Macroeconomic assumptions continued

		31 December 2023			31 December 2022		
		Weighting	Unemployment %	HPI %	Weighting	Unemployment %	HPI %
Base	2024	55%	4.7	(5.0)	55%	4.7	(6.0)
	2025		4.7	–		5.2	(3.0)
Downside	2024	25%	6.5	(7.5)	25%	6.5	(7.5)
	2025		6.8	(9.5)		7.3	(9.5)
Severe Downside	2024	10%	7.6	(10.4)	10%	7.6	(10.4)
	2025		8.3	(15.2)		8.3	(15.2)
Upside	2024	10%	4.2	2.0	10%	3.9	2.5
	2025		4.0	3.0		3.9	4.0

Key economic assumptions as at 31 December 2023

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		2024 %	2025 %	2026 %	2027 %	2028 %	Peak to trough %	Range %	Average to 31 Dec 2028 %[1]
Base 55%	Unemployment	4.7	4.7	4.7	4.6	4.6	0.4	4.3 - 4.7	4.6
	HPI	(5.0)	0.0	2.0	2.5	2.5	6.8	(5.0) - 1.8	0.4
	GDP	0.4	1.3	1.5	1.5	1.5	6.4	0.0 - 6.4	1.2
	Base Rate	4.50	3.25	3.25	3.25	3.25	2.00	3.25 - 5.25	3.7
Downside 25%	Unemployment	6.5	6.8	6.5	6.3	6.0	2.3	4.5 - 6.8	6.2
	HPI	(7.5)	(9.5)	(4.5)	0.0	3.0	19.5	(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	6.25	6.25	6.25	6.25	6.00	1.00	5.25 - 6.25	6.2
Severe downside 10%	Unemployment	7.6	8.3	7.7	7.1	6.5	4.2	4.3 - 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	7.50	7.25	6.50	5.75	4.75	2.75	4.75 - 7.50	6.4
Upside 10%	Unemployment	4.2	4.0	3.9	3.9	3.9	0.4	3.9 - 4.3	4.0
	HPI	2.0	3.0	4.0	4.0	4.0	18.0	0.2 - 18.2	3.4
	GDP	1.5	2.0	3.0	3.5	4.0	14.7	0.1 - 14.8	2.8
	Base Rate	4.25	3.00	3.00	3.00	3.00	2.25	3.00 - 5.25	3.5

1. HPI change and GDP change average to 31 December 2028 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 £16.4 million, or 38.6% (2022: £8.1 million, 22.8%) compared with the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £36.1 million or 84.9% (2022: £26.0 million, 73.2%).

	31 December 2023		31 December 2022	
Scenario	IFRS 9 provision £m	(Decrease)/ increase %	IFRS 9 provision £m	(Decrease)/ increase %
IFRS 9 weighted average	42.5	–	35.5	–
Base scenario	26.1	(38.6)	27.4	(22.8)
Downside scenario	59.6	40.2	43.6	22.8
Severe downside scenario	78.6	84.9	61.5	73.2
Upside scenario	17.7	(58.4)	13.3	(62.5)

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Key economic assumptions as at 31 December 2023 continued

31 December 2023	Scenarios				
	Weighted	Base	Downside	Severe Downside	Upside
Stage 1 Gross balances (£m)	**42,720.6**	**43,720.8**	**42,694.3**	**42,613.4**	**45,133.1**
Stage 1 ECL (£m)	**2.4**	**0.9**	**4.8**	**6.8**	**0.5**
Stage 1 ECL coverage (%)	**0.01%**	**–**	**0.01%**	**0.02%**	**–**
Stage 2 Gross balances (£m)	**7,318.9**	**6,318.7**	**7,345.2**	**7,426.1**	**4,906.4**
Stage 2 ECL (£m)	**29.0**	**14.9**	**42.3**	**57.7**	**8.1**
Stage 2 ECL coverage (%)	**0.40%**	**0.24%**	**0.58%**	**0.78%**	**0.17%**
Stage 3 Gross balances (£m)	**267.7**	**267.7**	**267.7**	**267.7**	**267.7**
Stage 3 ECL (£m)	**11.1**	**10.3**	**12.5**	**14.1**	**9.1**
Stage 3 ECL coverage (%)	**4.15%**	**3.85%**	**4.67%**	**5.27%**	**3.39%**
Total Gross balances (£m)	**50,307.2**	**50,307.2**	**50,307.2**	**50,307.2**	**50,307.2**
Total ECL (£m)	**42.5**	**26.1**	**59.6**	**78.6**	**17.7**
Total ECL coverage (%)	**0.08%**	**0.05%**	**0.12%**	**0.16%**	**0.04%**

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%

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 2023, 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 £21.4 million to £63.9 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:

	2023			2022		
	Stage 2 balance £m	Provision lifetime ECL £m	Total £m	Stage 2 balance £m	Provision lifetime ECL £m	Total £m
Quantitative criteria	**512.9**	**(1.5)**	**511.4**	505.7	(1.8)	503.9
Backstop criteria (arrears of one monthly payment)	**208.0**	**(0.3)**	**207.7**	167.6	(0.2)	167.4
Forbearance applied	**13.3**	**–**	**13.3**	15.5	–	15.5
Other qualitative criteria	**6,584.7**	**(27.2)**	**6,557.5**	3,777.6	(21.5)	3,756.1
Total	**7,318.9**	**(29.0)**	**7,289.9**	4,466.4	(23.5)	4,442.9

As at 31 December 2023, 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 £5,894.2 million (2022: £3,041 million).

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Other credit risk information continued

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.

The LTV distribution of the mortgage book by IFRS 9 stage widened slightly during 2023, with 87% of the mortgage book having an LTV of 75% or lower (2022: 91%). 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 51% to 54% during the year. This is shown by IFRS 9 stage below:

As at 31 December 2023 Indexed loan to value	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
<50%	19,423.5	542.0	116.4	(1.5)	20,080.4
50% to 65%	13,696.3	2,184.6	84.8	(9.3)	15,956.4
65% to 75%	4,983.1	2,702.4	43.2	(10.7)	7,718.0
75% to 85%	3,078.7	1,196.2	13.8	(8.9)	4,279.8
85% to 90%	819.4	355.7	3.6	(3.2)	1,175.5
90% to 95%	566.4	253.9	2.1	(3.0)	819.4
95% to 100%	143.0	79.8	0.8	(1.2)	222.4
> 100%	1.3	3.0	2.7	(1.8)	5.2
Unsecured loans	8.9	1.3	0.3	(0.6)	9.9
Mortgage pipeline	–	–	–	(0.2)	(0.2)
Other[1]	–	–	–	(2.1)	(2.1)
Total	**42,720.6**	**7,318.9**	**267.7**	**(42.5)**	**50,264.7**

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 2022 Indexed loan to value	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.

