



Pillar 3 Disclosures

For the quarter ended
31 March 2023



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1. Introduction

In this document Coventry Building Society ('the Society') has set out its Pillar 3 disclosures as at the quarter ending 31 March 2023 in accordance with the Disclosure Part of the Prudential Regulation Authority (PRA) Rulebook.

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

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

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

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

2. Key metrics and overview of risk weighted exposure amounts

The following table details the Society's own funds, key capital metrics and liquidity coverage ratio as at 31 March 2023 and those metrics previously disclosed as at 31 December 2022, 30 September 2022, 30 June 2022, and 31 March 2022. In line with the PRA rulebook, profits for the period 1 January 2023 to 31 March 2023 have been excluded from all key metrics as these have not been verified.

		31 March 2023	31 December 2022	30 September 2022	30 June 2022	31 March 2022
		£m	£m	£m	£m	£m
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital ¹	2,149	2,171	1,980	2,002	1,879
2	Tier 1 capital	2,564	2,586	2,395	2,417	2,294
3	Total capital	2,564	2,586	2,395	2,417	2,294
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount ²	7,805	7,913	6,680	6,682	6,753
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	27.5%	27.4%	29.6%	30.0%	27.8%
6	Tier 1 ratio (%)	32.9%	32.7%	35.9%	36.2%	34.0%
7	Total capital ratio (%)	32.9%	32.7%	35.9%	36.2%	34.0%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	1.5%	1.5%	1.6%	1.6%	1.2%
UK 7b	Additional AT1 SREP requirements (%)	0.5%	0.5%	0.5%	0.5%	0.4%
UK 7c	Additional T2 SREP requirements (%)	0.7%	0.7%	0.7%	0.7%	0.5%
UK 7d	Total SREP own funds requirements (%)	10.7%	10.7%	10.8%	10.8%	10.1%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	1.0%	1.0%	-	-	-
11	Combined buffer requirement (%)	3.5%	3.5%	2.5%	2.5%	2.5%
UK 11a	Overall capital requirements (%)	14.2%	14.2%	13.3%	13.3%	12.6%
12	CET1 available after meeting the total SREP own funds requirements (%)	16.8%	16.7%	18.8%	19.2%	17.7%
	Leverage ratio					
13	Leverage ratio total exposure measure ³	50,544	49,669	48,128	48,306	47,786
14	Leverage ratio	5.1%	5.2%	5.0%	5.0%	4.8%
	Liquidity coverage ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	8,233	7,609	7,512	7,150	7,020
UK 16a	Cash outflows - Total weighted value	3,805	3,677	3,708	3,811	3,909
UK 16b	Cash inflows - Total weighted value	207	222	215	216	219
16	Total net cash outflows (adjusted value)	3,598	3,455	3,493	3,595	3,690
17	Liquidity coverage ratio (%) ⁴	229.0%	221.0%	216.1%	200.2%	191.4%

Table 1 Template UK KM1 – Key metrics template

¹ CET 1 as at 31 March, does not include unverified profits generated in the first quarter of 2023. Profits are verified in December and June, and therefore included.

² This amount includes the impacts of the Post Model Adjustments (PMAs) described in the Key metrics section.

³ The leverage ratio exposure measure does not include exposures to the Bank of England in line with the UK Leverage Regime. The 31 December 2022 comparatives are shown as if under the UK Leverage Regime.

⁴ The liquidity coverage ratio is calculated as a 12 month average.

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

The Society's capital position remains robust with a Common Equity Tier 1 (CET1) ratio of 27.5% (31 December 2022: 27.4%) compared to an overall capital requirement of 14.2% (31 December 2022: 14.2%).

The Society's available own funds have decreased slightly in quarter one with Common Equity Tier 1 (CET1) capital value of £2,149m (31 December 2022: £2,171m). Profits for the quarter have not been included as they have not been verified by the Society's auditors. The increase in available own funds as at 31 December 2022 was attributed to the verification of profits generated in the second half of 2022.

The main component of the risk weighted exposure amount £7,805m (December 2022: £7,913m) was £6,697m relating to mortgages under the advanced IRB approach. The Society has applied a post model adjustment that reflects the update in loss given default and the cyclicity of the probability of default.

The Society's leverage ratio also remains strong at 5.1%, this excludes profits for Q1 2023 as these have not been verified (31 December 2022: 5.2%). The leverage ratio and corresponding leverage ratio total exposure measure excludes qualifying central bank claims in line with the UK leverage regime which became applicable from 1 January 2022.

The Society's liquidity position has improved as at 31 March 2023 with a 12-month average liquidity coverage ratio of 229.0% (31 December 2022: 221.0%). The average liquidity coverage ratio has increased predominantly due to an increase in cash held in the Bank of England reserve account.

The table below details risk weighted exposure amounts (RWEAs) and the respective own funds requirements as at 31 March 2023, and the RWEAs previously disclosed as at 31 December 2022. Total Own funds requirements are calculated as 8% of the RWEAs.

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		31 March 2023	31 December 2022	31 March 2023
		£m	£m	£m
1	Credit risk (excluding CCR)	6,960	7,060	557
2	Of which the standardised approach	190	205	15
3	Of which the foundation IRB (FIRB) approach	73	75	6
5	Of which the advanced IRB (AIRB) approach	6,697	6,780	536
6	Counterparty credit risk - CCR	67	77	5
7	Of which the standardised approach	16	18	1
UK 8a	Of which exposures to a CCP	3	3	-
UK 8b	Of which credit valuation adjustment – CVA	41	48	3
9	Of which other CCR	7	8	1
16	Securitisation exposures in the non-trading book (after the cap)	12	9	1
18	Of which SEC-ERBA (including IAA)	12	9	1
23	Operational risk	767	767	61
UK 23b	Of which standardised approach	767	767	61
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information) ⁵	14	12	1
29	Total	7,806	7,913	624

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

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

The table below summarises the movements of RWEAs for credit risk exposures under the Internal Ratings Based (IRB) approach. Following guidance from the PRA this flow statement includes the post model adjustment applied to both our loss given default and probability of default models.