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 and further adjustments have been made to represent the affordability stress recognised with the cost of living PMA. More information on PMAs is outlined on page 140.

Notes to the accounts continued

14. Impairment on loans and advances to customers continued

Other credit risk information continued

As at 31 December 2023 Risk grades	Average lifetime Probability of default (%)	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m
Performing						
A-C	0.11%	37,951.9	4,136.8	–	(11.3)	42,077.4
D-F	1.13%	4,577.2	2,615.4	–	(10.5)	7,182.1
G-J	11.49%	41.1	511.4	–	(2.0)	550.5
Non-performing						–
K	27.99%	–	30.8	–	(0.2)	30.6
Default and possession	100.00%	–	–	265.4	(9.1)	256.3
Other[1]	Not applicable	150.4	24.5	2.3	(9.2)	168.0
Mortgage pipeline	Not applicable			–	(0.2)	(0.2)
Total		42,720.6	7,318.9	267.7	(42.5)	50,264.7

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 2022 Risk grades	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.

Notes to the accounts continued

15. Taxation

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Current tax				
UK corporation tax	**92.7**	71.4	**74.1**	50.8
UK corporation tax – adjustment in respect of prior years	**(1.9)**	2.7	**(1.9)**	2.5
Total current tax	**90.8**	74.1	**72.2**	53.3
Deferred tax				
Current year	**26.9**	9.3	**26.9**	8.1
Adjustment in respect of prior years	**4.7**	0.9	**4.7**	0.9
Total deferred tax	**31.6**	10.2	**31.6**	9.0
Total	**122.4**	84.3	**103.8**	62.3

A reconciliation between the actual tax expense and tax that would be due if the UK standard corporation tax rate of 23.5% (2022: 19.0%) was applied to the profit before tax without adjustment is as follows:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit before tax (PBT)	**473.5**	370.5	**399.7**	261.6
Tax at UK standard rate of corporation tax on PBT of 23.5% (2022: 19.0%)	**111.3**	70.4	**93.9**	49.7
Recurring items				
Surcharge on banking profits[1]	**8.4**	13.5	**8.4**	13.5
Tax credit on Additional Tier 1 capital distribution[2]	**(6.7)**	(5.4)	**(6.7)**	(5.4)
Expenses not deductible for tax purposes[3]	**(20.3)**	(7.1)	**(21.5)**	(7.0)
Non-recurring items				
Adjustments in respect of prior years (current tax)[4]	**(1.9)**	2.7	**(1.9)**	2.5
Other (current tax)	**–**	–	**–**	–
Total current tax	**90.8**	74.1	**72.2**	53.3
Movements in deferred taxes	**26.7**	9.5	**26.7**	8.3
Adjustments in respect of prior years (deferred tax)[4]	**4.7**	0.9	**4.7**	0.9
Deferred tax arising from rate change	**0.2**	(0.2)	**0.2**	(0.2)
Total	**122.4**	84.3	**103.8**	62.3

1. Banking companies and building societies are required to pay a surcharge of 3% from 1 April 2023 (previously 8%) on their taxable profits in addition to the main rate of corporation tax, subject to an annual allowance of £100 million from 1 April 2023 (previously £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 AT 1 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 included are related to cash flow hedge reserve adjustment, capital expenditure (which is subject to capital allowances instead) and client entertaining.
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 25.9% (2022: 22.8%) for the Group and 26.0% (2022: 23.8%) for the Society. The effective tax rates for 2023 are above the UK standard corporation tax rate due to the £8.4 million (2022: £13.5 million) surcharge on banking profits, offset by the £6.7 million (2022: £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 UK corporation tax rate has increased from 19% to 25% with effect from 1 April 2023. The deferred tax liabilities at 31 December 2023 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences.

In addition, with effect from 1 April 2023, the Bank Corporation Tax Surcharge was reduced from 8% to 3%, and is chargeable on banking profits in excess of £100 million (previously £25 million), aligned with the rise in the main rate of Corporation Tax. Therefore, the combined rate of tax on banking profits in excess of £100 million will be 28%. The deferred tax liabilities at 31 December 2023 have been calculated on these rates, reflecting the expected timing of reversal of the related timing differences (31 December 2022: 8%).

Notes to the accounts continued

15. Taxation continued

In June 2023, the UK Government has enacted new legislation to implement the global minimum top-up tax in the UK. However, since the newly enacted tax legislation in the UK is only effective from 1 January 2024, there is no current tax impact for the year ended 31 December 2023. Under the new legislation, the Society is liable to pay a domestic top-up tax for the difference between its global anti-base erosion effective tax rate in the UK and the 15% minimum rate. The Society has assessed the impact of the legislation with support from its tax advisers and does not expect to be subject to a top-up tax.

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

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

Statements of Comprehensive Income	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Tax charge / (credit) on remeasurement of defined benefit pension plan	0.1	(7.5)	0.1	(7.5)
Tax credit on fair value through other comprehensive income movements	(1.4)	–	(1.4)	–
Tax (credit)/ charge on cash flow hedges	(9.7)	93.2	(13.6)	98.4
Effect of change in corporation tax rate	0.9	2.1	0.9	2.2
Total	(10.1)	87.8	(14.0)	93.1

16. Investment in Group undertakings

Society	Shares £m	Loans £m	Total £m
At 1 January 2023	8.0	17,871.7	17,879.7
Additions	–	(204.0)	(204.0)
At 31 December 2023	8.0	17,667.7	17,675.7

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	Oakfield House, Harry Weston Road, Coventry CV3 2TQ
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.

Notes to the accounts continued

17. Intangible assets

Group and Society	Externally acquired 2023 £m	Internally developed 2023 £m	Total 2023 £m	Externally acquired 2022 £m	Internally developed 2022 £m	Total 2022 £m
Cost						
At 1 January	**2.5**	**70.6**	**73.1**	14.6	90.2	104.8
Additions	**2.6**	**16.6**	**19.2**	0.2	19.8	20.0
Retirements	**–**	**(0.1)**	**(0.1)**	(12.3)	(39.4)	(51.7)
At 31 December	**5.1**	**87.1**	**92.2**	2.5	70.6	73.1
Amortisation						
At 1 January	**0.5**	**29.3**	**29.8**	11.7	57.4	69.1
Charge for the year	**3.3**	**9.6**	**12.9**	1.1	10.7	11.8
Retirements	**–**	**(0.1)**	**(0.1)**	(12.3)	(38.8)	(51.1)
At 31 December	**3.8**	**38.8**	**42.6**	0.5	29.3	29.8
Net book value at 31 December	**1.3**	**48.3**	**49.6**	2.0	41.3	43.3

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 2023 include £0.1 million and £2.6 million respectively (2022: externally acquired £0.9 million, internally developed £6.6 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 fitting £m	Right-of-use asset £m	Total £m
Cost				
At 1 January 2023	**18.3**	**59.9**	**27.9**	**106.1**
Additions	**0.1**	**3.5**	**0.2**	**3.8**
Disposals	**(3.6)**	**(0.5)**	**(1.4)**	**(5.5)**
At 31 December 2023	**14.8**	**62.9**	**26.7**	**104.4**
Depreciation				
At 1 January 2023	**4.1**	**26.0**	**12.8**	**42.9**
Charge for the year	**0.5**	**9.2**	**3.5**	**13.2**
Depreciation on disposals	**(1.2)**	**(0.5)**	**(1.0)**	**(2.7)**
At 31 December 2023	**3.4**	**34.7**	**15.3**	**53.4**
Net book value at 31 December 2023	**11.4**	**28.2**	**11.4**	**51.0**

Group and Society	Land and buildings £m	Equipment, fixtures and fitting £m	Right-of-use asset £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

Notes to the accounts continued

18. Property, plant and equipment continued

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 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	2023 £m	2022 £m
At 31 December	**11.4**	14.2

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:	2023 Total £m	2022 Total £m
Property	**9.1**	11.9
Enhanced data infrastructure	**2.0**	2.5
Cars and leased equipment	**0.3**	0.7
Total	**11.4**	15.1

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 is in its final stages and the latest valuation has been updated as part of the most recent triennial update completed during 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 2023 (2022: £nil). There have been no further deficit contributions in 2023 (2022: £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 increased to £3.7 million at 31 December 2023 (2022: £3.3 million). Interest rates have risen during the year, which has impacted the discount rate used to calculate the liability position, alongside assumption updates for the latest triennial valuation position, which has been completed in the year, 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.

Notes to the accounts continued

19. Pension scheme continued

The latest full actuarial valuation was carried out as at 30 September 2022 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 2023 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	2023 £m	2022 £m
Present value of funded obligation	(149.5)	(157.4)
Fair value of plan assets	153.2	160.7
Funded status/pension benefit surplus	3.7	3.3

Group and Society	2023 £m	2022 £m
Present value of obligation		
As at 1 January	(157.4)	(235.1)
Past service cost	–	1.0
Loss on settlements	–	(0.2)
Interest expense	(7.7)	(4.2)
Benefit payments from plan assets	7.0	7.3
Settlement payments from plan assets	–	2.0
Remeasurements:		
Effects of changes in demographic assumptions	(1.9)	(1.7)
Effects of changes in financial assumptions	6.7	99.3
Effects of experience adjustments	3.8	(25.8)
As at 31 December	(149.5)	(157.4)
Fair value of plan assets		
As at 1 January	160.7	264.4
Interest income	7.9	4.7
Employer contributions	0.2	0.2
Benefit payments from plan assets	(7.0)	(7.3)
Settlement payments from plan assets	–	(1.9)
Return on assets	(8.6)	(99.4)
As at 31 December	153.2	160.7
Pension benefit surplus	3.7	3.3
The movement in the Pension Benefit Surplus is analysed below:		
Pension benefit surplus as at 1 January	3.3	29.3
Amount recognised in the income statement	0.2	1.3
Employer contributions	0.2	0.2
Remeasurement gains/(losses)	–	(27.5)
Pension benefit surplus as at 31 December	3.7	3.3

Notes to the accounts continued

19. Pension scheme continued

Group and Society	2023 £m	2022 £m
Amount recognised in Other Comprehensive Income:		
Return on plan assets	**(8.6)**	(99.4)
Effect of changes in demographic assumptions	**(1.9)**	(1.7)
Effect of changes in financial assumptions	**6.7**	99.3
Effect of experience adjustments	**3.8**	(25.8)
Remeasurement gain/(loss) of pension benefit surplus	**–**	(27.6)
Amount recognised in the income statement:		
Past service cost	**–**	1.0
Loss on settlements	**–**	(0.2)
Interest expense on defined benefit obligation	**(7.7)**	(4.2)
Interest income on plan assets	**7.9**	4.7
Net interest income	**0.2**	1.3

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	2023 £m	2022 £m
Quoted		
Corporate bonds and liability matching	**79.6**	75.0
Diversified growth funds	**26.0**	1.1
Direct lending	**8.1**	7.1
Equities	**0.3**	–
Cash	**4.0**	2.1
Unquoted		
Corporate bonds and liability matching	**16.9**	42.6
Property	**18.3**	32.8
Total	**153.2**	160.7

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligation at	2023 %	2022 %
Discount rate	**4.80**	5.00
Rate of pensionable salary increase	**–**	–
Rates of inflation (Retail Prices Index)	**3.05**	3.15
Rates of inflation (Consumer Prices Index)	**2.40**	2.46

Weighted average assumptions used to determine net pension cost for the year ended	2023 %	2022 %
Discount rate	**4.80**	1.80
Rate of pensionable salary increase	**–**	–
Rates of inflation (Retail Prices Index)	**3.05**	3.25
Rates of inflation (Consumer Prices Index)	**2.40**	2.53

	2023		2022	
Weighted average life expectancy for mortality tables used to determine benefit obligation	Male	Female	Male	Female
Member age 60 (current life expectancy)	**25.9**	**28.7**	26.7	29.3
Member age 45 (life expectancy at age 60)	**27.0**	**29.8**	27.8	30.4

Notes to the accounts continued

19. Pension scheme continued

The assumptions on mortality are 101% of the actuarial table known as the S3PxA table with CMI 2022 projections with a 1.25% p.a. long-term improvement rate (2022: 101% S3PxA with CMI 2021 projections with a 1.25% p.a. long-term improvement rate).