		Risk weighted exposure amount
		£m
1	Risk weighted exposure amount as at the end of the previous reporting period	6,780
2	Asset size (+/-)	176
3	Asset quality (+/-)	243
8	Other (+/-)	(502)
9	Risk weighted exposure amount as at the end of the reporting period	6,697

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

Movements in asset size and asset quality are calculated using the Society's current IRB models. Decreases in the UK House Prices Index (HPI) have resulted in an increase in the RWEAs, which is shown in the asset quality row. Changes to the IRB mortgage post model adjustment comprise most of the £502m reduction shown in the Other (+/-) row.

4. Quantitative information of liquidity coverage ratio

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

		Total unweighted value (average) £m				Total weighted value (average) £m			
UK 1a	Quarter ending on (DD Month YYYY)	31-Mar-23	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-23	31-Dec-22	30-Sep-22	30-Jun-22
UK 1b	Number of data points	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					8,233	7,609	7,512	7,150
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	41,760	40,760	40,354	40,005	2,228	2,286	2,415	2,483
3	<i>Stable deposits</i>	18,449	18,699	18,581	18,319	922	935	929	916
4	<i>Less stable deposits</i>	10,466	10,866	11,814	12,378	1,305	1,351	1,486	1,567
5	Unsecured wholesale funding	205	228	311	416	152	166	239	325
7	<i>Non-operational deposits (all counterparties)</i>	133	154	271	408	80	92	199	317
8	<i>Unsecured debt</i>	73	74	40	8	73	74	40	8
9	<i>Secured wholesale funding</i>					36	61	59	44
10	Additional requirements	673	464	296	266	673	464	296	266
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	657	451	251	225	657	451	251	225
12	<i>Outflows related to loss of funding on debt products</i>	16	13	45	41	16	13	45	41
14	Other contractual funding obligations	32	34	30	29	10	11	8	8
15	Other contingent funding obligations	3,036	2,913	2,827	2,726	705	688	690	685
16	TOTAL CASH OUTFLOWS					3,805	3,677	3,708	3,811
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	130	58	39	12	0	0	0	0
18	Inflows from fully performing exposures	258	274	267	268	198	216	209	209
19	Other cash inflows	9	6	6	6	9	6	6	6
20	TOTAL CASH INFLOWS	397	338	312	286	207	222	215	216
UK-20c	<i>Inflows subject to 75% cap</i>	397	338	312	286	207	222	215	216
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					8,233	7,609	7,512	7,150
22	TOTAL NET CASH OUTFLOWS					3,598	3,455	3,493	3,595
23	LIQUIDITY COVERAGE RATIO					229.0%	221.0%	216.1%	200.2%

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

Note the UK LIQ2 disclosure template forms part of the UK Pillar 3 disclosure framework. In line with PS22/21 'Implementation of Basel Standards: Final rules', disclosures for the net stable funding ratio are not required until after 1 January 2025. Therefore, this template has not been presented.

5. Attestation

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

6. Key elements of the Pillar 3 disclosures policy

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

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

Appendix 1. Glossary

Abbreviation	Full Name	Description
AIRB	Advanced Internal Ratings Based	An approach to determining the capital requirement for a given exposure that allows institutions that have received supervisory approval to rely on their own internal estimates of risk components.
CCP	Central Counterparty Clearing House	Institutions that take on counterparty credit risk between parties to a transaction and provide clearing and settlement services for trades in foreign exchange, securities, options, and derivative contracts.
CCR	Counterparty Credit Risk	The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
CET1	Common Equity Tier 1	Common Equity Tier 1 capital (CET1) is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
CRR	Capital Requirements Regulation	The Capital Requirements Regulations 2013 (Statutory Instrument 2013/3115).
CVA	Credit Valuation Adjustment	Credit Valuation Adjustment reflects the adjustment of default risk-free prices of derivatives and securities financing transactions (SFTs) due to a potential default of the counterparty.
ERBA	External Ratings Based Approach	An approach to calculate capital requirements for securitisation exposures that are externally rated or for which an inferred rating is available.
FIRB	Foundation Internal Ratings Based	An approach to determining the capital requirement for a given exposure that allows institutions that have received supervisory approval to rely on their own internal estimates of risk of default of the obligor, but estimates of additional risk factors are derived through the application of standardised supervisory rules.
IAA	Internal Assessment Approach	An approach to calculate capital requirements for securitisation exposures in which an institution may use its internal assessments of the credit quality of its securitisation exposures.
PMA	Post Model Adjustment	Adjustments applied when the Society considers that a modelled output is not sufficiently accurate or complete due to there being potential for additional risks that have not been identified or that cannot be adequately modelled.
QCCP	Qualifying Central Counterparty	A qualifying central counterparty (QCCP) is an entity that is licensed to operate as a CCP and is permitted by the regulator to operate as such with respect to the products offered.
RWEA	Risk Weighted Exposure Amount	The amount of the exposure value multiplied by the risk weight associated with the exposure.
SFT	Securities financing transaction	Securities financing transactions allow institutions to use assets, such as the shares or bonds they own, to secure funding for their activities.
SRT	Significant risk transfer	Term that indicates securitisation has been used as an effective credit risk transfer tool.

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).

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