The Group has to make assumptions on the discount rate, inflation and life expectancy when valuing the Fund surplus and changes in these assumptions could affect the reported surplus. The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is indicated below for isolated changes in assumptions; in reality, it is likely that assumptions will be related to each other and impact simultaneously:

Impact on present value of obligation:	Change in assumption	Increase in assumption %	Increase in assumption £m	Decrease in assumption %	Decrease in assumption £m
Discount rate	0.50%	(6.3)	(9.4)	7.0	10.4
Rates of inflation (Retail Prices Index and Consumer Prices Index)	0.25%	1.9	2.9	(2.2)	(3.3)
Life expectancy	1 year	2.7	4.1	(2.6)	(3.9)

The average duration of the defined benefit obligation at the period ended 31 December 2023 is 14 years (2022: 14 years).

20. Deferred tax

Deferred tax assets and liabilities are attributable to the following items:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Deferred tax liabilities/ (assets)				
Cash flow hedges	**97.4**	106.4	**96.1**	109.2
Other derivatives	**31.9**	5.8	**30.7**	4.6
Defined benefit pension plan surplus	**1.0**	0.8	**1.0**	0.8
Transfer of engagements - fair value adjustments	**–**	0.1	**–**	–
Investment in equity shares	**2.2**	0.4	**2.2**	0.4
Fair value through other comprehensive income	**0.4**	1.8	**0.5**	1.8
Excess of capital allowances over depreciation	**(3.6)**	(6.3)	**(3.6)**	(6.3)
Provisions	**(0.8)**	(0.7)	**(0.8)**	(0.7)
IFRS 16 transitional adjustments	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Research and development intangible assets	**4.7**	3.5	**4.7**	3.5
Total	**133.1**	111.7	**130.7**	113.2

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 2023 reflect tax rates enacted at the balance sheet date. The main rate of corporation tax of 25% is enacted and effective from 1 April 2023.

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 £3,450.0 million (2022: £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 £494.3 million (2022: £251.8 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 2023.

Notes to the accounts continued

22. Debt securities in issue

The change in debt securities issued by the Group is as follows:

2023 Group	Opening £m	Cash flows £m	Non-cash flows Foreign exchange movements £m	Non-cash flows Change in accrued interest £m	Amortisation £m	Closing £m
Medium term notes	**1,451.9**	**(310.2)**	**–**	**2.2**	**1.1**	**1,145.0**
Covered bonds	**3,099.6**	**(101.0)**	**(45.5)**	**(0.7)**	**1.8**	**2,954.2**
Residential Mortgage Backed Securities	**691.7**	**585.1**	**–**	**0.5**	**1.0**	**1,278.3**
Total	**5,243.2**	**173.9**	**(45.5)**	**2.0**	**3.9**	**5,377.5**

2022 Group	Opening £m	Cash flows £m	Non-cash flows Foreign exchange movements £m	Non-cash flows Change in accrued interest £m	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

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 £2.9 million (2022: £2.0 million) associated to the set up of structured entities and subsequent issuances.

In March 2023, the Society issued £500.0 million (2022: €500.0 million) of external covered bonds secured by Coventry Building Society Covered Bonds LLP.

Coventry Godiva Covered Bonds LLP did not issue any (2022: £2.0 billion internal) covered bonds in the year.

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 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Accrued interest	**19.3**	17.8	**18.3**	17.5
Other debt securities				
In not more than one year	**432.7**	1,659.5	**432.7**	1,449.6
In more than one year	**4,925.5**	3,565.9	**3,645.4**	3,082.4
Total	**5,377.5**	5,243.2	**4,096.4**	4,549.5

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.

Notes to the accounts continued

23. Derivative financial instruments continued

Risk management strategy continued

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.

	2023			2022		
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	**52,278.3**	**1,431.7**	**455.6**	48,205.1	2,166.1	579.5
Derivatives designated as cash flow hedges:						
Interest rate risk	**11,143.2**	**67.6**	**109.5**	7,129.3	81.5	31.7
Foreign exchange risk[1]	**1,952.1**	**5.3**	**19.7**	1,952.1	23.4	9.0
Other derivatives:						
Interest rate risk	**1,252.1**	**8.9**	**9.4**	549.0	7.1	6.3
Total derivatives	**66,625.7**	**1,513.5**	**594.2**	57,835.5	2,278.1	626.5

1. Cash flows are expected to occur over a five year period (2022: six).

Notes to the accounts continued

23. Derivative financial instruments continued

Hedging instruments continued

Society	2023 Notional amount £m	2023 Fair value assets £m	2023 Fair value liabilities £m	2022 Notional amount £m	2022 Fair value assets £m	2022 Fair value liabilities £m
Derivatives designated as fair value hedges:						
Interest rate risk	**52,278.3**	**1,431.7**	**455.6**	48,205.1	2,166.1	579.5
Derivatives designated as cash flow hedges:						
Interest rate risk	**11,143.2**	**67.6**	**109.5**	7,129.3	81.5	31.7
Other derivatives						
Interest rate basis swaps	**1,252.1**	**8.9**	**9.4**	549.0	7.1	6.3
Total derivatives	**64,673.6**	**1,508.2**	**574.5**	55,883.4	2,254.7	617.5

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 2023. Derivative contractual maturities are included in the Risk Management Report.

The following table contains details of fair value hedged exposures at 31 December 2023:

2023 Group	Maturity: Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/ notional amount	**435.2**	**296.1**	**20,375.3**	**39,591.0**	**3,976.0**
Average fixed interest rate	**1.5%**	**2.5%**	**3.8%**	**3.1%**	**3.6%**
Foreign exchange risk:					
Contract/ notional amount	**428.0**	–	–	**1,524.1**	–
Average fixed interest rate	**1.8%**	–	–	**2.1%**	–
Average £/€ exchange rate	**0.9**	–	–	**0.9**	–

2023 Society	Maturity: Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/ notional amount	**435.2**	**296.1**	**20,375.3**	**39,591.0**	**3,976.0**
Average fixed interest rate	**1.5%**	**2.5%**	**3.8%**	**3.1%**	**3.6%**

The Society does not have hedging instruments in place to manage foreign exchange risk. These instruments are all held in other Group entities.

Notes to the accounts continued

23. Derivative financial instruments continued

Hedging instruments continued

2022 Group	Maturity Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/ notional amount	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	–	–	–	0.90	0.90

2022 Society	Maturity Up to one month £m	One to three months £m	Three months to one year £m	One to five years £m	More than five years £m
Interest rate risk:					
Contract/ notional amount	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%

The Society does not have hedging instruments in place to manage foreign exchange risk. These instruments are all held in other Group entities.

Hedged items

The following table contains details of fair value hedged exposures at 31 December:

2023 Group and Society	Carrying amount of hedged item Assets £m	 Liabilities £m	Accumulated amount of fair value adjustments on the hedged item Assets £m	 Liabilities £m
Fair value hedges:				
Interest rate[1,2]	**44,048.4**	**(23,740.7)**	**(467.6)**	**68.1**

2022 Group and Society	Carrying amount of hedged item Assets £m	 Liabilities £m	Accumulated amount of fair value adjustments on the hedged item Assets £m	 Liabilities £m
Fair value hedges:				
Interest rate[1,2]	41,740.2	(18,940.5)	(1,647.8)	452.5

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.

Of the £467.6 million (2022: £1,647.8 million) total accumulated fair value adjustments on the hedged item, £433.1 million (2022: £1,595.3 million) relates to hedging instruments for loans and advances to customers. The remainder relating to hedges in place against treasury instruments.

Notes to the accounts continued

23. Derivative financial instruments continued

Hedged items continued

The following tables provide additional information on cash flow hedges:

2023 Group	Changes in Fair Value Hedging derivative £m	 Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement Hedged cash flows will no longer occur £m	 Hedged item for affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	(32.1)	(31.7)	(31.7)	–	(45.6)	(0.4)
Foreign exchange and interest rate	–	–	–	–	–	–
Interest rate	51.4	50.5	50.5	100.2	–	101.1

1. Ineffectiveness is shown in note 8 Net gains from derivatives and hedge accounting.

2022 Group	Changes in Fair Value Hedging derivative £m	 Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement Hedged cash flows will no longer occur £m	 Hedged item for affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Foreign exchange	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.

As at 31 December 2023, balances remaining in the cash flow hedge reserve, gross of tax, are £33.8 million charge for continuing hedges and £381.2 million gain for discontinued hedges (2022: £38.1 million gain, £345.1 million gain respectively).

2023 Society	Changes in Fair Value Hedging derivative £m	 Hedged item for ineffectivene ss assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement Hedged cash flows will no longer occur £m	 Hedged item for affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
Interest rate	51.4	50.5	50.5	100.2	–	101.1

1. Ineffectiveness is shown in note 8 Net losses from derivatives and hedge accounting.

2022 Society	Changes in Fair Value Hedging derivative £m	 Hedged item for ineffectivenes s assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement Hedged cash flows will no longer occur £m	 Hedged item for affected Income Statement £m	Recognised in Income Statement[1] £m
Derivatives designated as cash flow hedges:						
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.

The Society does not have hedging instruments in place to manage foreign exchange risk. These instruments are all held in other Group entities.

Notes to the accounts continued

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 2023, £0.4 million (2022: £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	2023 £m	2022 £m
Subordinated liabilities owed to note holders are as follows:		
Fixed rate subordinated notes 2032 - 7.54%	**15.4**	15.4
Total	**15.4**	15.4

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	2023 £m	2022 £m
Subscribed capital owed to permanent interest holding members is as follows:		
Permanent Interest Bearing Shares - 1992 - 12 1/8%	**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 2023, coupon payments of £28.5 million (2022: £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.

Notes to the accounts continued

28. Financial commitments

The Group and Society are committed to the following undrawn mortgage loan facilities relating to equity release and flexible mortgage products, which are subject to the satisfaction of previously agreed loan to value ratios:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Undrawn mortgage loan facilities	**20.2**	23.1	**20.2**	23.1

In addition, the Group has also committed to advance £1,889.0 million (2022: £2,292.9 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	2023 £m	2022 £m
Capital expenditure contracted but not provided for in the accounts	**0.5**	0.8

Other liabilities

Items presented on the Balance Sheet within other liabilities as shown below:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Other taxation and social security	**8.3**	5.9	**8.3**	5.9
Lease liabilities	**14.8**	19.5	**14.8**	19.5
Other creditors	**6.1**	5.1	**5.9**	5.1
Amounts due to connected undertakings	**–**	–	**1,231.0**	647.3
Total	**29.2**	30.5	**1,260.0**	677.8

Amounts due to connected undertakings reflects the deemed loan to Economic Master Issuer plc.

Lease liabilities

The table below shows the maturity profile of the gross contractual cash flows, including interest charge, of the lease liabilities held. This analysis differs from the lease liabilities balance, above which represents the discounted future cash flows of the operations.

Group and Society	2023 £m	2022 £m
Amounts falling due:		
Less than three months	**1.2**	1.3
Greater than three months and less than one year	**3.5**	3.8
Between one and five years	**8.5**	12.0
After five years	**2.2**	3.3
Total	**15.4**	20.4

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. There were no items expensed in 2023 (2022: £nil).

Variable lease payments are not included as lease liabilities and are expensed as incurred, and they amount to £0.6 million for the year (2022: £0.4 million).

The Society sublets three (2022: three) of its leased properties. The income received from this is negligible and is recognised as rental income.

Notes to the accounts continued

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.

Fair value of assets held at amortised cost

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 £18,273.5 million (2022: £18,379.4 million) of loans and advances to customers with a fair value of £17,413.0 million (2022: £17,408.0 million[1]). There were no deposits from banks held in subsidiaries in 2023 (2022: £10.7 million, fair value £10.7 million). At the year end, the Society held a deposit within Amounts owed to other customers of £114.3 million (2022: £114.0 million) which was a cash deposit from subsidiaries eliminated at Group level.

Group	2023 Carrying amount £m	2023 Fair value £m	2022 Carrying amount £m	2022 Fair value[1] £m
Financial assets				
Loans and advances to credit institutions	**787.9**	**787.8**	622.8	622.8
Loans and advances to customers[1]	**50,276.1**	**48,915.1**	48,014.3	45,854.5
Debt securities	**–**	**–**	6.2	5.5
Financial liabilities				
Shares[1]	**47,582.3**	**46,497.0**	42,288.7	40,713.3
Deposits from banks	**5,230.7**	**5,230.4**	7,542.9	7,542.8
Other deposits	**–**	**–**	5.0	5.0
Amounts owed to other customers	**237.3**	**237.4**	416.1	415.9
Debt securities in issue	**5,377.5**	**5,221.3**	5,243.2	4,935.8
Subordinated liabilities	**15.4**	**20.2**	15.4	17.5
Subscribed capital	**41.6**	**66.1**	41.6	62.5

1. The Group has restated the fair value of its loans and advances to customers and shares as disclosed above as at December 2022. After a detailed review of market rate input assumptions, an error was identified in their application.

The impact of the restatement was to increase the reported fair value on loans and advances to customers from £41,547.0 million to £45,854.5 million at 31 December 2022. The impact of the restatement on shares was to increase the reported fair value from £38,371.1 million to £40,713.3 million at 31 December 2022.

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. 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. The majority of the loans and advances to customers are on a fixed rate product, and therefore interest rate swap derivative instruments are in place against these assets. Hedge accounting related fair value adjustments of £433.1 million (31 December 2022: £1,595.3 million) are excluded from the carrying value and fair value.

Notes to the accounts continued

30. Financial instruments - fair value of financial assets and liabilities continued

Fair value of assets held at amortised cost continued

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 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. Hedge accounting fair value adjustments of £30.6 million (31 December 2022: £351.3 million) are excluded from the carrying value and fair value.

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.

Fair value of assets held at fair value

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 differs from the Group with respect to excluding Level 2 cross currency liabilities of £19.7 million (2022: £8.9 million), which are held in subsidiaries of the Society, and Level 2 cross currency assets of £5.3 million (2022: £23.4 million).

2023 Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments:				
Interest rate swaps	–	1,508.2	–	1,508.2
Cross currency swaps	–	5.3	–	5.3
Total	–	1,513.5	–	1,513.5
Debt securities:				
UK Government investment securities	782.7	–	–	782.7
Other listed transferable debt securities	627.1	154.4	–	781.5
Total	1,409.8	154.4	–	1,564.2
Investment in equity shares:				
Investment in equity shares	0.8	–	6.0	6.8
Total	0.8	–	6.0	6.8
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	–	572.9	1.6	574.5
Cross currency swaps	–	19.7	–	19.7
Total	–	592.6	1.6	594.2

Notes to the accounts continued

30. Financial instruments - fair value of financial assets and liabilities continued

Fair value of assets held at fair value continued

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

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 2 - Debt securities - fair value through other comprehensive income - Unlisted

Where quoted market prices are not available at the valuation date, valuations of securities are based on their relative value to comparable securities.

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.

Notes to the accounts continued

30. Financial instruments - fair value of financial assets and liabilities continued

Financial instruments recorded at fair value continued

Level 3: Derivatives continued

The following table analyses fair value movements in the Level 3 portfolio for both the Group and the Society:

Group and Society	Investment in equity shares 2023 £m	Derivative financial instruments 2023 £m	Investment in equity shares 2022 £m	Derivative financial instruments 2022 £m
As at 1 January	5.1	(1.3)	4.3	(6.6)
Gains/(losses) recognised in the Income Statement				
Interest payable and similar expense	–	–	–	(0.6)
Net unrealised gains	0.9	(0.4)	0.8	5.2
Settlements	–	0.1	–	0.7
As at 31 December	6.0	(1.6)	5.1	(1.3)

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 only 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 £15.6 million net derivative credit exposure in the table below is in respect of an arrangement that will only be fully collateralised if the counterparty is downgraded to below its specified credit rating (2022: £13.1 million).

The table below shows the net exposure for sale and repurchase agreements or derivative contracts after any netting benefits and collateral. At the end of the year the Group held £312.6 million of reverse sale and repurchase agreements with respect to Gilts in 2023 (2022: £93.6 million), and £807.6 million of sale and repurchase agreements being held on the balance sheet as at 31 December 2023 (2022: £345.6 million) The Group did not enter into securities lending (2022: £nil) during the year.

Notes to the accounts continued

31. Offsetting financial assets and liabilities continued

2023 Group	Gross amounts £m	Master netting arrangements £m	Financial collateral[1] £m	Net amount £m
Financial assets				
Derivative financial instruments	**1,513.5**	**(572.9)**	**(925.0)**	**15.6**
Reverse Repurchase Agreements	**313.4**	**–**	**(313.4)**	**–**
Total financial assets	**1,826.9**	**(572.9)**	**(1,238.4)**	**15.6**
Financial liabilities				
Derivative financial instruments	**594.2**	**(572.9)**	**(1.4)**	**19.9**
Repurchase agreements	**807.6**	**–**	**(807.6)**	**–**
Total financial liabilities	**1,401.8**	**(572.9)**	**(809.0)**	**19.9**

2022 Group	Gross amounts £m	Master netting arrangements £m	Financial collateral[1] £m	Net amount £m
Financial assets				
Derivative financial instruments	2,278.1	(616.2)	(1,648.8)	13.1
Reverse Repurchase Agreements	93.8	–	(88.2)	5.6
Total financial assets	2,371.9	(616.2)	(1,737.0)	18.7
Financial liabilities				
Derivative financial instruments	626.5	(616.2)	(0.6)	9.7
Repurchase agreements	345.6	–	(340.6)	5.0
Total financial liabilities	972.1	(616.2)	(341.2)	14.7

1. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability.

2023 Society	Gross amounts £m	Master netting arrangements £m	Financial collateral[1] £m	Net amount £m
Financial assets				
Derivative financial instruments	**1,508.2**	**(572.9)**	**(925.0)**	**10.3**
Reverse Repurchase Agreements	**313.4**	**–**	**(313.4)**	**–**
Total financial assets	**1,821.6**	**(572.9)**	**(1,238.4)**	**10.3**
Financial liabilities				
Derivative financial instruments	**574.5**	**(572.9)**	**(1.4)**	**0.2**
Repurchase agreements	**807.6**	**–**	**(807.6)**	**–**
Total financial liabilities	**1,382.1**	**(572.9)**	**(809.0)**	**0.2**

2022 Society	Gross amounts £m	Master netting arrangements £m	Financial collateral[1] £m	Net amount £m
Financial assets				
Derivative financial instruments	2,254.7	(616.2)	(1,638.1)	0.4
Reverse Repurchase Agreements	93.8	–	(88.2)	5.6
Total financial assets	2,348.5	(616.2)	(1,726.3)	6.0
Financial liabilities				
Derivative financial instruments	617.5	(616.2)	(0.6)	0.7
Reverse Repurchase Agreements	345.6	–	(340.6)	5.0
Total financial liabilities	963.1	(616.2)	(341.2)	5.7

1. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability.

Notes to the accounts continued

31. Offsetting financial assets and liabilities continued

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 2023, 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.

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.

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.

	2023 £m	2022 £m
Loans payable to the Society		
Loans outstanding as at 1 January	**17,871.7**	17,544.7
Movement during the year	**(204.0)**	327.0
Loans outstanding as at 31 December	**17,667.7**	17,871.7
Loans and deposits payable by the Society		
Deposits outstanding at 1 January	**647.3**	783.0
Movement during the year[1]	**583.7**	(135.7)
Deposits outstanding at 31 December	**1,231.0**	647.3
Net interest income		
Interest receivable	**470.5**	292.3
Interest payable	**(67.9)**	(16.3)
Total	**402.6**	276.0
Other income and expenses		
Fees and expenses paid to the Society	**54.2**	**45.9**

1. Includes loans and deposits received from connected undertakings in respect of securitisation transactions during the year

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 2023.

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.

	No. of directors and connected persons 2023 Number	**Amounts in relation to directors and connected persons 2023 £m**	No. of directors and connected persons 2022 Number	Amounts in relation to directors and connected persons 2022 £m
Loans and advances				
Net movement	**–**	**–**	–	(0.1)
Balance outstanding	**2**	**0.4**	2	0.4
Share and deposit accounts				
Net movement	**(4)**	**(0.7)**	(4)	0.4
Balance outstanding	**12**	**0.4**	16	1.1

34. Cash flows from financing activities

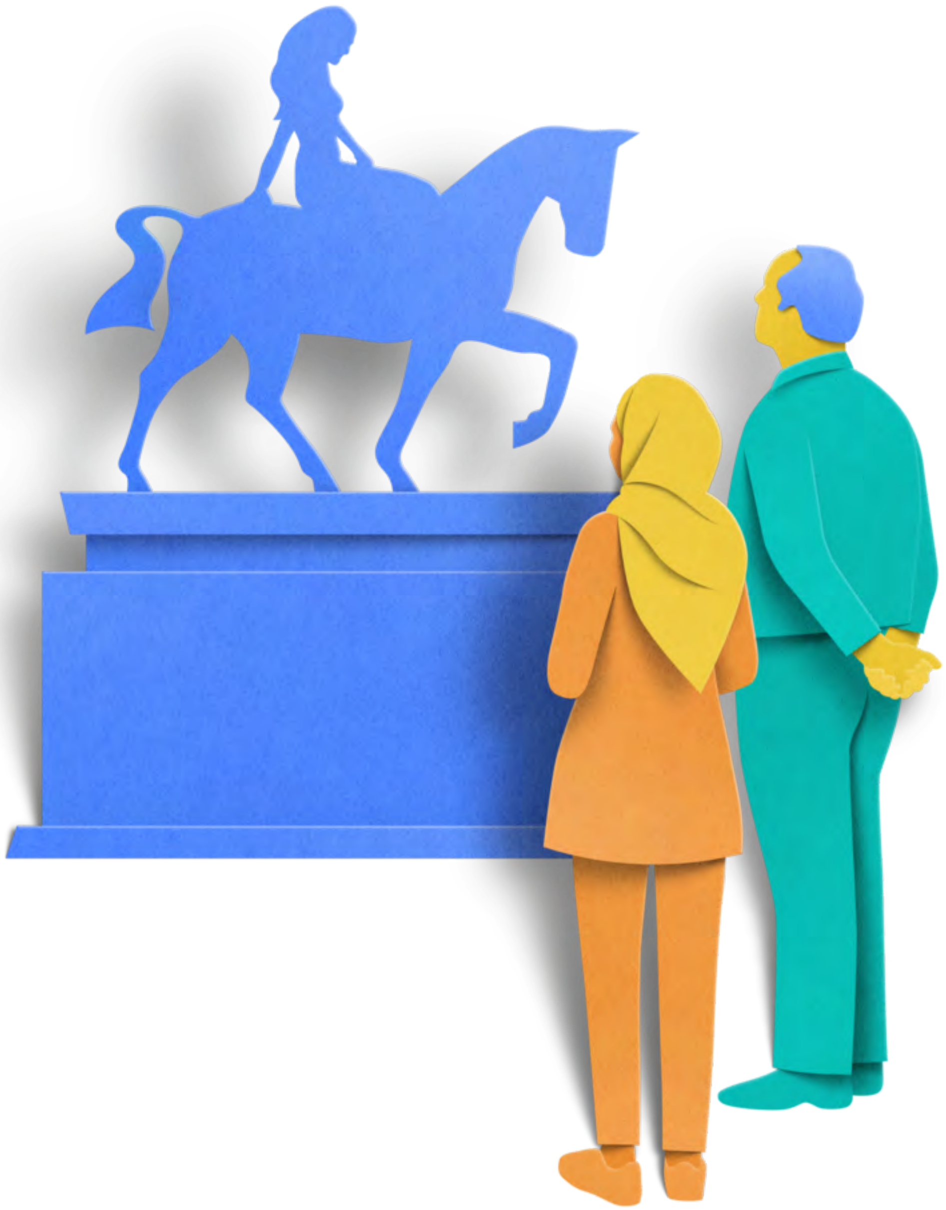
For the purposes of the Statements of Cash Flows, debt securities in issue, subordinated liabilities and subscribed capital are classified as liabilities arising from financing activities. The table below provides a reconciliation of movements in liabilities arising from financing activities.

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
At 1 January	**5,300.2**	5,309.2	**4,606.5**	4,475.5
Cash flows:				
Net proceeds from issue of debt securities	**1,887.0**	434.3	**1,036.8**	434.4
Repayment of debt securities in issue	**(1,713.1)**	(540.0)	**(1,450.0)**	(400.0)
Repurchase of subordinated liabilities	**–**	–	**–**	–
Non-cash flows:				
Amortisation of premium/ discount on issue	**3.9**	4.7	**4.0**	4.9
Accrued interest movements	**2.0**	2.7	**1.6**	2.4
Foreign exchange movements	**(45.5)**	89.3	**(45.5)**	89.3
At 31 December	**5,434.5**	5,300.2	**4,153.4**	4,606.5

Other Information

In this section, you will find our Annual Business Statement and glossary of terms

Annual Business Statement	172
Glossary	174



Annual Business Statement

For the year ended 31 December 2023

1. Statutory percentages

	2023 %	2022 %	Statutory limits %
Lending limit	**2.3**	1.6	25.0
Funding limit	**17.6**	23.4	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The lending limit measures the proportion of the business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Group plus loan impairment less liquid assets, intangible assets and property, plant and equipment. The value of X used is the value at 31 December 2023.

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 2023.

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

	2023 %	2022 %
As a percentage of shares and borrowings:		
Gross capital	**5.65**	5.46
Free capital	**5.48**	5.27
Liquid assets	**18.7**	18.2
As a percentage of mean total assets:		
Profit for the financial year	**0.58**	0.50
Management expenses	**0.51**	0.52
Net profit as a percentage of total Balance Sheet	**0.56**	0.49

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.

Annual Business Statement continued

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.

4. Information relating to directors at 31 December 2023:

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
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	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 Rhapsody Court Freehold Limited Sirius Real Estate Ltd Vitality Health Limited	06.11.2017
Shamira Mohammed, ACA (17.11.1968)	Non-Executive Director	Pezula Limited	01.05.2019
Vanessa Murden (19.12.1969)	Non-Executive Director	None	23.01.2023
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 Northern Bank Limited	01.09.2018
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

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: Stephen 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

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.

Measure	Definition	Calculation
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.
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.	Administrative expenses, depreciation and amortisation as a percentage of average total assets.
Member value	This measure is widely used across the building society sector.	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.

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.
Basel 3.1	The Basel Committee's final implementation of its Basel III Banking Supervision reforms, published in December 2017, addressing credit risk and operational risk. The proposal will update the risk weighted asset calculation and improve comparability across firms and is effective from July 2025.
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.
Collateral	Security pledged by the borrower to the lender in case of default.

Glossary continued

Common Equity Tier 1 (CET 1)	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. The CET 1 ratio is calculated as CET 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.
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.
Debt securities	Transferable instruments creating or acknowledging indebtedness of credit institutions, public bodies or other undertakings.
Debt securities in issue	Liabilities of the Group that are transferable by external investors that operate within the global financial markets.
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.
Derivative financial instrument (swap)	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.
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.
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.
Economic Value	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%) (EV100), or 200 basis points (2%) (EV200) 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. ECLs may arise over a 12 month or lifetime basis.
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.

Glossary continued

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.
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.
Free capital	The aggregate of gross capital and collective impairment less intangible assets and property, plant and equipment.
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).
Gross capital	The aggregate of reserves, other equity instruments, subscribed capital and subordinated liabilities.
Impaired loans	Impaired loans are defined as those which are defaulted loans in IFRS 9 stage 3.
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.
Internal Capital Adequacy Assessment Process (ICAAP)	The Society's own assessment of the amount of capital that it needs to hold to support all relevant current and future risks. This assessment includes determination of a number of capital buffers to be held in case of potential future economic stress, and provides confirmation that the Society has appropriate processes in place to ensure compliance with regulatory requirements.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Society's own assessment of the liquidity resources that are required to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on regulatory benchmarks and on Society-specific tests.
Internal Ratings Based (IRB) approach	An advanced approach to measuring capital requirements in respect of credit risk under Pillar 1. The IRB approach may only be used with permission from the PRA.
ISDA	International Swaps and Derivatives Association is the global trade association for over-the-counter derivatives and providers of the industry-standard documentation for derivative transactions.
Leverage ratio	A calculation 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 ratio - see UK leverage ratio
Liquid assets	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.

Glossary continued

Loan to value (LTV)	The amount of mortgage loan as a percentage of the value of the property. Average loan to value is either a simple average, or balance weighted. Indexed loan to value is calculated on the basis of the latest property valuation being adjusted by the relevant house price index movement since that date.
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 or individual 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.
Mortgage backed securities (RMBS)	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. These can also be known as Residential mortgage backed securities (RMBS) where the underlying security is a residential mortgage.
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 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.
Past due	A financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.
Permanent Interest Bearing Shares (PIBS)	Unsecured, perpetual deferred shares of the Society offering a fixed coupon. Also defined as subscribed capital.
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.
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.
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.

Glossary continued

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.
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.
Shares	Funds deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities of the Society. These are also referred to as retail deposits.
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 (SICR)	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 (Sterling Overnight Interbank Average)	A rate reflecting actual overnight funding rates, at a weighted average overnight deposit rate for each day.
Stage 1	Assets that under IFRS 9 have not experienced a significant increase in credit risk since the asset was originally recognised on the Balance Sheet are classed as stage 1.
Stage 2	Assets that have experienced a significant increase in credit risk since initial recognition under IFRS 9 are classed as stage 2.
Stage 3	Assets identified as in default and considered credit impaired under IFRS 9 are classed as stage 3.
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 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.

Glossary continued

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.
Systemic Risk Buffer (SRB)	Buffer set for ring-fenced banks and large building societies to reduce their probability of failure or distress commensurately with the greater cost their failure or distress would have for the UK economy.
Term Funding Scheme with additional incentives for SMEs (TFSME)	A scheme (now closed to new drawings) launched by the Bank of England designed to boost lending to households and businesses by providing term funding to banks and building societies participating in the scheme at rates close to Bank Rate.
Tier 1 capital	A component of regulatory capital comprising Common Equity Tier 1 and Additional Tier 1 capital.
Tier 2 capital	A component of regulatory capital comprising qualifying subordinated debt and eligible collective impairment allowances.
Total Capital Requirement (TCR)	The minimum amount of capital the Society should hold as set by the PRA under Pillar 1 and Pillar 2A and informed by the Internal Capital Adequacy Assessment Process (ICAAP).
UK 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.

Glossary continued

Glossary of terms used in reference to climate risk

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.
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).
Greenhouse gas (GHG) emissions	GHGs are atmospheric gases that absorb and emit radiation within the thermal infrared range and that contribute to the greenhouse effect and global climate change. Many different GHGs are produced as a result of human activities. The seven gases mandated under the Kyoto Protocol and to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC) - carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF) and nitrogen trifluoride (NF3)
ISO 14064-1 certification	An international standard that quantifies the reporting of greenhouse gas (GHG) emissions and the verification.
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.
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.
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; • Downstream Scope 3 emissions: the emissions from the properties financed through the Society's operations – i.e. our mortgage customers
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.